

**JACKSONVILLE POLICE AND FIRE  
PENSION BOARD OF TRUSTEES  
WORKSHOP MINUTES – NOVEMBER 19, 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  
Robby Gorman, Executive Assistant  
Kevin Stork, Controller  
Robert Klausner, Fund General Counsel  
Jarmon Welch, Fund Actuary

**GUESTS**

Terry Wood  
Randy Wyse, Local IAFF President  
David Bauerlein, Florida Times Union

**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 workshop was brought to order at 9:00 a.m. Mr. Klausner stated that no action would be take and no public comment would be allowed.

1. **OVERARCHING PFPB GOALS**

Enactment of Comprehensive Pension Reform by the City Council.

**We are providing technical support and information to Chairman Scheu. Extensive support to the Civic Council, approximately \$15,000.00. Further costs are expected for further requests.**

**Mr. Klausner spoke on the Federal Case and the Times Union case and updated the Board on the cases. The next hearing will be December 20<sup>th</sup>. There will likely be mediation ordered again.**

**Bob also suggested expanding our website to post legal papers and other frequently made Public Record Requests.**

**Chairman Deal commented that the unknowns are causing people to leave as soon as they hit 20 years which raises the costs for the Fund and the City.**

**WB: My sense is that after a year here, that your litigation and things are a symptom, not the root cause of the current circumstances. And in my view the current circumstances are, as I've said before, our members are being harmed financially in a permanent way every single with the current reality and have been now for last 4 or 5 years. And so, each day that the conflict continues unresolved, our members are hurt financially in a way that will last for the rest of their life. That's just the mathematics of it, the arithmetic of it. And so, these things are important. The Trustees opinion, interest and action, we must do it. However, my belief is, after a year here, that the root causes are substantially 100% within the authority of this Board of Trustees as we've asserted in litigation recently. We said that clearly, under the law, there are a number of matters this 5 people decide and no one else can overrule us or intervene, correct? And, with the benefit of hindsight, and I'm not being critical, but if we look at the 13 years that the current 30 year agreement was executed, there are things this Board had the 100% authority to do that had they been done differently, would have greatly reduced substantially the current dysfunction, which hurts our Member financially everyday. And so, my thought would be, today, we should allocate a significant time to work on those things this 5 people have 100% authority to do. Things that require the cooperation of others, we can't control. And we should have guidance to the staff and the support staff once the guidance is provided. But it's the things that, the 5 people who sit here have control 100%, that could have been done differently and largely eliminated the dysfunction have to live with everyday. So my thought would be to be sure today that we work there first and not wind up spending too much of our time on the symptoms of the root causes. That's the way I think about the process. And easy for Adam Herbert and me to say that, cause we've been here a year, we haven't had to live through it and understand all of the reality. So I'm not being critical, but to make good choices going forward, that's what I think we need to address, those root causes. This Board has 100% authority over, that we assert and are defending now in court, that authority. We can't point at anyone else, it's us 5. I want to be sure we spend time on that, spend a lot of time on that today. And come out here with, you know, hopefully about thoughts and consensus about actions and future meetings.**

**Jarmon Welch said he felt the main reason this Fund is underfunded is because not enough money was put in. This was because politics between the Fund and the City kept contribution rates for the City lower than they should have been. The Agreement requires that the rate be 8.4% unless the City Actuary agrees with ours to change it. If they disagree, a 3<sup>rd</sup> Actuary is supposed to mediate.**

**Walt Bussells:** And you just said a good thing that I was just trying to say in different words and you crystalized it in a different way. Not enough money going in is a symptom. Not enough money going in over the last 13 years is a symptom not a root cause of dysfunction. You use the word politics for why things were done the way they were done. What I heard you all say in that workshop you were kind enough to set up for us is, the reason these 5 Trustees have 100% authority and fiduciary obligation to Members and Beneficiaries is to do what's unpopular, what's unpolitic, when our Members' interest call for it. And so the extent of which in the past, we have done things for political reasons, I think what I heard in that workshop a year ago was, we've violated our fiduciary obligation to our Members. Is that correct?

Trustee Tuten asked Mr. Klausner to clarify the next step in the Federal Case. Mr. Klausner said the Judge would rule whether or not she had jurisdiction, if so, it would probably go to mediation again. He also said that the problem is the City's General Counsel is receiving opposing instructions from the Executive Branch of the government and the City Council. Bob feels the best thing for the Fund is to resolve the matter, get an agreed upon, disciplined funding approach into the system and let the Trustees do their job. He pointed out that the Board took a very difficult step recently lowering the assumed rate of return, definitely increasing the funding into the Plan. Combined with improved investment performance now, that will have a positive effect over time. He does worry that as the workforce either shrinks or ceases to grow, you have the problem that you're going to have a number of retirees that will outstrip your actives. The Social Security system is facing the same problem and many other Plans around the country. Public Safety employees tend to retire before their 60s and people are living longer, but they're not being replaced.

Chairman Deal said that the Sheriff's department have lost 149 sworn positions over the last years.

**WB:** And as additional quantification of what I think of as the symptoms, not the root cause of the financial dysfunction, and Bob, if you would answer my question.

**RK:** I'm sorry, the question earlier was, did you breach your fiduciary duty.

**WB:** No, my question was if for those few most important things that directly affect our members, if we let political expediency determine decisions over which we had 100% authority to do something that would have been unpopular at the time, that would have materially reduced financially, and the mathematics are clear in regard to dysfunction, then that would have been example of not adhering to the highest standards to fiduciary obligation.

**RK:** The answer to your question is yes.

**JW:** It is very common in Public Plans to see that happen.

**WB:** Yes, bad behavior and mistakes and crime are very common.

**RT:** Think of it as a married couple. I'm sure your wife gives you authority to buy things, but do you really have to do everything you want to do? We still have to clear things with the Council, obviously legally we have to. There's a lot of thing that, believe me the Board would love to just say, here it is, we're done, but like with the mediation we just went through for how long, came up with a new deal. It wasn't perfect but then here comes somebody from the outside, whether it's Councilmember Crescimbeni or somebody or other or the paper. It's always something or someone, regardless of the good intentions here I assure you, it's always somebody and not to be pessimistic of the future, but chances are it's always going to be someone. You know that's just kind of the way, unfortunately since we're in public. We have to do the steps first and often don't get through all of them without being stopped.

