JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: February 19, 2016

TIME: 9:02 a.m. to 11:35 a.m.

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

BOARD MEMBERS PRESENT:

Larry Schmitt, Board Chairman
Richard Tuten, III, Board Secretary
Richard Patsy, Trustee
William Scheu, Trustee

ALSO PRESENT:

Beth McCague, Interim Executive Director
Debbie Manning, Executive Assistant
Paul Daragjati, Board Counsel
Devin Carter, Board CFO
Dan Holmes, Summmit Strategies

CITY REPRESENTATIVES PRESENT:

Tommy Hazouri, City Council Liaison
Joey Greive, City Fund Treasurer

These matters of the JPFPF Board of Trustees 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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1 P R O C E E D I N G S
2 February 19, 2016 9:02 a.m.
3 - - -
4 CHAIRMAN SCHMITT: It's 9'02. We will
5 call the meeting to order. We'll start with a
6 moment of silence that we observe for our
7 deceased member, Christopher C. Swary, active
8 firefighter.
9 Amen.
10 If you would all stand and join me as we
11 pledge allegiance to the flag of the United
12 States of America, and to the Republic for which
13 it stands, one nation, under God, indivisible,
14 with liberty and justice for all.
15 CHAIRMAN SCHMITT: We'll start out with the
16 public speaking period. Debbie, do we have any
17 speakers?
18 MS. MANNING: We have one, Curtis Lee.
19 MR. LEE: Hello. My topic for today -- my
20 topic for today is governance. My name is Curtis
21 Lee. My address is on file.
22 On October 25 of 2015, I wrote an email to
23 many people questioning the accuracy of the
24 reported Police and Fire Pension Fund return
25 figures, which, in fact, were later revised.

1 I also suggested that the Police and Fire
2 Pension Fund not delay in posting online the
3 Summit Flash Report. I copied Mr. Schmitt on the
4 email.
5 Mr. Schmitt, via email, blasted my
6 suggestions in writing as deceitful actions and
7 possibly illegal. Not only was that way
8 overboard and untrue, but Mr. Schmitt thereby
9 shows his bias. This is -- he never cared about
10 Mr. Keane's illegal conduct and
11 multimillion-dollar waste, just my questioning of
12 the reporting of the Police and Fire Pension Fund
13 returns.
14 Also, the forensic investigator questioned
15 the accuracy of the reported returns on the
16 Police and Fire Pension Fund.
17 The above is an example of Mr. Schmitt's
18 continued and constant record of bias as chairman
19 of the Police and Fire Pension Fund.
20 I would suggest to you that, not only
21 because of the bias but also for purposes of
22 public perception, that the Police and Fire
23 Pension Fund follow the example of the
24 Jacksonville retirement system and adopt a
25 practice whereby all or most times the Chairman

1 of the Board should be someone who is not a
2 police officer or fireman.
3 Thank you very much.
4 CHAIRMAN SCHMITT: Any other public
5 speakers?
6 MS. MANNING: No, sir.
7 CHAIRMAN SCHMITT: Public speaking is
8 closed.
9 All right. The next item is the Consent
10 Agenda items, Items 2016-2, 1 through 9, will go
11 from page 2 over to the top of page 5.
12 Need a motion to accept those.
13 MR. TUTEN: I'll make a motion.
14 CHAIRMAN SCHMITT: Second.
15 MR. PATSY: I'll second it.
16 CHAIRMAN SCHMITT: Motion and second. All
17 in favor?
18 (Responses of "aye.")
19 CHAIRMAN SCHMITT: Opposed?
20 (No responses.)
21 CHAIRMAN SCHMITT: The Consent Agenda Items
22 are accepted.
23 MR. PATSY: We're moving slow this morning.
24 CHAIRMAN SCHMITT: Yes. Don't worry. We'll
25 get there. We've got Dan Holmes coming up.

1 All right. Under Old Business, 2015-12-6,
2 Share Plan Policy and Procedures Update.
3 MS. McCAGUE: Just an update to let you know
4 that we did implement the share plan procedures,
5 sent out by email, notice to all the firefighters
6 and police officers. And the accounts have been
7 credited, and the initial statement, which will
8 go out year one as paper, goes out this coming
9 week, and then forever after, there will be no
10 paper. There will just be a notification and the
11 accounts will be credited online.
12 But that process is behind us. And we asked
13 for anybody who had questions to notify us. I
14 think Mr. Tuten got one request for more
15 information, which we'll handle. But if any of
16 the police or firefighters have other questions,
17 we're happy to talk to him.
18 That's the report on that. That is
19 complete. And we thank Devin and the ITD group
20 for working so hard on that.
21 CHAIRMAN SCHMITT: That was a lot of work
22 getting that set up, especially in time to get
23 those accounts credited in January. So good job.
24 Thank you.
25 The next item is 2016-1-10, Interim

1 Executive Director signed with EFL to find a
2 permanent Executive Director.
3 MR. McCAGUE: That's correct. You-all
4 approved me signing the contract last month at
5 your meeting, and we did sign with EFL
6 Associates.
7 You should by now have a telephone call from
8 Dan Cummings, who is our lead recruiter, along
9 with his partner, Mary Hopson. He'll be -- we've
10 given him the job description that was posted on
11 the COJ website last year. He is enhancing that
12 based on his conversations with you and
13 attributes and skill sets that you think are very
14 important for this job.
15 Then he will post that job. We'll post it
16 through City of Jacksonville, and he will be
17 posting it at his other sources, and we may pay
18 to have advertisements placed in certain
19 magazines, including *Pension & Investments*.
20 So that process is moving along. Again, he
21 estimates it's a 120-day process.
22 CHAIRMAN SCHMITT: That was previously
23 approved, so we will show that as received as
24 information.
25 The next item under Financial Investment

1 Reports, Old Business, 2015-5-2, the 2015 --
2 actually, it should be 2016, '17 Budget,
3 Quarterly Financial Report, Actual versus Budget.
4 Devin.
5 MR. CARTER: Okay. Pretty much we had a
6 good month. Came under budget by 21 percent.
7 Based on this format here, we took the monthly
8 budget by allocating based on the yearly budget
9 divided by 12 so we can see how we use our
10 expenses on a monthly basis.
11 And overall Year to Date, we pretty much
12 only used 26 percent of our budget.
13 MR. PATSY: Question. Is this -- the Year
14 to Date, is calendar year or fiscal year --
15 MR. CARTER: Fiscal year.
16 MR. PATSY: -- as of 1 October?
17 MR. CARTER: Yes, sir.
18 MR. PATSY: Okay.
19 MR. SCHEU: I want to thank Devin for this
20 report. It's certainly what I was used to, is
21 you get your actuals by the month, your budget by
22 the month, and then you can make comparisons. So
23 I really -- this is very helpful and I think
24 transparent.
25 MR. McCAGUE: Well, we will have big

1 swings --
2 MR. SCHEU: Sure.
3 MR. McCAGUE: -- because we're not -- we're
4 never certain when we will get our money
5 management fee charges. Those are always big
6 when they come in, but we'll always be able to
7 explain them.
8 MR. SCHEU: Sure.
9 CHAIRMAN SCHMITT: Show that for information
10 purposes as received.
11 MR. SCHEU: Can I ask you a question?
12 I was working off the agenda that was sent
13 out. So it was revised?
14 MR. McCAGUE: Right.
15 MR. SCHEU: Like on the liability insurance
16 that was originally on it?
17 MS. McCAGUE: Yes. What I tried to do was
18 clear the agenda for almost everything but Dan
19 Holmes' report because this is a serious
20 conversation that we need to have, both about
21 capital market assumptions and then allocation.
22 You-all have looked at allocation before,
23 but I wanted to leave time for deliberate
24 discussion about that.
25 MR. SCHEU: Okay.

1 CHAIRMAN SCHMITT: I'm going to go out of
2 order here for two items so that we can clear the
3 rest of the meeting for Dan Holmes.
4 The next item is Administrative Reports, an
5 update on the records retention.
6 Sorry to spring that on you.
7 MS. McCAGUE: No, that's fine. That's fine.
8 Many, many months ago the previous Board and
9 the staff began working on an image storage
10 capture project, something we need very badly in
11 this office. And over time staff here talked
12 with numerous vendors, and we finally came down
13 to reinterviewing two vendors. One is Access,
14 one is Ricoh.
15 And Debbie and I have met with
16 representatives from those companies several
17 times. We have our recommendation to you today.
18 We have a short comparison for you, but will
19 answer any questions that you might have.
20 We're recommending that we sign a contract
21 with Access, who will do our imagining for us and
22 provide us with a two-year contract for continued
23 image and storage capabilities.
24 We choose them -- I think at the end of the
25 day, the price is going to be about the same no

1 matter which vendor we chose. But I particularly
2 felt strongly that Access offered us the
3 strongest support during implementation, which
4 will be very tough for us, the implementation
5 process.
6 And so we are recommending to you that you
7 approve us signing a contract with Access, and we
8 will start this process immediately again.
9 That's probably 120-day, 150-day process to image
10 everything we need imaged, get it online and
11 available to us, and get boxes out of the offices
12 and into storage facilities here on the property.
13 This does -- I can't tell you how much this
14 will do for us because, as you know, we continue
15 to be overwhelmed with requests for documents,
16 and those requests are extensive in terms of time
17 covered and extensive in terms of depth on any
18 particular subject matter.
19 As an example, we estimate the week before
20 last this staff -- and there are, what, six of
21 us -- spent over 60 hours, 60 hours, man hours,
22 pulling records and making copies. That's a lot.
23 If we had our records on image basis, it
24 would be less than that. It wouldn't be zero,
25 but it would be less than that.

1 So we are very much looking forward to this
2 project, even it's going to be a very big one.
3 So I would ask your consideration and approval
4 for us to sign that contract.
5 MR. SCHEU: I'll move it.
6 CHAIRMAN SCHMITT: We have a motion. Do we
7 have a second?
8 MR. TUTEN: Second.
9 CHAIRMAN SCHMITT: Any further discussion?
10 (No responses.)
11 CHAIRMAN SCHMITT: All the favor?
12 (Responses of "aye.")
13 CHAIRMAN SCHMITT: Opposed?
14 (No responses.)
15 CHAIRMAN SCHMITT: Passes unanimously.
16 MS. McCAGUE: Thank you very much. I'll
17 just continue quickly with my executive report.
18 CHAIRMAN SCHMITT: Yes.
19 MR. McCAGUE: First of all, just to let you
20 know, no action needed on your part, but in the
21 month of March, I'm going to take a look at the
22 policy we have and the guidelines around salaries
23 for staff and salary increases. So you will be
24 hearing more from that. It will probably be in
25 April. We are working with EFL on finding a

1 permanent director.
2 The Financial Investment Advisory Committee,
3 FIAC, the members met again for an hour and a
4 half with Dan Holmes last Friday to take a look
5 at the materials you were looking at today.
6 This will be their third meeting, even
7 though they're not formally confirmed by the City
8 Council. That will take place -- they'll be in
9 front of the rules committee on March 1st, and
10 then the following City Council, they should be
11 approved.
12 Our fifth member, Mike Lukaszewski, very
13 excited about him. He did attend the meeting,
14 Dan, with you on last Friday, former CFO of
15 Baptist Health Systems. His application is in
16 process. So he will be approved probably by
17 April and we'll have a full force committee in
18 place.
19 That group -- they meet an hour and a half
20 once a month. That may not be enough because
21 they have a lot of territory to cover and a lot
22 of education is going their way. So I hope that
23 they can stay on with us. They're very
24 committed to the Board with what they're doing,
25 but it's a big job.

1 Willard Payne is scheduled to be approved on
2 March 1st by City Council. And his attendance at
3 the rules committee, as you would expect, went
4 very well.
5 COUNCILMAN HAZOURI: Is it March 1st?
6 MS. McCAGUE: I'm sorry. March 1st is rules
7 committee. It's Tuesday night.
8 COUNCILMAN HAZOURI: Right.
9 MR. McCAGUE: This Tuesday night.
10 COUNCILMAN HAZOURI: Right.
11 MR. McCAGUE: Thank you.
12 COUNCILMAN HAZOURI: Not March. We just had
13 him up for -- well, two meetings ago, actually.
14 So he's up Tuesday. I was just looking for him,
15 and I said, No, he just passed rules.
16 MS. McCAGUE: That's right. But he will be
17 an official member at the March meeting, and at
18 that time we will write the formal thank you to
19 Nat Glover because he is finally off of the
20 Board.
21 MR. TUTEN: Can you, like, resign before you
22 officially become a member? I was kind of
23 curious if he was contemplating that at one
24 point.
25 MS. McCAGUE: I'm sorry?

1 (Laughter)
2 MR. CARTER: Don't even say that.
3 MR. McCAGUE: Don't even say that. Right.
4 COUNCILMAN HAZOURI: He said he was
5 questioning it the last time he was here. I
6 said, You're not on yet, so what do you think?
7 He said, I'm still thinking.
8 MR. TUTEN: I didn't think we had him in the
9 boat. He looked a little shaky there for a while
10 in that last meeting. I was hoping maybe we
11 could get him in the vote, but we got him.
12 MS. McCAGUE: Just for your information, we
13 have hired part-time employee, Amy Shaw. She'll
14 start on Monday, and she will assist with
15 preparing for this image storage program that we
16 have going.
17 And, finally, you've seen some emails from
18 me. What I'm working on is scheduling workshops
19 from March over the next several months to take
20 up policies that we have in place right now. And
21 as a relevantly new Board, I just feel it's
22 important for you-all to make sure you understand
23 what the policy is and what it's about, and do we
24 want to continue with the policy we have?
25 So that will be on issues of recapture

1 agreements that we have in place, securities
2 litigation, which we've talked about here. And
3 then we'll turn to money managers and have our
4 money managers in and let you all hear directly
5 from them on what they're doing and why they're
6 doing it.
7 We also may sponsor workshops on using other
8 vehicles in the fund that we don't have right
9 now, and perhaps a workshop on using more passive
10 investments.
11 So we will be asking a lot of you over the
12 next months, but what I'm trying to do is get
13 everybody more focused on the core mission we
14 have here, and that's doing the best we can with
15 the funds that we have so that we do the best for
16 ourselves and for our pensioners and our actives
17 who rely on the pension. That is our duty, and
18 trying to get our time spent on that.
19 The only other thing I would mention,
20 you-all have covered this before, last year an
21 RFP was issued for repair of the skylight in this
22 building. And the City handled that --
23 procurement process handled all of that process.
24 A vendor was selected. And in March that work
25 will begin. It will be a very big project

1 because the entire skylight will be replaced.
2 That is my report.
3 CHAIRMAN SCHMITT: One other item, the
4 insurance product.
5 MR. McCAGUE: Yes. That would be New
6 Business. Am I to bring that up?
7 CHAIRMAN SCHMITT: Yes, please.
8 MS. McCAGUE: Okay. Good.
9 It turns out in at least 2013, the fund,
10 perhaps through the City, issued an RFI for
11 insurance products that might be able to help the
12 fund.
13 I am told that four vendors provided some
14 information, and the Board at that time came down
15 after discussions to one vendor, a company called
16 NIW, who you may know them through a
17 representative they have locally, former
18 Councilman Terry Wood.
19 They made a three-hour educational
20 presentation to the Board at that time. Chairman
21 Schmitt remembers that event, although he was not
22 a Board member then. But nothing has happened on
23 that program. There's not been any real due
24 diligence on it.
25 So what I'm asking today is that the Board

1 resolve to authorize me to engage with this
2 company to do further study to see if this is a
3 product that will help the fund. And on the
4 basis of staff research, if we decide we need
5 another educational program to come back to the
6 Board to take a look at this, we will be able to
7 do that. But I need authorization from you that
8 you would like me to pursue further study of that
9 product.
10 MR. PATSY: There's no cost involved in
11 this?
12 MS. McCAGUE: There's no cost. There's no
13 commitment on our part. There's nothing, except
14 to show that we're interested in pursuing this
15 program.
16 CHAIRMAN SCHMITT: Basically it's an
17 information-seeking authority.
18 MR. PATSY: I got a pitch from them, a
19 presentation from them, and I had numerous
20 questions about how that thing would work.
21 MS. McCAGUE: Right.
22 MR. PATSY: I've never seen a public pension
23 plan use anything like that. I guess my only
24 question would be --
25 THE REPORTER: Could you speak up, sir?

