JACKSONVILLE POLICE AND FIRE
PENSION BOARD OF TRUSTEES
MEETING MINUTES – MAY 31, 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 telephone
Robert Klausner, Fund General Counsel
Jarmon Welch, Fund Actuary via telephone

CITY REPRESENTATIVES

Joey Grieve, Fund Treasurer

GUESTS

Randy Wyse, IAFF Local 122 President
Joe Kicklighter
Mrs. Kicklighter
Tad Delegal, Attorney for Mr. Kicklighter
Tim Gibbons, Florida Times-Union
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 Chairman brought the meeting to order at 9:00 a.m.

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

John D. Horton, Retired Police Officer

William A. Sellers, Retired Firefighter

The Board of Trustees recited the Pledge of Allegiance.

The Board took the following items first:

2006-08-9 Authorizing Kicklighter payment. Attachment

Robert Klausner, Fund General Counsel, informed the Board that all was in order, the amount is correct and includes the statutory rate of interest and is appropriate for the Board approval.

RICHARD TUTEN MADE A MOTION TO APPROVE THE $55,444.35 PAYMENT TO MR. KICKLIGHTER AS COURT ORDERED. THE MOTION WAS SECONDED BY NAT GLOVER AND PASSED UNANIMOUSLY.

The Executive Director-Administrator informed Mr. Kicklighter that the payment would be in his June 7th retirement check.

2013-05-3 Navistar litigation. Attachment

This is a securities litigation case that resulted in a lowering of stock value. The Fund has $1 million in the class and will be a participant, not a lead. Mr. Klausner recommends participating. He noted that we only pursue 6 figures or higher in losses. Mr. Bussells was concerned about the cost to the Fund. Mr. Klausner told him that in these cases all expenses, including hourly salary are reimbursed. Also, we receive funds for cases that we aren't necessarily active in, such as the $277,000 the Fund received for the Merrill Lynch case. The Executive Director-Administrator pointed out that Fund participation lowers the attorney fees. Although the decisions are made case by case, guidelines are being worked on. RECEIVED AS INFORMATION.

2013-05-4 Ordinance 2013-366 - Pension Reform Federally Mediated agreement. Attachment

Mr. Klausner informed the Board that a tentative agreement has been reached with the City under Federal mandated mediation and all parties and presumptive parties have filed a joint motion with the U.S. District Court here in Jacksonville for approval of the mediation pending Board approval. He told the Board that they have already done their part in authorizing their side of the settlement. It remains with the City Council authorize the City's side. The Board has adopted an actuarial valuation which will take effect if the City does not adopt the agreement. We've agreed to a different assumption rate in the agreement if the mediation is finalized before September 30th.

Mr. Bussells said his understanding was that the Board authorized continued negotiations subject to receiving the actuarial study and other analyses and he was surprised to see the information on the front page of the paper. Mr. Klausner and Mr. Keane told him that the Mayor released the information that the City had confirmed by their own actuary, Milliman, which was the information released by the City, not our actuary report. RECEIVED AS INFORMATION.

2013-05-5 State bill requiring information from Defined Benefit plans. Attachment **RECEIVED AS INFORMATION**

2013-03-14 2012 Actuarial Valuation.

Jarmon Welch spoke to the Board by telephone. The Chairman told Mr. Welch that the Board was discussing the work that he and the City's actuary, Milliman, had done and reached an agreement on. The Chairman said that Mr. Bussells had some specific questions.

Walt Bussells: Actually, Jarmon, my only interest is, after our workshop with you and your colleague, a number of factors were changed for the actuarial study done based on the 10/1/2012 plan status. Certainly, the projected return on investments was one, which has gotten a lot of attention. But there were a number of other factors that were changed as well to reflect the actual reality and facts as they developed over the years. So I'm curious to know if anything other than the projected return on investments was changed in this study that is now subject to potential legislation by the City Council and if so, which ones?

Jarmon Welch: Ok, so, we changed the salary increase assumption. We reduced to reflect the current climate. And we also reduced the payroll growth assumption. That's the main 2 changes that were made.

John Keane: And we also eliminated the smoothing, correct?

Jarmon Welch: Oh, yeah. At Walt's suggestion, we went to the market value of assets.

John Keane: But the 4 things that you discussed with the Board at the March workshop, you have incorporated in the revised actuarial valuation, is that correct?

Jarmon Welch: Yes, I have, and I also, Walt had suggested the level of the administrative expenses included a portion of the manager fees, so we included the full level of prior year manager fees. But we ended up, based on the Board suggestion of recognizing a little over half the management fees, the other half being recognized later.

Walt Bussells: So, Jarmon, in this actuarial forecast, that apparently the City actuary did, Milliman, Mr. Milliman?

Jarmon Welch: Yes. Milliman is the firm.

Walt Bussells: Were these changes that you had made after the workshop with us included in the Milliman actuarial forecast that is subject of the potential legislation settlement?

Jarmon Welch: They did it 2 ways. They did it one way based on without the changes and then they did it another way with the changes. But rather than adopt the interest change immediately, they adopted it over a staggered period.