**WB:** When I disagree with my wife, I don't lawyer up and sue her. Using the marriage metaphor, our behavior is very different. If they try to get us to do something we don't want to do, we sue them. Lawyer up and fight. I'm not saying that's wrong and I'm not being critical and second guessing the past, but to have the best chance of being more successful going forward we've got to be honest with ourselves about the present, right? But that's part of what fiduciary is, honesty with yourself? That's kind of where it starts. And that's what I'm trying to do. If what Jarmon said is accurate, and there are other factors besides, if this Board had done an Actuarial Study every year for 13 years, the City would have been compelled to put in a low more money, if I understand Florida law, than they put in. And the mathematics of the compounding at 8%, the underfunding compounding over the years, most of this dysfunction would not exist today. Now I say that not to criticize or second guess but that's the facts. So therefore, I think, we should properly address some of our attention today to why and what to do differently. It only matters what you do next, you can't change the past, but what to do next. But we're obligated by the fiduciary standard to be honest with ourselves, I think. And we are about these most important things.

**NG:** You just answered one of my questions I was going to ask and that was, I don't want to sound defensive, as long as I've been here, what I have observed through votes and discussion is that everybody that was here was trying to do, I'm going to say the Lord's work, trying to do what's best that would fit into the category of good fiduciary responsibility. And I haven't seen anything so politic driven that we had to deviate from that or compromise it. It might be my naiveté, so I'm not denying anything. But I was going to ask for 2 shining examples that we blew that responsibility and you just gave one. Is there another we can get our arms around that would give me some comfort that we need to be looking at a whole different approach here. I mean, I understand the reality of politics, but I've always thought we tried to do what is right in spite of the politics.

**JW:** If we want to speak frankly, it was both parties, both the Board and the City that entered into that agreement. It wasn't just one party, saying they were going to use 8.5% plus 40bps. Once that agreement was signed, you became a party

that was more liberal to put in this money at the going rate. If the Board didn't know, it was a naive Board. The different parties together had their own reasons, and there wasn't anything wrong with that. I'm not going to go into what they were, you all can tell me better what they were, but you had your own reasons. Under that guideline, you put in a cost of living increase. And you put it in not in a high cost way, you put it in more of a low cost way. During that time, every 5 years I did a report and said lower that interest assumption. Bring it down to a normal range. But that never went anywhere. If I had pushed it on my own, the State wouldn't have supported me. They would say, it's liberal but it's allowed. You deliberately moved yourself into a liberal position. Moving into Private Equity, if you go after more return you take more risks. More return and less risk is impossible. Long term we should get out of the bonds and stop playing stock market.

**BD:** I've never heard anyone say we're chasing more returns. We want to expand our investments for more returns. Our consultant says we need to be in Alternatives. Walt, I've been on the Board since '97. There's been a number of times that I would have voted to sue the City for violations of our contract. However, my whole time that I've been here, we have never sued the City. Even with this current litigation, we didn't sue the City, we were sued as a defendant. So, we had to respond because we were being sued and we took, wait a minute, it's not just us and we had to state a position, but we have never sued the City. They have threatened to sue us year after year after year because they didn't like certain provisions of what that they voted for and passed on this contract. They didn't like it, they look back on it and wish they hadn't done it, but the money was accepted, spent, gone, they don't have it, they'll admit to that, and their position is: Ok, well look, let's not look back at what's been done, let's look forward and be solution oriented and let's go find how we can resolve this. They can't forget, our Members are not going to allow them to forget, they've already spent their money. They've already taken money for benefits they haven't received yet and they're not letting them forget that. That's why the unions are not going to let them forget, is that they represent stakeholders in this that have given the City money in confidence and to do their due diligence to provide these benefits.

**WB:** So that's right, so the City said we have the authority to approve your overhead budget. We said no you don't. This is like my wife said I want you wait to buy that new car and I said I'm buying the damn car. Then a fight breaks out. So, they punch us and we hit them back. We don't try to work it out. And just quickly and I'm going to give you the second of the 2.

**NG:** I've already got 3 here.

**WB:** The current and past Trustees deep affection and love and unwavering support for the interest of the Members is unquestioned. So, please, I'm not being critical and I'm not suggesting in any way...

**NG:** And I prefaced my remarks by saying I'm not being defensive. I'm really trying to come up on your perspective.

**WB:** So the 2<sup>nd</sup> of the 2, the 1<sup>st</sup> one is we have, we assert, absolute authority, 5 people to do an actuarial study annually or more frequently and say here are the facts. Here's how long people are living, here's how many of them have a surviving spouse, all those 4 or 5 factors, investment returns assumption clearly is a big one but there's others in there.

**JW:** One thing, Walt. Annual valuations increase or decrease cost depending on the market. Going forward costs will probably lower due to gains in the market. If we get more conservative would we pick up more gains.

**WB:** When I look at 200 years of U.S. economic history, I might not agree with what the ?? look like in the next 10 years. But that's fine. As the unfunded was growing and the Members are living longer, the facts were becoming present. It was our authority to direct an annual actuarial assumption. The City could hire someone to say, well, yours isn't right. Then we go to mediation or whatever that 3<sup>rd</sup> other thing was. But once said, my understanding of Florida law is, the City Council would have been required to be putting more money in every year for the last 13 years than they did. So, I'm not being critical, but that's the kind of thing that is 100% our authority that having seen what that produced, at least a couple \$100 million dollars that would be in the Fund but for having done that. Maybe more. That's an important thing going forward.

Second of the 2 would be below average investment returns against our peer group the last 10 or 13 years. That, the methods we choose to invest our funds is 100% the authority of 5 people. And so, after a year of comparing and contrasting what we've done and my understanding of why it was done, in the face of consistently subpar performance against our peer group is something that should form what the Board focuses on going forward, having observed that. And then there, we would have another \$100 or \$200 million in the Fund that would significantly reduce the dysfunction that is the root of all these issues. No pay raises for our Members for 5 years. I know they get step raises but not the pay raise that everybody expected.

**RK:** They took a cut actually didn't they?

**BD:** 3%

**WB:** Actuarial compelling funding, and then investment once we get the funding over here. Those 2 things feel like the core of why these 5 people have unbridled authority to decide what to do.

**NG:** For return on the investment over the peer group has been subpar over the last....

**WB:** When I look at the numbers the year I've been here that's what they say to me.

**BD:** You know, that's not what I saw. I mean, I don't know if Summit is using a different pool than what Merrill used, because Merrill, when you looked at returns that's not reflective of, and it should be the same pool of people. They were pulling funds that have similar investments, kind of apples to apples. The best they could.

