

**JACKSONVILLE POLICE AND FIRE  
PENSION BOARD OF TRUSTEES  
MEETING MINUTES – MARCH 15, 2013  
RICHARD “DICK” COHEE BOARD ROOM**

**NOTE:** If any person decides to appeal any decision made with respect to any matter considered at this public meeting such person will need a record of proceedings, and for such purpose such person may need to ensure that a verbatim record of the proceedings is made at their own expense and that such record includes the testimony and evidence on which the appeal is based. The public meeting may be continued to a date, time, and place to be specified on the record at the meeting.

**PRESENT**

Asst. Chief Bobby Deal, Chairman  
Nathaniel Glover Jr., Board Secretary  
Walter Bussells, Trustee  
Dr. Adam Herbert, Trustee  
Lt. Richard Tuten III, Fire Trustee

**STAFF**

John Keane, Executive Director-Administrator  
Kevin Stork, Controller  
Robby Gorman, Executive Assistant  
Dan Holmes, Summit Strategy via tele-conferencing

**CITY REPRESENTATIVES**

C. Ronald Belton, Director of Finance & Chief Financial Officer, City of Jacksonville invited

**GUESTS**

Mark Muchowitz, Police Officer  
Randy Wyse, Local 122 President  
Asst. Chief Larry Schmitt  
Curtis Lee

**NOTE:** Any person requiring a special accommodation to participate in the meeting because of disability shall contact the Executive Director-Administrator at (904) 255-7373, at least five business days in advance of the meeting to make appropriate arrangements.

The meeting was brought to order at 9:20 a.m.

A moment of silence was observed for the following deceased members:

Joe Moore, Retired Firefighter  
Edward D. Krawczyk, Actie Police Officer  
Robert W. Smith, Active Firefighter Engineer  
Elijah Fishburne, Retired Firefighter Engineer  
Billy Lofton Burch, Retired Police Officer

Ralph Mashburn, Retired Firefighter  
Thomas H. King Jr., Retired Firefighter  
Wayne W. Mikell Sr., Retired Fire Lieutenant  
Jonnie Phillips, Retired Police Officer

The Board of Trustees recited the Pledge of Allegiance.

**CONSENT AGENDA - ITEMS 2013-03-(1-9)CA**

**2013-03-1CA MINUTES TO BE APPROVED**

1. Minutes of the Board meeting held February 15, 2013. Copy in the meeting file.
2. Minutes of the Board Workshop held February 22, 2012. Copy in the meeting file.

**2013-03-2CA DISBURSEMENTS**

The listed expenditures have been reviewed and deemed payable. The Police and Fire Pension Fund Controller certifies that they are proper and in compliance with the appropriated budget.

**DISBURSEMENTS A**

1.	John Keane	\$	634.39
2.	Klausner, Kaufman, Jensen & Levinson	\$	15,519.87
3.	Eaton Vance	\$	17,634.41
4.	Pension Board Consultants	\$	25,000.00
5.	Lowenstein Sandler	\$	1,346.50
	Total	\$	60,135.17

**DISBURSEMENTS B**

Transaction list of Accounts Payable distributions. Attachment \$ 8,921.34

**2013-03-3CA PENSION DISTRIBUTIONS**

A.	March 1, 2013	Regular Gross	\$3,866,411.24
		DROP Gross	\$ 685,661.73
		Total	\$4,552,072.97
B.	March 15, 2013	Regular Gross	\$3,864,217.13
		DROP Gross	\$ 685,895.16
		DROP Lumpsum	\$ 125,000.00
		Total	\$4,675,112.29

**2013-03-4CA APPLICATION FOR SURVIVOR'S BENEFITS**

1. **Harper, Glenda T.**, widow of Wallace Harper Jr., who died February 5, 2013.
2. **Harvey, Cynthia M.**, widow of Robert E. Harvey, who died February 11, 2013.
3. **Mikell, Debra Cler**, widow of Wayne W. Mikell Sr., who died February 18, 2013.
4. **Phillips, Pamela M.**, widow of Jonnie Phillips, who died February 16, 2013.

**2013-03-5CA TIME CONNECTIONS**

1. **Eddy, Nicolas S.**, Prior Wartime Military Service, (2 years).
2. **Reese, Duane**, Prior Florida Service, (3 years, 9 months, 15 days).
3. **Scott, Elroy**, Prior Florida Service, (1 month).
4. **Vitale, John**, Prior Florida Service, (4 months, 8 days).