1 MR. McCAGUE: Would you repeat that for
2 Denice, please?
3 MR. PATSY: The whole thing?
4 THE REPORTER: No. "I've never seen a
5 public pension plan use anything like that. I
6 guess my only question would be" --
7 MR. PATSY: Oh. My only caution to her
8 would be, don't waste a lot of time or spend a
9 lot of time on that.
10 THE REPORTER: Thank you.
11 MS. McCAGUE: Okay.
12 It is true, I did ask him did any other
13 public pension plans use their product, and the
14 answer was no, but they have five that are
15 probably in the same position the Jacksonville
16 Pension -- Fire and Police Pension Plan is in,
17 and that is discovery. That's it.
18 But they have used the product in the public
19 world for 60 years.
20 MR. PATSY: I did some back-of-the-envelope
21 calculations after I met with them. Our unfunded
22 liability is someplace in the vicinity of 1.6
23 billion?
24 CHAIRMAN SCHMITT: It's 1.8 now.
25 MR. PATSY: Okay. Well, I used 1.6. And we

1 have something like 2200 active participants?
2 MS. McCAGUE: Right.
3 MR. PATSY: If the face value of those
4 insurance policies are intended to eradicate the
5 unfunded liability, it would equate to roughly a
6 $730,000 policy on each of the 2200 members.
7 That seems like a very big number.
8 MS. McCAGUE: Well, that is a big number.
9 MR. PATSY: So I don't see it being
10 feasible.
11 MS. McCAGUE: Well -- and I don't know
12 enough to say if it's feasible or not. What I do
13 know is, I don't think there's any one particular
14 answer to the unfunded liability, but it may be a
15 series of opportunities we could explore besides
16 just our standard investment policy that could
17 help start closing the gap.
18 CHAIRMAN SCHMITT: Sounds like we need more
19 information. From what I remember, it wasn't
20 their intent for the entire unfunded liability
21 portion for each member to be covered by the
22 policy, but, again, I think we just need more
23 information.
24 MS. McCAGUE: And we'll call on you since
25 you've already had that experience with them.

1 MR. SCHEU: Is this related to what Joe
2 Arnold was also doing? It's a different
3 program --
4 MR. McCAGUE: Right.
5 MR. SCHEU: -- but it's the same sort of
6 concept.
7 MS. McCAGUE: It is the concept of using
8 insurance -- opportunities within insurance
9 vehicles to create a bigger cash reserve for us.
10 But there would be a lot more conversation on
11 this. Again, this is just authorizing me for
12 further study.
13 MR. PATSY: It's a fairly complicated
14 solution.
15 MS. McCAGUE: Right. But we have a fairly
16 complicated problem.
17 MR. PATSY: We do. But complicated problems
18 don't always need a complicated solution to
19 resolve them.
20 MS. McCAGUE: That's true. That's true.
21 All we need is money.
22 MR. PATSY: Right.
23 CHAIRMAN SCHMITT: Exactly.
24 So I guess -- do we have a resolution to
25 authorize Beth to seek additional information?

1 MR. SCHEU: I'll move that.
2 MR. TUTEN: Second.
3 CHAIRMAN SCHMITT: All right. Any further
4 discussion?
5 (No response.)
6 CHAIRMAN SCHMITT: All in favor?
7 (Responses of "aye.")
8 CHAIRMAN SCHMITT: Opposed?
9 (No responses.)
10 CHAIRMAN SCHMITT: Passes.
11 Now, before we move on to the New Business,
12 I just want to make a couple comments.
13 On the documents imaging system, as we do
14 for every meeting, the documents that we have
15 available here at the Board meeting will be
16 posted on -- or attached to the city's website by
17 the City to remain transparent.
18 And to add to your point, the refocus on the
19 actual business that the Board should be focusing
20 on, I'm looking forward to that as well.
21 Hopefully, there are fewer distractions in the
22 coming months so that we can, in fact, do that.
23 So under New Business, we have Mr. Dan
24 Holmes for items 2016-02, 1 through 4.
25 Dan, it's all you.

1 MR. HOLMES: Good morning. I would suggest
2 that everybody who needs coffee, fill up now.
3 Joey has sat through this before.
4 MR. GREIVE: We know you, Dan.
5 MR. HOLMES: I've got a number of things to
6 go through, but we've put the first one, the
7 Asset Allocation Review, up front because I
8 believe it's probably the most important.
9 I want you to think of this as basically the
10 road map for the system going forward. We have a
11 number of things pending, and until we know what
12 the asset allocation targets look like, we won't
13 be able to effectively make changes going
14 forward.
15 Some of the things that we have pending is
16 adoption of a revised investment policy, so that
17 if we don't change asset allocation -- strike
18 that.
19 If we do change asset allocation, but we've
20 already changed the policy, we're going to have
21 to go back and change the policy again. So I
22 think that we need to get this in place first.
23 In addition to that, we have a number of
24 changes that we need to make within the manager
25 lineup, and until this is set, we won't know

1 which way to go with some of those decisions.
2 Does that make sense?
3 CHAIRMAN SCHMITT: Yes.
4 MR. HOLMES: Okay. So if you will, turn to
5 the Asset Allocation Review. I'll go through it
6 at kind of the 10,000-foot level, then we can dig
7 in and ask questions. And as we go through it,
8 I'd invite questions on anything as we go
9 through.
10 Turning to the Executive Summary part of the
11 presentation, what I want to cover today in this
12 part of the presentation is basically first
13 reviewing our current capital market assumptions.
14 That's basically forward-looking assumptions for
15 each of the different asset classes.
16 What we want to do is then apply them to the
17 current target allocation, look to see whether or
18 not we're on track to achieve the actuarial
19 assumed rate of return. From there we can look
20 at changes that are either necessary or might be
21 desirable to either enhance return, reduce risk
22 or both. And then from there, we can -- I made a
23 recommendation for some interim changes to asset
24 allocation.
25 Longer term, I do think that, as Beth had

1 mentioned, looking at other asset classes that
2 are not currently present in the portfolio. At
3 least discussing those might be a good idea.
4 Some of them we probably should hold off on,
5 specifically, some of the private investments,
6 until we know what liabilities look like after
7 the mayor's plan, which I believe is pending in
8 front of the state legislature, until we know
9 what the liabilities look like, with a better
10 sense going forward, if you will.
11 So, in summary, over the past year our
12 capital market assumptions have risen slightly.
13 We'll get into that here in a second, but they
14 remain low relative to historic returns.
15 Achieving the 7 percent actuarial assumed
16 rate of return, based on our assumptions, will
17 remain difficult, but not impossible. But the
18 idea is, is that to do so in different cases, you
19 either have to take on more volatility or look at
20 different asset classes.
21 The emerging markets equity, emerging market
22 debt, master limited partnerships, TIPS and
23 commodities at this time appear undervalued.
24 That's not to say that they're not undervalued
25 for a reason. But those are some of the

1 opportunities that a long-term strategic
2 allocation may want to incorporate.
3 And then at the same time, domestic
4 equities, both large and small -- sorry?
5 Long treasuries, cash appear overvalued.
6 And so strategically over time, the idea is buy
7 asset classes when they're cheap and sell them
8 when they're rich, and over time that should help
9 add value and capital to the portfolio.
10 The good news is the current target
11 allocation is expected to achieve 7.1 percent
12 total rate of return, net of fees, over the
13 investment time period. The investment time
14 horizon in the study is ten years.
15 And so that's the good news. In other
16 words, if we change nothing, based on our current
17 capital market assumptions, we should achieve
18 that actuarial assumed rate of return.
19 Now, the bad news is there are a couple of
20 asset classes assignments that have not been
21 funded. Those are soon to be funded in order to
22 achieve that, specifically value add or noncore
23 real estate, emerging market debt, and a
24 core-plus buy manager is probably the most
25 important there in terms of getting something

1 done quickly.
2 In addition to that, it does not -- the
3 current target allocation does not make any
4 accommodation for cash to pay benefits. In other
5 words, current liquidity.
6 And so what we've been doing over time has
7 been rebalancing as necessary to raise liquidity.
8 You'll see here my suggestion is, is to target
9 approximately 1 percent of assets for liquidity
10 purposes.
11 In doing that over the ten-year investment
12 time horizon, it doesn't change risk and return.
13 They retain the same. The dollar amount, the
14 target balance, remain relatively low. So it
15 doesn't really move the needle, so to speak.
16 The advantages of that is twofold. One: It
17 gives, I think, the Board a little bit of comfort
18 in a year like we're having thus far that if we
19 lock down liquidity, lock down benefit payments
20 for the year, it doesn't -- it gives us a little
21 bit more -- it gives us a little bit more room to
22 use long-term time diversification to our
23 advantage.
24 The second thing it does is, is doesn't
25 force us to rebalance when market values are down

1 for some of the managers. So it prevents
2 rebalancing from -- in a declining market.
3 So I think there are two benefits there,
4 like I said before. The main issue is, is that
5 it's not going to cause drag on a long-term basis
6 in terms of full rate of return.
7 Everybody is looking at me like I've got
8 three heads.
9 CHAIRMAN SCHMITT: No. I mean, have we not
10 done that in prior years because in prior years
11 we haven't had the down markets? Why haven't we
12 done that in prior years?
13 MR. HOLMES: The practice has always been to
14 try to minimize cash to eliminate drag, and we've
15 rebalanced as we've gone on.
16 In a market like we're having thus far, I
17 think the idea is to provide a little bit of
18 liquidity to prevent it.
19 MS. McCAGUE: So our big payment, of course,
20 comes from the City in one fell swoop in
21 November. And so your recommendation would be --
22 MR. HOLMES: Well, my recommendation would
23 be anything that that doesn't take into account.
24 We get the cash from the City. Anything short of
25 that cash infusion, if you will, that doesn't

1 cover benefits, we make sure that there's money
2 there. And if that covers it, then we keep some
3 of that to cover what we need for liquidity needs
4 during the course of the year in cash.
5 MS. McCAGUE: Okay. So this year when that
6 payment came in, we invested it quickly.
7 MR. HOLMES: Correct.
8 MR. McCAGUE: And you're saying --
9 MR. GREIVE: Well, I think -- if I may just
10 jump in.
11 MR. McCAGUE: Thank you.
12 MR. GREIVE: You know, the one thing that
13 Jacksonville does that over time is very
14 beneficial is that --
15 (Phone interruption)
16 CHAIRMAN SCHMITT: And just for the record,
17 that was "I'm on Top of the World."
18 COUNCILMAN HAZOURI: At least you recognized
19 the song. After last night, I'm not so sure.
20 (Laughter)
21 MR. GREIVE: So to finish that sentence, one
22 thing we do to have -- you know, that benefits us
23 is we have fun at our Board meetings.
24 But, you know, we -- the way the process
25 works, we get the big cash infusion from the City

1 for the annual contribution the first week in
2 December. That's physical cash.
3 And then throughout the year, as benefit
4 payments are made, they're basically advanced by
5 the City. From an accounting perspective, it
6 shows being paid, you know, by PFPF, but from an
7 actual cash perspective, it's advanced by the
8 City. And then at the end of the year, the fund
9 makes a big rebate back to the City to settle up
10 and true yourselves back up to zero.
11 Over time, the fact that you're getting the
12 cash sooner and paying benefits later, should net
13 you out ahead, assuming you make about 7 percent
14 a year. The City only makes 1 or 2 percent in
15 its operating portfolio. So it's better for the
16 City as a whole to keep doing that too.
17 In years where, you know, the markets are up
18 tremendously for the first six fiscal months, we
19 might want to think about perhaps doing like a
20 mid-year true-up or something. Actually, the
21 council president brought that up.
22 MR. CARTER: Yeah, and that's why I
23 recommend --
24 MR. HOLMES: That's actually what we had
25 talked about.

1 MR. GREIVE: Yeah.
2 MR. CARTER: That's what we talked about. I
3 recommended that pretty much. I said, Well,
4 maybe let's try it within six months, based on
5 the markets within itself.
6 MR. GREIVE: Yeah. Let's look at it. If
7 the markets are down six months into the fiscal
8 year, maybe we just, you know, wait until the end
9 of the year like we've been doing. But if we get
10 a big rally mid-year, maybe we do a mid-year
11 settle-up, or partial settle-up or something.
12 But we can talk about that.
13 That's between the City and the fund. It's
14 operational stuff, and we can do that with the
15 advice and guidance of our investment council.
16 CHAIRMAN SCHMITT: Unfortunately in the
17 current year, we're not having that.
18 MR. McCAGUE: Right.
19 MR. GREIVE: I don't -- well, we don't have
20 that luxury yet. We've got a couple fiscal
21 months until we hit the six-month period, but
22 let's just look at it over the next couple months
23 and see what it looks like.
24 Is the market down today? Is that what you
25 were looking at?

1 MR. HOLMES: Oh, yeah. Yeah.
2 MR. GREIVE: So today is not helping.
3 MR. HOLMES: No, today is not helping.
4 But the idea is, is at least for the next
5 six months is to prevent having to rebalance in a
6 declining market by having that cash on hand.
7 Does that make sense?
8 MS. McCAGUE: Yes.
9 CHAIRMAN SCHMITT: And that's your
10 recommendation today. Do we need to take some
11 action today to make that happen?
12 MR. HOLMES: Well, let me -- let me sum it
13 up, again, if you will, because I would like to
14 have some action. That would be great. Thanks.
15 CHAIRMAN SCHMITT: Okay.
16 MR. HOLMES: Okay. So then kind of going
17 back, what we want to do is look at some
18 different asset classes and some different asset
19 allocations to kind of eventually get to my
20 recommendation.
21 In addition to it, we've got some targets,
22 some asset classes, that I think are high and
23 have produced higher volatility, and I want to
24 pull some of those targets down. That's what you
25 can see here.

