JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: May 21, 2015

TIME: 9:02 to 11:12 a.m.

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

BOARD MEMBERS PRESENT:

Walter Bussells, Board Chair
Nathaniel Glover, Jr., Board Secretary
Adam Herbert, Trustee
Larry Schmitt, Police Trustee
Richard Tuten, III, Fire Trustee

ALSO PRESENT:

John Keane, Executive Director-Administrator
Debbie Manning, Administrative Assistant
Stuart Kaufman, Board Counsel
Dan Holmes, Summit Strategies
Kevin Stork, Controller
Joey Greive, Fund Treasurer

GUEST PRESENT:

William Gulliford, City Council Member

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

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May 21, 2015 9:02 a.m.

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CHAIRMAN BUSSELLS: We will call the meeting to order.

MR. KEANE: Everyone please rise and join in a moment of silence for our following deceased members who have died since our last meeting:

F.E. Parrish, Retired Assistant Chief; Kenneth G. Monroe, Retired Police Officer; Edgar Aid, Retired Superintendent of Fire Communications; Sidney Higginbotham, Retired Fire Lieutenant; and Don Gunter, Retired Police Officer.

(Pause)

MR. KEANE: Amen. Please remain standing and join with me as we pledge allegiance to the flag of the United States of America, and to the republic for which it stands, one nation, under God, indivisible, with liberty and justice for all.

Thank you. Please be seated.

Mr. Chairman and Trustees, if it please the Board, we have a very distinguished guest here who has another appointment. We'd like to deviate from the agenda and take up the information from former Council President and Council Member Bill Gulliford.

CHAIRMAN BUSSELLS: Certainly. Councilman Gulliford, we appreciate your diligent, hard work and passion on the issue.

MR. GULLIFORD: Well, thank you.

CHAIRMAN BUSSELLS: That has consumed much of our time and has been with all of us over the last several years. We appreciate your leadership very, very much. Tough, complex subject.

MR. GULLIFORD: Thank you. And I appreciate the opportunity to talk to you.

Yesterday we had a meeting on this issue, on the legislation that's pending. And I told Ms. Boyer that I blamed her for initiating it, causing me to initiate it, principally because her CIP Committee that she's been running has really opened my eyes to the financial condition that we're in as a city, exclusive of the burden brought about by the unfunded pension liability in both funds.

And so that prompted me to think -- you know, I said -- I was quoted in the newspaper, "You can be dogmatic and you can be effective, but sometimes you can't be both."

And we've all taken some pretty dogmatic stances and dug our heels in, but when you look at what's best for the city, that needs to drive what we do in the future -- because I'd submit to all of you that the future of our city is in our hands right now because this is a huge financial issue -- I thought it appropriate to introduce legislation and see if we can go through it one more time and at least get started, because this does not solve the funding problem.

It simply says that we might be doing a disservice to those that we're trying to help by virtue of the fact that we did not couple the savings to passing the legislation the first time. And I'd submit that every day that goes by, that our costs escalate, means that the things in the future, like even higher pay, is detrimentally impacted by that fact.

And I recognize the reason behind it was because the City Council and the administrations in times past have acted irresponsibly and have not stepped up and done what they should have done prudently as far as their financial responsibility, fiscal responsibility.

And so, consequently, I can understand the idea of coupling the two, but when you look at the detrimental impact, you have to say, Is there an alternative?

So what we tried to do, what I tried to do in crafting this thing -- and, by the way, I have Steve Durden and Brian Parks here. Brian's with the council auditor; Steve you obviously know, in case there are any questions.

I'm not necessarily going to dwell on specifics. I think Mr. Keane and I have some issues that we're going to try to resolve before it goes to committee in a couple weeks, but it seemed to me that we need to at least get moving in effecting some kinds of savings, and then be totally committed to finding a longtime funding source, which I am passionately and personally committed to doing that.

In the process what I've attempted to do is be a little bit punitive and force some discipline by virtue of the provision about us losing the opportunity, see that going in, and funding -- if we don't meet our obligation, then you have the option to take that money that's there and put it into the share plan.

And I think that that -- when you look at the financial consequences of some future council or the mayor that that might bring, then that makes sense that -- as you all well know, one of our difficult problems, difficult issues is that we cannot bind a future council. That was discussed yesterday, if there's any way that we could do it.

It was quite a discussion with Mr. Joost yesterday. He thought we ought to come up with some kind of way, but I don't think Florida Statutes is going to allow us to do it.

So we can't bind a future council. But if we make consequences severe enough, and that's -- if you have any other suggestions about how we might be able to do that, then I'm all ears. If we make the consequence severe enough to force prudent action in the future, then that's the best we could possibly hope for.

I think anybody with any degree of reasonableness that looks at the situation that we're in has to say, Look, we've got to resolve this. And, in fact, what's not been discussed and not been addressed yet is the issue with the other unfunded liability in the General Employees Pension Fund, which is -- maybe if you calculate it the same way, is almost as severe as the Police and Fire Pension Fund unfunded liability.

Anyway, that's pretty much the posture I've taken. I can tell you that my sense was yesterday -- and there was no vote or anything, but my sense was that people that were there, councilmen that were there, are really ready to see if we can't come up with some kind of reasonable resolution. They understand the predicament we're in. We can move forward.

Here's -- I'll give you just one small example of what worries me about the financial position of the city, is that we have neglected a lot of things and the consequences are going to come.

I'll give you -- the example that I gave Mr. Keane a little bit ago was that in 2012, the city purchased 62 patrol cars. In 2013, we purchased 82 patrol cars. In 2014, 175. In 2015, 159. That's a total of 478 patrol cars bought over a four-year span.

If you have 1800 patrol cars and you're a reasonably business -- prudent businessperson, you're going to say, Well, I ought to rotate those cars every five years. That's the useful life -- probably pretty much maximum useful life.

That means that every year you should be turning over 422. It's taken us almost four years to turn over what we should be turning over in a year.

And I can give you example after example after example that have come out of this CIP Committee. Resurfacing, for instance. We should probably be spending a minimum of $15 million a year on resurfacing. We've been hitting around 10- or so the last several years, but this year's budget has $2 million in it for resurfacing, and that's borrowed money.

So this is what really, really concerns me, because as I said earlier, if we don't address this and some other things, then those requirements that we have just in the course of day to day are such that we're not going to be able to fund it. It's going to be dire.

I mean, realistically, if we look at our -- forget police and fire for a moment. Just look at our overall employees. We haven't given raises to employees in some number of years. I can tell you that as a councilman, I've certainly heard the grumbling, and I understand that. And we're losing people to the private side or to other governmental entities on a regular basis.

So that's my position. That's why I have no hidden agenda. I have no ax to grind. I'm not going to be -- I'm in the proposal -- I advanced the suggestion of seven years as a compromise, which is midway between 15. I don't like it. I think it should be three. I'll be very candid about that. But you know what? If you look at the overall good right now, I think some of us are going to have to back down on maybe our staunch positions and see what's in the best interest for the city as a whole.

And that's it.

CHAIRMAN BUSSELLS: Well said.

I'll start off and then invite my colleagues to talk as well.

I'm very -- we are very mindful that we have 40 days before the turnover in the council and the mayor's office. We'll have 11 new council members who all look terrific, but will be new to these issues. And as we all very well know the complexity of these things that accumulated over decades, not just 15 years for the current agreement, but for decades, the underpinning legal issues, all of it, is markedly complex.

And with your leadership and many others' work over the last few years, it's been unraveled enough to have a solution that a majority of this Board can support, but for one, which already the City Council could have supported, which is terrific and extremely valuable.

And I worry that with the turnover that's going to occur in 40 days, if it starts over again, it's going to be years. It's just the way it is. It's just the way it is. And what that means is, among other things, is our current members who work toward the last years of their retirement, their base pay, I fear, will stay where it is year after year and year.

And the actual pension has two parts: Your pay when you retire, and the percent. And the percent is currently set. The base pay is set through collective bargaining every three years or so.

And our members are losing pension because of that, in my view -- we've had a lot of discussion about this over the last several years -- as a result of the unresolved pension crisis.

So our members are being hurt financially that we have fiduciary responsibility to every day, as you said a moment ago.

MR. GULLIFORD: I had a young fireman bend my ear at length at an event in Atlantic Beach. I'm well aware of that, and I understand that. In fact, I've done some specific looking at numbers, and so I -- we have to be competitive. I understand that. And we have to be -- we have to be sensitive to the ones that are at the bottom rung and are coming in. And I think that that's got to be a consideration.

CHAIRMAN BUSSELLS: And until there's resolution of the pension matter, I don't see where there's going to be funding for pay raises, which is awful. But that's my comments. I'll invite my colleagues to comment as well.

But 40 days. And we'll do whatever we can to respond.

MR. GULLIFORD: From a time standpoint, we had to defer. It was requested. I was requested to defer by Lori Boyer as rules chair because she was committed to the Canvassing Board at the same time, and she's been such an important part of it, I had to honor that and, of course, it got deferred as a result of Finance too.

It will go to committee week after next. If we get it through committee, then there is a council meeting obviously the following week, which would be next to the last council meeting in which we could take it up and hopefully act on it. So the timing is right.

CHAIRMAN BUSSELLS: As we've done before, I believe my colleagues would meet rapidly and have more marathon sessions to process it one way or the other, as we've done consistently so far. We're willing to do that. And if it's June 30th, I believe we'll assemble and do our best to process it forward.

MR. GULLIFORD: I understand that. I understand.

CHAIRMAN BUSSELLS: Doing our duties to our members.

MR. TUTEN: Do we have a copy of the proposed legislation here?

MR. GULLIFORD: Mr. Keane's got it. And he's been reviewing it, I know, because he's come back with several suggestions which he and I will continue to discuss and see where we can end up on it. Is that not right, Mr. Keane?

MR. KEANE: Correct.

CHAIRMAN BUSSELLS: I've taken too much time, fellow Trustees.

DR. HERBERT: Councilman, both as a member of this Board and also as one of your Atlantic Beach constituents, I just want to say first that I really appreciate the fact that you've been willing to step forward at this point to address the issue. For all the reasons that the chairman has articulated, this is clearly the time to do it, and I'm convinced that without your leadership, we could not get this done.

So I just want you to know how much I appreciate your willingness to step forward. And, second, I just want to say that I'm very proud of the fact that as one of your constituents, that you've been willing to understand that compromise is critical in order to get all this done.

We've tried to do that, but without that, in a political environment nothing is going to happen, especially within the time frame that we're looking at. So thank you for your leadership. Thank you for your willingness to compromise.

And I think that what you're doing, the example that you're setting is going to make a major difference in terms of the views of your colleagues. And what I just hope for is that with your leadership in the council and with the mayor, that we can get all of this done over the course of the next 40 days.

So thank you.

MR. GULLIFORD: Thank you, Doctor. And I've been taught the art of compromise by my wife on a regular basis.

(Laughter)

MR. SCHMITT: Councilman, first, thank you for coming. It actually, to me, shows great leadership to actually come visit. I wish more council members would do the same. Hopefully you'll see much of what has been taken as a defiance or adversarial position by the Board is, in fact, not. We have a lot of the same goals.

MR. GULLIFORD: Right.

MR. SCHMITT: We're trying to reach the same place. And, obviously, with our fiduciary duty to the members of this plan, sometimes we have to take a little bit different path, but we're trying to get to the same place.

And, again, I commend you for coming over and meeting with us. It's a great step. And hopefully you'll see through this meeting and other council members coming over to do the same, that we are trying to work and come up with a solution, just as council members are.