Walt Bussells: Right.

Jarmon Welch: Rather than go from 7.75% down to 7% immediately on the October 2012 valuation implementing in the coming fiscal year, they waited until the 3 year period had expired for the 2011 valuation. And then they, in the agreement, they called for a valuation then that would drop it from 7.75% to 7.50% and then subsequently next time that there would be a 3 valuation or an annual valuation like you had suggested it would go down to 7.25%. Then after that, they didn't make any drop after that because they had wording that said it would be contemplated.

Walt Bussells: Alright, Jarmon, just to summarize then, were the City Council to approve the proposed mediation settlement legislation, the actuarial study to be used for the fiscal 2013/14 City budget would include the higher return on investment that we had earlier been using and would also include other factor changes that we had just discussed or would not?

Jarmon Welch: They would make no change from the 2011 report.

Walt Bussells: Ok, alright.

Jarmon Welch: But they would stagger in going forward. In 2 years, they would stagger in.

Chairman Deal: Alright, Jarmon, let me ask you this. You had a chance to look at and you consulted with or they consulted with you, representatives from Milliman and conducting that actuarial review. Do you concur, just so we can hear it from you, we've read it in the paper and heard statements, but so we can hear it from you, do you in fact agree with the City's actuary?

Jarmon Welch: I agree with the City's actuary. The issue of using undiscounted numbers is not usually the way these things are done. It is the way it was done by the prior actuary in the earlier study a couple of years ago but in this discounted number, if you take a number that

represents a cost, it's payable say 30 years from now, you don't discount it. You're working with something that, I mean the real savings is not the $1.1 million (s/b billion), the real savings is probably $700,000 (s/b $700 million). Because the, you have to discount money. I mean if I owe you $100 due 30 years from now it isn't worth $100 today. It's worth 15 cents a day. So, the idea that they are calling for the millions in savings is a way to put good press on it, the way to make it material. But in actual fact, it is not that great of change. However, with that said, I still like the features of the new plan that they've come up with. It's a compromise between heavy cutbacks and no cutback at all. I would say it's a reasonable position to be at. They're just talking about it to have more impact than it really has.

Chairman Deal: Ok, well, let's clarify something because you brought up a kind of an issue that with the City, and you're saying $700,000, we're talking about $700 million and $1.1 billion not $1.1 million. So, but you were just using as an example, but in this particular case, you're basically, from what I understand, you're just saying, you're not counting the fact that the dollars are going to be devalued and it's not going to be, you're not giving it an increase. So, but the actual versus real savings, that $1.1 billion over a 30 year period may be real in dollars but with the value of the dollar declining over that same period of time, it would really be worth $700 million in today's dollars.

Jarmon Welch: Well, no, not $700 million. Under $300 million.

Chairman Deal: Ok.

Jarmon Welch: So, let me give you an example. The City right now has over $1.5 billion unfunded in the Police and Fire Plan, more like $1.6 billion unfunded, depending on which set of assumptions you use, the old one r the proposed new. So, one of them is $1.5 billion and one is $1.7 billion. So, at the same time they've got $900 million in the General Employees plan unfunded in their new valuation and they have a small amount in the Corrections Officer. So the City is sitting there with $2.5 billion pension current pension unfunded and that's several ways of looking at it. Several actuaries have looked at it in recent years and that's a reasonable and accurate figure if you believe you're going to earn 7.75% interest on your money in the next 6 years or so, but if you only earn 6% it won't be $2.5 billion, it'll be over $3 billion. But at the same time, they're making a cutback. They're making a cutback primarily for future employees. The value of that cutback is about 10% of this $2.5 billion. It's about 10%. And then when you go over to the General side and so forth, whatever cutbacks they do there, maybe 15%. So, it's a major step. I mean, it feels like $400 million that you won't have to pay, today's value is the money you won't have to pay. But still, it leaves you with a $2.5 billion unfunded. So, but the way it's been presented in the newspaper is here we have several billion unfunded and here we found a million as if they're both the same thing and they're not the same thing. It's sort of like, Walt, you remember back years

ago when there used to be a lot of activity in zero coupon bonds? You could buy 30 year treasuries payable now and there would be no interest payable during the interim, you'd just get the money back at the end. You could buy a $100,000 treasury, and I did that back in the 80's, for under $20,000. So what would one think, I just bought this $100,000 credit trade paying many years from now, I spent $20,000 on it, which is a real number. Of course the $20,000 is a real number. So, what they've done is that they've made a substantial change in reducing the plan for the new employees. This new plan for new employees costs less than 20% of pay and the City is proposing in their numbers that 10% of pay will be paid by employees and the Chapter money, at least for a period of time, constituting another 4% of pay. So they've moved themselves into a position where for a new employee, the City is paying 5 or 6% of pay. You're a social security replacement group, you've got to pay something like 5%. So they put themselves in a position where they don't have anywhere near the expenses of a pension plan, less than half, as they currently have. Well, don't talk about $1.1 billion.