**WB:** Then there's the big universe of all of them.

**BD:** I mean I could be remiss and that could be pointed out to me that over the last 10 or 15 years looking at, because what I saw was for 10 years is that the Fund has outperformed the City.

**JK:** Most of the time we have.

**WB:** I think cumulative the City has now outperformed us. And that just pisses me off. I don't like that.

**RT:** Yeah, but Walt, that's the thing about what we're trying to tell you. Just that conversation right there typifies where Jarmon wants to go to Fixed. Well, we'd all love, I'd love to get a bond that would guarantee me 8.5 for the next 30 years, sign us up 100%, we're done, let's talk about the kids every meeting. We don't have to worry about investments. But the Federal Reserve has determined that's not going to happen, so we can't go that route. I'm not saying what you're doing is wrong, I'm saying that's the point about the investment parameters. We want to diversify. We've tried for x amount of times. We can vote on anything we want to, the minute it goes to the Council they're going to say you're not going to do that. Which is obvious because they won't let us expand to at least what the City does. So, it's this constant of, we have a lot of good ideas and they would work, they would've worked over the last who knows how long. But the problem is you can turn water into energy right now, Walt, but if someone on the City Council or the Mayor's office doesn't like it, good luck with that. And that's what a lot of this boils down to. We did a big study with Merrill, I don't know how many years it was, diversifying, going a little bit with this, and it broke down to we'd have a ton of money if we just had been allowed to diversify a little riskier, but City Council, no, you stick with what you've got.

**WB:** And just quickly, when I look at the Summit data at the meetings I tend to focus on at least 5 and usually 10 because year to year there's a lot of variability and stuff, but 5 and 10 years on average. We underperformed the benchmarks, which by definition are what we're allowed to invest in. And compared, as I look at the data, it's numbers. We underperform on the last 10 years or so the larger pool of investment funds. My understanding of which, the great majority of which have the same or even more restrictive provisions than we do.

**RT:** But no, when you say we underperform, are you saying that is downside capture, too? In other words they're not getting 110% of the downside and we're getting 80 because we have been fairly conservative. You don't want to lose money either.

**WB:** As we said in the workshop when Jarmon came down, a primary reason is that we were overweight equities in the great bond market of the last 20 years. That was a conscious choice made here.

**RT:** But how do you go to a bond market when you have to make even a minimum of 7 and you're making 3? You're guaranteeing the faster descent into nothingness. At least with the stock market you have a shot of returning x amount.

**JW:** You're talking about today. I talk about the next 20 or 30 years. It's a different argument.

**WB, JW, RT, & NG ALL TALKING**

**WB:** ....driving the amount of money we have to put in, we have great authority over that and then how we invest money. Those 2 things, we control 100%.

**NG:** Ok. I didn't want it vague. I just wanted to see, maybe, going forward you don't make the same mistakes and we need to focus on those things that we've already discussed that maybe we didn't do as well. And I don't want to get into this whole notion when you look back, you say you know we could have done 1, 2, 3, 4, 5 things a little bit better. Well, you might have done 20 in an excellent way. So, I'm just, that's a debatable thing, I wanted that for my edification.

The other statement that I want to make is this. Do you remember I keep bringing this up. And I don't know if it has value or not. We seem to be taking a beating in the media, I mean we seem to be the villains. That Pension Fund over there just draining us and that's not an unusual discussion throughout this country, really. Even with Social Security, with the assumption that people were going to die around 65 and they're living to be 100. But I never feel that we're getting our side out, because I talked about, to some degree, about getting a PR person in here that could actually get all of this together and we have a perspective that would balance the Board to some degree. And being mute is, I know it has its value. You can say, well I'm above that, and that kind of thing, but we owe it to our constituency not walk around in this City being the villain while they're causing the problem. See, a lot of these decisions were made in different economic times and they were good decisions at the time. Well, we've hit on an economic situation. Reality, let's just say, has crystalized some of that to some degree. We don't go back, but I also think we could do not only our constituency justice, but balance the discussion with the community by having a position, because God knows, we haven't done everything wrong. Even though we acknowledge some of those things we could have done better. And we'll go forward doing them better. But I don't think we do the general discussion justice by being totally mute. So that's just my thought.

**RK:** You know, this is a common problem. And most of the pension funds your size or larger that we deal with have a relationship with a P/R, media specialist type of person. Someone to help develop and deliver the message. You have

complete control of your budget, says the Attorney General not once but twice, and you should consider hiring someone to help you develop the message. Now a lot of it is already pre-developed by associations like NCPERS of which we have been a member since probably day one in the 1940s. I think it is always better if you have someone who isn't directly a staff member or a Trustee deliver the message because everybody says, oh you're just watching out for your own. Also I think, someone who is not an active participant in the administration of this system would be the right person to be your spokesperson. And that excludes people like me, my job is in the courtroom or John, whose job is really to run the office and provide service to the Board, and the Trustees whose job as you've pointed out, your biggest job here is investing the money. That is the most important thing that you do and insuring that this system is run for the exclusive benefit of the firefighters, police officers, and retirees. So I think it would be a very worthwhile expenditure to secure the services of someone who delivers messages for a living.

BD: Could we, we've got the governance piece, Dr. Herbert, where we talk about positions. Could we consider that? Plug that in as another piece?

AH: Yes

BD: We can move towards that, because I agree as well, and I think in a non-confrontational way. It is time and I agree. I think we're doing the Members and the discussion a disservice in the community. They really haven't seen or heard the other side.

JW: The question is what is the message? Does anybody understand what the message is?

BD: If you described it they wouldn't understand it because nobody really understands how an actuary thinks.

JW: Ok, but what I'm thinking is: what we have right here now with the \$3 billion, 85% of that is already earned. But all the stuff that's there is essentially 85% earned, you can't touch it. If someone came up and said as Milliman did, the actuary of the City, what should we do with the current folk, what should we do with the current plan? Milliman came back and said it's essentially mostly all earned, you can throw in another couple of pay increases, but that's all that they did. Now what they did is that they take out the folks that aren't here and are defenseless. And rather than come back and say well in Florida, a lot of folks are in the State Retirement system. So if you're going to have a major city put in a plan, you should have to, perhaps, be competitive with the State Retirement system. In which case they would have come up with something different. What they did was come up with we'll put in a weak plan for new folks and then we'll say over 30 years we're going to save a lot of money and we're going to say that it's \$1.2 billion. It isn't really \$1.2 billion in today's money. It's about 7%. What I'm trying to say is all this stuff going on in Jacksonville is like standing in the weather outside. It's like looking up the weather and trying to decide how you're

going to change the weather. It's not possible for the current Plan to really make a real change. And for the new people, why would you want to have something less than State Retirement system? So if you have those 2 guidelines, you can't change the current Plan much and you want to keep new folks at least as much as FRS, then what's all the flack about? What else do you have to talk about?