**2013-03-6CA APPLICATION FOR DROP**

- |     |                         |        |
|-----|-------------------------|--------|
| 1.  | Baker, Larry S.         | Police |
| 2.  | Bristow Jr., Larry E.   | Fire   |
| 3.  | Chaires Jr., William H. | Police |
| 4.  | Clifton, Christopher E. | Police |
| 5.  | Cobb, Edward E.         | Fire   |
| 6.  | Cummings, Tony T.       | Police |
| 7.  | Davis, Clarence         | Fire   |
| 8.  | Elkins, Richard H.      | Police |
| 9.  | Hicks, Ricky A.         | Fire   |
| 10. | John, Robert A.         | Police |
| 11. | Kountz, Arthur D.       | Fire   |
| 12. | Long III, John H.       | Fire   |
| 13. | Meacham, David E.       | Police |
| 14. | Mrgich, Paul D.         | Fire   |
| 15. | Oliver, David W.        | Police |
| 16. | Peters, Clinton R.      | Fire   |
| 17. | Tidwell, Jason H.       | Fire   |
| 18. | White, Randall T.       | Fire   |

**2013-03-7CA DROP PARTICIPANT TERMINATION OF EMPLOYMENT**

1. **Bailey, Paul K.**, DROP commencement date October 17, 2008, termination of employment effective date March 1, 2013. Police Officer.

**2013-03-8CA DROP DISTRIBUTIONS**

1. **Bailey, Paul K.**, a portion of his DROP account paid to him directly lump sum and the remaining balance of his DROP account paid to him bi-weekly over the next 6.25 years.
2. **Mikell, Debra C.**, the entire balance of her DROP Account paid to her bi-weekly over the next 10 years.

#### **2013-03-9CA EDUCATIONAL OPPORTUNITIES**

***Real Estate Investors Summit*** – April 3-4, 2013 – Opal Financial Group

***Emerging Managers Summit*** – May 15-17, 2013 – Opal Financial Group

***2013 Indexing Summit*** – May 15-17, 2013 – The Conference Board

***34<sup>th</sup> Annual Police Officers' & Firefighters' Pension Trustees' School*** – May 20-22, 2013 – Florida State Division of Retirement

***Real Asset Investing Forum: Developing Real Returns for Harvest*** – June 10-11, 2013 – Opal Financial Group

***59<sup>th</sup> Annual Employee Benefits Conference*** – October 20-23, 2013 – IFEBP

**A MOTION WAS MADE BY RICHARD TUTEN TO APPROVE THE CONSENT AGENDA ITEMS 2013-03-(1-9)CA. NAT GLOVER SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.**

#### **ADDENDUM - Legal Report**

**2013-03-7** Letter from Loree French, Sr. Assistant General Counsel to Chairman Deal regarding the Senior Staff voluntary Retirement Plan and General Fund Counsel Klausner's response. Attachment **RECEIVED AS INFORMATION**

**2013-03-8** Litigation Report from Robert Klausner. **The Executive Director-Administrator noted that the Fund has received a check for \$273,696.64 from the Merrill Lynch Florida Public Pension Plan Consulting litigation. This litigation cost the Fund nothing. RECEIVED AS INFORMATION**

**2013-03-9** *Florida Bar Journal* article "Marching Orders: When to Tell Your Boss "No". **RECEIVED AS INFORMATION**

#### **OLD BUSINESS**

**2012-12-15** Progress report from the Executive Director-Administrator on Public Speaking at the Board meetings.

**The Executive Director-Administrator reported that he had researched what other Funds are doing around the State. He suggested that the Board task**

**the Advisory Committee, who acts as the Board's investigative body, to hear interested speakers and make monthly reports to the Board of Trustees on those speakers.**

**RICHARD TUTEN MADE A MOTION TO HAVE THE ADVISORY COMMITTEE HAVE A PUBLIC HEARING SESSION IN THEIR MEETINGS ONCE PROCEDURES HAVE BEEN ESTABLISHED. THEY WILL THEN GIVE A MONTHLY REPORT TO THE BOARD ON THE SPEAKERS. THE MOTION WAS SECONDED BY NAT GLOVER AND PASSED UNANIMOUSLY.**

**2012-12-3** Budget Review. Attachment **RECEIVED AS INFORMATION** Trustee Bussells request that the staff work up a draft 2013/14 Budget for April.

**2013-03-1** Report on the February 22<sup>nd</sup> Workshop. **RECEIVED AS INFORMATION**

### **NEW BUSINESS**

### **MONTHLY REPORTS**

#### **EXECUTIVE DIRECTOR'S REPORT**

#### **Investment Report – Taken later in the meeting**

**2013-03-2** Investment Reports from Summit Strategy. Attachment

**2013-03-3** Progress in hiring Principal Global Investors. Attachment

**2013-03-4** Progress in hiring Dodge & Cox.

**2013-03-5** Emerging Market Debt Investment Managers.

#### **Administrative Report**

**2013-03-6** Approval of State Annual Report. Attachment

**A MOTION WAS MADE BY RICHARD TUTEN TO APPROVE THE 2012 STATE ANNUAL REPORT. NAT GLOVER SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.**

#### **The Board then went back to the Investment Report**

**2013-03-2** Investment Reports from Summit Strategy. Attachment

**Dan Holmes went over the preliminary unaudited February Flash Report. He noted that there is a shift from growth to value which meant GAMCO, DRZ, and Pinnacle were increasing. He had no concerns with Domestic Equity. Boston Company should be gone at the end of the month.**

Emerging Markets are flat. TIPS is flat and Mr. Holmes noted that it was important to keep the portfolio to an appropriate size.