MR. GULLIFORD: Thank you. I appreciate that.

MR. SCHMITT: One thing I would like to see, and hopefully that will happen, is some of the rhetoric and negative comments, especially towards the officers and the firefighters -- they have a tough enough job without having to deal with our representatives in City Council making negative comments about them specifically. I think that's unproductive. And hopefully that will end, and this is a start to that.

MR. GULLIFORD: Well, I think that the idea here is that we realize we have a collective problem and it necessitates being positive instead of negative, and I think that that's where we've got to go. None of us are going to get everything we want, and we just have to recognize that. So that's where we are.

CHAIRMAN BUSSELLS: Sheriff.

MR. GLOVER: I just want to commend you as well. I think that my sense was that you were really trying to move things in spite of the political environment. And I think we all suspected that nothing would happen until after the election. And that's just the reality of politics, so no one can be upset about that, because if you've been in it long enough, you know what the situation is.

You talked about -- at the end of your comment about the officers coming in. I want to talk about two classes of officers: The officers that have left because of the crisis. And I just want you to know and be sensitive to how much investment it takes to bring an officer in and get them trained enough and get them the experience to be really productive as a police officer and a detective.

There is some redeeming value to that. When you have crimes that's as complicated in this city, you need smart officers who have experience and can solve these crimes.

Now, sometimes you don't know what you've missed because you just don't know what you could have had. But experienced police officers can tell you some of these crimes could have been solved if we had more experienced police officers working on them. We've lost a lot of those officers. Officers have walked out because of the crisis. They're gone. It's done.

But be sensitive to the officers coming in and make certain that we have an appealing enough package to continue to get good officers.

What Jacksonville has done, we've bit the bullet as it relates to getting qualified officers in here, officers who have college degrees, and there's a redeeming value to that long range. But it keeps us out of some of those situations that you see around the country.

And so we want to make certain that we maintain this because we fought that battle and we do have this requirement. And I don't know about the percentage of the officers now that have been coming in over the years, but I'm going to say probably maybe half of the new officers all have college degrees. Of course, we still have a cycle of officers who are going out which have experience. So they're good too.

But let's make certain that we don't water this thing down to the point that we have officers going to other jurisdictions because we don't have an appealing enough package for them. We've lost officers. So we've got to get them in here.

And I just think that we need to be sensitive to that and it's -- unless sometime if you're not -- if you're not a part of something or you haven't been in that business very long, you don't see the long-range implications of it. And I'm hoping, I'm hoping, that I just put that on your radar screen because I think that's critical.

We've paid the price of those officers leaving. They're gone. But let's don't compound the problem by compromising or watering-down the requirement for the officers, because if you do that, it's a payment now or payment later.

So that's my thoughts on that.

MR. GULLIFORD: Mr. Glover, your comments are well taken.

One of my experiences in life was owning a construction equipment business, and it wasn't anything like the numbers that you have with the sheriff's office as far as employees, but it was certainly an experience as to the spectrum or the range of everything from mechanic's helpers up to salesmen and office people and the like. We had 60 people. I had 60 people, I guess, before I sold it that were working for me.

And there was always one thing that was very obvious to me, is that uncertainty is very detrimental to the overall morale of any workforce.

And the second thing was that if you lose somebody that has that level of experience, that's an intangible value that you can't necessarily put a dollar amount to it, but you know that it's going to cost you.

You know that replacing that person with somebody with less or no experience takes some time for them to reach the point where they're nearly as valued as that person that is lost.

So I understand employee turnover. That certainly is not lost on me, and I will keep that in mind. I also understand exactly what you're saying as to the attractiveness, because we are in a competitive marketplace. In any industry, in any business, you're always in a competitive marketplace.

Heck, I'd have mechanics leave me for 25 cents an hour more. It was always competitive. So I appreciate that and I fully understand that.

I think the best form of government is benevolent dictatorship. If I was the benevolent dictator, I could probably solve all this in about a day in a closed-door meeting, but that's not the process we work under right now.

MR. GLOVER: But, Mr. Chair, Jacksonville is the only city in this state, I think, that requires a college degree. Am I correct?

MR. SCHMITT: No, that's not right.

MR. GLOVER: Look, we've got to have a package that we want to continue what we're doing. I think most cities will have to go to this requirement. I really do, when you really ferret out the causes of all of what's happening now in this country. But we don't need to go back. So I just want to make that clear.

MR. GULLIFORD: Yes, sir. That's a good point.

MR. GLOVER: But I also want to commend you because, really, I think what we've seen in you, consistent with what the sentiment has been here, is that you really demonstrated some courageous leadership in trying to get this done.

MR. GULLIFORD: I thank you for that, and I appreciate everything that you all have said and what your sentiments expressed are. I understand your responsibilities and that you have a responsibility to represent a segment of our workforce, and that's significant responsibility, and protect their interest.

So what we need to do is get to common ground, solve this thing so we can move on, because as I said earlier, just passing this and you-all accepting it or agreeing to it does not solve our issue. We still have a funding issue that we've got to resolve.

And you know that there are a couple of proposals out there. One involves a sales tax. We're holding up the legislation waiting for an Attorney General opinion as to implementation.

My personal view is that that's the most palatable method to resolve this and have some additional revenues to put towards reduction of the general fund unfunded liability. But I'm just one councilman and I have to find nine more that will concur with me, and then we've got to convince the voters that this is the right and responsible thing to do. So that's a long path going after that.

But I promise you this. In the next four years, that will be my top priority, to get this thing resolved once and for all so we can move on and get into other things. We've got lots of other things that we can look at and address and get involved in.

So I thank you all very much for your courtesy, and Mr. Keane and I will continue working together to see if we can reach common ground, and we'll go from there.

CHAIRMAN BUSSELLS: Councilman, again, thank you so much. It's terrific.

MR. GULLIFORD: I appreciate it.

CHAIRMAN BUSSELLS: But we'll stay focused on the work at hand, the task at hand the next 40 days, indeed, but I want to just briefly talk about some good things that have been happening that get overshadowed by the pressure of what needs to be addressed. And I'll just give you two.

Later today in our Board meeting we will have our investment return report from our financial advisor, and we're tracking this fiscal year today in an annualized return of nearly 10 percent investment returns.

That puts us in the top 25 percent of peer group pension funds and public sector investment funds across the entire country, not just Florida. And it continues a string of the last two or three years of well-above-average returns compared to all the other public funds across the country.

And in my view it is largely the result of the hard work and extended workshops, often tedious workshops, in the last two years to consider everything we're doing and look at it critically in terms of what makes sense today and tomorrow, not what makes sense in the past, and made many changes to fit the times and the trends going forward. And the results are showing up in the kind of returns that we're getting.

So if that continues, we'll make $45 million more with our investments this year than the actuarial assumption of 7 percent. And 45 million is not 1.5 billion, but it is part of the solution to the puzzle without having to go back to the taxpayers or others with, Cut, cut, cut.

And so everything that can be done in that regard is being done here.

The last thing I'll mention is the work that's been done here the last two years in the actuarial study process. The results have been striking and difficult to deal with, but they're accurate and reflect the best possible information, the best possible reality of what's going on.

And not to look back 15 years ago, but the processes in use now will serve us well going forward to have an accurate picture of what it really costs to provide the benefits for our members and ensure it's being funded properly.

So we must stay focused on the work at hand the next 40 days, but a lot of good things have happened that over the long term will inure to the benefit of the members and the taxpayers and the city.

MR. GULLIFORD: Well, I think that the legislation also includes some extended discretion as to investment discretion --

CHAIRMAN BUSSELLS: Absolutely.

MR. GULLIFORD: -- and Mr. Keane has beat that drum for a number of years --

CHAIRMAN BUSSELLS: Absolutely.

MR. GULLIFORD: -- I've heard it repeatedly. And so I think that that hopefully will make the job even more productive or a little bit easier.

As to tedium, I'll tell you, sir, you sit through a Blight Committee meeting and a CIP Committee meeting in one day, you don't know the definition of tedium.

CHAIRMAN BUSSELLS: I'm sorry. I should not have compared an all-day workshop here too.

MR. GULLIFORD: That's right.

(Laughter)

MR. GULLIFORD: Anyway. Well, thank you all. I appreciate the opportunity to come, and we'll get to work on it. Thank you, sir.

MR. KEANE: Have a good day. Nice holiday.

MR. GULLIFORD: You too.

(Mr. Gulliford exited the Board meeting.)

CHAIRMAN BUSSELLS: Okay. Do we have any speaker cards?

MR. KEANE: No speaker cards, Mr. Chairman.

CHAIRMAN BUSSELLS: So the public speaking period is not open since there's no request to speak.

I'll move on to the minutes of the last

meeting.

DR. HERBERT: Move for approval.

MR. GLOVER: Second.

CHAIRMAN BUSSELLS: Questions or comments? All in favor, say "aye."

(Responses of "aye.")

CHAIRMAN BUSSELLS: Opposed, like sign.

(No responses.)

CHAIRMAN BUSSELLS: Carries unanimously. Consent agenda. John.

MR. KEANE: Items 1 through 10, Mr. Chairman, regular consent agenda items, time connections, application for time service, survivor benefits, DROP terminations, DROP distributions, educational opportunities.

CHAIRMAN BUSSELLS: And as always, John, the consent agenda includes items that have been done pursuant to Board-approved policies and procedures.

MR. KEANE: Yes, sir.

CHAIRMAN BUSSELLS: And were there ever to be a case where errors were discovered after the fact, we will correct them.

MR. KEANE: Correct.

CHAIRMAN BUSSELLS: But to the best of the staff's knowledge, this is consistent with the Board policy and procedures.

MR. KEANE: Yes, sir.

CHAIRMAN BUSSELLS: Can I get a motion?

MR. GLOVER: Move it.

DR. HERBERT: Second.

CHAIRMAN BUSSELLS: Questions or comments? All in favor, say "aye."

(Responses of "aye.")

CHAIRMAN BUSSELLS: Opposed, like sign.

(No responses.)

CHAIRMAN BUSSELLS: Carries unanimously.

MR. TUTEN: Just a quick question. This is for Larry. John, you may know it.

The three policemen that applied for vested retirement, did they go to another department?

MR. SCHMITT: No.

MR. TUTEN: They just resigned?

MR. SCHMITT: Yes.

MR. TUTEN: Okay.

MR. KEANE: Next item, Mr. Chairman and Trustees, is Old Business, Personnel Committee.

DR. HERBERT: Members of the Board, I just want to report that the search for the deputy executive director, the advertising portion of that, has been completed. It has been closed.

The personnel staff and the city are now reviewing applications, and they will then present to Trustee Glover and me a list of the candidates who have clearly met our requirements. We'll go through those. Then we'll be in a position to get back to the Board with our observations and recommendations.

Any comments you have in addition to that, John?

MR. KEANE: We just received an e-mail from the personnel services over there. So far we have received 34 applications, of which 16 have been deemed eligible. The rest did not meet the qualifications.

They're holding them all over there until the end of the closing period. The ad in Pension Investments are nationwide ads. We have a copy on the agenda for you. It's going to be advertised again next Tuesday. We advertised it three times.

It's on the Florida Government Finance Officers Association's website, the NCPERS website, and I believe it's on the GFOA website.

DR. HERBERT: I've been very pleased with the numbers of applicants that we've received so far, you know. So Trustee Glover and I will meet at the appropriate time and go through the screening process.

The second thing is we're now coming up on the period which we conduct our annual performance evaluations. I've talked with John about his evaluation process for all the staff. And you have in your folder a copy of the evaluation form that we utilized last year. Obviously it's relatively thick.