RK: I think the message is little different, respectively. I never argue with Jarmon about how much is 1 and 1 because in my business, 1 and 1 is how much you want it to be. The message has to be this. The message is the primary purpose of government is to provide service to its citizens. The most important thing government does, the 2 most important missions in government, in my opinion are, educate the children and keep the people safe. And we're in the business of providing part of the compensation of the people who keep us safe. And you can't have public safety if you don't have public safety employees. Pensions were designed a long time ago, this kind of pension, to encourage longevity on the job, so that Jacksonville doesn't turn into a training field for folks who are then going to go to some of the little towns in Broward County where I live who pay a lot more than Jacksonville does with a bigger pension. Jacksonville has opportunities for training, people come here, they work in a big city, they see big city problems and then they go back to a small town where they don't have big city problems but they get paid because of all the work they did here. I think the message that we have to say is, this is part of what attracts and keeps people here for a lifetime and it's cheaper to hire them once, train them once, and keep them on the job. That's part of the message. The 2<sup>nd</sup> part of the message is, there are a lot of people in Jacksonville who do not have a pension at all. And unfortunately, the view should be everybody in Jacksonville should have a pension, not that those who do should have it taken away from them. That's part of the attitude changing that needs to be done. Those who have beating the drum about pensions who have a lot of money fall in 2 categories:

1. Newspaper companies, who by the way have gotten rid of their pensions for their employees and don't even have full timers any more. They hire stringers to do most of the work so they don't have to pay any benefits at all.
2. The other people beating on the drum are those who sell individual investment products. There's actually 2 articles we just posted on our website about the fact that much of the money that comes from these anti pension public groups with all these patriotic sounding names are from Wall Street. Because you manage money for about 50bps on average taking all your whole portfolio together, maybe less. If you're working for active Member participants, if they have 457 plans, the money is being managed for about 5 times that amount because that is what an individual pays when they go into the market and they buy a mutual fund. So if you take \$3 trillion dollars which is what is in pension funds today, actually \$3.3 and quintuple the amount of fees you're going to get, there's a powerful incentive to want to make funds like this one go away. And I'm not a conspiracy theorist in the least.

**But we need a message that this Fund is actually an important economic driver in Jacksonville. Most of our retirees retire here. 100% of the money they get from this Fund gets spent here. It pays Jacksonville real estate taxes, it pays sales taxes, it supports local businesses, it employs people. The money doesn't leave. If you send money to Wall Street to invest it, it goes there. Here, it stays here. And I think that's part of the important message that we need to have delivered.**

**NG: No question. My statement was not to discuss the message. I knew we had a message. We just need to get our message out. Those were great points and off the top of my head I would say they need to be in the message. But we need a message out. The officers feeling this on the street and our constituency and that should not be the case. That's because we're not saying anything they're being seen as villains.**

**RK: You personally shouldn't be saying anything. Hire somebody.**

**NG: That's what I'm saying. We need to get that position out there.**

**BD: Let's move that down to when Dr. Herbert gets into that governance but in respect to everybody's time, I know we've had some great discussion this 1<sup>st</sup> hour but we really haven't accomplished much. We have cleared the air and talked about a number of issues but I think really, in respect to everybody's time would direct back to the agenda and let's see if maybe we can work through it and when we get to a bullet point that somebody wants discussion on.**

Improve Investment Returns via Replacement of Underperforming Managers.

**Dr. Herbert said we should have a minimum number to shoot for. Chairman Deal said you shouldn't chase a numbers higher than our assumption rate with more risks, but the excess is gravy.**

**Trustee Bussells wants to know why we have underperformed in our peer group. He says his observation is the 1<sup>st</sup> thing is the asset allocation strategy policy because that determines most of the total returns, is what asset classes you're in as you go through the cycles. He believes this has been true for 200 years. He then said the Board should be devoting significant of its time to asset allocation policy, strategy, informed by the recommendations of the staff and consultants. In his experience after a year is that the Board spends very little time on that. So 1<sup>st</sup> asset allocation strategy and then once the asset allocation, and that to him is policy, that is what the Board is supposed to be doing. The execution of the strategy, to the extent that it can be delegated to the staff, it should be delegated because when every decision about execution must be passed by the Board process which is monthly and takes time, it slows down keeping up, staying ahead of the markets and that costs the Fund money. Trustee Bussells said that asset allocation is the greatest determinate of return over time, and that's policy and Board. He said the issues that Trustee Tuten and others have expressed very well do rise to the fiduciary as well. Once set however, the execution of moving**

the money to match the allocation targets and objectives, cull underperformers to put in high performance, all those other issues, that's why the Fund has professional staff and consultants. So the Fund should delegate these as much as they can and report reports versus the standards. If they are deviating with what they're doing then it is the Board's job to intervene and correct it. First and foremost allocation and then delegation of execution to staff and consultants. In Trustee Bussell's view that would have added easy 50-75 bps on average the last 10 or 15 years. And that's hundreds of millions of dollars.

Chairman Deal asked Trustee Bussells if he agreed there should be a number? He said he would agree with a number as long as it's real returns that have been discounted for inflation. 7% in absence of the inflation requirements. If the 0 inflation continues as it is now, 7% is 6% real Trustee Bussells said. He said as long as that number is the real return less prevailing inflation, he thought it was good to have a bogey to focus on and that number should grow, be derived by our staff and consultants once we make a policy choice about asset allocation. If we do want to heavy equity and light fixed income, if we do want to be light or heavy on energy, private, alternatives, and so forth. Once we decide the asset allocation policy, then he believes it's largely a mathematical exercise by actuaries and financial advisors to say if you're 60, 30, 10, 22, you should expect 400bps off this over inflation. That's just mathematics, once you get the asset allocation right. This goes to the core of those 2 or 3 most important things that we do that benefit our Members.

Mr. Keane said so it would be the rate of return is derived from the expected return plus inflation, moderated by the asset allocation policy will give us the expected annualized return?