1 What's also interesting is that there's been
2 a lot of talk about the idea about basically
3 removing the majority of bonds, since the
4 projected returns for bonds is relatively low,
5 and investing those in other asset classes.
6 The problem is your statutes are fairly
7 restrictive -- actually, very restrictive,
8 probably one of the more restrictive other than
9 insurance companies that we have with all of our
10 clients.
11 Putting more money into real estate at this
12 time -- and by real estate, I'm talking about
13 core real estate. I'm not talking about the
14 value added. I'm talking about what you already
15 have in the portfolio right now.
16 One, that part of the market is getting
17 expensive. And then, two, there are contribution
18 cues for almost all of the open end core managers
19 out there or they're closed. And so it's not
20 like you can go ahead and put money in those
21 managers right away.
22 And so the problem is, is that where you
23 move that money is relative. If you move it out
24 of bonds, you have very few places where you can
25 go. It basically comes back to, if you can't

1 move it into core real estate, it comes back to
2 either US or non-US equities.
3 So the bottom line is, is that if we think
4 that the domestic equity market is more
5 expensive, and if you have a 25 percent statutory
6 limitation on international equities, there's
7 very few places, like I said, that you can go.
8 So you kind of have to be forced to put it into
9 US equities.
10 Right now, as you'll see here in a minute,
11 US equities, you get more volatility for every
12 incremental unit of -- more risk for every
13 incremental unit you move into equities.
14 So what it does is, if you take -- the
15 bottom line is if you take bonds, the majority of
16 bonds, out of the portfolio and you put it in US
17 equities, it increases -- over the ten-year time
18 period, it increases return by about 10 basis
19 points. But it drives risk up by more than 3
20 percent. And so -- or 2 and change. So the
21 problem is you're not getting the bang for the
22 buck by doing that, if you will.
23 Rick.
24 MR. PATSY: Dan, the point about
25 international equities capped at 25 percent, does

1 non-US fixed income fall in that same category?
2 MR. HOLMES: Only corporates. Non-US
3 sovereigns do not. Non-US corporates do.
4 MR. PATSY: Okay.
5 MR. HOLMES: Yeah. But what we've done, as
6 you know, with the City where we have non-US
7 fixed income exposure, we've always left a buffer
8 there to make sure that that 25 percent target is
9 not tripped. And if we --
10 MR. PATSY: Someplace in the vicinity of 14
11 percent international today?
12 MR. HOLMES: Huh-uh. Bear with me for a
13 second.
14 MR. GREIVE: 21?
15 MR. HOLMES: Yeah, it's about -- yeah,
16 exactly. It is about 21 percent.
17 MR. GREIVE: 21 percent.
18 MR. HOLMES: Okay. And then the last point
19 I already made, which was that I think over time
20 adding private investments will be additive to
21 the portfolio in terms of reducing volatility and
22 therefore reducing downside over time.
23 But to do so -- and by privates, our
24 assumptions for private equity, private debt or
25 private real assets, they all operate basically

1 in a limited partnership-type format.
2 Our assumptions for each of those are fairly
3 close. So for ease of modeling purposes, I'm
4 using the term "privates" or "private equity,"
5 but all those would be eligible -- they are
6 eligible under the new ordinance to be invested
7 in.
8 I would make -- I would make the case that
9 looking at private natural resources right now,
10 prices for metals and mining, anything energy
11 related have been driven way down.
12 Do we think that those prices will continue
13 over the next ten years or so? Probably not. So
14 this might be a very good entrance point for some
15 of those, but before we even get there, there are
16 a lot of other issues with regard to education in
17 terms of the pros and the cons with regard to
18 investing in private investments: Liquidity,
19 pricing, lock up.
20 In addition to that, like I said before, we
21 need to know what the liabilities are going to
22 look like before we make any attempt to lock up
23 money for a ten-year time period.
24 And by lock up, I mean you're investing in a
25 partnership that would be, you can't get out

1 unless it's sold on a secondary market. So you
2 get paid more for that illiquidity premium, but
3 we need to know what liabilities look like before
4 we can do that.
5 CHAIRMAN SCHMITT: And this is an option
6 that's fairly new to our fund, but it's been
7 available for the city's other two funds for a
8 while, has it not?
9 MR. HOLMES: On a -- on a pure private
10 basis, the City is in the same position --
11 MR. GREIVE: Right.
12 MR. HOLMES: -- prior -- as the police and
13 fire plan prior to the ordinance change. So with
14 the new ordinance, this Board is allowed to
15 invest in privates now. They are -- the city's
16 plan is not.
17 Both plans, by state statute, are allowed to
18 invest in private real estate. That's the only
19 thing that you can invest in on a private basis.
20 So buyouts, venture capital, mezzanine debt,
21 distressed debt, private natural resource funds,
22 you're allowed to invest in that now. They still
23 are not.
24 MR. PATSY: Wait a minute. Clarify for me.
25 Didn't you just say that the only thing we could

1 invest in by state statute was private real
2 estate?
3 MR. HOLMES: By state statute, but now the
4 ordinance has been passed recently, and that now
5 allows you to invest in those other private
6 areas.
7 MR. GREIVE: Well, the state statute applies
8 unless the local Board adopts an investment
9 policy that allows for investments beyond what
10 215.47 allows for.
11 You have now gotten the legislative ability
12 in town. I don't know that you've adopted an
13 investment policy that includes the 5 percent.
14 MR. HOLMES: That is correct.
15 MS. McCAGUE: That's what we're working on.
16 MR. GREIVE: That's the last piece of the
17 puzzle that needs to happen before this Board can
18 invest in private equity, which is you need to
19 add it to your investment policy, if you want to
20 do it.
21 MR. PATSY: But I'm confused. So local law
22 takes precedence over state law in this instance?
23 MR. GREIVE: No --
24 MR. SCHEU: What they're saying is because
25 the state law says -- the statutes says unless

1 the City, if the City --
2 COUNCILMAN HAZOURI: It's permissive.
3 MR. GREIVE: The way the state law is
4 written --
5 MR. PATSY: Does that mean we can do
6 anything we wanted to do as long as it's
7 consistent with local --
8 MR. SCHEU: I'd have to read the statute to
9 see what specifics it applies to.
10 MR. GREIVE: The statute says -- and your
11 outside counsel can chime in too, but the way I
12 understand the statute is that it says, the
13 following investment categories are permitted if
14 you don't have an investment policy.
15 If you have an investment policy, you can go
16 beyond this. So they basically have an
17 investment policy written in the state law that
18 applies to everybody in the state, and they say,
19 if you want to go beyond this, you have to adopt
20 your own local investment policy.
21 CHAIRMAN SCHMITT: But there are still
22 parameters that you have to operate within. But
23 you can't have 100 percent in private equity.
24 That's still not allowed. But they're saying for
25 this portion, the local can authorize up to.

1 MR. PATSY: Okay.
2 MR. DARAGJATI: Yeah. It's similar to a
3 carve-out for more exotic types of investments,
4 but state statute still provides that of the
5 universe of what you can invest in, only a small
6 portion can be these exotic-type instruments.
7 CHAIRMAN SCHMITT: If your local allows it.
8 MR. DARAGJATI: If your local allows it.
9 MR. SCHEU: Joey, remind me. This was
10 something that was discussed in the task force --
11 MR. GREIVE: Yes.
12 MR. SCHEU: -- and it was the recommendation
13 of the task force that we expand this.
14 MR. GREIVE: Yeah. I believe the task force
15 landed on allowing for private equity up to 5
16 percent. No hedge funds, but private equity. I
17 think
18 MR. SCHEU: And I think that came out of the
19 (inaudible).
20 MR. GREIVE: Yes. I think with the
21 recommendation or with the support of both Pew
22 and (inaudible).
23 MR. SCHEU: Correct. That's correct.
24 MS. McCAGUE: All right. Dan.
25 MR. HOLMES: Yeah. I was just pointing out

1 the statutes. So it's Chapter 112.661 and 215.47
2 is what applies.
3 MR. DARAGJATI: And just for the record, I
4 probably shouldn't have used the word "exotic."
5 Nontraditional is probably a better way of
6 describing those investments.
7 MR. HOLMES: So moving over to page 2, we
8 get into the capital market assumptions. And so
9 some of the bullet points on the left-hand side
10 to make sure that you -- before I get into the
11 numbers -- that you understand. One: I told you
12 before, these assumptions are net of fees.
13 Two: This is a ten-year investment time
14 horizon. This is different than -- a different
15 time horizon than what the actuary uses by
16 definition. What we're trying to do is create
17 conservative assumptions. If we're going to be
18 surprised, we'd rather be surprised on the upside
19 than the downside.
20 I can come in with assumptions saying that
21 equities are going to earn 8 percent, and we
22 would all be happy, but I don't think it would be
23 very realistic given today's conditions.
24 We use ten years because we can look at --
25 we can take observable market conditions now, as

1 of today, and look at those and make conservative
2 assumptions, projecting ten years going forward
3 with a certain degree of confidence.
4 I don't think it's a good idea to use what
5 the history has been over the last 20 or 30 years
6 because I don't think that is necessarily
7 applicable going forward.
8 We've been -- you know, we've been in a
9 declining interest rate environment since
10 basically 1980. And I think now we've turned and
11 we're going to be in a rising interest rate
12 environment. So some of those assumptions,
13 especially on the fixed income side, may not be
14 applicable.
15 In addition to that, if you look at global
16 growth, not just in the US, but on a global
17 basis, it's a lot less than the long-term
18 average. And I think it's better to use
19 forward-looking assumptions as opposed to just
20 relying on historic averages.
21 So the other thing to note is we review
22 these formally annually. We've got like a
23 40-page document that supports these, and I try
24 to summarize the main points from that.
25 So getting into the numbers. First of all,

1 last year our inflation assumption was 1.75
2 percent. This year it remains 1.75 percent.
3 The reason we use 1.75 percent is we look at
4 what the Philadelphia fed is using for their
5 inflation assumption. We're looking at what the
6 market has implied for an inflation assumption,
7 and where necessary, we've interpolated between
8 the two.
9 And so what we're saying is, is that at the
10 end of ten years -- the assumption is at the end
11 of ten years inflation will have been 1.75
12 percent.
13 And let me -- and, also, let me disabuse
14 everybody of one notion. This is not saying it's
15 going to be exact -- the model is not precise
16 enough to say it's going to be exactly 1.75
17 percent. It's going to be in that particular
18 range. That applies to all the different asset
19 classes.
20 MS. McCAGUE: On an annual basis?
21 MR. SCHEU: That's an annual basis.
22 MR. HOLMES: On an annualized basis.
23 MR. CARTER: Annualized.
24 MR. HOLMES: Not on an annual basis. If it
25 was an annual basis, volatility would be a lot

1 lower. In other words, it would just be a
2 straight line.
3 What we're saying is, is that the numbers
4 that we show you here, at the end of ten years is
5 where we're going to end up. We're not going to
6 get there this way. We're going to get there
7 this way. All the asset classes and the return
8 for the total portfolio are going to bounce
9 around from year to year. It's not going to be a
10 smooth ride there.
11 But what we're saying is, at the end of that
12 ten-year period, what we see in the market today
13 projects that at the end of ten years, that's
14 going to be the annualized, or compounded, rate
15 of return.
16 Does that make sense?
17 Okay. So after inflation, what we've listed
18 are the growth assets. And we -- just as an
19 aside, what we've done, the way we look at the
20 world is this: In 2008, when the market went to
21 hell in a hand basket and correlations all went
22 to one, institutional investors looked up and
23 said, Hey, wait a minute; I thought that we had a
24 diversified portfolio. We had this; we had this;
25 we had US, non-US bonds, stocks, and everything

1 was negative except for gold and long-term
2 treasuries. I was diversified. Why did that
3 happen?
4 And what happened is, is that for the most
5 part, they did not look at the underlying
6 characteristics or the risk factors, if you will,
7 inherent in all the different asset classes.
8 In looking at that, they didn't realize that
9 the potential volatility that a bond could have
10 was also like what a stock has as well.
11 So what we do is we look at asset classes
12 that share the same risk factors together in the
13 same bucket, if you will. And so we start off
14 with the growth bucket, if you will, we look at
15 the income bucket, and then we look at the
16 diversification bucket.
17 And so starting off with US stocks, large
18 cap and small cap, 5 1/4 percent and small cap 5
19 percent. Moving down to international stocks,
20 developed countries, which we call large cap, 6
21 1/2 percent. Small cap, about the same. And
22 then emerging markets, 6.5 percent. Yeah.
23 MR. SCHEU: 8.5 percent.
24 MR. HOLMES: Yeah, I'm sorry. 8.5 percent.
25 I had to put my glasses back on. Thank you.

1 MLPs, 9 1/2 percent; private equity, 8
2 percent; and so on and so forth as you go down
3 the list.
4 So what you notice there is publicly traded
5 stocks at 5 and change, if you will, pretty low.
6 If you look at some of the other asset classes
7 or strategies, MLPs, on price action after last
8 year's draw-down in price, forward-looking
9 returns have moved up. And the same goes for
10 some of the asset classes that were -- that
11 underperformed last year.
12 Go down to noncore real estate. It's 7 1/2
13 percent. Emerging market debt, 7 1/4 percent.
14 MS. McCAGUE: And would you remind everybody
15 the difference between noncore real estate and
16 core real estate?
17 MR. HOLMES: Sure. Sure.
18 So core real estate is investing in what we
19 kind of call -- euphemistically call the four
20 major food groups. It's basically the four major
21 sectors. So that's office, retail, industrial
22 and multi-family. And that could be either
23 apartments or condos.
24 And so that's -- when you look at the core
25 index, that's the major sectors that real estate

1 managers buy properties in, if you will. And the
2 way they add value is basically that investment
3 is designed to basically add value primarily
4 through income, but also with capital
5 appreciation, the value of properties going up.
6 But income is supposed to be the primary driver.
7 Since the dip in 2009, when real estate went
8 down, what we've seen is, is that -- because the
9 properties got marked down, what we've seen is,
10 is that valuation has come back up, and valuation
11 has driven the better return.
12 In other words, the property values have
13 been gradually being marked up, but the key is,
14 is that going forward, it's going to revert back
15 to net operating income being the primary focus.
16 So the days of double digit returns from the
17 real estate portfolio -- last year your portfolio
18 was up 15 percent. Going forward, we're not
19 expecting 15 percent. We're talking more like 7
20 or 8 percent, okay, over a long time period.
21 And then over the next ten years, it's
22 dropped back down for core real estate to about 6
23 1/4 percent. That's because we think that
24 property values are going to go down, and what
25 we've seen is, is that net operating income is

1 starting to slow as well. Valuations.
2 Rick, do you have a question?
3 MR. PATSY: No.
4 MR. HOLMES: So what noncore real estate is,
5 is where you might have the same property sectors
6 or the managers might buy properties in storage,
7 more hotels. You know --
8 MR. GREIVE: Senior assisted living.
9 MR. HOLMES: Yeah, senior assistant living
10 is becoming --
11 MR. GREIVE: Student housing.
12 MR. SCHEU: So they're not just distressed
13 properties. It's a different type of property.
14 MR. HOLMES: It could be a different type of
15 property or it could be a distressed property.
16 So value-added strategies are the classic example
17 here.
18 You have a property that for some reason or
19 another, tenancy or vacancy has gone up. There's
20 a problem with the property and the problem could
21 be an absentee landlord that just hasn't put
22 money in to refreshing or updating the property.
23 It could be there's something that's wrong with
24 the property or whatever. It could be basically
25 an existing property that needs to be rezoned so

1 it can be changed into a higher and best use.
2 And so the idea is the manager buys the
3 property at a discount to the long-term value,
4 they fix the problem, they lease it up, and then
5 they sell it to the core managers of the world.
6 Now, how you get there? The vehicles that
7 you invest with, these are limited partnership
8 vehicles. More expensive. You've got lockup,
9 but you're projected to get a higher rate of
10 return in exchange for that illiquidity.
11 And so that's part -- it's a valid strategy,
12 but it's something that requires a little bit
13 more education so everybody understands how it
14 operates. But there are also some opportunities
15 there, if you will. Okay.
16 MR. SCHEU: Could I ask a question too --
17 MR. HOLMES: Please.
18 MR. SCHEU: -- about the difference --
19 excuse me. High-yield bonds, emerging market
20 debt, private debt.
21 I always thought the debt side of things on
22 the income type, but is this because you're
23 investing in the lower value? You're not
24 investing for the income. You're investing for
25 the capital appreciation? That's why that's

1 different?
2 MR. HOLMES: Yeah. That's why we're
3 grouping it in this bucket because -- it's
4 primarily because of its potential risk. The
5 volatility for those strategies, even though --
6 and you nailed it. Even though it called debt,
7 it doesn't act like traditional bonds. It has a
8 higher capital appreciation. There's a higher
9 correlation of risk factors, and as a result, it
10 has higher volatility.
11 So if you call it debt and you put it in
12 your bond portfolio thinking that, Hey, I've got
13 a diversified bond portfolio, and then you get
14 another 2008 and it's, Oh, my God, it's acting
15 like equities; it's not acting like bonds.
16 That's why what we want to do is understand
17 what the risk is going forward by grouping these
18 potential volatile asset classes together. You
19 nailed it.
20 Moving down to the -- unless there's any
21 other questions, I'll move down just to kind of
22 pick it up here a little bit.
23 If you move down to the income bucket, if
24 you will, what we're doing is we're looking at
25 asset classes and strategies that have less