But I just wanted to -- I know that you may have forgotten some of what took place as you went through this last year, but this would be the instrument that I would propose that we use again this year.

I thought it was very helpful. It did provide an opportunity for each of us to make comments. We did weight the evaluation to assure that we were taking into account all the things that we emphasized with regard to our goals for last year. We will do that again this year.

As I recall, John, tell me, are you -- in terms of our Board policy, are we expected to complete this evaluation in June or in July for you?

MR. KEANE: It's as of June 30th. So we will send a copy of the evaluation instrument with the new supporting background material from the last calendar year.

And we will send that out to you in just -- the middle of June, as soon as we know where we're going to be on this legislative process. And it's due in July.

DR. HERBERT: Okay. So one more time, is the policy that we would give you the evaluation by the end of June?

MR. KEANE: It's for the period ending June 30th.

DR. HERBERT: So in July we should formally do that, but if we can get everything to the members of the Board so that we have three weeks to go through that process, that would be helpful.

Any comments about this from last year?

MR. TUTEN: No. Do you want us to have it filled out by the July meeting or the August 15th meeting?

MR. KEANE: July.

DR. HERBERT: July.

CHAIRMAN BUSSELLS: I would say in time for the July meeting. Does that make sense?

DR. HERBERT: Thank you, Mr. Chairman.

MR. KEANE: Mr. Chairman, we'll show that as received as information.

MR. SCHMITT: One correction. I'm only positive about one of these names in there. The other two, I'm not positive about. I don't think they left for other agencies, but I'm not positive.

MR. TUTEN: Okay. It doesn't matter. I was just curious.

MR. KEANE: Okay. Update on the budget.

Kevin.

MR. GLOVER: Let me finish that. I've been hearing that a number of them have been going to other agencies. Is that pretty accurate?

MR. SCHMITT: We have lost many officers to other agencies. Yes.

MR. KEANE: Those are people that just quit. These are vested. They're different individuals that quit.

MR. GLOVER: I would have no way of knowing where they were going, but just feedback from officers were telling me that's where they were going. They were going to other agencies.

So my question to you was, was that sense accurate?

MR. SCHMITT: Yes.

MR. GLOVER: Okay.

MR. SCHMITT: And not just Florida agencies. Agencies from other states as well.

MR. GLOVER: All right.

MR. STORK: As Chairman Bussells said, we're performing higher than the 7 percent as reflected in the 34 million above budget for investments earned through April. And we're getting that with an asset allocation mix at lower than budget. We've saved approximately 190,000. Our managers and base point, 48.9 on that.

We've also saved from budget by not filling the deputy executive director. We had that budgeted for a full year. And so far that's saved us quite a bit to offset some of the overages that are listed there. But I tried to note different things to use kind of like a threshold, anything over 5,000.

But that's -- so far we're significantly under budget.

CHAIRMAN BUSSELLS: Questions or comments on the budget? Great news, good news.

MR. KEANE: We will be sending the draft of the proposed next year's budget before the next meeting so you can at least have time to have a little feel for it.

You're not going to hand out a budget?

MR. STORK: I have it in the New Business. It will come a little bit later.

MR. KEANE: In New Business. We're going to give it to you a little bit later.

Actuarial Impact Statement has been received for Ordinance 2015-258. This is the ordinance introduced by Council Member Boyer that simply changes benefits for new people effective October 1st of 2015. There's no other change. That's been filed with the City Council secretary, as required.

CHAIRMAN BUSSELLS: John, would you remind us in broad, big numbers the savings from that bill versus the savings from the bill that arrived at a tie vote of the City Council recently? Just in round, big numbers.

MR. KEANE: The impact on just changing the benefits for new people is less than the bill that was defeated and would be less than the legislation that Council Member Gulliford is working on by several hundred million dollars.

CHAIRMAN BUSSELLS: All right.

MR. GREIVE: Yeah. Mr. Chairman, my recollection is that that number was between 2- and $300 million less in savings.

CHAIRMAN BUSSELLS: Okay. That's what I thought.

MR. KEANE: So we show that received as information without objections.

We've also received the Actuarial Impact Statement, which you have before you, which is on Council Member Gulliford's bill. And it has been forwarded to the City Council, as required.

CHAIRMAN BUSSELLS: John, while we're discussing actuarial studies, when will we be in a position that's in the ARC for fiscal year '15-'16 over to the city?

MR. KEANE: For the coming fiscal year?

CHAIRMAN BUSSELLS: Yes. Fiscal year '15-'16, the new fiscal year.

MR. KEANE: They already have that. It was in this year's actuarial evaluation.

CHAIRMAN BUSSELLS: Okay.

MR. KEANE: Yes, sir. They have that. We

sent that to them in January as part of the Comprehensive Annual Financial Report.

CHAIRMAN BUSSELLS: Okay.

So were there to be legislation enacted at some point between now and October 5, then the ARC could change for fiscal year '15-'16.

MR. KEANE: It could change.

CHAIRMAN BUSSELLS: In fact, it probably -- it should. It would.

MR. KEANE: Yes, sir.

CHAIRMAN BUSSELLS: And produces significant savings for the next fiscal year's budget for the city.

MR. KEANE: Well, the savings would be incremental because it's mainly based on the new people going forward.

CHAIRMAN BUSSELLS: I understand.

MR. KEANE: But there would be a savings.

CHAIRMAN BUSSELLS: A million here, a million there, it adds up. It's a good thing.

MR. KEANE: No question about it.

Now, we have the review of the next year's fiscal budget. Do you want to just receive this and y'all take it, or do you want to hear Kevin talk about it? I know we have a long agenda.

MR. SCHMITT: If you could give us a little detail.

MR. STORK: Sure.

The main increase, of course, is in the investment balance looking at a linear 7 percent progression from where we were at in April.

The money manager fees, I'm probably a little bit higher because I looked at our target investment in real estate. We haven't hit that and that's usually at a little bit higher. We'll have to see where Dan goes on that in the future, but this is preliminary and we'll try to fine-tune that a little bit more.

But, anyway, I do a budget-to-budget, highlighted in bold and the variance from that. So that's the main increase. The rest of the offsets, I've increased a few things and decreased a few others.

And then I think on this building, garage renovation, capital maintenance, we have some things to talk about for this current year and then I've got what's remaining in the next one. So from a budget standpoint, that went down significantly too.

CHAIRMAN BUSSELLS: Questions or comments?

Of course, we'll have a full review at the next meeting

MR. KAUFMAN: Just so you're aware, Senate Bill 172, which was passed by the Florida Legislature this year, is now sitting on the governor's desk, and it would require you to actually come up with your budget before the fiscal year-end, then send it out to the plan sponsor, the city, and the membership as well. Post it on the website.

MR. STORK: We always do that in June. I mean, this is kind of something we're already doing.

CHAIRMAN BUSSELLS: Yeah.

MR. KEANE: We had $150,000 in this year's budget for building renovations. We were able to snag a tenant for the second floor that did not require substantial renovations, and so we still have some money left. We spent some of the money out here in the front on Hertz.

But we have a leaking skylight, and we've had the architects over and looked at it again. It's been repaired two or three times. The last repairs caused substantial damage to the building in Sheetrock. The architect is now recommending that we take it completely off and come up with a new redesign that almost just sits down over it and goes down over the side.

He's given us some names of potential vendors. We sent off an e-mail to them to get a basic price, and we're going to possibly be having to add more money to what's left over, we'll carry this over, to get that skylight fixed.

CHAIRMAN BUSSELLS: So do you need a motion for this to reallocate?

MR. KEANE: No, sir. We're just bringing you up to date on where we're at.

CHAIRMAN BUSSELLS: All right.

MR. KEANE: All right. We're now at the Flash Report and Dan Holmes.

MR. HOLMES: My middle name is tedious.

On these Flash Reports --

CHAIRMAN BUSSELLS: That was a poor choice of words.

MR. HOLMES: If you ask my wife, you're exactly correct.

(Laughter)

CHAIRMAN BUSSELLS: The result was exciting. The work was tedious.

MR. HOLMES: Yes. Exactly.

The Flash Report for April 30th is in front of you. The quick economic background for the month is basically economic data is slowly improving, but we're getting mixed results basically across the board, not meeting expectations but moving in the right direction.

So the economic data that was released for April generally didn't meet those expectations. Unemployment fell 10 basis points to 5.4 percent, but not as many jobs were created as expected. That's one example.

Inflation rose about 20 basis points in March, but for the trailing 12 months, it's down 10 basis points.

The ISM index, which is a leading indicator, economic indicator, remains above 50 but just barely. It came in at 51 1/2. 52 was what was expected.

GDP came in at about 20 basis points for the first quarter on a first-go basis.

So slightly higher than what the Federal Reserve Bank of Atlanta was predicting, which was basically flat; but the economy -- and then those indicators are fighting against -- this is going to sound familiar -- bad weather. We heard that the first half of last year. A significant port strike on the West Coast. The strengthening of the dollar, which is hurting US exporters.

And so those are some of the factors that have kind of slowed down economic progress.

So how does that translate? What does that do for returns? Well, what we've seen is some of the factors that hurt relative performance last year have turned around. And, principally, the weight to international stocks was a drag on relative performance last year. And I'm talking about kind of a calendar year. But has turned around this year.

We see that nine US stocks, international stocks, are leading US stocks so far this year. In addition to that, US Equities have come back, and in the month of April, MLPs were up over 5 percent.

And so rebalancing back to MLPs when we basically thought that they were cheap, that added performance over the course of the quarter.

So turning to the first page, you can see that Asset Allocation is shown there. First off, let me start off, total Market Value at the end of April was 1 -- call it $1.7 billion on a rounded basis.

Asset Allocation was generally in line with the policy weight. We're about almost 4 percent overweight the target in US Equities, and we are a little below the real estate target. We're about 28 basis points right outside policy range. It's plus or minus 5 percent.

So when there's availability in the queue, we'll put some more money back into one of the two real estate managers. You know, a nice business to have. You've got people waiting to put money into the fund.

Now, one of the things that I want to talk about with you this morning in terms of education is the different areas of real estate in which the system may invest, some areas where we're not invested in right now, and how that might add or subtract to the portfolio.

In terms of return, the Chairman, I think, gave a very good summary. For the month of August -- I'm sorry, strike that -- April, the portfolio was up about 1 3/4ths percent. So far this fiscal year, it's up almost 6 percent. In both cases the portfolio is above its policy index.

And if you look out over the last ten years, the portfolio is above its policy index as well. And then the one three-year period is there as well, slightly under just a few basis points on the five-year time period.

US Equity. So US Equity -- we've been talking about a number of managers, but the bottom line is, is for the quarter -- the month and the quarter, it's above the policy index almost 1 percent over for the last three months. And for the fiscal year-to-date, it's above the policy index, up over 8 percent.

GAMCO and Brown, two of the managers that we've been watching, have had their performance turning around. Brown, especially over the last six months or so, they've been really closing the gap, and the magnitude of the underperformance relative to their benchmark has been closing.

As I had mentioned before, I had asked the Trustees to be patient. We're starting to see rotation in the US Equity market. Investors are moving away from some of the defensive sectors that have gotten very expensive and started to rotate back around to more of the sustainable growth sectors, which on a relative basis, appear cheap. And so Brown has been a beneficiary of that.

Kind of conversely, we've seen Sawgrass's performance on a relative basis start to slow down a little bit, but that's why we have diversification among the managers and among the styles.