Trustee Bussells said he would use different words, probably saying the same thing. Just to make it simple, if we said 50% US Equities, 50% Investment Grade Fixed Income (just making this up to illustrate his point), so if the Board said that's where we're going to be going forward. Actuaries and financial consultants say on average over time, here's the expected yield on those asset classes. And making it up to make the math easy, it's 7 and 3. You add it together and divide it by 2, you come out with 5. The 5 would be the target is the way it works.

Bob Klausner commented that the Missouri State Board hires managers but the staff fires managers and executes, it only comes to the Board if they feel an exception should be made.

Trustee Bussells said the other Boards he is on work that way.

Jarmon said the inflation assumption should come from the Board.

Adoption of pending Legislation for Expansion of Investment Options to improve Fund Investment performance and reduce risk.

**Mr. Keane said they were working on the legislation. It is hoped that the task force will recommend the changes. Trustee Herbert said to change the wording so that it is shorter and more consistent.**

Review Investment Managers currently working with the Jacksonville Retirement System for possible selection resulting in potential fee savings to both Plans.

**Mr. Keane reported that the staff is working with Treasurer Grieve regarding joint accounts to save both the Fund and the City fees. Acadian and Lee Munder are both working with the City and under consideration by the Board for Emerging Markets. The Board will choose a manager at their Friday Board meeting.**

Trustee Bussells feels this is a wonderful example to him. This is a means to an end, not a result. The result is that we want to be above average performance compared to our peers. The tactics and methods of our professional staff, Joey, and the City employ in the market change. So if we are holding them accountable for results, as Bob said, I don't want to consume our time having to approve moving money from point A to point B, use your professional judgment. He wants them to do it when needed, save or make an extra buck, do it now. And then we'll see the results in the reports.

Bob Klausner said that authority should be clearly developed into the Investment Policy Statement so that you have an orderly process, your staff has clear direction, and include professionals in your staff. And that the stream end instances in which the reporting is essential to you is also clearly outlined. He said he would work with Dan Holmes on that. The Chairman asked Mr. Klausner to please draft that for Board approval

Trustee Bussells said that would be great because we know that it will save the Fund money but it hasn't been done yet because our existing process prevents John from acting to do what he's ready to do. So streamline and speed it up.

Mr. Keane also noted that it would help with asset reallocation when some assets earn returns and end up over their allocation it can be rebalanced quickly, keeping in sync without waiting for a meeting and keep the Board informed.

Trustee Glover said it would help with expediency.

Trustee Herbert said the staff should be held accountable for returns. But we need to know who our peers are that we are comparable with.

Mr. Klausner said you need look for a retirement plan that has similar size, similar asset base, and the same investment restrictions. If there is not an existing benchmark that's out there commercially, Summit Strategies is well capable of looking at the results. They can identify plans for you that have 3,000 active participants and about 4,000 retirees. They'll find plans with active 7,000 with a similar investment authority and we'll create our own data base if we need to.

**Trustee Herbert asked that some plans with greater flexibility be included so we could show the good it would do us.**

**Bob said there is no question that over time, if we had had greater flexibility in our investment authority, we'd be a couple \$100 million ahead of where we are right now. We did sue the State Division of Retirement for that flexibility and they gave it to us the day of the trial. We have not been able to get it from the City.**

**Trustee Herbert said that what we would have is a set of peers comparable to us and also a few with greater authority and maybe we ought to have the City in there as well.**

**Bob said you want to also try to compare the structure of the workforce of it because much of it is what drives cost and if you have a plan that is extremely light in retirees, a young plan, they're not going to have the drag on costs that a more mature plan does. And if you have a plan that is substantially more mature than ours (more retirees than actives) then that's going to a drag on the value of the investment returns. We really want a true apples to apples comparison. You also need an outlier for a top and bottom comparison and that's easy enough to pick too.**

**Trustee Herbert stressed how important this is and that it goes back to being quantitative and qualitative, assessing ourselves as well as Summit and staff.**

**Trustee Bussells said real quick on Summit, the quarterly charts near the back are barred from top decile to lower decile of us versus peer groups or comparables, us versus our benchmark. He thinks most or all of that is already there in what we get regularly, because that's what he looks at to draw his conclusions that that we've underperformed benchmarks.**

**Chairman Deal said he would like to look at who that universe is. He's not sure what their system is based on, is it close enough to us to get similar results? If we're going to use that to evaluate performance internally, we should all be familiar with what the benchmark is.**

**Bob said the Board should have a workshop once the list is provided and look at the comparisons, see their demographics and investment portfolios and approval of the Board.**

**Break 10:20 a.m.**

**Resume 10:32 a.m.**

**Stabilizing Reserve Accounts utilizing Life Insurance products.**

**If the City Council proceeds with appointing a 3<sup>rd</sup> Trustee, we would most likely lose the approximately \$10 million a year the Fund gets from the State. Mr. Keane said he was looking for alternative sources to replace that amount if it is lost.**

**This product is one of the areas being investigated. This would provide a death benefit for the Members. There have been presenters to the City and the Fund. Chairman Deal felt it needed due diligence. The product being considered is funded by investors, not the City or the Fund, but the profit is split. Mr. Welch says the money is made by selling the policies.**

**Trustee Bussells said it was a useful example as well. This fits with an Asset Allocation policy. This is a potential asset class that apparently we have the authority to do today. So this is an asset class that we would consider in the context of our total portfolio. So, it's worth the time and people think it might be good, but we wouldn't do it stand alone, we'd do it as part of our Asset Allocation policy, to be considered as 1 piece of the picture.**

**Mr. Keane said he would get together with Mr. Grieve and Mr. Belton to do the due diligence and will let the Board know their findings. Chairman Deal said the Fund needs to look at and expedite these opportunities and those that we feel are sound and have good opportunity, that's what the Asset Allocation study is for.**

## **2. PFPB STRATEGIC PRIORITIES for 2014**

### **Legislative Agenda**

**Some of these items were already discussed earlier in the meeting.**

#### **City Council:**

**Continued technical support for Jacksonville Retirement Reform Task Force and Jacksonville Civil Council Pension Reform recommendations**

**Adoption of 2013-669 – Alternative Investment Options.**

**Pending adoption, Summit Strategies is preparing an Asset Allocation that would show the revisions passage would allow.**

#### **Florida Legislature:**

**Adoption of House Bill 117 and Senate Bill 388**

**These bills would allow the Fund to collect the Chapter monies for Baldwin for the police by amending Chapter 185, which the Members of this Fund provide. Chapter 175 has already been amended for the fire funds. Without this amendment, the funds stay in Tallahassee. It will be an estimated \$100-120 thousand a year. Senator Bean and Representative Ray have introduced the bill for 2014.**

**Secure sponsorship and support for amending Chapter 117 – Unclaimed benefits.**

**When a survivor or member dies without a survivor, the bank account gets closed and the last check is returned to us. We now put it back into the Fund. Chapter 117 has language that says the money needs to be sent to the State. They put it on their website that they have the money. A meeting with the State's Chief Financial Officer will request an amendment to say it does not apply to funds under Chapters 175 and 185.**

### **Operating Expenses**

Apply for additional grants to update building fixtures to more energy efficient status.