Chairman Deal: Ok, well listen, I'm sure we're going to be talking about this for a long time. Thanks, I appreciate your time.

<u>CONSENT AGENDA - ITEMS 2013-05-(1-11)CA</u>

2013-05-1CA <u>MINUTES TO BE APPROVED</u>

1. Minutes of the Board meeting held April 19, 2013. Copy in the meeting file.

2. Minutes of the Board meeting held May 2, 2013. Copy in the meeting file.

2013-05-2CA <u>DISBURSEMENTS</u>

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.

<u>DISBURSEMENTS A</u>

1.	John Keane	$ 634.39
2.	Klausner, Kaufman, Jensen & Levinson	$ 45,168.99
3.	Tortoise Capital Advisors	$ 90,059.92
4.	Harvest Fund Advisors	$ 88,428.26
5.	J. P. Morgan	$236,347.57
6.	GAMCO Asset Management	$109,504.00
7.	Fayez Sarofim & Co.	$ 64,414.00
8.	Pinnacle Associates, LTD	$136,583.00
9.	BlackRock	$ 50,348.88
10.	Eagle Capital Management	$118,220.55
11.	Lowenstein Sandler LLP	$ 1,326.00

12.	Avera & Smith LLP	$ 14,234.45
	Total	$955,270.01

DISBURSEMENTS B

Transaction list of Accounts Payable distributions. Attachment -$121,337.19

2013-05-3CA PENSION DISTRIBUTIONS

A.	April 26, 2013	Regular Gross	$3,908,665.10
		Regular Lumpsum	$ 14,187.44
		DROP Gross	$ 704,746.94
		DROP Lumpsum	$ 100,000.00
		Total	$4,727,599.48
B.	May 10, 2013	Regular Gross	$3,916,548.91
		DROP Gross	$ 706,847.33
		DROP Lumpsum	$ 188,904.76
		DROP Rollover	$ 49,904.75
		Total	$4,862,205.75
C.	May 24, 2013	Regular Gross	$3,923,863.41
		DROP Gross	$ 709,459.84
		DROP Lumpsum	$ 16,105.44
		Total	$4,649,428.69

2013-05-4CA APPLICATION FOR SURVIVOR'S BENEFITS

1. **Lucas, Lynne G.**, widow of Robert J. Carlisle, who died April 15, 2013.

2013-05-5CA APPLICATION FOR VESTED RETIREMENT

1. **Smith, Karen L.**, date of vesting April 28, 2013, to be placed on pension November 1, 2019. Fire Captain.

2013-05-6CA TIME CONNECTIONS

1. **Milton, Jack W.**, Prior Florida Service, (2 years, 7 months).
2. **Willingham, Tim D.**, Prior Florida Service, (1 year, 4 months).
3. **Wright, Casey J.**, Prior Florida Service, (3 years) and Wartime Military Service, (2 years).

2013-05-7CA MEMBERSHIP APPLICATIONS

Cleared & Unrestricted

1.	Bishop, Tyson A.	Firefighter
2.	Blackshear III, John D.	Firefighter
3.	Eichelroth, Ryan F.	Firefighter
4.	Herrera, Jairo C.	Firefighter
5.	Johnson, Jamie Lee	Firefighter
6.	Mays, Austin T.	Firefighter
7.	Mincey Sr., Byron M.	Firefighter
8.	Moore, Shaina C.	Firefighter
9.	Owens, Matthew C.	Firefighter
10.	Patterson, Jerome A.	Firefighter
11.	Pickett, Benjamin D.	Firefighter
12.	Wilms, Chance A.	Firefighter

Under Trustee Rule 13.3

13.	Blake III, Felter E.	Firefighter Pre-existing Condition
14.	Cereijo, William P.	Firefighter Pre-existing Condition
15.	Colbert Sr., Kethon J.	Firefighter Pre-existing Condition
16.	Curran, Michael C	Firefighter Pre-existing Condition
17.	Estes, James K.	Firefighter Pre-existing Condition
18.	Foley, Kevin	Firefighter Pre-existing Condition
19.	Golden, Warren J.	Firefighter Pre-existing Condition
20.	Keeney, Nathan L.	Firefighter Pre-existing Condition
21.	Kirk, Adam J.	Firefighter Pre-existing Condition
22.	Mejia Ortiz, Freddy A.	Firefighter Pre-existing Condition
23.	Semenov, Mikhail V.	Firefighter Pre-existing Condition
24.	Woodruff, Jason C.	Firefighter Pre-existing Condition

2013-05-8CA RECESSION OF DROP PARTICIPATION

1. **Davis, Tony R.**, Asst. Chief, Recession of DROP participation and payment of 5% Pension Contribution Requirement. DROP commenced January 20, 2012, became an appointed official April 22, 2013.

2013-05-9CA DROP PARTICIPANT TERMINATION OF EMPLOYMENT

1. **Brown, Edward**, DROP commencement date July 25, 2008, termination of employment effective date April 26, 2013. Firefighter.

2. **Chambers, Alexander B.**, DROP commencement date July 25, 2008, termination of employment effective date May 3, 2013. Police Officer.