1 correlation to risk factors, to risk assets.
2 Income is the primary driver of return and
3 volatility is lower than those other asset
4 classes.
5 So here you find traditional bonds. These
6 are primarily debt instruments, if you will. So
7 if you look at just government bonds or corporate
8 bonds or mortgages bonds, agency mortgages, we
9 have the ability to look at those in isolation.
10 But, more importantly, look at the line
11 entitled "Core Fixed Income." That's primarily
12 what we're talking about here. That's the
13 Barclays Capital Aggregate Bond Index. That's
14 governments, agencies, corporate bonds and
15 mortgages that are investment grade rated for the
16 domestic bond market. Okay.
17 Doesn't include high yield. Doesn't include
18 nondollar. It's just US investment grade bonds.
19 That expected return for the next ten years is 3
20 1/4 percent. Okay.
21 For core plus -- and the difference between
22 core and core plus is you start with a core
23 manager. They've got the ability to invest in
24 domestic and investment-grade bonds, but then
25 they're allowed to go outside of that group and

1 they can add other bonds, both investment grade
2 and noninvestment grade, in an effort to enhance
3 return, or increase return.
4 And some of those other bonds are municipal
5 bonds, non-US dollar bonds, both from developed
6 countries and emerging market countries,
7 high-yield bonds. Those are principally the --
8 bank debt can be part of that as well.
9 But those are the ways that managers go
10 outside of the index and try to get a higher rate
11 of return.
12 MR. SCHEU: So the 3.25 percent, is that --
13 as I understand it, that is primarily derived of
14 the interest on the bonds rather than on
15 appreciation?
16 MR. HOLMES: Correct.
17 MR. SCHEU: So that's why -- so that 3 1/4
18 is really the interest side of the equation.
19 MR. HOLMES: That's -- exactly. What we're
20 doing there is essentially making no assumptions
21 about changes in interest rates. That's
22 basically taking the coupon payment for the
23 market and projecting it forward.
24 Now, if you -- and the reason we don't make
25 assumptions about changes in rates is that the --

1 hey, Joey, your sunglasses are left there.
2 MR. GREIVE: Oh, I'm coming back. Yeah. I
3 can't get enough of this stuff.
4 (Laughter)
5 MR. HOLMES: We don't make assumptions
6 about -- I don't think anybody can accurately
7 predict what the path of interest rates are going
8 to be over the next ten years.
9 And so what we're doing is we'll be
10 conservative and we're saying on an income basis,
11 on a coupon-payment basis, this is what that part
12 of the market is projected to achieve.
13 If interest rates go down over the next ten
14 years, then on whole you would expect that there
15 would be price appreciation in the bonds.
16 If interest rates go up, then you would
17 expect that to be a little bit less. It's not
18 going to be dramatically less because the coupon
19 payments will then be reinvested at a higher rate
20 going forward. But if we -- we've gone back and
21 looked at it. This is very fairly accurate
22 predictor of what we think that bond returns are
23 going to be going forward.
24 MR. SCHEU: And by the same token, you've
25 got core real estate, even though that's probably

1 stock or limited partnership, it's really the
2 income that you're counting on, not the
3 appreciation. What you just said.
4 MR. HOLMES: Exactly. Yeah. It's the fact
5 that you get a little bit of capital appreciation
6 in property prices, but in this particular case,
7 and the reason we're grouping it here is that
8 income is the primary driver.
9 MR. SCHEU: Thank you.
10 MR. HOLMES: Sure.
11 And then we get into other asset classes
12 that act as diversification. In other words, the
13 correlation of these asset classes is low to
14 zero -- I'm sorry, strike that -- is basically
15 zero and negative relative to the other two
16 buckets. And then in addition to that, they are
17 all very, very liquid.
18 And so cash -- ten years, cash is expected
19 to produce approximately a 2 1/4 percent return;
20 TIPS, 2 1/2; Long Treasuries, 2 3/4; and then
21 Commodities, 6 1/4. But if you look at
22 Commodities also, if you look at the Standard
23 Deviation column next to it, 6 1/4 with 20
24 percent standard deviation basically indicates
25 that they move around a lot. There's a lot of

1 volatility there.
2 MR. SCHEU: So all of this, if you think of
3 our assumed rate of return is 7 percent, there
4 are only very few of these that get the 7
5 percent.
6 MR. HOLMES: Exactly, exactly.
7 MR. SCHEU: Gee.
8 MR. HOLMES: Now you know why I do not sleep
9 at night. It will be illustrated here in a few
10 minutes.
11 Another point that I want to make is, is
12 that obviously standard deviation is the measure
13 for volatility. So we factor that in. What is
14 not shown here are the correlation factors or the
15 correlation coefficients between each of the
16 different asset classes.
17 You cannot -- we just went through an
18 exercise. You cannot take the weight of your
19 international portfolio, 21 percent, multiple it
20 times the assumption here and come up with the
21 expected rate of return, because you're not
22 factoring -- you're factoring in volatility.
23 You're not factoring in how one asset class
24 changes relative to another asset class over that
25 ten-year time period as the asset classes move

1 around.
2 And so if anybody wants the correlation
3 factors or correlation coefficients, I can give
4 you the giant spreadsheet for it; but you have to
5 factor it in, the traditional mean variance
6 model, in order to come up with that ten-year
7 expected return.
8 MR. PATSY: And you're using historical
9 correlations. How far back --
10 MR. HOLMES: Primarily, yes.
11 MR. PATSY: How far back --
12 MR. HOLMES: As far back as the asset class
13 goes.
14 MR. PATSY: Okay.
15 MR. SCHEU: You're probably going to answer
16 this, but just so -- for my totally uneducated
17 mind. So if you look at these expected returns,
18 if those are -- of those correlate to the
19 indexes, would it be better to just put it all in
20 passive investments?
21 MR. HOLMES: Actually, I'm getting to that
22 part right now.
23 MR. SCHEU: Okay.
24 MR. HOLMES: The answer is no. The answer
25 is no. And it's no for a couple reasons.

1 First, there is no investable index for
2 something like real estate. REITS are an equity
3 security. They are not a private property. And
4 so you can't go out and basically replicate --
5 passively replicate the portfolio that JP Morgan
6 or Principal has for you.
7 In addition to that, there are a number of
8 the asset classes where active management does --
9 on a net-of-fees basis does significantly better
10 than the passive index.
11 There are a couple of asset classes where
12 indexing, or having more indexing, makes sense.
13 But -- and we'll get to that here in a second.
14 So I answer that question here in the
15 presentation. Okay? If you'll continue your
16 extreme patience with me.
17 CHAIRMAN SCHMITT: Other than the obvious
18 better returns based on the different asset
19 classes and how well active managers do versus
20 passive, is there any benefit to your company or
21 to you individually for picking active versus
22 passive?
23 MR. HOLMES: Yes. Yes.
24 CHAIRMAN SCHMITT: And what is that?
25 MR. HOLMES: In terms of monitoring the

1 managers, looking at managers that have low
2 correlation to one another, better
3 diversification. Managers having a higher
4 projected rate of return going forward and a
5 higher probability of achieving access returns
6 net of fees.
7 CHAIRMAN SCHMITT: Those are all benefits to
8 us.
9 MR. HOLMES: Right.
10 CHAIRMAN SCHMITT: I'm asking if there's --
11 MR. HOLMES: Oh, oh. Do I have skin in the
12 game?
13 CHAIRMAN SCHMITT: Yes.
14 MR. HOLMES: Other than your satisfaction,
15 no.
16 CHAIRMAN SCHMITT: Okay.
17 MR. HOLMES: Yeah, no. Just so you --
18 actually, let me take just one second.
19 We have one source of revenue. Those are
20 the invoices that we send to clients like you and
21 then you turn around and pay us with a check. We
22 have no other income. If clients aren't happy,
23 we're not in business.
24 In 2004 the SEC did a sweep of the major
25 consulting firms to look at sources of revenue,

1 pay-to-play issues, and possible conflicts of
2 interests. We were one of four consultants to
3 receive what they kind of euphemistically term,
4 "no further information needed" letter.
5 At the time I was chief compliance officer
6 for the firm, simply because I'm the only one
7 with a law degree.
8 The SEC called and they said, You filled in
9 zeros for all of this data. We basically said,
10 Yeah. And they said, You know, we don't
11 understand. I said, We have a very simple
12 business model.
13 And I told them what I just told you. The
14 fact that we send bills to our clients, they're
15 all in hard dollars, it's no soft dollars, and
16 then the clients, you know, basically pay our fee
17 based on our billings, you know, on the flat fee
18 or, in some cases, a basis point fee for our
19 clients. Simple as that.
20 And they said, Would you be willing to sign
21 an affidavit to that? Sure, I would. And that
22 was basically it. That's our business model.
23 Very simple.
24 MR. SCHEU: So the benefit to you is that
25 active managers perform greater than your fee

1 because the percentage goes up?
2 MR. HOLMES: Well, no. Our fees doesn't
3 come out of what managers pay. We have no --
4 MR. SCHEU: No, no. Measured on the gross
5 portfolio. You've got a flat -- you've got a
6 stipulated fee?
7 MR. HOLMES: Yeah. I've got a flat --
8 MR. McCAGUE: We've got -- yes.
9 MR. HOLMES: I've got a flat-fee contract
10 with the Board.
11 But the bottom line is this. I have -- my
12 only interest is finding solutions -- or our
13 firm's only interest is finding solutions that we
14 think are going to work. We're not beholding to
15 any manager. We're not beholding to any
16 strategy. We're not -- you know, the idea is,
17 let's find solutions that work and recommend what
18 we think is the business interest of the client.
19 MR. PATSY: So if we want to do a manager
20 search, do we incur any additional costs from you
21 to do that search?
22 MR. HOLMES: No.
23 MR. PATSY: That's part of the --
24 MR. HOLMES: Yes.
25 MR. PATSY: -- retainer fee, I guess?

1 MR. HOLMES: Yes.
2 MR. PATSY: Okay.
3 MR. HOLMES: Every time Beth picks up the
4 phone or whoever picks up and phone and calls,
5 the dial doesn't go on. Everything that we do is
6 included in the retainer fee. So it's searches.
7 It's -- you know, you have a new financial
8 investment committee. I mean, in the past,
9 generally I come down to meet with the Board four
10 to six times per year is kind of what it's run
11 over time.
12 I told Beth that I think it's important to
13 get the financial investment advisory committee
14 up and running. So for the next four months, I'm
15 coming down twice a month. I was here last
16 Friday. Next month I'll be here for two weeks in
17 a row. The month after that, I'll be here two
18 weeks in a row.
19 It -- I just -- I need that cost coming down
20 because I think it's important to get the
21 consensus between the committee, get them
22 educated and up to speed, get consensus with the
23 Board so that we can make the changes that we
24 need to make and then move forward.
25 MR. PATSY: So regardless of whether you

1 come down four times a year or 40 times a year --
2 MR. HOLMES: If I'm coming down 40 times a
3 year, we're going to talk about what that fee is.
4 Yeah.
5 (Laughter)
6 MR. PATSY: You see my point.
7 MR. HOLMES: Yes.
8 MR. PATSY: I'm assuming that there's no
9 difference.
10 MR. HOLMES: No, no.
11 MR. PATSY: Okay. Because a lot of folks,
12 when they do that, they bill you the additional
13 charge for travel expenses.
14 MR. HOLMES: No. I am -- and to the
15 extent -- I mean, and this Board historically has
16 been very gracious from the standpoint of the
17 scheduling between the city's meeting and the
18 Police and Fire meeting have generally been, over
19 time, not always, but on back-to-back days so
20 that I can travel and meet with both boards
21 during the same trip.
22 It's not -- it doesn't always work out that
23 way, and I'm not going to ask you to change on my
24 behalf, but to the extent where they do coincide
25 does make things a little bit easier.

1 But during the winter months, I left snow at
2 the beginning of the week.
3 CHAIRMAN SCHMITT: And just to summarize, my
4 purpose in asking that question is to clarify the
5 recommendations that you make for money managers,
6 whether it's active or passive, has no impact on
7 revenue source or income or benefit to you or
8 your company?
9 MR. HOLMES: Not at all. Not at all.
10 MR. DARAGJATI: And just for the record,
11 Florida Statute reflects also Summit's billing
12 strategy. Your investment consultant is only
13 allowed to have a billing structure that is a
14 flat-fee basis. It can't graduate with the
15 growth or the shrinkage of the fund or how much
16 the fund makes per year. It's Florida Statute
17 112.656, I believe.
18 MR. HOLMES: Okay.
19 Moving forward, so you now know what the
20 capital market assumptions are. They're low
21 relative to history. It's a challenge meeting
22 that -- as you pointed out, it's a challenge
23 meeting that 7 percent target rate of return.
24 Now, the other thing I want to point out is,
25 is that on the far right-hand side, there's Alpha

1 Assumptions, okay? By Alpha Assumptions, what I
2 mean is that in asset classes where we would use
3 an active manager, this is what the net of fees
4 added return would be on top of the benchmark
5 return.
6 And so when we model, say, domestic equity,
7 large cap domestic equity, there's an Alpha
8 Assumption on the far right-hand side of 25 basis
9 points. So where you have active management,
10 when we modeled this, we assume that there's a
11 25-basis-point added excess return to it.
12 Where you have passive, we didn't model any
13 alpha.
14 MR. SCHEU: So we would then say that's
15 5.50, or is the expected return 5.0 and then
16 becomes .25 when you add on (inaudible).
17 MR. HOLMES: Yeah. It becomes -- if you
18 take 5 1/4 quarter and you add another quarter,
19 it becomes 5 1/2. Yeah.
20 MR. SCHEU: Okay. Thank you.
21 MR. HOLMES: Okay.
22 But, for instance, you've got the index
23 fund. We didn't do that for the index fund. So
24 that way we can look at the difference between
25 active and passive where active makes sense.

1 The next page. We're going to move through
2 this fairly rapidly here. The next page is
3 basically the same presentation, but it shows the
4 changes over the last year. The big take-away is
5 in the majority asset classes, the expected
6 return went up by anywhere from 25 to 75 basis
7 points.
8 And in MLPs, it went up by 1 3/4 percent
9 because of the huge price depreciation over the
10 last year. And then we also adjusted the Alpha
11 Assumptions accordingly as well.
12 Next page, page 4. This, I think, puts the
13 conundrum in a great -- in a great way. If you
14 look at the top left-hand side, there's a steep
15 blue line, a red line, a kinked red line and a
16 kinked green line.
17 The blue line is basically a very simple
18 capital market line: Stocks, bonds, cash. And
19 it takes that from bull market of the '80s and
20 the '90s. And the take-away there is simply that
21 the more money you put in equities, the higher
22 return you got. You got paid to take more risk
23 during that time period.
24 The red line is taking that blue line and
25 then updating it through last year. And what you

1 can see is, is that after you get out over bonds,
2 it kinks down. So at some point in time, what
3 happens is, is that you don't get more for taking
4 on more equity risk. You're getting paid less.
5 The green line is the projected, the assumed
6 returns going forward, and you see that it
7 flattens out.
8 So here it's basically showing that over the
9 next ten years, you're taking on more risk than
10 you're being paid for by necessarily increasing
11 domestic equities.
12 The chart below that basically points out --
13 what we did is, if you look at -- you know, 30/70
14 equity, fixed income portfolios all the way
15 through 80/20. What it shows is the expected
16 return on the top side in blue for every
17 incremental increase in equities, say, from 30 to
18 40 to 50 on up.
19 And then we looked at the down-side
20 scenario. What's the worst case scenario in
21 doing that? And what you see is, is that the
22 down-side risk becomes much greater than the
23 upside return for every 10 percent more you move
24 into equities. That's the difficulty that we
25 face right now, okay?