**The light bill for the garage, where fixtures have already been replaced, is down \$600-700. We have received an amendment to the grant for another \$7,000 to replace all the light fixtures in the 4 stairwells. These lights burn 24 hours a day.**

Increase building revenue with rental of 2<sup>nd</sup> floor space.

**We are preparing a picture portfolio and have spoken to the Downtown Development & Economic Development departments. A tenant considering the Greenleaf Building has also inquired about parking. Trustee Bussells said the staff should increase productivity 3% every year. And these are excellent methods, including the savings in electricity and actively trying to rent the 2<sup>nd</sup> floor. He feels this should be handled by the staff and not the Board.**

Increase parking facility revenue with increased utilization of available spaces.

### **Investment Strategy and Returns**

Coordinate with Summit on Revised Investment Policy Statement and Asset Allocation Plan upon adoption of Ordinance permitting increase in Alternative Investment.

**Trustee Bussells would like to do an Asset Allocation study as soon as possible. He feels Mr. Holmes should be able to provide one for both situations, the Ordinance passing or not. Mr. Keane said Mr. Holmes is working both.**

**Trustee Bussells wants an Asset Allocation study within our current authority and one for if the Ordinance passes. The Board would consider this as part as the change in procedure to improve efficiency, increase risk adjusted returns. Mr. Klausner said he would develop the procedure in the next 30 days. Trustee Bussells wants to proceed and not wait for the Ordinance to pass to start making changes. Further changes can be made when/if the Ordinance passes.**

**Chairman Deal said that realistically it can't be assumed that the Ordinance will pass in February or March. But we want to be prepared if it is passed. But 2 things, the change in Asset Allocation, immediate, and then the Investment Policy, so that it gives the authority to enact the way we describe.**

**Trustee Bussells said yes, for the staff to be able to execute and be accountable for the results. Increase diversification and increase risk adjusted returns.**

Revised Investment Policy Statement filed with City Council as soon as possible.

Goal to reduce risk and increase returns.

During the October Board Meeting, Dan Holmes reported "All asset classes performed above their benchmark on both gross and net basis for the fiscal year, with a gross 14.86% and net 14.35% performance". Mr. Holmes pointed out that the return would have been even higher if the Fund could invest in Private Equity.

**Trustee Bussells said he didn't recall Mr. Holmes saying he could assert that on a net basis. He then asked if the City could do Private Equity. It wasn't know if they could but Mr. Klausner said they didn't do so. Trustee Bussells noted that the City earned 17%.**

#### **Money Manager Fees**

Increase use of Investment Managers working the JRS will result in lower fees for both Funds.

**Trustee Bussells said it would be nice to reduce the management fees by 5% next year.**

Increasing Funds allocated to Index Funds will reduce investment fees.

**Trustee Bussells said this is where quantification would be a great addition. Rather than just words for example, over the next 12 months we want to reduce management fees by 5 basis points or 2%. But words without measure or number are meaningless for accountability. So if we could put a quantification so there's no misunderstanding between staff and the Board.**

**Chairman Deal commented that we have seen an management fees increase but we've also seen returns increase, so obviously fees are going to go up when they're making more money for us. He also said he had been reading articles, we've been placing emphasis on indexes but there's a good argument for the other side also. They say that active management in an up market, if they're meeting the benchmark, it's great. But where they bring their value is in the down market, they don't lose as much as that particular class. The articles say that's where the true value is.**

**Trustee Bussells said that for large liquid asset classes, large cap U.S. stocks. He thinks the empirical data of 200 years are overwhelming. Indexing produces higher net return over active managers. For less liquid, specialized, emerging asset classes, he thinks active management is superior to index. So it's not either or, it's the kind of asset class. So U.S. large caps, on average over time, and that's what is important here, 10 to 20 years, no active manager has ever**

produced higher net returns for a significant period like our experience here than index funds. For the real estate class and MLPs, whole different game. To try to index those without people who that's all they do and that's what they know, that would be a big mistake. So, it's which asset class you're talking about and how much money you're going to put in it. He said he reads reports from the University of Chicago Economic Department and also that Shore guy.

Chairman Deal thought that Summit could provide a report on the performance of index and active over the years.

### **Investment Expenses**

Re-establish Security Lending Program to provide revenue stream.

We had this from 2004 – 2008 and made \$2,366,519. We ended it due to the lack of oversight. When the market blew up, we had been out for 6-7 months and did not suffer a loss. There are now regulatory oversights in place to make this more stable now and the Mr. Keane recommends the Fund again fund a portfolio thru Northern Trust as a revenue enhancer.

Trustee Tuten asked for a report on showing the upside and downside. Trustee Bussells said it would be an element of the Asset Allocation Policy. Bob Klausner said it is a tactic, not a policy. It's actually a cash flow creator which helps with your staff/operational expenses. He said the collateral was the key. That's where the focus of contract negotiations should take place.

Increase use of Commission Recapture Program. Attachment

From 2004 – 2013 the Fund made \$2,081,205 from Commission Recapture. We will try to increase that in the next year.

### **Legal Fees**

Monitor ongoing legal cases.

Mr. Klausner said the fees have gone up due to people suing the Fund. Two cases are about to drop off and fees will go down accordingly. If we are able to settle the Federal case, that would save a great deal of money. One case is left in State court for trial, that's the open meeting case that was filed against the City and the Fund by the Taxpayer's Association, however that may be solved by Judge Wallace by a summary judgment and 2 hour hearing instead of a 2 day trial. He asked that the Board consider having a litigation committee of 2 Trustees. The meetings would have to be noticed publicly with the entitlement of closed meetings if active litigation is being discussed. It would allow him to meet with committee on a regular basis and give them a more detailed analysis and receive guidance from the committee. The Board lacks the ability in some cases to settle a case because you can't go against your own code and therefore have to play them out. Cases of a more commercial nature can be settled and that would be

helpful to me. Another thing Mr. Klausner has started doing with other funds, he can keep a running total going on what has been spent to date on individual cases.