3. **Daniels, Dale J.**, DROP commencement date July 25, 2008, termination of employment effective date May 24, 2013. Fire Lieutenant.

4. **Johnson, Mark D.**, DROP commencement date July 25, 2008, termination of employment effective date May 24, 2013. Fire Lieutenant.

5. **Miller, David C.**, DROP commencement date January 23, 2009, termination of employment effective date April 19, 2013. Police Officer.

6. **Patterson, Darryl K.**, DROP commencement date July 25, 2008, termination of employment effective date May 24, 2013. Fire Lieutenant.

7. **Vandiver Sr., William David**, DROP commencement date July 25, 2008, termination of employment effective date May 10, 2013. Police Sergeant.

8. **Wells, Nicholas A.**, DROP commencement date July 25, 2008, termination of employment effective date May 24, 2013. Firefighter Engineer.

9. **Wells, Ronald A.**, DROP commencement date April 15, 2011, termination of employment effective date April 26, 2013. Firefighter Engineer.

10. **White, Paul H.**, DROP commencement date July 25, 2008, termination of employment effective date May 17, 2013. Firefighter.

11. **Williams, Eric R.**, DROP commencement date July 25, 2008, termination of employment effective date April 26, 2013. Fire Captain.

2013-05-10CA DROP DISTRIBUTIONS

1. **Brown, Edward**, a portion of his DROP account paid directly to him lumpsum, and the remaining balance of his DROP account paid to him bi-weekly over the next 30 years.

2. **Chambers, Alexander B.**, a portion of his DROP account paid directly to him lumpsum, and the remaining balance of his DROP account paid to him bi-weekly over the next 20 years.

3. **Daniels, Dale J.**, a portion of his DROP account paid directly to him lumpsum, and the remaining balance of his DROP account paid to him bi-weekly over the next 25 years.

4. **Johnson, Mark D.**, the entire balance of his DROP account paid to him bi-weekly over the next 20 years.

5. **Miller, David C.**, the entire balance of his DROP account paid to him bi-weekly over the next 38.8 years.

6. **Patterson, Darryl K.**, the entire balance of his DROP account paid to him bi-weekly over the next 49.5 years.

7 **<u>Vandiver Sr., William David</u>**, the entire balance of his DROP account paid to him bi-weekly over the next 35 years.

8. **<u>Wells, Nicholas A.</u>**, a portion of his DROP account paid directly to him lumpsum, and the remaining balance of his DROP account paid to him bi-weekly over the next 20 years.

9. **<u>Wells, Ronald A.</u>**, a portion of his DROP account paid directly to him lumpsum, and the remaining balance to be paid in direct rollover to Pershing, LLC.

10. **<u>White, Paul H.</u>**, a portion of his DROP account paid directly to him lumpsum, and the remaining balance of his DROP account paid to him bi-weekly over the next 15 years.

11. **<u>Williams, Eric R.</u>**, the entire balance of his DROP account paid to him bi-weekly over the next 50.5 years.

2013-05-11CA <u>EDUCATIONAL OPPORTUNITIES</u>

Global Markets Forum – July 7-9, 2013 – Investment Management Institute

Private Equity Exclusive – July 22-23, 2013 – Pension Bridge

Emerging Managers Summit South – November 19-20, 2013 – Opal Financial Group

9th Real Estate Private Equity Summit – October 9, 2013 – IGlobal Forum

Global Indexing & ETFs: The Preeminent Investment Management Conference – December 8-10, 2013 – IMN

A MOTION WAS MADE BY RICHARD TUTEN TO APPROVE THE CONSENT AGENDA ITEMS 2013-05-(1-11). ADAM HERBERT SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.

<u>OLD BUSINESS</u>

2012-12-3 Budget Review.

A. Reconciliation of Money Manager Fees Attachment
RECEIVED AS INFORMATION

B. Budget Review Attachment

Mr. Bussells asked if the cost cutting implementations had been started yet. The Executive Director said there should be a recognized $6,000 savings in postage and that we have obtained a

grant for $60,000 to convert the garage to LED lighting, saving $7 or $8,000 for the rest of the year.

Mr. Grieve said that the General Employees Pension had just opened a portfolio with Principal on the condition that their portfolio and ours be combined for pricing which will save both funds 10 to 15 basis points.
RECEIVED AS INFORMATION.

2013-03-14 2012 Actuarial Valuation. **Taken earlier in the meeting**

2013-04-6 Draft 2014 Budget. **DEFERRED**

2012-12-4 Revised RFP for outside Auditor. Attachment

We have met with the Council Auditor revised the last RFP. They have provided a list of outside auditors that they have used in the past.

WALT BUSSELLS MADE A MOTION TO AUTHORIZE THE STAFF TO ISSUE THE RFP FOR AN OUTSIDE AUDITOR ONCE HE HAS REVIEWED, REQUESTED ANY CHANGES, AND APPROVED THE RFP. THE MOTION WAS SECONDED BY ADAM HERBERT AND PASSED UNANIMOUSLY.