Trustee Bussells: I think I heard you make a statement in your talk there, where you said that this shows that the active managers are consistently out performing the passive index funds. Did you say that?

Dan Holmes: I said it with regard to the Emerging Market Equity managers.

Trustee Bussells: "Ok, only that?"

Dan Holmes: "Yeah, today there's some, today my comment was restricted to the Emerging Market managers. If you look at some of the Equity managers, which is the area we've been talking about, with the exception of GAMCO which I would submit has been there a relatively short time, all of the Equity managers since inception have out performed their benchmark. So, in certain areas, again, I continue to think that having a combination of active/passive makes sense. And in certain areas I think that just passive alone makes sense. One area where I don't think it makes sense is the International Emerging Markets area. I think the Emerging Market area and, for that matter, the regular International area. I think that that's an area where managers, active management, has proven to be beneficial over time because of inefficiencies of the market place.

Trustee Bussells: So when I look at the International Equity on page 5 for 10 years, and I'm going to use the word low cost efficient managers, not passive, or the phrase low cost efficient not passive, and Dan, I'm kidding you a little bit here. But when I look at 10 year and the argument for low cost efficient index funds, admittedly in large liquid markets, not in specialized markets like MLPs or Real Estate, I agree with you there, that it's the long run that matters for pension funds, not year to year, 2 years or 3 years. You've got to keep focused on the long run, and when I look at the 10 year on page 5, net of fees, and that's all that matters because that's the money available to our members and beneficiaries after all the overhead gets paid. It looks like to me that we're down 158 basis points versus the Index, what it would have been with the Index. Am I interpreting that correctly?

Dan Holmes: Yes, you are.

Trustee Bussells: So, down 158 basis points over 10 years with active managers suggests to me that we should thoughtfully consider a greater use of efficient low cost index funds, even in that....in the big liquid asset classes. I agree with you on the specialized smaller classes. So I'll just say, and not for today, but when we can talk about the \*\*\* budget for next year and the overhead fees, I'm going to bring it up and talk about it some more because I still, you know, the weight of evidence to me, and this page 5 is terrific. I really appreciate you adding this. This sort of supports, to

me, for the big asset classes, low cost efficient index funds. So, I said my piece....

Dan Holmes: Walt, I'm not trying to fight you, I agree with you. I think there's a logical explanation to why that is under the benchmark by over 100 basis points over that 10 year time period. What I would ask you to do is turn to page 6 and if you look at page 6 and look at Boston Company you will see

Trustee Bussells: I see it, I got it, minus 95 basis points.

Dan Holmes: Right, correct. So, my point here is simply that The Boston Company is a manager that has been in place for 9 of that 10 year period. They were there when we got in, when we started working with the system. The manager that showed, I guess, the protected capital of '08. We gave them time to recover, however, when they started not to protect capital in other markets, that's when we started talking about replacing them. So, I guess the bottom line point is that, I have experience with other managers that have over a 10 year time period, 5 year time period, over long time periods, they have consistently out performed the benchmark. What I would ask is that we look at that in conjunction with considering keeping a passive exposure because I do think that, I think there are managers out there who have consistently showed the ability to out perform the passive on a net of fees basis.

Chairman Deal: Well, I think it would be fair to say to look at both, I mean look at the whole picture, not just look at one particular style or another. That will, when we take a look at that, sit down and look at it and we'll look at all aspects of it.

Trustee Bussells: Agreed. And Dan, I'll just say and then I'll let it go. Your explanation supports my position. And so I agree with what you said for the reason, for the negative delta for us in that category. But it's precisely because, I think, the academic research and the practitioner research is no active manager out performs for extended periods. There was that one 18 or 19 year run that Miller guy had before he blew up and this is what, we're managing here for the long term. This is not the next 5 or 10 years, this is forever. And with that time horizon, low cost efficient in the big liquid asset classes, I think the record says that's the better return. And focus on asset allocation, which you do, I support that. The most important thing is asset allocation, not the method of investment. I mean 80% of returns are asset allocation, I think. Is that true? Over time?

Dan Holmes: Over time, yes.