1 So the next couple of pages -- we already
2 discussed page 5, and that was basically how we
3 construct the bond assumptions going forward.
4 Let me talk about page 6 for a second. And
5 we look at domestic equities as a -- so we're
6 using a building-block approach to build the
7 assumed rate of return for domestic equities on
8 this page.
9 So if you start off on the right-hand side,
10 the Dividend Yield for the market is
11 approximately 2 percent on a rolling ten-year
12 basis and about where it is right now in terms of
13 average.
14 So you start with the market yield of 2
15 percent. You add into that earnings growth rate
16 for the next -- the assumption for the next ten
17 years is 1.75 percent. This is one of the
18 problems.
19 Equities can't grow faster than the economy.
20 This is -- you know, so everybody that says, Oh,
21 equities are going to grow higher, you either
22 have to have earnings growth -- and over
23 long-term periods we know that corporate earnings
24 growth can't grow more or faster than the overall
25 economy or you get a big multiple expansion.

1 Basically, prices get bid way up. The P/E ratios
2 go up.
3 And right now we're calling for somewhat of
4 a contraction there as well because we still
5 think that the equities are expensive.
6 So absent one of those two changing, we're
7 in a position to say that equities are going to
8 remain fairly low.
9 Then on the end of that you add the
10 inflation rate, the inflation assumption, of 1.75
11 percent. You add them up together and you get
12 that 5 1/4 percent. Okay. So that earnings --
13 getting earnings growth up is the answer again.
14 So the rest of the pages kind of go through
15 how we build assumptions. Let me get right to
16 kind of the meat of things and ask you to turn to
17 page 11.
18 Okay. Page 11 shows the asset classes that
19 we believe are Undervalued, Fairly Valued and
20 Overvalued.
21 If we have more months like January,
22 domestic equities are going to move very quickly
23 to the Undervalued column. Domestic equities and
24 actually even international equities -- well,
25 let's just say everything was negative in January

1 other than basically Treasuries.
2 So as a result, you can see that what we
3 think is rich, what we think is cheap. The
4 simplified name of the game is let's monitor
5 what's inexpensive and look for the opportunities
6 in the inexpensive asset classes. Let's be
7 mindful of what is expensive and take money off
8 the table when they get expensive. And if you do
9 that over time, I think that's the best strategy
10 for achieving superior rate of return.
11 MR. TUTEN: Dan, I skipped ahead and looked
12 at your recommendations as far as asset
13 allocation with the MLPs. But before we get to
14 that, Undervalued MLPs, I think -- you know, I've
15 asked this question before, but going forward,
16 you know, with Iran entering the picture now and
17 I know they have contracts, long-term contracts,
18 these distributors have that transport gas.
19 But, I mean, what is your view that makes it
20 think that these companies are undervalued when
21 the market forces, especially, you know, with
22 Shell Exploration and now they're talking about
23 bankruptcies throughout the exploration
24 industry --
25 MR. HOLMES: Because you don't have exposure

1 in the exploration part of the energy change.
2 MR. TUTEN: I know, and we've kind of talked
3 about this, so I apologize.
4 But if there aren't people producing it,
5 they're not moving it. If they're not moving it,
6 doesn't that affect these companies? And the
7 reason I ask that was because it just doesn't
8 seem to me, from an American perspective, that
9 we're going to be moving that much product
10 anywhere to justify these MLPs, especially seeing
11 as they've been going downhill like a ton of
12 bricks, and you have them labeled here as
13 Undervalued. I'm just kind of curious as to
14 what's going on.
15 MR. HOLMES: Okay. Because price actions
16 has gone down, and relative to future earnings
17 they are cheap. And so your worry is that future
18 earnings will not materialize.
19 And so if you look at it, what has happened
20 to demand? Nothing. Demand is still up. Demand
21 is going to be there. Demand has not come down
22 for these fossil fuels.
23 The problem has been oversupply. Supply is
24 coming down, but it's not going to go away. And
25 so what you -- you still have to get product to

1 market and regardless of where the supply is.
2 And so what happens is, is that everybody
3 has been worried based solely on the price of
4 oil, but product is still going to market. And
5 as a result, you know, they're still being --
6 they'll still be need. The price has been bid
7 down in this basically fear rally, but they still
8 continue to operate as before and they're still
9 fairly profitable.
10 The article -- one of the articles -- there
11 was a great article in The Wall Street Journal
12 over the weekend about bankruptcies in this
13 section.
14 If you read through the entire article, what
15 it pointed out was the pipeline companies are at
16 the least amount of risk in bankruptcy scenarios
17 for two reasons: One, the pipelines still
18 have -- you know, even if they're reorganizing to
19 basically solve debt issues, the pipelines still
20 have to operate. When the pipelines operate,
21 product is still going through and they're still
22 paying on those contracts.
23 The second thing is, is that lot of these
24 contracts are regulated by the FERC, the Federal
25 Energy Regulatory Commission. And in a lot of

1 cases, that if the renter of the pipeline does
2 not perform, then the FERC steps in and makes up
3 for it. The FERC makes sure that it gets paid.
4 And so that even in the worst case scenario,
5 bankruptcies, you still have to have these
6 pipelines working.
7 MR. TUTEN: Well, let me ask you this, then,
8 because I know later on you recommend we take
9 some money off the table as far as MLPs go.
10 I don't want to say it's sort of a -- it
11 goes against itself, but in other words, how
12 long -- let me ask you this. How long do you
13 think it will be until MLPs turn profitable?
14 In other words, what I'm thinking is when
15 you say, Look, let's take 2 1/2 percent out of
16 MLPs, what I'm assuming is that it's a short
17 term -- let's go ahead and get out of this
18 industry for a little bit, for a while, while it
19 strengthens itself up, and then it will come back
20 up eventually.
21 But how long is that going to be? Because
22 we look at things differently. I do, at least.
23 And I just don't see the demand for that industry
24 being there. I mean, despite what you said,
25 there's a lot of headwinds.

1 But how long are we looking at before -- and
2 it's not a lot of money in our fund. It's only
3 78 million at this point, but it's just -- it's
4 headed down big time. And I'm just curious as to
5 how long you think it would be before it even
6 stabilizes at this point.
7 MR. HOLMES: I have absolutely no idea. I
8 don't think anybody does.
9 MR. TUTEN: Well, I mean, if --
10 MR. HOLMES: Let me -- first, we're talking
11 about long-term strategic allocation, okay?
12 MR. TUTEN: Correct.
13 MR. HOLMES: Second, the -- don't hold me to
14 the exact date, but in September of 2014, after
15 MLPs had been up 30 percent, I came to this Board
16 and I came to the city's Board and said, They've
17 been driven too far up in price; they're
18 expensive; we need to pull some back.
19 And what we did is we took money off the
20 table and -- Joey, you correct me if I'm wrong
21 with regard to --
22 MR. GREIVE: I think we sold almost half --
23 MR. HOLMES: We took a lot of that exposure
24 off the table. And your target is 7 1/2 percent.
25 It's been -- we've taken it down to 5 percent by

1 taking money off the table over the past year and
2 a half or so. I don't want to put more money
3 back in there because it's leading to more
4 volatility. Long term I think they're going to
5 recover.
6 I cannot tell you what the price of oil is
7 going to be tomorrow or in ten years, but what I
8 can tell you is, is that technicals, driven by
9 investor fear, has pulled down the current stock
10 price, but the company profitability of the
11 underlying company is still positive.
12 At some point in time the difference between
13 the technicals and the fundamentals is going to
14 reverse and they're going to appreciate. But I
15 can't tell you exactly when that is for not only
16 MLPs, but for really any asset class.
17 If you looked at -- you know, if you looked
18 at the energy sector two days ago after the
19 announcement that OPEC had basically come to kind
20 of an agreement to limit production going
21 forward, and Iran basically said, Well, we're not
22 agreeing to it, but we're not going to -- we're
23 not going to oppose it. And by the way, Iran
24 coming on line is very minor. It doesn't really
25 move the needle all that much in terms of the

1 amount of supply. It's basically OPEC.
2 If you look at that, the price of oil
3 rallied and the energy market rallied and the
4 stock market rallied. And so, yeah, I mean, they
5 put together a three-day string.
6 But the bottom line is, is that on a
7 technical basis, yeah, we can underweight it even
8 more relative to the benchmark, but I don't want
9 to completely abandon it because I think that it
10 offers a long-term strategic opportunity to
11 achieve a return better than a domestic equity
12 market with no liquidity lockup.
13 MR. TUTEN: Well, that gets to my next
14 point.
15 You know, when we evaluate managers, now
16 relative to their index, they're doing actually
17 pretty good, you know, as far as being not as
18 bad, I guess we should say.
19 But we've got a three-year return here now
20 of negative 4 percent. And I know the market
21 is -- you know, their index is negative 11.
22 But that being said, your four -- your
23 five -- let's just say assume going forward in
24 year five they're still negative, regardless of
25 what the market is, at what point do we say we

1 need to either, A, shop for some new MLP
2 investors; or, B, this is not going the way we
3 thought it would, maybe it's time to send this
4 money somewhere else?
5 MR. HOLMES: So the difference, first of
6 all --
7 MR. TUTEN: Let me state it another way.
8 In your opinion, what's the different --
9 what criteria is -- is the criteria for
10 jettisoning a manger the same for an MLP manager
11 as a stock manager?
12 MR. HOLMES: Yes. Yes.
13 MR. TUTEN: Okay. That's what I'm just
14 curious about.
15 MR. HOLMES: Yeah. And so there we're
16 looking at the manager relative to the benchmark
17 and relative to its peers. And both of your
18 managers -- and this is through December. Both
19 of your managers out-performed the index by about
20 7 to 8 percent since they have been hired.
21 MR. SCHEU: From negative 35. They were at
22 negative 28, according to that.
23 MR. HOLMES: Is that since inception?
24 MR. SCHEU: If you look at year to date,
25 fiscal year to date.

1 MR. PATSY: That's since inception.
2 MR. SCHEU: No, that's inception. Right,
3 right.
4 MR. HOLMES: So this is an asset class --
5 you know, getting back to the prior discussion,
6 this is an asset class where an active manager
7 makes sense.
8 I think your bigger concern is the asset
9 class, not so much the manager.
10 MR. TUTEN: Oh, it is. It's not necessarily
11 the managers. My biggest concern is the asset
12 class as a whole. I just don't see it going
13 anywhere, but we'll see.
14 MR. HOLMES: So the answer to the question
15 is, if we look and see the long-term fundamentals
16 as deteriorating without a good sign for
17 recovery, then we will say we need to take it off
18 the table.
19 But right now, I mean, you've seen it
20 before. What would be a good example?
21 Well, Brown Capital Management. I believe
22 we have Brown, right? Brown Capital
23 Management -- I've used this analogy before.
24 Through quantitative easing, what did
25 quantitative easing do? Quantitative easing

1 basically forced investors to move out of bonds,
2 move into stocks, and it drove up asset values
3 kind of across the board. And as a result, you
4 basically had lower-quality companies, more
5 momentum-based companies do better than higher
6 quality companies. Quality measured by kind of
7 debt on the balance sheet, sustainability of
8 growth going forward.
9 So you basically had this basically rising
10 of all boats, if you will, in the equity asset
11 classes over the last five years, you know,
12 through kind of 2014.
13 But what you had is money moving into the
14 defensive, more yield-oriented sectors: Consumer
15 durables, more consumer stocks and some of those
16 particularly, utilities, some of those areas.
17 You had the sustainable growth sectors that
18 still had projected growth but were -- but
19 basically were not paying some sort of yield,
20 they underperformed.
21 When quantitative easing got taken off,
22 managers -- investors basically looked up and
23 they said, Hey, wait a minute; these more
24 defensive sectors are really expensive and their
25 future earnings growth is lower. You've got this

1 whole world out here with stocks that -- or
2 companies that have higher projected earnings
3 growth. It's not mythical like the tech bubble.
4 There's real earnings growth there. It's higher
5 than these defensive sectors, and they're selling
6 at really, really cheap prices.
7 And so you saw, as the market moved around
8 and moved back into the stocks. And over the
9 past 12 months, Brown Capital Management -- or
10 Asset Management, as an example, they went up.
11 It's going to take an environment like that
12 where investors say, Wait a minute; the price or
13 the operating -- the operations of these MLPs is
14 not in jeopardy, and it's basically the price
15 that is moving around on the market place.
16 They're yielding 10 percent and they're cheap.
17 At some point in time investors are going to
18 realize -- recognize that you've got a 10 percent
19 yield and they're very inexpensive relative to
20 other stocks, and the market is going to move
21 back around and take advantage of that. You'll
22 see money moved back into it. That's when you're
23 going to see price appreciation for these things
24 again.
25 Believe me, I'm not fighting you.

1 MR. TUTEN: Oh, I know.
2 MR. HOLMES: I share the same concerns, but
3 on a long-term fundamental basis, the numbers
4 continue to make sense. If they don't make
5 sense, then I will come back and say, We were
6 wrong and we need to make it up.
7 MR. TUTEN: Oh, I know. I just see two
8 catalysts, and I'd never even heard of MLPs
9 before. But I see two catalysts. You mentioned
10 one, the quantitative easing, and the other one
11 was the oil boom with exploration, you know. And
12 I know we've discussed what's related to what.
13 But those were happening just about the same
14 time that MLPs burst onto the scene. And I don't
15 want to know which one started first, but they're
16 all related.
17 Going into the future, we already know
18 quantitative easing is pretty much over with. I
19 don't think there's going to be another oil boom,
20 and I'm just curious to see -- I just want to
21 make sure that you guys -- because I know you
22 guys brought MLPs to us, because I'd never heard
23 of them, and, you know, we've gone along with it.
24 And they've done good for the most part, but I
25 just want to make sure that there's some sort of

1 a -- we're keeping an eye on them.
2 MR. HOLMES: We discuss it every Monday
3 morning. And what's interesting is I play your
4 role with our analyst. And so I take --
5 MR. TUTEN: I need it. That would be fun.
6 MR. HOLMES: You're welcome to come and
7 watch.
8 But, no. I mean, the consultants do the
9 same thing, saying, Hey, these are the questions
10 we're getting from the clients. And we're always
11 pushing our research to make sure that we've got
12 adequate --
13 MR. TUTEN: All right.
14 MR. HOLMES: Let me try to move on. Page 12
15 shows the statutory restrictions. I won't go
16 through each of these. We kind of know what they
17 are.
18 But what it does is -- the statutes do not
19 talk in terms of minimums. They only talk in
20 terms of maximums. So basically there is no
21 limit on treasury obligations. There's a limit
22 of no more than 25 percent in certain asset
23 classes that are listed there. And there's no
24 more than 80 percent of basically equities,
25 domestic equities and domestic corporate bonds.

1 CHAIRMAN SCHMITT: Dan, let me interrupt you
2 there for just a minute. We're coming up on an
3 hour and a half. I just want to make sure --
4 Denice, you're okay and we can keep going, or if
5 it's going to be over half an hour, 45 minutes
6 longer, we might need to take a break.
7 MR. HOLMES: Understood. That's fine. I'm
8 guided by your time.
9 CHAIRMAN SCHMITT: Why don't we take a
10 five-minute break. We'll come back -- it is now
11 10:30. We'll take five.
12 (A break was taken; thereafter the Board
13 meeting continues as follows:)
14 CHAIRMAN SCHMITT: We will call the meeting
15 to order. It's 10:40. Back to you, Dan.
16 MR. HOLMES: Thank you.
17 CHAIRMAN SCHMITT: Oh, one quick thing. I
18 know Mr. Scheu has a meeting. What time do you
19 have to leave by, Bill?
20 MR. SCHEU: I've got an 11:30, about quarter
21 after 11.
22 CHAIRMAN SCHMITT: Okay. If there's any
23 items that we need to take up, I'd like to --
24 MR. HOLMES: We'll do it right now.
25 CHAIRMAN SCHMITT: Okay.