<u>NEW BUSINESS</u>

<u>MONTHLY REPORTS</u>

EXECUTIVE DIRECTOR'S REPORT

Investment Report

2013-05-1 Investment Reports from Summit Strategy. Attachment
Dan Holmes gave an overview of the Flash Report to the Board. He noted that the MLPs were strong while International Equities were down. The Emerging Markets are down due to Chinese slow growth and inflation, most of ours is indexed, and Baille Gifford is down. Real Estate is doing very well. Mr. Holmes suggested that it is time to draw back on TIPS. Eagle Capital is closing to new business. GAMCO is coming back up and Fayez Sarofim is doing very well.

Dan discussed the Managers results both gross and net of fees.

Recessed at 10:10 a.m. to change recording discs.

Resumed at 10:15.

Mr. Holmes recommends replacing BlackRock due to bad performance. He also pointed out that the Alerian MLP Index was getting pricey and it may be time to start pulling back.

Walt Bussells: Would it be helpful if we provided a valuation level, for example the MLPs, I was going to ask about when we might want to sell a bit, lighten up, when the valuations get statistically kind of silly. Would it help if we provided you a target valuation that if it gets at or above it, then you're authorized to go ahead and take profits on x% of it rather than waiting for a meeting? Or would that just not make a difference in terms of overall efficiency of executing that? Because I agree with you 100%. When it gets really frothy and people are paying too much, that's a good time to sell, comeback and buy it later on when it gets cheap. Would that be helpful or no?

Dan Holmes: Walt, I like the way you think. Right now, I don't have that particular kind of discretion, but let me take your theme and translate it into something I think is achievable if you will. What I will do is, we're monitoring the relative cheapness or expensiveness, if you will, of all these asset classes on a weekly basis. We've got a Monday morning meeting were staff gets together, we cover what's going on in every client portfolio and then after that we discuss what's going on in the markets as of last week. And so one of the things we're doing, we are looking for the value relative to the historic average and we're looking for when it starts to get close to being one standard deviation expensive or one standard deviation cheap is when we're looking at that and start to make some moves. And so it's not quite there yet in the case with the MLPs, but what we can do, in the mean time, is I'm providing you with these Flash Reports on a monthly basis, so what we can do is, if you look at page 1 of this Flash Report, you can see that MLPs are over target by .63.

Walt Bussells: Right

Dan Holmes: So we can take that difference and move it, .63 , there's no magic to any particular number, but if we get above, in that particular case, at 1% above the target weight, you could authorize staff to rebalance back to target and move that money back into whatever is undervalue or underweighted. In this particular case, the only thing would probably be either International Equity or in Fixed Income. I recommend Thompson Siegel & Walmsley for the Core Fixed Income space because you can't get any more money in Real Estate, it will have to wait to get invested. So, I think that's what we can do in the meantime. I'll think about a more efficient way of doing that and I'm planning on coming to the Board meeting in June in person and we might be able to have further discussion then.

Walt Bussells: That will be fine.

John Keane: In the meantime, Dan, draft some proposed language that we can then include in our Investment Policy Statement....

Dan Holmes: Ok

John Keane: Guidance for rebalancing when we exceed the target index and then when the Board adopts revised asset allocation plan, that will then arm us with the authority. And we'll develop a paper trail so that then it will be reported to the Board at the next meeting. Does that sound like something you want to do, Director?

Walt Bussells: It would be great, and Dan, just one more thing. Just to be sure, my understanding is that consistently over time, the returns investors achieve, the academic research over a couple hundred years shows that 70 to 80% of the total returns comes from the asset allocation decision, not the individual investment manager decision, is that correct?

Dan Holmes: Ah, no.

Walt Bussells: You say no, Dan.

Dan Holmes: The origin of that study goes back to Brinson Beebower. They conducted that back in the late 70s early 80s. Overtime, the majority of return does come from asset allocation...

Walt Bussells: Over 50% net?

Dan Holmes: Other factors that go into it as well, including valuation. And so, yes, I agree that the asset allocation is a very large determinate of total return over time, but it's not...I would say that the decision whether to buy Ford or GM has less of an effect but there's also other effects that go into it, especially the small cap effect and valuation effected over time.

Walt Bussells: I've seen many more recent studies on the subject...

Dan Holmes: There have been a bunch of articles that have kind of picked away, the recent articles kind of picked away at the kind of the, the conclusion that it's just asset allocation.

Walt Bussells: I didn't say just, but I said it's more than half of the total returns is based on asset allocation not investment, not specific investment management decisions within an asset class. Would you agree to that statement? More than half?

Dan Holmes: Yeah, probably.

Chairman Deal: Dan, you ought to really consider running for public office. You have an ability to dance around the actual answer and you made Walt forget the question.

Dan Holmes: I'm trying to crawfish on you. I know, I grew up in the business thinking that anywhere from 80 to 90% of total returns were from asset allocation and I've read recent articles, academic pieces I should say, where it's, the gist of those articles and I just can't remember right off the top of my head, the gist of those articles have basically said "whoa, whoa, wait a minute" and it's not quite that easy. The articles have explained other factors that have basically implied you can't just dismiss active management outright. There are other factors that go into it as well. So, and I just don't remember the specific conclusions and reasons from those articles off the top of my head.