Pinnacle also has slowed down a little bit over the past couple of months; but, again, within the domestic equity portfolio, no recommendation for any changes.

Moving --

MR. TUTEN: Looking at that sector in the US Equity on page 3, when you're talking about Brown, but if you go down -- I mean, you just mentioned Sawgrass. Of course, we're only looking out a year, so it's not like we're going to, you know, throw the baby out with the bath water right at the moment.

But -- and even Pinnacle. What do you guys normally -- what's your window for evaluation? I mean, normally around here we used to do around three, you know, two or three. And then, you know, if they're still bleeding, you know, at three, then it might be time to --

MR. HOLMES: Yeah. Well, if you notice, really, other than GAMCO, none of the new managers have hit that three-year mark.

So the policy calls for reviewing, quote unquote, longer-term performance, which is defined as over a market cycle, and for practical purposes, no one can tell exactly when a market cycle will be. But the three- to five-year period tends to be a good, useful, practical tool to measure relative performance.

Our concern is whether or not -- first of all, let's identify why the manager is underperforming. Is it a valid reason or for a reason that's not valid or doesn't make sense given their particular style, or are there other factors going on?

Is there something going on with the portfolio manager or with the team in terms of turnover, in terms of sale of the firm, things that might cause other reasons for underperformance?

But then it gets down to, given that manager's style and given the manager's history of volatility, is there a reasonable shot for them to catch back up to the benchmark within a reasonable time period without taking excessive risk?

And it's a subject of evaluation. I'll readily admit that, but we think we're pretty good at it, and I can give you plenty of cases where being patient has paid off in terms of manager -- subsequent manager outperformance.

So I've seen this. We've been -- we've been investing with GAMCO for over 20 years. I've seen the pattern before. We're at a point where smaller caps stocks are getting cheaper, and they have an all-cap approach to their portfolio.

And I would imagine that as we start to see some changes here in terms of what's cheap and what's expensive in terms of sectors, and also the cheapening of small caps stocks, it would lead me to believe that we're entering a period where they would start to catch back up in terms of performance.

MR. TUTEN: Thank you, sir.

MR. GLOVER: Then if you -- I hear what you're saying, you know, looking at them for a while and that makes sense. You don't want to panic. And if one's bleeding a little bit, certainly you've got your eye on them.

But what if you have a situation where you've got one just hemorrhaging and you need to move quicker? You're certainly geared to do that as well?

MR. HOLMES: We're prepared to do that if a -- if team members leave or whatever the issues are, just significant underperformance over a short period of time without a good explanation, you know, we maintain a research list of managers that we think do a good job.

We could also, you know, publish for a search if necessary. But if we have to make a quick change, we're in a position to do that using what we internally call our top-tier list.

Right now, looking at your managers, I don't think there's any manager in the portfolio that would be -- that would be hemorrhaging and we'd have to make a quick change.

MR. GLOVER: No, and I didn't mean to imply that.

MR. HOLMES: No, I know that. I just wanted to reassure you.

MR. GREIVE: And through the Chair, if I may, to address the sheriff's concern.

One thing you can keep in the back of your mind too is that the majority of your money is held at your custodian. So the investment managers themselves, while you do have some exposure to underperformance from your team, you can flip the switch in a heartbeat with a lot of them and just say, You are no longer authorized to trade the portfolio.

You can get the custodian to do beta matching for you in the short term while you look for a replacement. So you're not -- you're not at the risk of, you know, malfeasance in those cases.

And Dan can correct me if I'm wrong.

MR. KEANE: And we also have the 10-day cancellation clause in all of our contracts. Normally it's 30 to 60, but ours are all 10.

MR. GLOVER: I just want to make sure of our policy and nothing that we're doing here would expose us for a prolonged period of time when we're sitting here watching something that we know is going down the tubes.

MR. HOLMES: On the International Equity front, the magnitude of return, if you look at the year portfolio over the last three months, it's up over 9 percent and almost 9.8 percent over the calendar year-to-date.

And let's see. Over the fiscal year-to-date which takes into account last year when International underperformed, you can see it's about almost 7 percent.

Fixed Income -- and also there, all of your managers are outperforming their benchmarks over time. Acadian, relative to the Emerging Marks manager, relative to their benchmark has slowed down a little bit.

But, again, all managers are doing well. And the addition of Acadian and Silchester, in addition to Baillie Gifford, has helped out as well.

Fixed Income. Negative numbers. You can see a negative number for the month and the last three months. And that's not due to the fault of your managers. That's rising rates. That's the fear that -- you know, what we've seen is volatility in the fixed income markets has picked up substantially within the past couple of months.

Just even last week we saw the ten-year Treasury move around and saw some pretty wild days.

So the bottom line is that the conservative portfolio in terms of duration is not being too long. It's helpful. But at the same time, with rising rates, we're not immune -- the bond portfolio is not immune to having negative returns.

I do think that we do need to continue to diversify that portfolio. All of the managers in the portfolio have done a good job. The active manager in particular has done a very good job and outperformed the benchmark over all the time period shown. But we do need to add some additional diversification to that portfolio.

Real estate is something that we're going to talk about a little later today, has done very well. As a matter of fact, it's one of the leading asset classes so far this fiscal year. It's up over 8 percent. The two managers together, up almost 1 1/2 percent above the benchmark.

And so the bottom line is, real estate in your portfolio has not only provided a good diversifier, providing lower volatility, but at the same time the cash-on-cash returns coming from rising net operating income in the two portfolios have provided a good -- say, let's call it backup source of cash return, substituting what bonds used to provide.

And I already kind of gave away the end of the story with regard to MLPs, but you can see they're up over 5 percent, the index up over 6 percent for the month.

On a calendar year-to-date, you can see that they're still positive but not quite as much. They start off -- second half of last year, anything related to the energy industry traded off significantly. Some of that continued into the beginning of this year, but we're seeing it start to turn around.

And as a matter of fact, actually because of the pressure on the energy industry and layoffs there, that's another negative in terms of macroeconomic reasons why the economy isn't growing as fast a rate as it was.

MR. GREIVE: Mr. Chairman, through the Chair to Mr. Holmes, on the topic of MLPs, I know you referenced that the Board made the good decision to rebalance back in, which turned out tactically to be a good decision.

At what point do we look at our target MLPs and say, You know, we've made 20 percent per year annualized on this MLP exposure. When is enough enough? How much is too much? You know, where do you see that going in the portfolio?

MR. HOLMES: We look at the relative valuation of all asset classes. Really, we have a discussion weekly about what asset classes did from the previous week. Every Monday morning we have a research meeting after our staff meeting.

On a formal basis monthly and quarterly, we look at the relative attractiveness of the asset classes, and particular MLPs are something that we've been watching.

Last year, mid-year between, let's say, July and September, we were afraid that MLPs were getting expensive in terms of our calculation, what we think the future returns would be, then justify the current price.

Where clients were overweight, we asked the clients to pare back. I believe, if memory serves, I think we did that here and took some out.

So we've never -- for a long-term asset class we probably won't ever completely exit it, but we did take -- rebalance and take some money out of it, took some profits. Then put some more money back in when we thought it was undervalued.

But right now we don't think the MLPs are overvalued. I would call them more fully valued, you know, in the fair value camp because the projected distribution rate continues to be fairly attractive. In addition to that, the yield spread over Treasuries continues to be attractive.

And so when we see those declining and we watch them, like I said, on a weekly basis, then we would advise the Board to get out or to pare back.

MR. GREIVE: Got you.

CHAIRMAN BUSSELLS: For what it's worth, I'll just -- I'll observe, I have just personal interest in a number of North American energy companies as an investor and a Board member and so forth. What I observe is the next wave of technological innovation in US natural gas, shale, exploration production has started.

It's remarkable. It is remarkable what is now being done in US production fields. It's been accelerated by the enormous pressure of collapsed crude six or seven months ago.

But regardless of the reason, the next generation of innovation has begun. There are billions of dollars flowing into it.

So I have expressed concern here often about the valuation. And Dan's had to listen to me talk about that more than once.

But if we start exporting LMG in a significant way, which I think is coming, it's not going to move the price domestically, I think, pretty much, you know, three bucks all day long to do all this stuff with natural gas.

So this could still be the beginning of a long -- not just energy independence of North America and the US, but for the exporters.

And the renewables progress is stunning, what's going on there, and we're among the leaders in the world. The Germans are pretty good. Some of the Northern Europeans are pretty good. We're really good at it.

And so when there's MLPs for renewables, you know, as we discussed, we want to be looking at those too because it's phenomenal what's going on.

MR. HOLMES: They're starting to pick up.

We're starting to see renewables start to take the form of MLPs. There's not a whole lot out there. You know, active management here has added value simply by concentrating on that mid-stream part of the --

CHAIRMAN BUSSELLS: Pipelines.

MR. HOLMES: -- pipelines and the energy infrastructure. But that's not to say that's going to be the area to be going forward.

As a matter of fact, just by avoiding coal MLPs, you can outperform the index.

CHAIRMAN BUSSELLS: US crude prices are up 50 percent off the lows the last time --

MR. HOLMES: Yes.

CHAIRMAN BUSSELLS: -- as you-all know very, very well. And I think it's just -- it's going back to 70 or 80 by the end of the year.

But the caution is properly taken to keep an eye on it.

MR. HOLMES: Exactly. One of the areas of interest and opportunity that we're seeing is distressed investments in energy companies.

What's going on, we're going to see a wave of it come through and there's going to be opportunities to provide rescue financing to a lot of these energy companies.

But, unfortunately, until your ordinance changes, it will take the form of private investment, and by statute you're not allowed to invest in it.

But there's some opportunities coming if your ordinance or statutes were ever changed.

MR. TUTEN: Well, that gets back to Joey's point, which I was going to say. The problem we have here as a Board, I mean, our investments are doing good, but what you have is what you're doing, what you're paid to do, which is be the watchdog, okay.

If something is overvalued, undervalued, whatever, too much, et cetera, et cetera, like with the MLPs, the problem you have is, okay, first you see on a general scale how are they doing; but then let's just say we want to get out of the MLPs.

Once again, you know, there's only so many ways, so many places to put money. I know people think that the investment world is full of trillions of ideas, but there really isn't. It's either real estate, stock market, fixed income or -- I don't want to say derivatives, but other asset classes, shall we say --

MR. HOLMES: Yeah.

MR. TUTEN: -- and that's pretty much it. And we're limited, you know. And until, you know, we can expand our horizons, so to speak, I think, you know, we're pretty much looking at what we're looking at for the near future.

MR. GREIVE: So the question is, where do you go? And on the topic of opportunity for the fund, you know, one thing I know has come up a few times, and John may be able to explain this better than I can; but, you know, within fixed income, we've got some restrictions on the PFPF side that we don't see over in GEPP and COPP.

And that serves as a limiting factor, and it's often a factor that I cite when people ask, you know, why did this fund perform 50 basis points better than this one, or 25 basis points? Well, you're limited on your tool sets that you have.

CHAIRMAN BUSSELLS: More flexibility.

MR. GREIVE: So I would be curious over time, you know, as we look at fixed income to get a little more granular with what is and is not allowed under Florida Statutes and under our local code with fixed income.

I know you guys have the Chapter 175, 185 considerations that we don't have. So I just -- over time, I'd love to hear more about that from our lawyers to see what we can and can't do.

CHAIRMAN BUSSELLS: After this I'll get out of the weeds on energy, Dan. I know you're looking for this. But I'm very confident as early as next year there will be solid fuels in the US that are cellulosicly based with a little bit of carbon that will meet all the carbon regime rules.