1 MR. HOLMES: Okay. Inasmuch as I know
2 everyone is having fun, let me get right to the
3 meat of the point, if you will.
4 And that is, if you turn to page 13, page
5 13, we took the target allocation as it exists
6 now in the investment policy, and you can see the
7 percentages of how they roll out across the
8 active and passive managers and all the different
9 asset classes and strategies.
10 When we apply the capital market
11 assumptions, you see in the bottom part of the
12 table, there's a line entitled "10 Year Beta
13 Expected Return." It's 6.6 percent. In other
14 words, if the entire portfolio was just going to
15 earn the assumed rate of return based on the
16 asset class, that comes to 6.6 percent.
17 When we factor in the amount of actively
18 managed strategies and apply the Alpha
19 Assumption, it goes up by another half percent so
20 that the total expected return is 7.1 percent.
21 Does everybody see that and understand that?
22 MR. McCAGUE: What page are you on?
23 MR. HOLMES: I'm on page 13.
24 MR. SCHEU: Is that this?
25 MR. HOLMES: Yes.

1 MS. McCAGUE: So the fourth box, second --
2 third line.
3 MR. HOLMES: This is your target allocation.
4 MR. SCHEU: Right, right.
5 MR. HOLMES: When we get down here, if
6 you're looking just at the capital market
7 assumptions without any alpha, the expected
8 return is 6.6.
9 MR. SCHEU: I got you.
10 MR. HOLMES: When we factor in active
11 management, you get to 7.1. Okay?
12 MR. SCHEU: Yes.
13 MR. HOLMES: But underneath that line is
14 standard deviations of volatility of the
15 portfolio. That's important, because what I want
16 you to understand is this: Two-thirds of the
17 time, or one standard deviation, if you will,
18 under our normal curve, two-thirds of the time
19 your -- the range of returns is going to that 7.1
20 percent, plus or minus, 11.4.
21 MR. SCHEU: 11.4 of the 7.1?
22 MR. McCAGUE: No.
23 MR. HOLMES: No, no, no. The 7.1 plus 11.4
24 or minus that, that's the range of returns that
25 are theoretically possible two-thirds of the

1 time.
2 And then another third time, you go outside
3 that range. So the idea is that -- your standard
4 deviation is your measure of volatility. The
5 idea is, is that if possible, we want to get that
6 standard deviation number down as low as possible
7 to minimize that variation.
8 MR. SCHEU: Sure.
9 MR. HOLMES: Okay? So right now that says
10 that we've got the ability to meet the target
11 based on the assumptions.
12 Now, on the next page -- Rick, you're going
13 to ask a question.
14 MR. PATSY: Why are we so high in fixed
15 income?
16 MR. HOLMES: In terms of the target or in
17 terms of --
18 MR. PATSY: We're way over our targets.
19 MR. HOLMES: I'm sorry?
20 MR. PATSY: We're way over our targets.
21 MR. HOLMES: Oh, yeah. You mean in terms of
22 the actual versus target?
23 MS. McCAGUE: Yes.
24 MR. PATSY: Yeah.
25 MR. HOLMES: Well, because we have not put

1 in place a value-added real estate manager.
2 We've not put in place a core plus fixed-income
3 manager.
4 MR. GREIVE: And it looks like, at least on
5 this page, you're got Core Real Estate falling
6 into Income.
7 MR. HOLMES: Well, that, we put it in the
8 income bucket again, the GID buckets.
9 MR. GREIVE: Okay. Got you.
10 MR. SCHEU: Like we discussed earlier.
11 MR. HOLMES: Exactly, exactly.
12 So what we did is -- I'll get right to the
13 meat of it. On page 14 we looked at what we
14 could do to accommodate some of the issues. And
15 that was, for instance, if we wanted to
16 accommodate and target 1 percent cash, we could
17 get rid of the TIPS and move it into cash and
18 core-plus fixed income.
19 Portfolio B, right now based on valuation,
20 we had a little bit of an overweight to small
21 versus large cap. So on Portfolio B we corrected
22 it by taking small cap down by 2 percent and
23 increasing it in large cap.
24 Portfolio C. I think right now that 7 1/2
25 percent return -- 7 1/2 percent target to MLPs is

1 a little bit too high. And so what I wanted to
2 do is take that down by about 2 percent.
3 And then portfolio -- well, you can see
4 basically what we did is we moved asset classes
5 around to try to keep that 7 percent target, but
6 also accommodate taking out MLPs a little bit and
7 also accommodating the cash.
8 So what's recommended is Portfolio E.
9 Portfolio E is a combination of A, B and D. And
10 we're pulling MLPs down by 2 percent, from 7 1/2
11 to 5 1/2.
12 So that plays out on the next page. And so
13 if you look at the target in Portfolio E, what
14 happens is this. If you bear with me, we'll go
15 own on a line-by-line basis.
16 Large Cap goes from 17 to 22.4. So that
17 goes up a little bit. The Large Cap Passive
18 remains about the same. Small Cap goes down a
19 little bit from 9 to 7.6.
20 International Developed stays the same at
21 14. The same with Emerging Markets. The same
22 with Emerging Market Debt. High Yield doesn't
23 change at zero. MLPs goes down. That goes from
24 7 1/2 down to 5 1/5. The Core -- Non-Core Real
25 Estate remains at 5. Private Investments remain

1 at zero at this point.
2 Within fixed income you can see -- within
3 the Income bucket, rather, you see that Cash goes
4 up by 1 percent to accommodate that liquidity
5 like we talked about earlier.
6 Core Fixed Income stays the same. Passive
7 Core Fixed Income goes down by 1 percent. Core
8 Plus Fixed Income goes up by a half percent, from
9 7 1/2 to 8. Bank Notes stays the same and then
10 Core Real Estate stays the same.
11 And then, finally, the TIPS we got rid of
12 from 2 1/2 to zero.
13 What that does is, is that the total rate of
14 return goes down by 10 basis points. It goes
15 down from 7.1 to 7. And then Standard Deviation
16 goes up by 50 basis points. And the reason is
17 that is basically taking MLPs down by 2 percent.
18 Now, the reason I'm doing that -- it seems
19 counterintuitive, but the reason I'm doing that
20 is in recognition, Rich, of what you were saying
21 from the standpoint of we either have to remain
22 materially underweight target or, in recognizing
23 the near term concerns, I'm just saying,
24 recognize the fact that we've already taken it
25 down, and let's just keep it down by taking 2

1 percent out of the target.
2 MS. McCAGUE: And, Dan, if you're going to
3 suggest moving money -- more money into large
4 caps, correct?
5 MR. HOLMES: Yes.
6 MS. McCAGUE: Why wouldn't you move it into
7 passive?
8 MR. HOLMES: Because of the alpha
9 assumption. The active with the alpha assumption
10 gets you back up to that 7 percent return.
11 Now, that's not to say that we can't do more
12 in passive. The way we can do that is through
13 some manager consolidation. That's what we're
14 going to talk about at the next meeting.
15 Now, we can move it up. We can move more
16 into passive, but I would rather do some of that
17 through manager consolidation.
18 MS. McCAGUE: And of the large cap equity
19 managers we have, how many are providing alpha to
20 us?
21 MR. HOLMES: Are providing what?
22 MR. McCAGUE: Alpha. How many are
23 outperforming the market?
24 MR. HOLMES: About slightly over half.
25 MS. McCAGUE: All right.

1 MR. SCHEU: Could I just ask a stupid
2 question about the math?
3 In this class, the aggregate -- oh, I'm
4 sorry. Never mind.
5 Well, you go up from 17 percent to 22.4
6 percent on large cap. That's 5.4 percent.
7 MR. HOLMES: Yes.
8 MR. SCHEU: And you go down in MLPs from 7.5
9 to 5.5. That's 2 points. But you stay at 74 --
10 that's only a 2.5 percent difference. Where is
11 the increase in 5 points?
12 CHAIRMAN SCHMITT: You're starting with two
13 separate totals. There's a lot more invested
14 already in the equities. So the percentage
15 change is a higher dollar amount than the
16 equities.
17 MR. SCHEU: But you still end up -- don't
18 you have to offset -- I see. So they're more in
19 it. It's confusing.
20 CHAIRMAN SCHMITT: So a 10 percent change in
21 MLPs is equal to like a 1 percent change in
22 equities. We have far more invested in the
23 equities.
24 MR. SCHEU: But doesn't that mean that it
25 should go -- because if you go up 5 points in

1 large cap and only down --
2 MR. HOLMES: Are you saying that the numbers
3 don't sum to 100, or are you saying that it
4 doesn't make sense why return doesn't move more
5 for --
6 MR. SCHEU: I was thinking the numbers
7 didn't -- the math didn't work.
8 MS. McCAGUE: Well, these are only
9 percentages. If you had the dollar amounts, you
10 would see that the math would prove out exactly
11 your point. But these are just percentages.
12 MR. SCHEU: Okay. I'll take your word for
13 you.
14 MR. McCAGUE: Correct, Dan?
15 MR. HOLMES: Uh-huh.
16 MR. TUTEN: Dan, the actual allocation is
17 what we have right now, correct?
18 MR. HOLMES: The actual, yeah.
19 MR. TUTEN: That's the current allocation we
20 have in the funds?
21 MR. HOLMES: Right. At the end of December.
22 MR. PATSY: That's the target, right?
23 MR. HOLMES: He's looking at a different
24 page.
25 MR. GREIVE: Page 13 he went back to.

1 MR. TUTEN: What page are you on?
2 Well, I think some of the confusion is,
3 you're talking about going down 1 1/2 percent
4 from the target allocation, and I started looking
5 at the numbers and I'm like, Wait a minute --
6 MR. HOLMES: No. I'm just talking about --
7 forget about actual for now. I'm just talking
8 about the target change off the target.
9 MR. SCHEU: Okay. Thank you. I think.
10 MR. HOLMES: So let's talk about it.
11 So basically what I want to do is what we're
12 talking in reality about is, the biggest effect
13 is decreasing the target to MLPs by 2 percent to
14 reflect basically where we are and to take some
15 volatility off the table.
16 Unfortunately, you don't have many places to
17 go. And, really, the only place you can go is
18 increasing domestic equities. That's why risk
19 goes up. Also, I wanted to accommodate the
20 liquidity needs by at least setting a 1 percent
21 target.
22 We also have to fund a core-plus manager.
23 That's -- everything else being equal, that's
24 what we need to talk about today. If anybody
25 wants to talk about other ideas or make other

1 suggestions, at least -- or have any questions
2 about what is recommended, let's do it now.
3 MR. SCHEU: Let me just ask real quick. If
4 you look at that column in Portfolio E, and help
5 me understand, it looks like you reduced the
6 expected rate of return to 7 percent, 7.1.
7 The risk has gone up from 11.4 to 11.9, as I
8 understand what that -- the deviation. And the
9 return has -- return to risk has gone down too.
10 MR. HOLMES: That's correct. So why I am
11 recommending that?
12 MR. SCHEU: Yes.
13 MR. HOLMES: I'm recommending it simply
14 because that takes that MLP target down to
15 reflect where we are currently, and that also
16 adds -- you know, it basically recognizes some of
17 the concern that Rich has.
18 And so, you know, from our model playbook
19 from the office, that 7 1/2 percent target to
20 MLPs remains relatively high.
21 MS. McCAGUE: So if we're looking at page 13
22 with your various portfolios and then we look at
23 a couple of more pages, looking ahead, you're
24 going to talk about private equity --
25 MR. HOLMES: Right.

1 MR. McCAGUE: -- so are you asking the Board
2 to look at a shift in target allocation with the
3 asset classes we currently have, and then change
4 that allocation if they agree to add private
5 equity?
6 MR. HOLMES: Yeah. So -- thank you. Let
7 me -- I'll get to it.
8 On page 16 we translate the returns of
9 the -- the range of returns into where they are
10 in terms of expected and the worst case scenario
11 over the various time periods.
12 And the idea is basically to show that the
13 worst case scenario between the Portfolio E and
14 the target is only about 30 basis points
15 difference over the ten-year time period. So
16 it's essentially kind of in the same bucket.
17 More importantly, on page 17, we're showing
18 under different market environments what the
19 expected returns are based on historical
20 environments like Black Monday in October of
21 1987, the Tech Bubble, the Financial Crisis of
22 2009; and then, conversely, the Bull Market. And
23 then we're also looking at theoretically
24 scenarios. So here credit wide is 200 basis
25 points.

1 So the bottom line is you basically see that
2 the first two portfolios, the current and E, act
3 pretty close to each other. The last scenario,
4 which was Portfolio F that we didn't get a chance
5 to talk about, that was basically a portfolio
6 where a lot more money goes in equities out of
7 bonds, because we had been talking about that or
8 that had been proposed to the Board for a while.
9 That just shows that the risk really takes on --
10 you don't want to take on that much risk, is what
11 I'm saying.
12 So on page 18, what we do is, if he moved 5
13 percent in the privates, private equity, what
14 would be the effect?
15 And so if you look at page 18, if you look
16 at the Target Allocation, and then Option 1 next
17 to that is if we just took 5 percent out of
18 domestic equities and moved it into private
19 equity, what would be the result? And what you
20 see is that the expected return goes from 7.1 to
21 7.3 and the risk stays the same.
22 So it's only a couple basis point move, but
23 the idea is, is that without increasing risk,
24 adding from domestic equity helps to diversify
25 the portfolio and add a return.

1 If you move it from Emerging Market Debt and
2 domestic equities to kind of split it between the
3 two, there's less of an effect and basically
4 volatility goes up a little bit.
5 So the bottom line is -- we did this with
6 target, we did it with E, we did it with F, but
7 the bottom line is if you take money, 5 percent,
8 out of domestic equity and you move it into
9 private equity, you increase expected return by
10 approximately 20 basis points and you decrease --
11 you either keep risk the same or decrease it by
12 about 10 basis points.
13 It really takes getting into about the 10
14 percent range where you start to see a bigger
15 effect, if you will. A 5 percent barely moves
16 the needle.
17 I think we need to talk about this going in
18 the future. But like I said before, until we
19 know what liabilities look like, I think it's
20 premature to get too far or adopt that part.
21 MS. McCAGUE: Okay. So you don't want the
22 Board to consider private equity allocation
23 today?
24 MR. HOLMES: Well, let me put it this way.
25 It won't be for a long time before we can do

1 anything about it. I'm very comfortable adopting
2 the long-term 5 percent target or a long-term 10
3 percent target; but in doing so, we have to know
4 that we're not going to be fulfilling that for a
5 while.
6 MS. McCAGUE: Okay.
7 CHAIRMAN SCHMITT: And Portfolio E would
8 move 1 percent to cash for liquidity purposes?
9 MR. HOLMES: Correct.
10 MR. SCHEU: So from the perspective of the
11 public and the City Council, thinking out loud,
12 it would seem to be better just not to adopt it
13 in the future because the questions would be,
14 Well, why did you do that if you never knew -- if
15 you weren't going to do it for a few years, why
16 not just adopt this? And when the time gets
17 right to consider private equity when you know
18 all this stuff, it would seem to me that would be
19 the more conservative approach to protect that.
20 CHAIRMAN SCHMITT: The follow-up to that is,
21 is there a time crunch when this opportunity
22 arises?
23 MR. HOLMES: No, no.
24 CHAIRMAN SCHMITT: Okay. So we don't have
25 to have it in place to take appropriate action?