Walt Bussells: Oh no. I agree with that.

Dan Holmes: For this discussion, I agree with Walt from the standpoint, the majority of returns can be contributed to asset allocation.

Walt Bussells: And Dan, I just, I only bring it up to say we should therefore, it seems to me, spend the majority of our time on asset allocation rather than the specifics of managers and all that. That make sense?

Dan Holmes: I would agree 100%. I think that one of the best things that we can do, the place we spend the most, well here in the office the place where we spend a considerable amount of time, as evidenced by having a weekly meeting discussing it, relative valuation of each of the different asset classes. Where I wish your Florida Statutes were structured differently because you and the City and our other Florida public funds are investing with one hand tied behind your back.

Nat Glover: And just for the record, Dan, you've got one at the table that understood your response clearly. I understand that kind of response.

Mr. Keane then asked Mr. Holmes to switch to the Thompson Siegel and Walmsley letter. Dan recommended that the Board accept the suggestion to take 20% of the TSW portfolio and purchase below investment grade corporate bonds, to provide more diversification in the Fixed Income portfolio and ways to get extra yield. This would provide the recommended High Yield manager without a search.

A MOTION WAS MADE BY WALT BUSSELLS TO APPROVE THE RECOMMENDATION FROM THOMPSON SIEGEL & WALMSLEY CONCURRED WITH BY THE CONSULTANT TO ALLOW HIGH YIELD CORE PLUS USING 20% OF THE CURRENT PORTFOLIO. THE MOTION WAS SECONDED BY RICHARD TUTEN.

Walt Bussells: Dan is CorePlus, I'm asking, treasuries and investment grade corporates in the U.S.?

Dan Holmes: No, core, first of all...

Walt Bussells: Dan, just tell me what type of Fixed Income investments are allowed in a CorePlus portfolio?

Dan Holmes: CorePlus would be treasuries and agencies, domestic corporate bonds....

Walt Bussells: Investment grade?

Dan Holmes: Investment grade and below investment grade so high yields are allowed, non-dollar, emerging market debt....

Walt Bussells: Whoa, whoa, whoa, I thought we were talking about 2 different managers, one that is emerging market debt but that is separate from this CorePlus thing or are they combined somehow?

Dan Holmes: Ok, I will back up. We're talking about 3 different things.

Chairman Deal: Yeah, we're talking about CorePlus first.

Walt Bussells: Yeah, I'm talking about CorePlus, only CorePlus.

Dan Holmes: Can I go back to Thompson Siegel?

Walt Bussells: Ok

Dan Holmes: Ok, Thompson Siegel is calling in the letter, the 2nd paragraph, they're talking about their CorePlus product. What they're recommending is not to go right to their CorePlus product, which in their case, their defining CorePlus is just investment grade. The market's definition of CorePlus, or I should say the industry's definition of CorePlus is core plus other sectors, which include high yield, non-dollar, emerging market debt, bank notes, etc. And so it's more, it's basically an absolute return or opportunistic type of investment.

Walt Bussells: Ok, I understand now.

Dan Holmes: So, it tends to be a more all encompassing type of investment. What we're talking about in terms of Thompson Siegel, Thompson Siegel is only asking for permission to go up to 20% with your portfolio with high yield, and if we even limit it at 10% I think 10% to 20% exposure or allowing them to hold high yield is going to boost performance of the portfolio.

Joey Grieve: Just one comment or question, too, Dan. If the Board authorized the full 20%, what is your sense as far as how fast they would ramp up the portfolio to meet that 20%? Just latching onto a comment you made earlier, and one that I'm very familiar and a comment I make all the time, you know, high yield spreads have come in a lot, everybody's been reaching for returns these days extending profiles across the board around the country and around the world. I just don't want to get into a situation where we're chasing and they establish the full 20% because over time that's going to look good versus benchmark. What's your sense as far as how fast they would do that, if they do that in a prudent manner?

Dan Holmes: I think that they would start building that part of the portfolio immediately. I mean, I think, Joey, you and I have talked about this before. I agree with you that I don't want to chase returns, that's why I recommended that we not go forward with a standalone high yield mandate. I think that when you look at a standalone high yield mandate, I think that looks attractive when spreads are 7-800 basis points over treasuries. No, obviously, we're not there now. But on a relative to core Fixed Income with a stable outlook for credit, stable outlook for defaults, especially in the high yield space, all we're trying to do is pick up some extra income. And so, just to allow a part of the portfolio to pick up the extra income, is, I don't think, inconsistent with the thought that on a standalone basis, high yield is kind of the, is not what we would recommend. You understand, am I making that clearer, differentiating that well enough?

Rich Tuten: Yeah, Dan, so you're saying that you think that we ought to limit them to just 10% right now? Thompson Siegel?