MR. TUTEN: Interesting.

CHAIRMAN BUSSELLS: It's going to be huge. I just have interest in some technologies and some companies. There are early-stage production facilities right now in Appalachia that are blending hundred percent renewable cellulosic materials with carbon-based fuels at a price point that clears the market. That's going to be a big deal.

MR. HOLMES: Yes.

CHAIRMAN BUSSELLS: I know you're keeping an eye on it. Look for an MLP on all the renewables, including the solid base fuels as well.

MR. HOLMES: Will do.

MR. KEANE: All right. Mr. Chairman, we'll show the Flash Report received as information.

Did you want to take a five-minute break before Dan takes up the quarterly report or do you want to press on?

CHAIRMAN BUSSELLS: Yes. The Chairman declares a five-minute break. We'll resume in five minutes.

(A break was taken; thereafter, the meeting continued as follows:)

CHAIRMAN BUSSELLS: All right. We'll resume.

Update on pension reform -- I'm sorry, Dan. Are you done?

MR. HOLMES: No, sir. I've got the quarterly, and then I don't know where it is on the agenda, but we also have real estate education.

MR. KEANE: Next.

CHAIRMAN BUSSELLS: Yeah, let's do it now.

MR. HOLMES: Okay.

I know that we have kind of a long agenda, so I'm not going to go into the quarterly report in great detail, given the fact that it's over a hundred pages long.

A lot of the themes in terms of the economy and the capital markets, I've kind of covered that broadly. I know that you all have had a chance to review it.

The one different -- a couple different things about the performance report for the quarter is there is a lot more detail in terms of peer-ranking for the funds, the asset class composites. And I should say the fund as a whole, the asset class composites and all the individual managers, that in addition to that, there's holdings information and manager-style information and portfolio characteristics.

I've gone through the report in great detail. I will report that at the end of the quarter, the managers, in looking at all their style information, they're consistent with their style, so there's nothing -- no exceptions to report there.

With regard to the total fund return for the quarter, as I mentioned before, this year is off to a little bit of a slow start economically. For the first quarter the fund in total was up almost 2 percent, 1.96 percent to be precise.

At the end of the quarter, the fiscal year-to-date return was almost 4 percent, 3.94 percent to be precise.

So far this fiscal year the plan remains above the policy benchmark, as I mentioned before. For the fiscal year so far, we're in the -- the plan is in the 76 percentile. That's before MLPs and International started to come back.

You can see that it improved since then; more importantly, going out over the longer time period. And the best way to illustrate that is to direct your attention to page 12, if you will.

And so looking at page 12, we show performance all the way compounded out through ten years, and then the last four years of performance. Three years of calendar performance, I should say.

So the bottom line is, is that if you look at performance over the three-, the five-, the seven-, and the ten-year time periods here, and these are all ending as of March 31st in each of those periods, you can see that the portfolio was basically called almost top third or above versus other public pension plans, and you outperformed the policy index.

And so that ten-year figure that you had mentioned, the plan is compounded at over 7 percent and ranked in the 36 percentile with 1 being best, 100 being worst. And that significantly outperformed the benchmark.

So the performance picks up over the three- to five-year time periods and keeps it attractive.

As I mentioned before, we need to have tools for additional diversification. In looking at page 17, for example, your Sharpe Ratio and your Information Ratios are two measurements of risk-adjusted performance.

In other words, how much is the plan being paid for the risk that is being taken. And Sharpe Ratio is on an absolutely basis. Information Ratio on a relative basis relative to the policy index.

And if you look out over the longer time periods, the three- to five-year periods, it's competitive. It's about median or above. But the same time, Standard Deviation is also high as well in a peer group universe.

And so we need access to other asset classes that are currently not permitted in order to reduce that volatility, and yet achieve a rate of return that will get us in the area of what the actuarial assumed rate of return is.

Again, that's kind of my regular plea for some reform now.

MR. TUTEN: But, Dan, is that possible? I mean, you know, because each asset class has their own inherent volatility or risk --

MR. HOLMES: Right.

MR. TUTEN: -- and all that good stuff. I mean, we can kind of broaden it to the whole picture. But, I mean, is it possible? Because, I mean, the ones we're talking about are a little bit inherently just, you know, off the beaten path a little more.

MR. HOLMES: Well, there's -- we'll talk about that with regard to one of them here later this morning, but the bottom line is, through low correlation, it is possible to -- low correlation of those asset classes relative to what's already in the portfolio, it is possible to bring down the relative volatility of this portfolio.

MR. TUTEN: Well, I understand what you're saying in relation to the rest of the portfolio, but I'm saying as far as the asset class themselves and their volatility.

MR. HOLMES: Some may have higher volatility, some may have lower volatility. It just depends on which one you're talking about.

MR. TUTEN: Okay. That's what I was -- okay.

MR. HOLMES: And so that's -- I won't go into any more detail. I think I just wanted to point out longer term performance.

The US Equity portfolio has done well over the last ten years. International has done extremely well, not only over the long term, but also the intermediate term. The changes in the portfolio that we made over the past couple years have been helpful.

Fixed Income is pretty conservative, but in line with the benchmark over the last ten years is about 9 basis points below the benchmark. But that's given -- you know, in the peer universe, it's below median, but that's given the fact that you can't invest in what others are investing in.

Real estate is competitive, and MLPs have been outstanding over the past three years.

So I'll leave it at that unless there's any questions about individual managers, style, characteristics or anything else.

CHAIRMAN BUSSELLS: So in laymen's terms, this is great news. We're making more money than the actuarial assumption and what's budgeted. We're beating the dickens out of over 75 percent of the pension funds all across America, despite the fact we are constrained on the investment vehicles we're allowed to exercise.

Would that be correct? Just yes or no.

MR. HOLMES: Yes.

CHAIRMAN BUSSELLS: Thank you.

MR. HOLMES: My fear is what we're going to do to protect that going forward.

CHAIRMAN BUSSELLS: I'm optimistic. We're smart here in Jacksonville, Florida. We know what we're doing.

MR. TUTEN: Four out of five ain't bad.

MR. KEANE: All right, sir.

CHAIRMAN BUSSELLS: While we're talking about investments, this might be a place to mention, John, unless you're going to mention it later.

So recently the council -- I'm not sure it's

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been executed, but engaged a gentleman -- Mr. Siedle?

MR. KEANE: Correct.

CHAIRMAN BUSSELLS: I think he worked for six months at the SEC as an attorney, but other than that six months with the SEC, he's been a consultant concerning investments and whether investments were done well, or as Joey was suggesting, you know, that there was looseness -- it was not here -- but looseness, and somehow money that should have been in Point A was in Point B. He comes in and looks for and finds those things.

I asked John to reach out to Mr. Siedle and invite him to come and meet with our Board.

MR. KEANE: We did.

CHAIRMAN BUSSELLS: Just as we had the independent accountants come in and meet directly with the Board so it doesn't get filtered through staff in substance or appearance, but meet with the Board and say, Here's what I'm going to do, you know, and get it out in the open in the Sunshine beginning, middle and end.

And, hopefully, he'll do that. I think he was too busy to be able to come today after you invited him, but we look forward to him coming and actually working directly with the Board as our independent accountants and auditors do. It's just a matter of good governance. And so we will continue to extend the invitation to come work with us directly out in the Sunshine as his work proceeds.

I'm not sure the engagement has been executed fully.

MR. KEANE: No, sir.

CHAIRMAN BUSSELLS: Okay. So it may or may not get finally executed, but we'll see.

MR. GLOVER: Good idea.

CHAIRMAN BUSSELLS: All right.

MR. KEANE: That's going to take us to pension reform, the next item on the agenda.

Dan, did you want to do your educational piece right now?

Sheriff, have you got to go?

MR. GLOVER: No, I'm fine.

MR. KEANE: Okay. Do you want to do the educational piece, or do you want me to whip through the rest of the agenda?

MR. HOLMES: I can do it in about ten minutes, if that's okay, or do you want to go forward?

CHAIRMAN BUSSELLS: What is the educational piece?

MR. HOLMES: Real estate.

MR. TUTEN: Is this for what we're prospectively looking at getting into?

MR. HOLMES: It's something that you can invest in, that the system can invest in, that is currently permissible under state statutes that has the ability to bring higher returns. But it's on the private side, and so you have to understand what the risks are.

MR. TUTEN: Got you. Do you have it printed out, any sort of an informational --

MR. HOLMES: It should be in your packet.

MS. MANNING: I have it. It was not passed out.

MR. KEANE: Do you want to finish the agenda or do you want to do that first?

CHAIRMAN BUSSELLS: Okay. No more than ten minutes.

MR. HOLMES: That's fine.

(Paperwork distributed.)

MR. HOLMES: In case there's questions, do you want to just go ahead and do the rest of the agenda? If there's questions, it's going to go longer.

Mr. Chairman, on hindsight -- or second thought, rather, in case there's questions, since it is an educational piece, I'll be happy to hold off on it. You can finish your agenda. If there's questions, it will go longer than ten minutes.

CHAIRMAN BUSSELLS: Okay.

MR. KEANE: We'll take up pension reform.

CHAIRMAN BUSSELLS: All right.

MR. KEANE: As Council Member Gulliford told you, the Boyer bill that we discussed earlier and his legislation, both of which you-all approved the actuarial impact statements, are pending before the City Council.

Some legislation was passed in Tallahassee and it's on the governor's desk awaiting his signature. I spoke with Chris Hand again this week about the status of the Baldwin Interlocal Agreement, and he said he's going to continue to work on that.

That's the pension update. On legal --

MR. KAUFMAN: Just on that, on Senate Bill 172, I think the governor has a few days to act on it. It he doesn't act on it, it will come into law. I think it's the Florida League of Cities has opposed the bill and has asked the governor to veto it.

So it may be vetoed, but it really has to do with spending of 175, 185 monies. And because we already have a mutual understanding as to how those monies are going to be spent, the bill is really not going to affect us at all.

So we'll just wait and see if that comes into effect. If it does, there will be some more reporting requirements, as I spoke about earlier in the meeting, with regard to what you need to do with regards to the budget.

MR. GLOVER: John, just kind of a general statement.

With the transition in the mayor's office and dealing with a kind of lame duck administration, is there any impact on what we're doing here in any of our deliberations that we need to kind of pay attention to that could have adverse or favorable impact on us?

MR. KEANE: No, sir, I don't believe so. Maybe the first indication that we're going to receive is from Mayor-Elect Curry, when this current process that they had before the City Council moves to its next step, which is committee hearings in a couple weeks, he may give them some indication of what he wants to do.

Early indications, he would like to have it passed and out of the way when he comes here to take over. But the long-range day-to-day operations of things continue when the mayors come and go. We've worked through the infrastructure that they have over there. It's just business as usual.

MR. GLOVER: So we just do what we do and continue to do what we're doing?

MR. KEANE: Yes, sir.

MR. GLOVER: Okay.

MR. KEANE: Mr. Chairman and Trustees, the next item is a legal report, and we have Stu Kaufman here.

MR. KAUFMAN: Good morning. You have in your packet this morning a legal opinion which was issued by Steve Cypen dated April 20, 2015.

Mr. Cypen is a well-known attorney who has been representing public pension funds in the state of Florida for probably over 40 years, and we have a longstanding relationship with him as well as other firms. Christiansen and Dehmer just was not getting to the work in a timely manner.

Mr. Cypen said that he would step up and issue the legal opinion, and you have it before you. It's with regard to the way the Board has interpreted the DROP provisions of the City Charter in Section 121.