Trustee Bussells: And so that's the focus, and you lead us there and talk about it each time, which I support, but spending your time trying to pick the right manager within the asset class, that's the wrong thing to work on

because the great bulk of the total return over time is the asset allocation choice, not how you actually invest within the asset class. And so that's, and I hear you saying that, too, Dan, and I want to reinforce that, what you're saying and keep us focused there, as you are doing. So that's good. Thank you.

Dan Holmes: Walt, I understand, but I also have firm convictions like managers like Silchester. I'll e-mail you what their track records looks like. I, you know, think the bottom line is that there are certain areas that, if we were talking about Large Cap Domestic, I would probably be more ready to concede the point. But in International, I've seen good managers, a number of good managers. I think the managers that you guys have shifted to, Baille Gifford, Dodge & Cox, and Silchester consistently outperform the benchmark by wide margins over rolling 3-5 year periods. Now, does that mean every quarter? No, I don't think that any manager is going to outperform for you every quarter, to that matter, benchmarks, there's always going to be some sort of tracking error. But, you know, I think that there are some great managers out there that can add value. So we'll continue the discussion as we go on.

Trustee Glover: What I'm hearing is that we're going look at the whole picture and then, of course, having identified The Boston Company as problematic earlier, I mean his response, I think, was appropriate as well. So, we're going to look at the whole picture and then we'll decide based on the entire picture, Dan can make his case, you can make your case, and then we'll decide which way we want to go.

Chairman Deal: Well, I think that

Trustee Bussells: And I agree with Bobby, it's not a case of either or, it's not how much of each. It's, we have a little bit of a mix now, we have some low cost efficient managers as well as active managers. The issue is how much or how little, is the way I think of it.

Chairman Deal: But you know, I don't think that's limited to International. You know, I think that when you, if we're going to take a look at Index Funds and the effort is to forecast that create alpha, in other words so we can increase our returns, based on historical experiences that we've had, and moving forward that we can rely on some of a mix, kind of like a hybrid pension, you know. You've got your passive index funds and you've got your active managers and I think if you look at it, in every one of these instances here, that you probably have 1 or 2 that hurt you and we look at it ok that manager needs to be replaced. What manager is out there that we can replace him with? But in the meantime, we could look at, well, possibly an index fund in that same area unless you have somebody that is, and Dan's always going to have a star and you're always going to have a company that is hitting homeruns. I mean just doing very well. And, but as



Walt pointed out, they eventually fall because you just cannot be at the top all the time.

Trustee Bussells: And then sometimes they won't take our money for a year or 2.

Chairman Deal: Right, they put us on the bubble or so, waiting. Well, I think that's a discussion we can have Dan, looking at all of it.

Trustee Glover: Yeah, Walt identified the problem.

Dan Holmes: I don't want anybody to think that I am anti passive. If you go back a number of years, we were telling that in certain parts of the portfolio that it was good to have passive or some sort of enhanced passive exposure. We're in a \*\*\*\* cycle now that I think that active will do well. And I'm not saying I'm completely abandoning passive, but what I'm trying to do is build up, build in certain advantages, performance advantages in the portfolio so that we can take advantages of those cycles when they come. And there will be a time when we want to shift back the other way, when the market's running and the market will lift all boats and then we'll shift back to passive, highly weighting it in passive and take advantage of that particular shift. But given where the market fundamentals are like today, I think that having a decent part of the portfolio actively managed will help protect capital.

Chairman Deal: Ok.

Mr. Holmes took questions from the Trustees as they came up and finished reviewing the preliminary Flash Report.

- 2013-03-3** Progress in hiring Principal Global Investors. Attachment **RECEIVED AS INFORMATION**
- 2013-03-4** Progress in hiring Dodge & Cox. **RECEIVED AS INFORMATION**
- 2013-03-5** Emerging Market Debt Investment Managers. **It was decided to discuss this at next week's workshop.**

#### **ADDENDUM**

- 2013-03-10** Due to the Advisory Committee having a vacancy starting with April, another coming in September, and all Advisory Committee, Police Trustee, and Fire Trustee terms ending 12/31/13, the Executive Director-Administrator suggested we hold elections 9/30-10/6/13. This will save the costs of multi elections and the Representatives and Trustees elected would serve from 10/1/13 to 12/31/17.  
**RECEIVED AS INFORMATION**

#### **TRUSTEE COMMENTS**

Walt Bussells said he would like to discuss at the Tuesday Workshop:

Is smoothing still being used?

Value of investments as of 12/1/12?

Tallahassee pension issues-does it affect us and our actuarial value?

What is inflation going to do?

Dr. Herbert would like to know the assumptions for other City Funds

There being no further business, the meeting was adjourned at 11:05 a.m.

**APPROVED AT BOARD OF TRUSTEE  
MEETING APRIL 19, 2013**

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Nat Glover, Board Secretary