Dan Holmes: I have no problem with 20, if the Board is more comfortable with 10, that's fine with me. Again, we're just using this as a methodology for them to get a little more extra yield into the portfolio to take advantage of what we view as a stable credit environment. It's not going to be the double digit type returns that you would expect from a high yield portfolio because there is little capital appreciation going forward.
Chairman Deal: Ok, well, we have a motion and a second to... You want to repeat the motion?

John Keane: To make the changes recommended in Bill Bellamy's letter dated May 7, 2013, as concurred in and supported by Dan Holmes, the Investment Monitor.

Walt Bussells: I'm not sure this procedurally perfectly correct, but if we could put in that 10% thing that Rich and Joey talked about, that sounds better to me. We can always raise it later.

Nat Glover: You recommend 10?

Joey Grieve: I just want to make sure that we're not jumping in while things are hot. I didn't know what the manager's stance was on that. If we give them the full latitude of 20 but their initial intention would only be to do 5 or 10 now and ramp up slowly as market opportunities present themselves, then I'm fine with giving them the full 20 and allow them to decide when to buy. I don't want to micromanage the manager, I just wanted to hear Dan's thoughts on that. It sounds like they would do the full 20 if they were allowed.

John Keane: The last sentence of their letter though, "Having said that, we know conditions may reverse at some point and our allocation can quickly be reduced".

Bob Klausner: Yeah, this is fully liquid. You're owning shares in a fund so this is a high liquidity circumstances, not where you have to go out and seek a market for individual bonds.

The motion now is:

A MOTION WAS MADE BY WALT BUSSELLS TO APPROVE THE RECOMMENDATION FROM THOMPSON SIEGEL & WALMSLEY'S MAY 7, 2013 LETTER AS CONCURRED AND SUPPORTED BY THE CONSULTANT USING 10% OF THE CURRENT PORTFOLIO. THE MOTION WAS SECONDED BY RICHARD TUTEN AND PASSED UNANIMOUSLY.

Rich Tuten: Dan, I have a question for you on the searches for the CorePlus search and the emerging market debt search. Just as a topic of conversation, I know the CorePlus guys, they have to be in service a lot longer, they have a lot more money, but the emerging market debt, you only have to have a track record of at least 3 years and only about, not much money under assets, $300 million. Now, why is the standard so much lower for the emerging market guys versus the other one?

Dan Holmes: Ok, good question. Two reasons. First, on the dollar side the rule of thumb that we've always used with you is that the amount of money that we want to place with a manager, we don't want your Fund to be more than 10% of the assets under management. In other words, we don't want you to be one of the biggest clients that they have. And so we've always used the rule of 10% of that number. So the dollar amount that we have in place for the portfolio is 10% of the minimum assets managed for the product is. The short time period for the emerging market debt search is that the local debt, local currency version of a lot of these emerging market debt products have not been around very long. Some have, some haven't. There are some very good products out there that have only been in business, say, about 5 years. So, I put the lower number on it to cast a wide net so we would have a greater number of managers to look at. You compare that with the CorePlus search. CorePlus as a class or a style has been around for an extremely long time. And as a result,

again, you're looking at putting almost $100 million in CorePlus according to the asset allocation plan and then on top of that, it's been around such a long time, what we wanted to do is look at the performance of the candidate's products a couple of market cycles or a couple of credit cycles. And so, hence the 10 year time period. So we can look at them over the last time credit narrowed, then we can look at them when credit gapped out and then we can look at them when credit narrowed again and when it gapped out again. And so we can look at it over a couple different credit cycles to get an idea about, well do they outperform here recently simply because they went all in the credit or all in the mortgages in 2009 or 2008, or have they consistently outperformed the benchmark over time? So that's why you've got the bigger dollar amount and the longer time frame.

Rich Tuten: Thank you, sir.

Mr. Holmes continued his report. He discussed the upcoming manager searches and recommended benchmarks to use for those managers once hired. He suggested that the RFP not be published to eliminate the managers who don't qualify. Instead they would use Evestment Alliance to choose managers who meet the criteria and send the RFP to them.

Chairman Deal: Here's one of the issues that I have, a concern that I have. Moving forward on this particular issue, I really think that the Board as a whole, we need to take a look at minority owned firms. We don't have an allocation for that at this particular time, but I think we need to come with the times. Take a strong look at that, and they may only hit 3 out of 4 of those targets, but I think that in the interest of equality and in the interest of doing the right thing, that we at least take a look at those and let those come in and if we see some or see a firm in the emerging manager area that is a minority owned firm and they're up and coming and they every other thing but they're short one, I think we should at least consider them. Like I said, I just think it's the right thing to do. But, certainly, it's up to the Trustees.

Walt Bussells: I think it's a great point. Is there an existing procedure, maybe with the FRS or some local government procedure, that we could piggyback on, so to speak? In terms of something that has been vetted with current law and regulations and actually works that we could look at as our model and not start with a clean sheet of paper? I like the way you're going, Bobby. That's good, but if we can find a way of to do it that's already been vetted under Florida regulation. All I know is it's an always changing part of the law because of litigation.