And he has determined that because of the ambiguity between certain terms used in the DROP with regard to date of entry as opposed to date of election, that the Board's longstanding policy of how they administered the DROP was made in good faith and is binding and it should not be overturned if it is challenged by somebody.

Because the Board's determination of how to make policy, once that policy is made, is entitled to great deference, and it would not be overturned in a court of law, should there be a challenge to it.

So he's not found that at all. There are no findings that he has made that have a problem with the policy interpretation of the way the fund has administered the DROP plan.

There have been some additional questions that have been posed to Mr. Cypen as a result of the legal opinion he issued, and we're waiting for an answer from him. I know that he has some back-related problems and he might go in for surgery.

So I'm trying to follow up with him and get an answer to the questions that the Chair had posed with regard to the opinion.

CHAIRMAN BUSSELLS: And so, Stu, as the Board had approved some months ago on these questions, this gentleman, while extremely experienced in public sector and public pension plan law, had never worked for this body nor the City of Jacksonville before. So he had no prior involvement but just the history and the decades of how we got to be where we are today?

MR. KAUFMAN: No involvement at all.

CHAIRMAN BUSSELLS: So we've brought in an experienced guy without even the appearance of perhaps, you know, bias because of having been involved in these things before.

MR. KAUFMAN: That's correct. He's never done work for the city, to my knowledge. Other firms have, such as the Sugarman firm.

CHAIRMAN BUSSELLS: Sure. And the same

thing with the CPAs that will now do the agreed-upon procedures we'll discuss later here this morning.

So what would be important to have now, based on Mr. Cypen's analysis and memorandum, would be, I think, over the last 15 years the documents where the Board approved the administrative procedures for DROP that have been used by staff over this -- this really covers 15 years, since the current 30 years was enacted 15 years ago, roughly.

So it would be important, I think, for the current Board to see the implementing procedures adopted by past Boards of Trustees 15 years ago, and it may have been amended since then, on exactly how a DROP application will be processed to ensure it's consistent with the law and people get everything they're entitled to, no more, no less, could go either way; that then the auditors will conform to the Board-approved procedures implementing the law.

That sounds right?

MR. KAUFMAN: Exactly, yes.

CHAIRMAN BUSSELLS: So you-all will dig all those up for the last 15 years and provide them to the Board as well as --

MR. KEANE: Yes, sir. We have a written Board policy.

CHAIRMAN BUSSELLS: Okay. So that would be good.

MR. KAUFMAN: Yeah. And whenever there's an ambiguity, it is good practice to put a written policy into effect so there's no ambiguities.

CHAIRMAN BUSSELLS: That's essential. From the governing body.

MR. KAUFMAN: That's correct.

CHAIRMAN BUSSELLS: Questions or comments on that? This might be a good time maybe -- and maybe it isn't; maybe it's later on the agenda -- but talk about the next and final step to conclude the Board directive review of the DROP matters raised by the City Council auditor in his report and others.

MR. KAUFMAN: And I think the next step would be to -- and we've been speaking to the firm of Goldstein Schechter Koch who has done auditing work in the state of Florida for 25, 30 years as well --

CHAIRMAN BUSSELLS: Of public sector, governments and pension fund --

MR. KAUFMAN: They have a public sector portion of their business. They do regular -- they have a regular accounting practice, but they do have a public sector auditing department as part of their overall firm. They probably audit 40 to 50 public funds in the state of Florida. Again, we've worked with them over the years and have great respect for their work.

We have received a sample engagement letter, and we're currently working on the scope of what's being included in their review of the DROP, and once we have the scope of work, they'll come back to us with the price, we'll finalize the engagement letter and they'll get working on that.

CHAIRMAN BUSSELLS: And, again, while the firm is well experienced in Florida pension and public sector law, they have not prior to this done work for this fund or our colleagues in the city?

MR. KAUFMAN: That's correct.

CHAIRMAN BUSSELLS: So there won't even be the appearance of bias from past involvement one way or the other on these issues.

MR. KAUFMAN: That's correct. Yes, sir.

CHAIRMAN BUSSELLS: If I get the gist, since Chief Schmitt is a CPA and has an accounting background and has seen agreed-upon procedures and so forth before, perhaps -- and we need to notice it -- perhaps we could meet and have a call with the accountants so we design the agreed-upon procedures to get exactly what we need, no more, no less.

Plus, you know so much about the intricacies of the DROP history and so forth. I know it from a policy-maker level, but I've not been bound in the specifics as you have earlier in the advisory committees.

MR. SCHMITT: More than happy to.

CHAIRMAN BUSSELLS: And with your auditing background, maybe we could notice a meeting sometime soon, get them on the phone and say, Here's what the Board wants to hear from you, that you look at and compare to the Board upon Board-approved procedure, implementing the law; and did all of our members get exactly what they were entitled to, no more, no less? And if not, how much and why kind of thing. I didn't mean to spring that on you.

MR. SCHMITT: That's fine.

CHAIRMAN BUSSELLS: I was thinking about the process going forward here this morning, and it occurred to me that might be a prudent thing.

MR. KEANE: Send us a copy of the engagement letter and we'll forward it on to the chief.

MR. KAUFMAN: Will do. I'll send a copy of the draft engagement letter.

MR. KEANE: The next item of new business --

DR. HERBERT: Mr. Chairman, can you give me an idea of some of the additional kinds of questions that are going to be addressed? I just read this, but it's helpful to know in regard to the opinion. Did you say there were some other questions that you wanted answered?

CHAIRMAN BUSSELLS: Yes.

We're going to be extremely precise and leave no stone unturned, which everyone is doing, which is terrific. But as a matter of good governance, as you know, the implementation of law or regulation, where there's any ambiguity or lack of perfect clarity, where there are recurring applications of it that are material to the organization -- and that's certainly true with DROPs, thousands of lives and millions of dollars -- the resolution of any ambiguity goes to the governing body.

There's a process in the open, and then the governing body approves staff, analysis and recommendation, or not, as the case may be, of, Well, this provision in law as Mr. Cypen noted says A, seems to say B over here. And so how do you reconcile the two? That's a governance issue.

And so I've asked for additional clarification of that question.

DR. HERBERT: (Inaudible)

CHAIRMAN BUSSELLS: Yeah. I thought it was well written, comprehensive.

MR. KEANE: The next item on the agenda, Mr. Chairman and Trustees, as new business is compliance with Senate Bill 534 that was adopted in the Florida Legislature several years ago. The Department of Management Services got around to adopting the rules of how these actuarial reports are going to be filed with them electronically. It's going to go on their website, and that's just closing the loop on that.

The next item is the --

CHAIRMAN BUSSELLS: John, I'm sorry, before we leave Stu and the legal, Stu, I think you-all are close to having a comprehensive memo for the Board, probably the next Board meeting, that is a review of the history of the last 15 years of the senior management requirement plan?

MR. KAUFMAN: That's correct.

CHAIRMAN BUSSELLS: Which has been a subject of some interest in recent years. So the Board had earlier approved some months ago for you-all to go back, go through the records, the legal analysis, and for the benefit of the current Board give us a legal summary of the 15-year history.

And then issues, if any, that might arise from that look back on 15 years of history of how we got to be -- when it started 15 years ago until today.

MR. KAUFMAN: That's correct. We have a draft opinion. I think it's about ten pages already with an appendix several inches long.

We still have some research to do with regard to some independent agency pension makeup like the JTA and JEA. We're doing some research with regard to what type of plans they have in effect for their staff as well. So we should have that finalized by next week, hopefully.

CHAIRMAN BUSSELLS: Very good.

DR. HERBERT: Are you also looking at any general counsel opinions on all of this?

MR. KAUFMAN: All the general counsel opinions are included in the appendix, and we address those as well.

DR. HERBERT: Yes.

CHAIRMAN BUSSELLS: Also, before we leave legal, we intend to have a special meeting the end of next week concerning the potential appeal of Judge Beverly's finding.

MR. KAUFMAN: That's correct.

CHAIRMAN BUSSELLS: And then also to consider the recent development in the federal lawsuit that was filed -- two years ago now; it's been a while -- that might require or could require this Board to take a decision one way or another about next steps. Is that correct?

MR. KAUFMAN: We have the Wyse federal lawsuit in which some individual firefighters and police officers filed suit against the city, and we cross-claimed against the city. It's been stagnant for probably a year now. There's a stay in effect, which just was -- the stay expired about a month ago.

And due to the ruling of Judge Beverly with regard to the 30-year contract ended up being void ab initio, the city has now filed a motion to dismiss the complaint in that case, which we received yesterday, which I haven't even had the chance to read yet. But we will ask for an executive session next week to address that as well, the manner in which we proceed in that case.

MR. SCHMITT: What is the deadline for Judge Beverly's ruling?

MR. KEANE: May 29.

CHAIRMAN BUSSELLS: Next Friday. So it needs to be no later than next Friday.

MR. KAUFMAN: That's correct.

CHAIRMAN BUSSELLS: To come together and consider what we're going to do.

MR. KAUFMAN: All you have to do is file a notice of appeal, which is a one-page document that is filed electronically. So should you decide to appeal, we're ready to file it that day.

MR. SCHMITT: I don't like waiting until the deadline date to meet. I think we need to do that before the deadline date.

CHAIRMAN BUSSELLS: Our thought had been -- I agree. Our thought had been before there was the rescheduling of the committee process for Councilman Gulliford's legislation, that the council would have the ability to consider legislation before the 29th, and were that to happen, we would want to know what happened there, take that into consideration about our next steps and the structure of it.

Based on what the councilman said this morning, it appears since the committee reviews have been rescheduled until after next week, that doesn't seem to be a thing that we ought to be thinking about. So maybe earlier in the week or whatever. Whatever is most convenient, on or before Friday, certainly, for us to get together.

And the subject of that meeting will be a Shade meeting concerning two matters of active litigation and nothing else. That's all we need to do, but we need to do that next week.

MR. KEANE: Right. You're going to have the briefing from the attorneys and then going to have a public meeting and make a resolution?

CHAIRMAN BUSSELLS: Yes, yes. That's right.

Exactly.

MR. KEANE: Before we all leave, if we could get what's the best date so we can get it calendared, and we're going to have to get our court reporter here. So we need to look at next week's schedule.

MR. TUTEN: When did you want to have it?

CHAIRMAN BUSSELLS: Monday is Memorial Day.

MR. KEANE: Monday is a holiday. Thursday -- let's try Thursday for everybody.

MR. TUTEN: 28th?

MR. KEANE: Yes.

MR. KAUFMAN: That works for us.

CHAIRMAN BUSSELLS: If we have a quorum, I could call in. Thursday is okay, but I would need to call in if we have a quorum because I will be out of town, which I can do.

MR. KEANE: Well, Bob Klausner was planning on being here in person on the morning of the 29th to talk to you-all about it.

CHAIRMAN BUSSELLS: Right. I'll just say, for me, the 29th is better. I take your point about running right up against 5 p.m. Friday for the deadline.

MR. GLOVER: Friday is best for me too. I mean, I --

CHAIRMAN BUSSELLS: We have until 5 p.m., right?

MR. KAUFMAN: And, electronically, all we have to do is press a button and we're ready to go. I know --

MR. SCHMITT: It makes me very uneasy to wait until the deadline date to meet. If that's what you-all decide to do, then obviously that's what I'll do, but I don't like it.

CHAIRMAN BUSSELLS: I'm fine either way. It's just on the earlier date I would just need to call in, which would work just fine.