Mr. Klausner noted that much of the litigation has been public records issues, and he recommends that we expand our website and post minutes, agendas, backup materials, links to litigation cases. It would be a huge time saver for the staff and prevent future litigation.

Trustee Herbert asked if we had the capacity on the website. Mr. Keane said he would talk to the City webmaster. We can also explore an alternate website such as the Sheriff and Office of Elections has.

Mr. Klausner said it could be done by links for Ordinances, Article 121, Chapters 175 and 185.

Chairman Deal said he liked the idea of a Litigation Committee. He also said he liked the transparency posting the documents would provide and the way it would help with staff time.

Trustee Bussells wants to examine automatic appeals. Mr. Klausner said that is one of the things the committee would help with.

Trustee Glover wants to be conscious of nuisance cases. He fears settling to end them may encourage others to file.

Establish Board Policy on "Security Litigation". Attachment

Mr. Klausner said that the Board has been a very good advocate for corporate reform, recovering about \$500,000 a year in Securities Litigation proceeds. This is all done by contingencies which are court approved, it usually comes to about 12%. We are reimbursed by the case for any expenses (including hourly rate plus benefits for staff's time), there are no fees, and then receive our share of the settlement.

Chairman Deal asked if the staff should make these decisions to participate since it does not involve expense to make quicker decisions and then inform the Board? Mr. Klausner said that was the way most funds do it.

Trustee Bussells said he would like it be that way. Mr. Keane said the Policy reflecting that would be on the next Board Agenda.

Break 11:25 a.m.

Resume 11:32 a.m.

### **Actuarial Study**

Board Policy of "Annual Actuarial Valuation of Plan".

**Should be done every year.**

2 handouts from Pension Board Consultants

**Jarmon Welch went over his Calculation of investment Performance and the Preliminary Statement of Actuarial Position with the Board. He noted that the Unfunded Actuarial Accrued Liability was \$1,635,292,490.**

Trustee Bussells asked if the estimated \$1,250 million of the net actuarial value was market to market or actuarial smoothing. Mr. Welch said it was market to market. He said the market is \$1,292 million so he took \$42 million off. He hasn't completed the exact calculation. He also has about \$6 million in a Contribution Stabilization Account. Mr. Klausner said that is perfectly legal and commonly done as long as it doesn't get too high.

Trustee Bussells said if the \$42 million became a part of the estimate that would be almost 3%. Mr. Welch said he had to use it to cover the accounts. Trustee Bussells asked for an estimate on the gross actuarial value as of 10/1/2013. Mr. Welch said it was \$1,292,000,000. Trustee Bussells said you've added \$8-9 million to be conservative. Mr. Welch said exactly.

Mr. Welch said that the Normal Actuarial Cost should be closer to 25% rather than our 35%. Approximately \$15 million of the \$46,109,290 is employee contribution and Chapter funds. He said other funds look better but they are doing 8% returns and not including manager fees or they are also on Social Security. He noted we are not a Cadillac pension.

Trustee Glover asked if the Fund was right at the means, where would we stand. Mr. Welch said the COLA would probably be voted on yearly and would not necessarily be 3%. Trustee Bussells said maybe it would be indexed to inflation, because it has been automatically paid during periods of no or low inflation. The beneficiaries cost is going up and compounding while our Members are not receiving raises (except step raises) and paying for the beneficiaries COLAs and the unfunded is increasing. Trustee Tuten pointed out that the COLA may be high now but if inflation goes high, it will still be 3%, and they don't necessarily measure what our retirees actually need and purchase. The Controller pointed out that over the last 10 years our COLAs are only .75% over what Social Security has given.

Chairman Deal noted that for the people who only stay for 20 years, the COLA is important to help them since they'll get 60% less taxes. Plus the City has only paid 2% contribution for Members in the DROP which has increased the City's Contribution.

**Jarmon said people don't realize that Members don't get Social Security. Trustee Glover said people are going to live another 50 years with medical and technology gains.**

**Trustee Bussells suggested indexing the COLA, but allow it to go above 3% if inflation makes it necessary, index it with a range. Over time, if inflation comes back, you still end up with compounded 3, but if it doesn't come back, it would be what it is, realizing that the indexes are imperfect but you have to use something. The actuarial impact would be muted and not quite as damaging as it is now.**

Cost of supporting Pension Reform studies.

**Mr. Keane noted that Mr. Welch has incurred \$30-40 thousand this year providing information for groups like the Pew Group and other committees. The information has to be provided but who should pay for it? As much as possible will be posted on the website. However, a lot of these requests are not for existing information. They want analyses or projections that do not exist at this time. After discussion, Trustee Bussells suggested the Board make a policy that the Fund will pay if it is something we would normally do, but the entity requesting the information will pay if it is something we would not normally do. We will pay for requests from government entities but our payments will be a separate budget line item to show the costs. It will be on the next agenda for a vote.**

**Break 12:05 p.m.**

**Resume 12:40 p.m.**

### **3. PFPB STAFFING**

Review staffing levels and position descriptions for all staff.

**Trustee Herbert told the Board that he and John have been going through these and John has gotten descriptions comparable salaries from the City.**

**Mr. Klausner noted that there was quite a bit of competition for CIOs and CEOs in pension plans as this generation retires.**

**Trustee Herbert said this is ultimately about long term succession plans and taking a very hard look about roles and responsibilities, particularly with the expanded role of the CEO.**

**Mr. Keane said the city had done a position analysis of the staff and then updated the position descriptions which are the handouts.**

**Trustee Herbert wants the Executive Director's description to match what was discussed earlier in the workshop and to analyze the position requirements. Should bullets be added?**

**Mr. Keane suggested material be added on budget management duties and responsibilities or oversight as well as the policy issue of how we're going to reach all of our objectives that we've discussed today.**

**Chairman Deal said the only thing that needs adjustment is the Board Investment Policy to give the investment authority discussed today to explain that process and for people in the future to understand the processes.**