Chairman Deal: Right.

Walt Bussells: So we just find one that, it's kosher and is working effectively so that we can sort of start with, that would be terrific.

Chairman Deal: Alright

Walt Bussells: I have no idea what FRS does.

Nat Glover: The City has a policy in place, do they not?

John Keane: The problem with... they have a set aside program but if you don't meet these criteria, $500 million under assets, this and this and this, you're out. Northern Trust has an emerging manager program where they thoroughly vet the people. They bring them in, they closely monitor them, they provide them extra support. I'll get that list and their guidelines and also talk to the people at FRS and get that. But we've had in the past, as Dan knows, where we've had a $300 million criteria, people have got $280 and we tell them no because $280 is not $300 million and thanks, we'll keep you in mind next time. We'll get that in time for Dan's visit next month.

Dan Holmes: Can I make a suggestion? We have worked proactively with our clients in this particular area. I've been working with the City of Baltimore for over 10 years and the practice that we have in place there, and by the way, this is the way that we've been working with the City's Retirement System for the past couple of years as well, and that's when we have a search what we do is, we use the same criteria and we proactively look for women and minority owned managers to, that fit the criteria. In cases where it might be close we'll note that as well and be inclusive of those particular managers. We evaluate the managers the same way. What we've done is, instead of, what I've found is that if you basically adopt a policy that says x% of managers will be minority is that it doesn't go north of that. And what you do is you wind up missing really good managers that may not be, that may be minority owned and operated minority managers yet they just don't market themselves that way. And so the policy that has worked in Baltimore 10 years has been fantastic and has resulted in, I forget what the percentage is, but a good deal of their managers being either local or minority owned.

Chairman Deal: Why don't you get a copy of their policy and let us see it?

Dan Holmes: While we're going through the search, they would say, ok, let's look for local and minority managers that have a product in this particular space and let's compare those managers to the rest of the universe of managers and the ones that are competitive and stand on their own 2 feet are included in the search. The ones that are close, we discuss how close they are, they may or may not be included by the Board going forward. The ones that are just not even close are screened out because of the criteria. What that does is, it captures all the local and all of the minority managers, even the ones that don't want to be considered on that basis and it creates a higher probability for creating that type of participation.

Mr. Keane asked Dan to get us a copy of the Baltimore policy. The Executive Director-Administrator said he would call Linda Jordan at NASP and get some guidance from them. After discussion, it will be added to the revised Investment Plan. Mr. Bussells requested that a Florida Analog also be looked for. Nat Glover requested that 3 other cities' Investment Plans be looked at that have been successful.

2013-05-2 Revised Investment Plan reflecting changed asset allocations previously adopted by the Board of Trustees. Attached. **DEFERRED**

Legal

2006-08-9 Authorizing Kicklighter payment. Attachment **Taken earlier in the meeting.**

2013-05-3 Navistar litigation. Attachment **Taken earlier in the meeting.**

Legislative

2013-05-4 Ordinance 2013-366 - Pension Reform Federally Mediated agreement. Attachment **Taken earlier in the meeting.**

2013-05-5 State bill requiring information from Defined Benefit plans died in committee. Attachment **RECEIVED AS INFORMATION**

Administrative Report

2013-05-6 Maintenance of confidentiality for members by the Division of Retirement. Attachment **RECEIVED AS INFORMATION**

2013-05-7 Calendar Year 2013 Employee Step Raises budgeted in FY2013. Attachment

Mr. Bussells pointed out that the Police and Fire members received pay cuts that the staff did not and that the staff is getting a better deal than our members since the staff was only frozen.
NAT GLOVER MADE A MOTION TO APPROVE THE STEP RAISES THAT ARE DUE FOR CALENDAR YEAR 2013. THE MOTION WAS SECONDED BY RICH TUTEN AND PASSED UNANIMOUSLY.

2013-05-8 Adjustment to beneficiary due to computer error.

A MOTION WAS MADE BY ADAM HERBERT TO PAY THE ADJUSTMENT TO THE BENEFICIARY. WALT BUSSELLS SECONDED THE MOTION WHICH PASSED UNANIMOUSLY.

Mr. Grieve noted that the General Employees had also found similar problems which ITD also could not explain. The Economic Analyst has looked at each beneficiary to check for similar problems. New beneficiaries will be checked in the future

ADDENDUM

2013-04-8 The grant money has been obtained and the staff would like to progress with the lowest bidder in the parking garage light retrofit.

WALT BUSSELLS MADE A MOTION TO AUTHORIZE THE STAFF TO CHOOSE THE LOWEST BIDDER TO RETROFIT THE PARKING GARAGE LIGHTS USING THE GRANT MONEY OBTAINED FROM THE CITY. THE MOTION WAS SECONDED BY ADAM HERBERT AND PASSED UNANIMOUSLY.

There being no further business, the meeting was adjourned at 11:20 a.m.

**APPROVED AT BOARD OF TRUSTEES
MEETING ON JUNE 28, 2013**

____
Nathaniel Glover, Board Secretary