MR. TUTEN: Well, we're going to have the meeting on the 21st. Why are we going to wait again until the 29th? You said to hear the City Council's --

CHAIRMAN BUSSELLS: Well, the idea earlier was because Councilman Gulliford's legislation was queued up to get through committee to be before the full council next week. So our thought was, let's see what they do, consider that because it's material to it.

But we now know that the committee process got pushed back a week or so, so that's not going to happen next week.

MR. TUTEN: Right.

CHAIRMAN BUSSELLS: And we weren't set up today, so we didn't agenda it today. So we didn't notice it, so we can't do it today. So it's got to be after Memorial Day. Am I saying that right?

MR. KAUFMAN: That's correct.

MR. KEANE: Yes.

MR. TUTEN: I'm with Larry. I don't -- I don't like going to the 29th. Is there any way we could do it early in the week? What about Wednesday, Tuesday?

CHAIRMAN BUSSELLS: It's fine with me. I'll just be calling in. As long as we have three here, that's fine.

MR. KAUFMAN: That's correct.

DR. HERBERT: I think it's important for the chairman to be here, though. I think all of us ought to be here if possible.

MR. GLOVER: I tell you, I could be here Friday, and I would appreciate it if we can start at around 9:30, and I could be here Friday. I don't think I can be here any other day.

CHAIRMAN BUSSELLS: Of course, it's a

holiday, and I'm just traveling. You know, it's in the South. Same time zone, so I could call in. Either way is okay with me.

We just have to have a quorum here. I would like to be here, but Friday would be the day I could be here in person.

MR. TUTEN: I can be here Friday. That's no problem. I would rather be here earlier.

DR. HERBERT: Friday, 9:30.

MR. GLOVER: 9:30 will work for me. Yeah. I think we're up against it here.

MR. SCHMITT: But we're up against it because of a situation we created.

MR. GLOVER: I know. I know.

CHAIRMAN BUSSELLS: That's correct.

MR. SCHMITT: And it just makes me uneasy, because if we don't take action on the 29th, then we don't have an option. That's my main issue, is this is a topic that, to me, is very important for the Board to have its say-so.

MR. GLOVER: We've got till the end of the day on the 30th, right?

CHAIRMAN BUSSELLS: Well, actually, the 29th.

MR. KAUFMAN: The 29th. It's a Friday.

CHAIRMAN BUSSELLS: So Friday at 5 p.m. you can send the electronic filing?

MR. KAUFMAN: Correct.

CHAIRMAN BUSSELLS: To protect the appeal process.

MR. KAUFMAN: Which we should be -- and I can't see it being done more than past noon.

MR. TUTEN: Well, is there anything preventing us from withdrawing an appeal, Stu?

In other words, let's say the City Council comes up with the greatest offer in mankind history. We say, You know what? We want to stop this whole mess right now. We can go to the court and say --

MR. KAUFMAN: There's absolutely nothing that would prevent you from withdrawing an appeal.

MR. TUTEN: Well, then if we're going to hedge our bet, so to speak, because I am with Larry. The 29th to me is just --

MR. GLOVER: What about 2:00 Tuesday?

MR. SCHMITT: That works for me.

MR. TUTEN: I would rather do the 26th myself.

MR. KAUFMAN: That works for us too.

MR. KEANE: Bob can be here on Tuesday?
MR. TUTEN: I'm with Larry. I get nervous as a tick, you know, when everything is that close.
MR. GLOVER: 2:00 Tuesday will work for me.
CHAIRMAN BUSSELLS: Bob can or cannot be?
MR. KAUFMAN: Can.
MR. KEANE: Can be.
CHAIRMAN BUSSELLS: That's essential.
MR. TUTEN: Can we get Bob on the phone?
MR. KEANE: He's going to be here in person.
MR. KAUFMAN: He'll be here. If that's the case, I'll get it noticed today.
MR. SCHMITT: I'm good with that.
MR. TUTEN: So we are doing Tuesday, the 26th?
CHAIRMAN BUSSELLS: 2 p.m.
MR. SCHMITT: Thank you-all.
MR. GLOVER: All right. 2:00, Tuesday.
MR. KEANE: So we'll notice, Mr. Chairman and Trustees, a special Board meeting for Tuesday, 2:00.
CHAIRMAN BUSSELLS: And that's plenty of time with the rules, right?
MR. KAUFMAN: Yes. I would suggest we get

it published today.

MR. KEANE: We'll put it up today, and on these two legal issues.

CHAIRMAN BUSSELLS: Yes.

MR. KEANE: Court Reporter, you can put it on your schedule?

THE REPORTER: Yes, sir.

MR. KEANE: The court reporter will be here also.

CHAIRMAN BUSSELLS: And then the only other one I'm aware of before we leave the legal report, Stu, is from time to time over the years questions are raised about the application of the provision for a member who is convicted or is removed from their position, whether or not the circumstances of their removal from their position is such that it affects their pension rights or not.

From time to time over the last decades this comes up. There's a well-established body of practice here and procedures. There have been some recent issues raising questions again, as has happened often.

And so you are checking with the parties who have direct knowledge of the facts and circumstances of that particular -- these particular matters and will report back to the Board as early as the next meeting about the results.

MR. KAUFMAN: That's correct.

CHAIRMAN BUSSELLS: And report back from those who will be in a position to absolutely know whether or not the circumstances of removal had anything to do with the discharge of their duties as a member.

MR. KAUFMAN: That's correct. I've had discussions with the Special Prosecutor, and we have received all the criminal case documents along with video of the plea hearings, and we've reviewed that as well.

The only issue that you may want to consider is that Paul Daragjati, who is an attorney with our office, used to be the legal counsel for the FOP when all these instances arose.

So to avoid the appearance of impropriety, I think that we would likely make a recommendation to you to have the matter reviewed by outside independent counsel as well so there could be no claim that our office was biased in any manner in reaching our result.

CHAIRMAN BUSSELLS: Makes sense to everybody?

MR. TUTEN: Yes.

CHAIRMAN BUSSELLS: Okay.

MR. KEANE: We'll refer the question over to the same lawyers that are doing this other work, if that's okay with you-all.

MR. KAUFMAN: Either Mr. Cypen could do it or Mr. Sugarman's office can do it.
Mr. Sugarman's office has been hired by us in the past to prosecute forfeiture matters when it actually goes to a hearing.

CHAIRMAN BUSSELLS: Mr. Cypen is experiencing medical issues, is he not, now and may be out for a while?

MR. KAUFMAN: I'm waiting to hear back from him as to whether or not he's going to need back surgery.

CHAIRMAN BUSSELLS: Well, just be sure that whoever it is can do it right now to keep it on track, as you've already done.

MR. KAUFMAN: Right. Absolutely.

MR. KEANE: The next item, Mr. Chairman and Trustees, is the Board Meeting Action List that's attached. Update on pension reform, the first two items. Legal is the next two. Review of our index accounts. We have five index accounts that comprise almost 25 percent of our portfolio.

Dan is going to be talking some more on education in just a minute. Dr. Herbert's report is on the succession planning.

The letter that we received from the Department of Management Services, we responded to them, and they sent a letter back to us, telling us we should get the interlocal agreement signed. That's the next item.

We're working with the mayor's office. Chief Hand has spoken with me earlier this week and he's taking charge of that case and said it will be completed.

Our website is continuously updated.

We have two cases been referred to the General Counsel. One is completed and one they're working on scheduling a hearing for.

On the selection of investment advisory committee members for the committee the Board established, Mr. Klausner's office is working on the training outline. We've sent the application packets that the Board previously approved to a list of names that we had received from Board members. We've got three back.

We received a telephone call from one of the recommended applicants, and he sent us an e-mail, said due to his work volume and what have you, he was going to decline, but said he would always be available to help us out.

So that is the update on that.

The records retention update is attached, and we would like to add one item to the agenda, Mr. Chairman and Trustees. Debbie will hand those out right now.

And this is a new rule for the Board for procedural due process. We have a rule for hearings on applicants for benefits, disability and what have you. But we need a rule for other types of hearings.

And this was drafted by the General Counsel's office for us, and we would like to add this to the agenda and have it adopted by the Board. We will give it the next rule number.

CHAIRMAN BUSSELLS: Could we have a chance to look at this and act at the next meeting?

MR. KEANE: Yes, sir.

CHAIRMAN BUSSELLS: Let's do that so everybody has a chance to kind of process it because we're running late today.

DR. HERBERT: And also so it can be posted as an agenda item.

CHAIRMAN BUSSELLS: Yeah, if there's not some emergency or something. This is excellent, by the way. But if we could actually agenda it for action, we would be able to look at it. It's very plain, vanilla.

MR. KEANE: Yes, very. Do it at the June meeting.

All right. Now we're ready to revert back to --

CHAIRMAN BUSSELLS: And then our records retention, until the Board adopts the next procedural policy on our records management retention -- and the work you're doing is fantastic. I know it's just mind-numbing, difficult to redo everything, but you won't destroy anything, any records until we consider it.

Even though Florida law allows destruction, actually encourages destruction after different periods of time passes, but until the Board, you know, adopts as we've done here with the rule procedure, you won't do that.

MS. MANNING: (Shakes head.)

CHAIRMAN BUSSELLS: We appreciate it. The work is terrific, long overdue, very timely, very appropriate.

DR. HERBERT: Mr. Chairman, also, if I could just for the record correct something.

When I gave my report I indicated that we had closed the search. What I meant to say was that we told them to go ahead and review all the applications that had come in. I was referring to that. So I misspoke on that.

I just want to make sure that going back to what John said, that it hasn't closed completely, but we're telling them to go -- we've told them to go ahead and review all applications that we had received up to that point.

CHAIRMAN BUSSELLS: Okay.

MR. KEANE: Okay. Are we ready to revert back to Dan?

CHAIRMAN BUSSELLS: We are. Real estate.

MR. KEANE: Okay, Dan.

MR. HOLMES: All right.

CHAIRMAN BUSSELLS: We're making good money with real estate.

MR. HOLMES: You are.

CHAIRMAN BUSSELLS: I like that.

MR. HOLMES: You are.

MR. TUTEN: Dan, without being rude here, buddy, what type -- how is this real estate different from what we have, and why is it an opportunity for us?

MR. HOLMES: Okay. The direct answer is this. Right now you are in what we would call an open-end Core real estate fund, which means that you're able to -- under normal circumstances, when there's liquidity in the market, you're able to put in for a quarterly redemption if you want to.

The portfolio is invested in a diversified set of properties, your equity interest in properties. And it's spread out geographically, including apartment buildings, office space, industrial and retail. Those are the major food groups, if you will.

So that type of investment generally has low leverage. The cash return is projected to be around 5 to 6 percent, which is down from where it's been partly because it's appreciated so much.

And it's -- the properties in those

portfolios tend to be fully leased or close to fully leased, and most of the income is going to -- going forward is going to come from rental income. That's a conservative type of way of investing in it.

There are other ways, valued-added, opportunistic ways where there are closed-in funds. In other words, you invest in a fund, generally a limited partnership or fund-to-fund type of vehicle that invests in properties that are not fully leased.

The properties generally have some sort of issue associated with it. It could be deferred maintenance. It could be repurposing the property from one use to another use.

A good example of that is what the system did a number of years ago with regard to the -- I forget the name of the building, that the city now uses.

MR. KEANE: The Godbold Building.

MR. HOLMES: Exactly.

And so the idea is, is that the manager purchases that asset or that property at a discounted price, fixes whatever the issue is, gets it leased up, and then sells it hopefully at an appreciated price to the Core managers of the world.