1 MR. HOLMES: So you could -- so there's not
2 going to be a rush at any point in time to say,
3 Oh, we have to get it invested now. It's not a
4 market-based thing.
5 What I want to do is just be mindful of the
6 fact that the statute requires us to look at
7 liquidity. It requires us to look at cash flow.
8 It asks -- we have to look at what the future
9 liabilities look like before we invest in
10 anything private.
11 And while that's still in flux, if you adopt
12 the target today, that's fine, but we're not
13 going to be able to do anything about it until we
14 know what that liability looks like.
15 MR. PATSY: My experience with private
16 equity is it's a long-term commitment. You put
17 in a private equity allocation today, it'll be 10
18 to 15 years before there's any realization of
19 whether it worked or not.
20 CHAIRMAN SCHMITT: Mine was on the initial
21 investment side, whether there's any sort of --
22 MR. PATSY: If we've got 10 to 15 years to
23 see this play out, waiting 6 months, 12 months,
24 18 months is not an issue.
25 MR. HOLMES: Right.

1 CHAIRMAN SCHMITT: Very good.
2 MR. PATSY: It's better to get the decision
3 right at the front end and take our time to get
4 to that point than to make our -- you know, I
5 don't want to say a snap judgment, but a decision
6 based on not all of the information.
7 CHAIRMAN SCHMITT: Sounds good.
8 MR. PATSY: Dan, I have a question. This is
9 an asset allocation review. My experience is on
10 the corporate side, we tend to do asset liability
11 studies.
12 This doesn't encompass the liability side of
13 the equation. And given the changes that are
14 coming down the road or potentially coming down
15 the road, let's put it that way, it would make
16 sense to do an asset liability study at some
17 point in time in the future once the powers that
18 be in Tallahassee come back with some kind of
19 legal decision.
20 But we can do things based -- today without
21 having to take that into consideration, correct?
22 MR. HOLMES: That is correct. And so the
23 last time we did a full-blown asset liability
24 study was in 2012. And the difference is, is
25 that in that particular case, we take the

1 liabilities -- the liability information from the
2 actuary on a life-by-life basis.
3 We have actuaries on staff as well. And so
4 what they will do is take the actuarial
5 information, will put it into our actuarial
6 models. We will project the liabilities going
7 forward based on your actuary's assumptions and
8 make sure that what we have foots with what the
9 actuary has. And if it doesn't, we'll find out
10 why.
11 Then if you take the actuary's
12 assumptions -- like the actuarial assumed rate of
13 return is 7 percent, you take the mortality
14 assumptions and take all the actuary's
15 assumptions and say, If these come true, what
16 does the liability look like for the next ten
17 years?
18 So we use that as our base case. So we
19 basically monitor or evaluate the evolution of
20 liability going forward ten years. We say, Okay,
21 if that comes true, as modeled by or assumed by
22 the actuary, what's the best way today to invest
23 the assets now to offset that liability ten years
24 hence?
25 And so what we'll do is we'll do the

1 liability side, then we'll do the asset side like
2 we're doing today, and then what we'll do is
3 we'll marry the two to say, Okay, for the metrics
4 that are most important to this particular
5 Board -- and it could be funded ratio; it could
6 be contributions; it could be whatever your
7 metrics that are important to you, we'll say,
8 When we combine the assets and liabilities
9 together, what handles those metrics in this best
10 way possible? Could be contributions.
11 MR. McCAGUE: Right. So what we'll do is
12 keep this asset liability study, the potential
13 for doing that, high on the radar. And as the
14 mayor works his bill through Tallahassee, we'll
15 see what it looks like, and then we'll see if the
16 Board would like to officially request an asset
17 liability study.
18 MR. HOLMES: So the bottom line is, yes, I
19 agree a hundred percent we need to do it, but we
20 need to do it when we have more actuarial
21 information. Okay?
22 MR. PATSY: One more question.
23 MR. HOLMES: Please.
24 MR. PATSY: I've always been much more
25 inclined towards small cap than large cap. Can

1 you talk a little bit -- and that's when I look
2 at D and E, I'm more inclined to D than E partly
3 because of that.
4 Can you elaborate on why you guys see small
5 cap --
6 MR. HOLMES: Yeah. We see small cap as
7 being more overvalued than large cap. That's
8 what it boils down to. And there's a -- I think
9 the assumptions are 25 basis points higher for
10 large than small.
11 MR. PATSY: Right. But the excess return on
12 the small cap ought to be greater than what you
13 get out of large cap.
14 MR. HOLMES: They are.
15 MR. PATSY: So net, you're probably further
16 ahead with small cap than you are with --
17 MR. HOLMES: It has a little bit more --
18 usually has a little bit more volatility. And
19 right now we just think that it's a little more
20 expensive than the large cap. But in reality,
21 we're not moving the needle much, if at all.
22 MR. TUTEN: Dan, could you -- I got a
23 request for a question.
24 I think what's kind of making some of this
25 confusing is the fact that we're going from the

1 target -- I've got where we stand now, our
2 allocation. Is there anywhere in here where you
3 got where you want us to go from where we're at
4 now versus the target? In other words, I
5 understand the target --
6 MR. HOLMES: You mean, where it's invested
7 way in the --
8 MR. TUTEN: As far as the fund -- like,
9 right now we're allocated at XXXXX.
10 CHAIRMAN SCHMITT: Is that not page 23?
11 MR. TUTEN: I mean, it would be -- and my
12 concern is, getting back to the fixed income, if
13 you look at the returns for fixed income -- I
14 know they're not sexy, believe me, they're not --
15 but if you look at the returns over the last ten
16 years, fixed income's only returned 2 percent
17 less than the stock market.
18 Now, I know we've had some gyrations. But
19 fixed income, although you don't want it to be
20 the majority of your fund, it does serve a
21 purpose. It's basically a back stop. It's just
22 the absolute, when all else bottoms out, at least
23 we know we have this.
24 And if you look at the last ten years, which
25 I can't find right now, it's literally only 2

1 percent net of fees difference between that and
2 the stock market.
3 MR. HOLMES: What's happened over the last
4 ten years with rates?
5 MR. TUTEN: What?
6 MR. HOLMES: What's happened over the last
7 ten years with rates?
8 MR. GREIVE: That's true. Good point.
9 MR. HOLMES: Rates have come down.
10 MR. TUTEN: Right.
11 MR. HOLMES: And as rates have come down,
12 bond prices have gone up, right?
13 MR. TUTEN: Yeah.
14 MR. HOLMES: And so if we look at where we
15 are in terms of rates right now --
16 MR. TUTEN: Correct.
17 MR. HOLMES: -- how much further can they go
18 down?
19 MR. TUTEN: Well, but -- well, that's why
20 you have an active manager because you assume
21 that they're doing transactions and they're
22 getting in, getting out, getting in, selling,
23 doing this and doing that --
24 MR. HOLMES: But the potential magnitude
25 from -- we are at such low interest rates today,

1 that the potential magnitude of even active
2 management adding value over it, it's still not
3 going to get up to the equity range.
4 MR. TUTEN: Oh, sure. I understand that. I
5 mean, I -- trust me, I'm a skeptic, but I don't
6 even know if they'll ever get back to 7 percent.
7 But that being said, I'm afraid -- I just want to
8 see where we're at like right now in the fund and
9 what this new plan takes or subtracts from that.
10 That's all. I mean, I'm just --
11 MR. HOLMES: I don't have it based on
12 current -- the current weight and the
13 recommended. I have the target -- the current
14 target versus recommended.
15 MR. TUTEN: Correct, I understand that.
16 That's what's sort of kind of throwing me off.
17 It would be much easier to see where we're at,
18 where we're going versus --
19 MR. PATSY: It seems like we can make a lot
20 of the changes that we need to make, without
21 adopting a new portfolio, simply moving towards
22 what our target is, because it -- when I look at
23 Target Allocation on page 15 in Portfolio D and
24 Portfolio E, I don't see -- they --
25 MR. TUTEN: They're kind of minute.

1 MR. PATSY: Yeah. On the fixed income side
2 of the equation, I come down on Dan's side of the
3 equation. We're at, what, 260 on the 30-year
4 treasury. Yeah, it can go lower. But the odds
5 are it's going to go higher as opposed to lower.
6 And if it goes -- if the rates go higher,
7 the market value on the fixed income side of the
8 equation is going to fall. And that's -- equity
9 is a much better bet here than fixed income.
10 MR. HOLMES: Is there anybody opposed to
11 basically -- let's just say since we've already
12 kind of moved to get out of TIPS, but we had a --
13 you know, it's still part of the current target.
14 Is anyone opposed to taking 1 1/2 percent
15 out of TIPS and moving it into cash for liquidity
16 purposes based on a target -- on a target basis?
17 MR. PATSY: Why do we want any cash?
18 MR. HOLMES: Because we have to pay
19 benefits. Because we have to pay benefits and
20 expenses.
21 MR. PATSY: Yeah, but we don't have to pay
22 that until the end of the year.
23 MR. GREIVE: The end of the year, we can
24 plan for it.
25 MS. McCAGUE: Well, we pay our management

1 fees every quarter.
2 MR. CARTER: Yeah. We still have small
3 operational expenses.
4 MR. PATSY: You need 1 1/2 percent to do
5 that, though?
6 MR. GREIVE: Just a suggestion. If your
7 target's zero and in your policy you generally
8 have 5 percent ranges around all of your targets,
9 you can keep your cash target zero and just keep
10 5 or 10 million in cash.
11 MR. PATSY: Keep?
12 MR. GREIVE: 5 or 10 million in cash if you
13 want it. 1 percent is $16 million in cash.
14 MR. PATSY: It would be about 13 million
15 would be 1 percent, right?
16 MR. GREIVE: That's a lot. I mean, what's
17 the liquidity concern?
18 MR. HOLMES: We need about 11 million in
19 cash for the year?
20 MR. CARTER: Yeah. At least about 10, 10 or
21 11.
22 MR. GREIVE: To pay money manager fees and
23 operating expenses.
24 MR. CARTER: For full year. So if we do six
25 months, it would be five.

1 CHAIRMAN SCHMITT: Disbursements, payout to
2 money managers, trust companies, you know, almost
3 three quarters of a million dollars this last
4 month.
5 MR. GREIVE: Let me just ask a quick
6 question, and it may just be because we operate a
7 little bit differently with the City employee
8 retirement system.
9 We pay all of our money manager fees out of
10 the money manager accounts where we can.
11 Obviously with a couple of them we can't, so we
12 have to pay out of a cash account. But 90
13 percent of our managers are paid out of the
14 manager account.
15 Is that not how we do it?
16 MS. McCAGUE: That's not how we do it here.
17 MR. GREIVE: You pay all of them out of a
18 cash account?
19 MR. McCAGUE: Yes.
20 MR. GREIVE: Almost all of them?
21 MR. CARTER: Except three. Almost all of
22 them.
23 MR. GREIVE: Except for the mutual funds,
24 commingled funds, right?
25 MR. CARTER: Yeah.

1 MR. McCAGUE: Right.
2 MR. GREIVE: Okay. Well, I mean, that's
3 different than the way we do it. So that's why
4 my perspective is a little different with cash.
5 CHAIRMAN SCHMITT: When you pay them out of
6 the money manager accounts, that's -- you're just
7 basically not investing as much with each of
8 those money managers because you're paying the
9 fee out of that account.
10 MR. GREIVE: Yeah. And I do it because I
11 like tracking -- if a money manager is charging
12 me a fee, I want it coming out of their account
13 so I know what their performance is on a
14 net-of-fees basis, and it's easier to track that.
15 You can still do it from an accounting
16 perspective without doing it that way.
17 CHAIRMAN SCHMITT: We do.
18 MR. GREIVE: Yeah, yeah, and you do. You
19 have gross and net, so that's fine. It's just a
20 different way to do it.
21 MR. SCHEU: I just want to ask a question
22 again.
23 Going back to Rich, if you look at page 13
24 and compare it with 15, can't you compare what
25 our actual -- I mean, it's not in one chart, but

1 let's say that on the Large Cap is at 22.6, and
2 you're suggesting that we reduce it from what
3 we're actually investing to 22.4.
4 And by the same token, Large Cap Passive,
5 you're saying we increase that from 5.2 to 9.0,
6 and Small Cap you reduce from 12 to 7.6.
7 Does that help anybody? Or is that -- are
8 there different numbers?
9 CHAIRMAN SCHMITT: I think you've got it
10 right.
11 MR. GREIVE: That sounds right.
12 MR. SCHEU: Right. So that's how you can
13 make that comparison.
14 CHAIRMAN SCHMITT: Yeah. Current actual
15 to --
16 MR. SCHEU: So you're going from -- on the
17 growth, you're going from a 66 6/10 percent
18 actual allocation to 74 1/2 percent. And you'd
19 have to go through the individuals. And on the
20 income side, you're going from 33 to 25; is that
21 right?
22 MS. McCAGUE: So this would be a rebalancing
23 effort over the next months?
24 MR. HOLMES: Yeah, we're -- we have to
25 rebalance. Exactly.

1 MR. PATSY: But to get the full rebalancing,
2 we would need to add -- if I've got this
3 correctly, we would need to add emerging market
4 debt?
5 MR. HOLMES: Yes.
6 MR. PATSY: We would need to add noncore
7 real estate?
8 MR. HOLMES: Yes.
9 MR. PATSY: And we would need to add core
10 plus fixed income?
11 MR. HOLMES: Yes.
12 MR. PATSY: Okay. So at a minimum, can I
13 make a motion that we give Summit the authority
14 to conduct searches for those three market
15 segments?
16 MS. McCAGUE: Well, we have investments in
17 emerging markets now.
18 MR. HOLMES: That's emerging market
19 equities. This is emerging market debt.
20 And if you want to simplify that and get it
21 done the quickest, the easiest thing might be to
22 do is basically -- again, this is just for
23 convenience's sake more than anything else --
24 combining emerging market debt into a core plus
25 mandate because that's what core plus is, is

1 basically allowing the manager to go in that
2 direction and basically moving forward with that
3 to try to get exposure through one manager.
4 MR. PATSY: Are you saying -- because core
5 plus is 7 1/2 and emerging market debt is 5
6 percent. So are you saying an allocation of 12
7 1/2 percent to core plus fixed income?
8 MR. HOLMES: If that's the way the Board
9 wants to go, yeah. But it's -- on emerging
10 market, we still like emerging market debt long
11 term in a separate account, in a separate
12 mandate. We think it's going to have a higher
13 rate of return.
14 But I'm just -- and if we don't want to do
15 EMD right now, I want to just move -- start
16 moving forward with some of these holes, if you
17 will.
18 And so the core plus manager is the easiest
19 and fastest thing to do to try to fill these
20 mandates.
21 MR. PATSY: Right. But at 12 1/2 percent
22 allocation to a single core plus fixed-income
23 manager seems like a big allocation.
24 MR. GREIVE: It is.
25 MR. HOLMES: It is. Yeah, it is.

1 MR. PATSY: Okay. So that would lead you to
2 two core plus fixed-income managers, which never
3 made -- has never made me comfortable.
4 MR. HOLMES: Yeah. That's not going to
5 really do anything. The better thing is, is to
6 keep it separate. I'm just talking about trying
7 to move forward as fast as we can on different
8 issues.
9 MR. PATSY: Yes.
10 MS. McCAGUE: What would be the timing for
11 sourcing an emerging market debt manager for us?
12 MR. HOLMES: I can bring back -- I can bring
13 back books for you next month. I would -- I
14 would -- you know, either EMD or core plus. I
15 think core plus is easier to get done.
16 MR. GREIVE: That would be a good first
17 step, and try to get there for a long time.
18 MR. PATSY: So I go back to my motion.
19 My preference is we do a core plus search,
20 an emerging market debt search, and then noncore
21 fixed income -- excuse me -- noncore real estate
22 search, and give Summit the authorization to do
23 those searches sequentially: Core plus fixed
24 income, emerging market debt, and then noncore
25 real estate.

1 MR. HOLMES: That makes sense.
2 MR. SCHEU: I'll second that. Because
3 that's not saying you're picking them; that's
4 saying you're going to find them.
5 MR. PATSY: Right.
6 CHAIRMAN SCHMITT: Okay. And just a little
7 further discussion on this.
8 One of the issues I think that we've had in
9 the past as a Board is continuing to talk about
10 it and not actually doing it. And then by the
11 time we actually do it, the opportunity has
12 changed and we kind of restart again on this
13 discussion of what we should do, and then we
14 decide what we're going to do and then research
15 what we're going to do, and by the time we decide
16 what we're going to do, it changed again.
17 I don't want to end up in that situation
18 again. And, again, this is just what I've seen
19 over the months and months.
20 If this is the target allocation that Dan is
21 recommending, my personal perspective, either we
22 believe in it and buy into it and do it, or
23 what's the purpose of having a consultant?
24 MR. PATSY: Right.
25 MR. SCHEU: So you would add to his motion

1 that we adopt E and authorize these searches?
2 MR. PATSY: I would want to see changes to
3 E. There are things about D I like better than
4 E, but that's a preference on my side of the
5 equation. So to adopt a D or E, I think I would
6 want further discussion.
7 But the common components of our target
8 allocation D and E are core plus fixed income,
9 EMD and noncore real estate.
10 So moving the ball down the field, we
11 accomplish that and we get closer to a decision.
12 And we can have further decision on whether we
13 like D or E or D plus or D minus.
14 CHAIRMAN SCHMITT: Yeah. There's not a lot
15 of difference between D and E. One of them is
16 just 1 percent cash, which --
17 MR. PATSY: Personally, I think TIPS is a
18 waste of money. I'm not a big fan at this
19 juncture of bank loans. They've taken a pretty
20 good hit, but there's not a lot of upside there.
21 The high-yield market, including bank loans,
22 has been bifurcated. You have energy, which is
23 way down here, and you have everybody else in
24 turn up here.
25 So I would assume our manager is not

1 over-populated in energy-type securities. So
2 exiting that would tend to make sense to me.
3 I'm not opposed to leaving MLPs at 7 1/2
4 versus moving them to 5 1/2. I think they're
5 cheap. They have a very large income component
6 to them. They take a lot of pain already, so I
7 see more upside to them than downside. I tend to
8 like small cap over large cap longer term.
9 So those are nuance discussions, but those
10 are the differences between D and E, in my mind,
11 or D plus or E minus.
12 MR. SCHEU: Well, could we continue that
13 discussion next month but go ahead and authorize
14 the searches to move it? That's what you're
15 proposing.
16 MR. PATSY: So we can have the discussion
17 about overall asset allocation, move that ball
18 down the road, and we can add the presentation on
19 the non -- excuse me -- core plus fixed-income
20 managers at the next meeting, and then we can
21 move that ball down the road.
22 CHAIRMAN SCHMITT: Okay. And I'd like to
23 come with the perspective -- or the anticipation
24 in the next meeting to have these discussions
25 and, you know, receiving this research during

1 this next month along the way so that we can
2 actually make a decision at the next meeting,
3 instead of receiving all the information at the
4 next meeting and only having a discussion and not
5 making a decision.
6 MR. SCHEU: Right, right.
7 MR. PATSY: That's excellent. That's
8 excellent.
9 CHAIRMAN SCHMITT: Okay.
10 MR. PATSY: I don't like passive fixed
11 income either, but that's . . .
12 MR. HOLMES: Rick, if we -- I'm sorry. Go
13 ahead. I interrupted.
14 MR. PATSY: So I've got a motion to
15 authorize Summit to do a core plus fixed income
16 manager search sequentially, an emerging market
17 debt manager search in a noncore fixed income --
18 excuse me -- noncore real estate manager search.
19 MR. GREIVE: And we had a second.
20 MR. SCHEU: Yeah, I seconded.
21 CHAIRMAN SCHMITT: You seconded. Okay. Any
22 further discussion on that?
23 MR. TUTEN: Are we just doing the searches
24 now?
25 CHAIRMAN SCHMITT: Yes.

1 MR. TUTEN: We're not doing anything with
2 the transferring of the money?
3 CHAIRMAN SCHMITT: No. The plan is we do
4 the -- Dan does the research over this next
5 month. Hopefully he gets that information to us
6 during this next month so we can review it prior
7 to the next meeting and actually make a Board
8 decision at the next meeting.
9 MR. TUTEN: Can I include in that just a
10 simple graph of where we are now and where we're
11 going to be after all the shuffling, relatively
12 speaking? You know what I mean?
13 MR. HOLMES: Yes.
14 CHAIRMAN SCHMITT: So any further
15 discussion?
16 (No responses.)
17 CHAIRMAN SCHMITT: All in favor?
18 (Responses of "aye.")
19 CHAIRMAN SCHMITT: Opposed?
20 (No responses.)
21 CHAIRMAN SCHMITT: Passes. Very good.
22 Thank you. Let the record show Trustee
23 Scheu had to leave for another meeting. It is
24 11:22.
25 Dan, do we have more information?

1 MR. HOLMES: I've got -- the only thing
2 left -- I can tell you what's left in this book,
3 in the asset allocation book if you want. I've
4 got performance charts too. So tell me what --
5 with the available time, tell me what your desire
6 is.
7 CHAIRMAN SCHMITT: We're already running a
8 little long. If you just could -- a quick
9 summary of the performance.
10 MR. HOLMES: Sure.
11 CHAIRMAN SCHMITT: And, actually, to make
12 time a little quicker, just net of fees instead
13 of gross and the net.
14 MR. HOLMES: Okay. That's fine.
15 So I've got the performance book for the
16 quarter. That's the blue book entitled
17 "Investment Performance Review" as of December
18 31. I'll give you the broad take-aways here.
19 The bottom line is for reporting period --
20 recording purposes is the total fund for the
21 calendar year was off 2 percent and ranked in the
22 bottom quartile of the public plan peer universe.
23 What hurt performance was the exposure to
24 MLPs, the relative underperformance of the US and
25 international equity portfolio, and that was

1 basically it.
2 The real estate portfolio was up over 15
3 percent, but the MLP portfolio was down 28
4 percent, and that was a drag on the overall
5 performance, as I mentioned.
6 Even with that poor calendar year, if you
7 look at returns over the past number of years, in
8 2012 the performance was in the top third of
9 public plan peer universe. In 2013 it was top
10 quartile. In 2014 it was still approximately top
11 third.
12 So we have three very, very good years, and
13 then this year was down on a relative basis and
14 an absolute basis.
15 The investment policy calls for measuring
16 performance over a rolling three- to five-year
17 period, and in doing so, the performance of the
18 plan is above median to top third over those two
19 time periods.
20 That is a very broad performance for the
21 quarter. Any questions there?
22 Of course, there are managers that
23 outperformed and underperformed. When we get to
24 it, there are manager changes I do want to make
25 in the portfolio.

1 CHAIRMAN SCHMITT: Okay. And is that
2 something you want to go over next month?
3 MR. HOLMES: Next month, yes.
4 Okay. We also have the Flash Report.
5 There's no other way to say it other than the
6 fact that January was an extremely ugly month for
7 basically all asset classes.
8 If you look at the Capital Market Update,
9 Economic and Capital Market Update, page 2, the
10 picture on page 2 puts it in pretty good terms.
11 If you look at the right-hand side, the blue
12 bars represent the last month, the month of
13 January, and you see everything was negative.
14 Okay.
15 If you look at the green bars, that's the
16 third -- that's the last three months.
17 Everything other than long short equity hedge
18 funds were negative.
19 If you look at the last year, other than
20 large cap growth and small cap international,
21 basically everything was negative.
22 That gives you a good idea about what's
23 going on in the markets right now. For the last
24 12 months, basically all the indices are
25 negative.

1 In the income bucket, if you turn to the
2 next page, page 3, you get kind of a similar
3 message. There's some positive numbers, but
4 they're very small.
5 Basically if you look at the domestic bond
6 market as measured by the Barclays Aggregate
7 Index, it was up 1.4 percent for the month. It
8 is up 80 basis points for the last three months,
9 and it's negative 20 basis points for the last
10 year. So basically you see at best modest
11 returns.
12 At the bottom of the page is the real estate
13 index. You see strong returns for real estate
14 over the last quarter and the last year. We
15 don't have a return -- it's not priced monthly.
16 So that gives you an idea about the conundrum
17 that we're in right now. Everything is negative.
18 And then finally on the last page TIPS were
19 positive for the month. Treasuries were positive
20 for the month, and longer duration treasuries
21 were positive for the month.
22 But basically everything is either flat or
23 negative in that bucket for the three months and
24 the year.
25 So basically it boils down to is --

1 especially over the last month, there was no
2 place to hide.
3 Returns for the Flash Report. On a net
4 basis for the month, the total fund return was
5 down 4 1/2 percent for the month of January.
6 Fiscal year to date, it's a little bit
7 better. It's off about 1 1/2 percent.
8 So that's -- again, everything has been
9 negative over that time period. And other than
10 holding cash, going a hundred percent to cash or
11 a hundred percent to treasury bonds, there's no
12 way to have avoided negative rates of return.
13 MR. PATSY: Dan, in the manager performance
14 segment, are three any managers' performance that
15 we need to be concerned about, that you're
16 concerned about?
17 MR. HOLMES: Yes. Managers primarily are
18 Gabelli and DRZ on the domestic equity side.
19 Sawgrass I want to take a look at.
20 At some point in time we need to have a
21 conversation about whether we want to consolidate
22 the number of managers in the domestic equity
23 portfolio.
24 DRZ had a good return for the month because
25 of the dividend, but longer term, their

1 performance has been challenged.
2 Sawgrass has come back over the last month
3 and made up for a lot of their underperformance.
4 So we've got Sawgrass and Brown. So we'll take a
5 look at those two as well.
6 But the bottom line is, is that I think
7 GAMCO is the highest priority in the domestic
8 equity portfolio.
9 On the fixed income side, I wish we could
10 put more money into Silchester, but they're
11 closed for new money.
12 I want to look at Baillie Gifford. Baillie
13 Gifford is still a top-tier manager, but their
14 emerging markets exposure -- especially they have
15 a 10 percent to 13 percent weight in China.
16 MR. PATSY: Is their benchmark EAFE or is
17 it --
18 MR. HOLMES: EAFE Growth.
19 MR. PATSY: It's what?
20 MR. HOLMES: It's EAFE Growth.
21 MR. PATSY: What if you compared them to --
22 because of their allocation to emerging markets,
23 would Equity XUS Growth be a more appropriate
24 benchmarch for them?
25 MR. HOLMES: Possibly. I would have to look

1 and see what that index looks like over time
2 since it's a relatively new index.
3 MR. PATSY: I know it's a much higher
4 allocation to emerging markets, but EAFE has
5 gotten none.
6 MR. HOLMES: Right, right.
7 The other thing is there's also a -- Baillie
8 Gifford has basically the same product without
9 that emerging markets exposure as well, and that
10 might be a viable option as well.
11 MR. PATSY: Is the performance different?
12 MR. HOLMES: A little bit, yeah.
13 MR. PATSY: Based on what I hear you saying,
14 some of these guys have a performance issue but
15 not a process issue, and some of them have
16 process issues.
17 MR. HOLMES: And I don't know the answer to
18 your question right now.
19 MR. PATSY: Okay.
20 MR. HOLMES: Okay. So those are the
21 managers that I think that we need to look at.
22 MS. McCAGUE: And, Dan, will you be looking
23 at sharing your thoughts on those managers next
24 month?
25 MR. HOLMES: Yes.

1 MR. McCAGUE: Okay.
2 MR. HOLMES: The bottom line is, right now
3 I'm fairly certain that I'm going to recommend we
4 terminate Gabelli and reallocate.
5 MR. McCAGUE: Okay.
6 CHAIRMAN SCHMITT: We look forward to that
7 next month.
8 Again, not to minimize the fees, we
9 continuously work on ways to reduce the fees.
10 Joey Greive from the City obviously works with us
11 in combining whatever power of the three pension
12 funds to make those fees as low as possible. I
13 don't want to minimize that, but just for the
14 sake of getting through this more quickly, I
15 wanted to just focus on net of fees.
16 MR. HOLMES: Yes. If there's -- if there's
17 common managers that we think would good here, we
18 would recommend that, especially if there's some
19 fee savings to have.
20 MR. PATSY: Can I make one more
21 recommendation going forward?
22 MR. HOLMES: Sure.
23 MR. PATSY: Can you break out small cap --
24 see where US Equity, it would be good to have
25 large cap than small cap.

1 MR. HOLMES: In the Flash Report? It's
2 there. It is there. Look at page --
3 MR. PATSY: On the Flash Report?
4 MR. HOLMES: Oh, you know what?
5 MR. PATSY: You've got separation between US
6 and International.
7 MR. HOLMES: I take it back. Yeah. It
8 usually is. That's usually what we've done in
9 other reports, but I didn't do it here.
10 MR. PATSY: Okay. That would be good.
11 Thank you.
12 CHAIRMAN SCHMITT: Any other questions for
13 Dan?
14 Thank you very much. Very informative.
15 Good information.
16 MR. HOLMES: I appreciate your patience on
17 it, but I think we're at least moving forward.
18 CHAIRMAN SCHMITT: Yes. And thanks to all
19 the trustees for staying focused on this. It's
20 an important topic, not that exciting, but
21 definitely important.
22 Paul, you have any update on security
23 litigation?
24 MR. DARAGJATI: Sure. Very quick. I know
25 this has been a long meeting.

1 All Plains. We discussed that at the
2 January meeting. That complaint was filed that
3 same day and the case is proceeding.
4 NII. That was one that we settled. The
5 allocation order has not been issued yet.
6 Therefore, we're still under an order of the
7 Court not to discuss the actual resolution to it.
8 CVB was a case that the ELBG had brought it
9 in California. I'm not sure if you remember that
10 one, but basically that was a company that made
11 substantial loans to a particular real estate
12 investor while that real estate investor was
13 having significant losses.
14 They represented to the SEC that -- a
15 different story, basically, saying that the
16 losses weren't being incurred. The district
17 court in that case dismissed it, but the
18 appellate court, the Ninth Circuit Court of
19 Appeals, actually reversed the district court and
20 that case is now back on, past the motion to
21 dismiss stage and it's going to discovery.
22 Dish Network is one that is basically in the
23 same procedural process. That's in state court
24 in Nevada. The trial-level court dismissed the
25 case, and it is on appeal with the Supreme Court

1 of the State of Nevada.
2 When we get, hopefully, an order reversing
3 the trial court on that one, I will apprise the
4 Board.
5 And then on Tower, that is one where we
6 actually settled with the insurance company on
7 it. Tower Insurance went completely bust, but
8 the firm is now filing an action against PWC,
9 PricewaterhouseCooper, because during the time
10 when Tower was in dire straits, they were issuing
11 audits projecting that the firm was in good
12 economic order.
13 So the statutes, securities litigation
14 statutes, provide for suits against entities that
15 conspire or support these types of actions. And
16 that's the status on that.
17 CHAIRMAN SCHMITT: Thank you for the update.
18 Do we have any other items to come before
19 the Board?
20 It's 11:35. We are adjourned.
21 (The Board meeting concluded at 11:35 a.m.)
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1 CERTIFICATE OF REPORTER
2
3 I, Denice C. Taylor, Florida Professional
4 Reporter, Notary Public, State of Florida at Large,
5 the undersigned authority, do hereby certify that I
6 was authorized to and did stenographically report the
7 foregoing proceedings, and that the transcript, pages
8 3 through 129, is a true and correct computer-aided
9 transcription of my stenographic notes taken at the
10 time and place indicated herein.
11 DATED this 11th day of March, 2016.
12
13
14 ________________________________
Denice C. Taylor, FPR
15 Notary Public in and for the
State of Florida at Large
16
My Commission No. FF 184340
17 Expires: December 23, 2018
18
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