And so in that particular case, you're investing not just for income. Some income comes in, but it's more capital appreciation.

Why would I suggest something that is different than what we currently have? The reason is, one, the bottom line is it has a higher expected rate of return.

Now, it's commensurate with additional risk, the potential risk, but keep in mind that we're in an environment where that spread to Treasuries that the current Core portfolio has is narrowing, and at some point in time, maybe over the next 18 months, I may have to come to the Board and say, We think that the real estate is now fully valued. We wouldn't get out of it completely, but we may have to put some money in for redemption.

If that's the case, then, you know, we have to look for other areas, and we would be significantly under the target weight for return. We still are on target weight, asset allocation weight. We are right now. We're under by 5 percent.

And so the bottom line is, is that I want to introduce this because we're talking about returns in, say, the 10 percent range, expected returns, obviously. So this is the only area by my reading of the statute where you're allowed to invest in something that is of a private nature.

So that's the purpose behind the presentation, to go through the pros and the cons of doing it.

MR. TUTEN: Are you talking about doing -- you said -- where's the little thing in here? I understand value-added and opportunistic. Direct investment or direct partner? What do they call it in here?

MR. HOLMES: Direct investment or what?

MR. TUTEN: I forget. I was reading it. In other words, the type of --

MR. HOLMES: Direct fund-to-funds or limited partnerships.

MR. TUTEN: Oh, okay.

MR. HOLMES: Yeah. It would just be an investment vehicle. There's multiple ways to -- I shouldn't say multiple. There are a couple of different ways to -- investment vehicles to use to put into your portfolio, and they all have their pluses and minuses.

MR. TUTEN: Well, with the people -- I saw the managers in the back real quick and I didn't look at them. I just saw their names and see what they do.

Would they be more towards the value-added, Dan, or more towards the opportunistic?

MR. HOLMES: There's a couple of both in there. And we're not recommending those.

MR. TUTEN: Well, I understand.

MR. HOLMES: I asked the research staff to put examples in there so you can understand. You know, I think it helps crystallize exactly what you would be investing in if you were to do it; what the expected returns would be; what the diversification would be; what is -- on the risk side, what's the level of leverage we're talking about; where is it geographically diversified; how long is the lock-up period; what are the fees.

MR. TUTEN: Okay. So that was my next question, is what is the, like, redemptions or anything if we want to get out?

MR. HOLMES: There aren't.

MR. TUTEN: None?

MR. HOLMES: No. Generally in this type of environment or this type of investment, you make a commitment for eight to ten years. And generally there is no quarterly or annual liquidity.

You make the commitment. The manager draws that -- draws the committed capital down over, say, a three- to four-year investment period. They invest the assets during that time period. They make the improvements over, say, the next three to five years, and then they spend the remaining years leasing it up and then selling the property.

And so there's a J-curve, kind of a life cycle. The J-curve represents the fact that generally more monies being paid out in terms of fees than you're receiving, and then over time that reverts.

More money comes in than what you would be paying in terms of fees. So it's definitely one of the risks along with blind pool risk that comes with investing with these types of --

MR. TUTEN: How much money are you talking about here?

MR. HOLMES: I don't have -- this is just pure education. I want to make sure that the Board knows this is an opportunity that a very large number of our other clients have taken advantage of, but it comes with its own set of risks and returns. I would say it would be less than 5 percent of the portfolio.

MR. TUTEN: How many other public funds are doing this and how long have they been doing it for? I mean, do you have a track record of Louisiana teachers doing this or California?

In other words, I'd like to see --

MR. HOLMES: Other than -- going from memory.

MR. TUTEN: Just in general, obviously.

MR. HOLMES: Yeah. The majority. Majority.

MR. TUTEN: Really?

MR. HOLMES: Earlier this week I was in the city of Baltimore, and their police and fire plan has been doing it for over 20 years, and I've been doing it with them for the last ten years.

MR. TUTEN: Now, what are the returns? I mean, are they significantly higher than normal real estate, Core real estate?

MR. HOLMES: Yes.

MR. KEANE: Long term.

MR. HOLMES: Yes, longer term. Yeah. I mean, this is -- if I could kind of create a hypothetical, it would look something like this.

You would make an investment in one of the vehicles, or you would use a fund-to-fund manager that would invest in one of these vehicles. Let's say it's a value-added type of approach.

And so value-added is the manager would seek properties in the different areas, you know, the different sectors, and then geographically diversified that had some sort of issue with them.

A great example would be -- actually, one of my favorite examples is the Watergate Hotel. And this principal, one of your real estate managers used this as an example for one of their value-added products.

And that is, the Watergate Hotel, that building, is part hotel, part office space, and part apartments. And leasing went down because there were problems with the parking garage. The parking garage was basically falling apart. It leaked, and as a result, especially the apartments, nobody wanted to live or work there.

The manager looked at what the problem was.

They brought engineers in. They determined they could fix the parking garage at a reasonable price, and then basically make money off the entire transaction.

So they brought in the engineering and the construction firm. They fixed the parking garage. That bought in, in turn, new tenants. They leased it up. They raised the rents, and then when it was fully operational and the rental income hadn't gone up, they turned around and sold the property to the Core managers, the type of managers they currently have that want to invest in basically income-producing properties, and they did it at a capital gain.

And so in that particular case, the expectation is for the types of risks that you're taking, you would expect to get paid at a higher rate of return.

And the presentation right now, given where going-in costs are, our expectation is, is that would represent a 8 to 10 percent type of opportunity in terms of expected return.

MR. TUTEN: I mean, we're already earning -- I can look it up. But, I mean, we're already earning pretty much close to that, but on the lower end, 8, I guess what we earned in real estate last year.

MR. HOLMES: Yeah. But our concern is, is that we're coming towards the end of the cycle. And so as I said, coming out of 2009, we saw -- you know, going into 2009, we saw property prices being marked down.

Coming out of 2009, we saw property prices appreciate. We think that the appreciation cycle is basically over. And obviously I'm using generalities, but it's fairly long in the tooth, if you will.

So going forward, instead of getting a lot of the return from the appreciation of properties, it's going to come more from just the pure income format.

There's no problem with that. But as -- if Treasury rates start to go up, and net operating income doesn't go up enough, then the risk of investing in real estate isn't going to be worth the reward. That's where we think it gets expensive, and we'll come to you and ask you to trim your positions.

And so we're at the point where we think that instead of, say, 8 to 9 percent total rate of return for your Core real estate, we think that the 6 to 8 percent type of range. So it's come down.

MR. TUTEN: And this is pretty much because -- this would actually be one of the only areas we can actually go outside of where we invest now legally without changing anything.

MR. HOLMES: Yes.

MR. TUTEN: I got you.

MR. SCHMITT: And is the investment in a specific project, or is the investment in a manager who may have multiple --

MR. HOLMES: Either, either. So you can -- let's see. A manager example -- well, Principal. They have multiple products, so they have an example of value-added portfolios. LaSalle, et cetera. There's lots of different types -- or lots of different managers available.

And so you could make an investment in their limited partnership vehicle, and in doing so they would go out. You'd commit -- let's say you decided to commit $10 million. You made the commitment to the manager for $10 million. They would draw that capital down over a, like I said, three- to four-year period.

The reason you don't want them to take down right now all at once is because you want some vintage in your diversification in there. You want them to take their time finding attractive properties. You don't want them rushing in and buying whatever is on the market. You want them, you know, to pick the best opportunities.

And so you could do that, or you could invest in a fund that has multiple managers doing that as well. So you could -- in other words, you could hire multiple managers yourself, or you could hire in a fund that invests across multiple managers. The difference is there's an extra layer of fees if you go the fund-to-fund route.

CHAIRMAN BUSSELLS: Very helpful. I'll be curious to know when we discuss this again, not right now, the time series of these things over the decades, does it make a difference if you invest in the down cycle rather than the up cycle?

MR. HOLMES: Oh, yeah.

CHAIRMAN BUSSELLS: That's what I thought.

MR. HOLMES: Yeah.

CHAIRMAN BUSSELLS: So I'll be interested in thoughts about -- because I think we might be nearing the end of an up cycle, but should we wait for the timing, do away for the next recession, you know, or what would be a consideration for us. I think it makes a big difference, actually.

MR. HOLMES: It does. Now, that said, there are real estate -- especially real estate debt managers who are raising capital in anticipation of that cycle.

CHAIRMAN BUSSELLS: Right.

MR. HOLMES: So what they're doing is, these are managers that would fall into the distressed category.

CHAIRMAN BUSSELLS: Right.

MR. HOLMES: And so they're raising capital to invest in distressed real estate properties, or in real estate, basically mortgages, that after they've gone through that bottom part of the cycle, they're getting in and buying it cheap when the owner, the borrower, whoever, needs the capital, and they negotiate good returns for the investors.

CHAIRMAN BUSSELLS: Very good.

MR. TUTEN: Are you planning on making a presentation or do you want to -- do you need us to, like, vote for a search? Or what are you trying to --

MR. HOLMES: I promised the Board that I would do education on it, but I think I just did.

MR. TUTEN: Yeah. Well, I mean, as far as the types of real estate and all that kind of stuff, I think -- well, I know I'm pretty much up to snuff on what's going on as far as that goes.

To me, I've got certain cautions about it that would have to be allayed by the specific people you were to bring in, just like we do with everybody, you know.

MR. HOLMES: Yeah.

MR. TUTEN: If it's somebody that you could show me has a track record, et cetera, et cetera. Because me personally, I don't like locking down money for a decade with no chance of getting it back for, shall we say, 200 basis points extra above and beyond what we're making now. The risk doesn't warrant that kind of chance.

You know, now, will the real estate market go down? Who knows? But, you know, if it's somebody reliable, trustworthy, that has a record, you know, then possibly. That's just me.

MR. HOLMES: Very astute. I wish -- well, you nailed it, is the bottom line. Right now -- first of all, we think that all the managers that we will bring to you are not -- because of the illiquid nature of the investment, the selection of the manager is paramount.

We would bring managers that we think do a good job and have a very good and established track record. This is one of the few areas where past track record is an indicator of future performance.

But that said, if you get in a market environment like 2007 through 2009, and even the best managers that have great track records were investing in market conditions at the peak of the market, and the subsequent returns were not -- they were below average compared to what you would expect from that type of investment. If the market is down, even the good managers can't avoid that.

And so your point about the timing of it and the expected return, if you get in at the lower end of the valuation cycle, the premium above the plummet mark is a lot greater. So there's a better upside.

CHAIRMAN BUSSELLS: So at a future Board meeting, we're considering asset allocation policy. Then we'll consider taking an action or not, as the case may be, on expanding the specific types of real estate investments to include that.

MR. HOLMES: Agreed.

CHAIRMAN BUSSELLS: Very good. Appreciate it.

John, is there anything else that we missed that we need to do today so far?

MR. KEANE: No, sir.

CHAIRMAN BUSSELLS: Anybody have any closing comments or questions?

MR. TUTEN: Thank you, Dan. Thank you, Stu.

CHAIRMAN BUSSELLS: We're adjourned. Thank you, everybody.

MR. KEANE: 11:12.

(The meeting adjourned at 11:12 a.m.)

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CERTIFICATE OF REPORTER

I, Denice C. Taylor, Florida Professional Reporter, Notary Public, State of Florida at Large, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings, and that the transcript, pages 3 through 112, is a true and correct computer-aided transcription of my stenographic notes taken at the time and place indicated herein.

DATED this 2nd day of June, 2015.

____

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

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

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