**Trustees Herbert and Bussells feel the 2<sup>nd</sup> bullet covers the discussed items once the policy is written.**

**The pay grade is a standard Appointed code and is there for the City's purpose.**

**Chairman Deal noted that "includes "added" investment assets" should be added to the Ensures that the Fund's physical assets and other properties are appropriately safeguarded bullet since Mr. Keane acts as landlord and manager for the Parking Garage, our office building and any other local real estate project the Fund undertakes.**

**Trustee Bussells suggested changing the bottom bullet to effectively communicates with the Membership on pertinent in methods most useful to the Membership. Trustee Tuten said it should include all forms of media. Trustee Glover said the message consistent with the industry, something like that.**

**Trustee Herbert brought attention to the 5<sup>th</sup> bullet from the bottom regarding public relations. Trustee Bussells suggested changing it read Plans, formulates, and recommends for the approval of the Board of Police and Fire Fund Trustees, policies and programs that plans, coordinates, and directs a public relations program, meeting with the press and representing the Board at all official functions, governmental meetings, and the annual pension meetings with the membership.**

**Trustee Bussells strongly recommended that a Bachelor's Degree be a position requirement with a broad range of majors, such as accounting, finance, investments, business. Master's degree preferred.**

**Trustee Herbert asked Mr. Keane if he knew what the requirements for the City Treasurer and Pension Manager were. Mr. Keane said the Pension Coordinator requires 5 years of combined education and training experience in accounting and finance which includes at least 1 year in Pension planning experience strongly preferred. We will have get the Treasurer requirements.**

**Trustee Glover said you don't want to write yourself out of a star, so you should consider experience and make an individual judgment. Mr. Klausner said that's why the experience is the countermeasure to the academic.**

**Trustee Herbert asked how critical is the comprehensive knowledge of the Florida Statutes, what if someone from another state applied? Would this preclude them?**

**Mr. Klausner thought it was desirable. Trustee Bussells thought that would narrow it down too much. Mr. Klausner said they should read up on it if they're applying.**

**Trustee Herbert then moved on to the Deputy Director position. He feels it needs to be filled to lessen the burden on Mr. Keane. Mr. Keane said the description was what Dick Cohee did. Some items are now being done by the Controller and the part time Economic Analyst. However more requirements are being added by the regulatory authorities, Government Accounting Board, and the State. It's a needed description.**

**Trustee Tuten agreed with Mr. Keane and noted that the Deputy needs to also learn the Executive Director's job as well. Chairman Deal said that with the change making the staff responsible for investing, there is even more for the top 2 positions to do. Mr. Klausner said the Board should look for someone younger that will learn the Fund and have enough working years left to move up and then train their own replacement. Trustee Bussells especially liked the last 2 bullets of the Deputy job description. He also thought the requirements should be the minimum of the Director. Trustee Glover felt the person hired should be able to move into the Director position or at least serve as interim while a new Director is selected. Trustee Bussells suggested they had to have a Bachelor's degree in something but can learn the Florida Statutes on the job.**

**Trustee Herbert asked Trustee Bussells if the last 2 bullets should be added to the Director's description and he agreed.**

**Trustee Glover pointed out that he was all for education, but if Oprah Winfrey came to him and wanted to teach Entrepreneurship 101...she doesn't have a degree. Would he turn her down? He doesn't want to be in that position and wants language in there to capture a star. Trustee Bussells suggested explicitly stating that waivers of these requirements may be made by unanimous discretion of the Board for both of the job descriptions.**

**Mr. Keane asked to convert the part time Economic Analyst to become fulltime and handle the public relations in addition. Trustee Bussells said not fulltime but he can increase to 30 hours due to just deciding to hire a Deputy Director. It was also felt that public relations should be handled by an expert in that area and not necessarily by an employee.**

**Chairman Deal remarked that Lloyd Brown used to work for the Fund in public relations and we might want to contact him again.**

**Revised Position Description and Job Specifications reviewed and approved by City Employee Services.**

**The position descriptions and revised organizational chart will be on the next agenda.**

## **OVERPAYMENTS**

We had a retiree die last year who was paid \$249 after his death. We've written to his 2 daughters and asked them to return the money. They have not returned it. After discussing it with Mr. Klausner, Mr. Keane recommends writing it off to avoid the cost of litigation. Trustee Bussells recommended refunding the Fund from Chapter funds. Mr. Klausner feels that \$249 doesn't warrant a Board discussion and the Director should be able to handle it. Mr. Keane will handle the write off.

The Economic Analyst checked every retiree for accuracy. It was discovered that a widow was overpaid for COLA over 10 years ago due to a computer error. She is overpaid over \$30,000. Mr. Keane phoned and discovered from her son that she had died that day. Mr. Keane talked to the son several weeks later and told him about his mother's overpayment. He does want to deal with it. The widow owned property. Should we put a lien on the property to recover the overpayment?

There is one other remarried widow who has already been spoken to and wanted to check with their CPA, but they have not called back. She is overpaid \$30,000. Mr. Klausner said with a living person you can have a hearing and suspend her pension until the overpayment is recovered. He noted that the code says we have the right to correct errors.

Trustee Bussells suggested a policy on the statute of limitations. Mr. Klausner said that we're allowed to go back 5 years. Then how much time do you want to spend on recovering low amounts. Mr. Klausner and Mr. Keane said none on such as the \$249. Trustee Bussells agreed, saying materiality should be weighed and discretion used by the Director.

Trustee Tuten asked how much the property of the widow was worth but it is not known at this time. Trustee Bussells would like to recover the funds if it is affordable but feels it is important to prevent these kind of problems. At this time all retirees have been checked and new ones are being checked as they come into the system.

Mr. Keane then told the Board about the 2 widows that were discovered during the Annual Affidavit this fall. They both died shortly after returning last years' affidavits and their sons did not report their deaths to us or Social Security.

Trustee Herbert asked Mr. Keane what he thought the salary range should be for the Deputy Director. He said probably lower than the City Treasurer. Chairman Deal asked if we still had the Segal salary study. Mr. Keane said the last one was done by Cody which the City of Jacksonville. Chairman Deal said Mr. Keane was in their salary range. Mr. Klausner and Mr. Keane will obtain salaries from pension organizations.

## **4. LEADERSHIP SUCCESSION PLAN**

Develop a Succession plan for Leadership Positions

**Chairman Deal asked Mr. Keane what his future plans were. Mr. Keane said he is under contract until 2017 but he would like to leave in the next 1 ½ years, sooner if all this could be put together. The critical thing is, he doesn't believe anyone is so important that the whole system revolves around them, but with the fight the Fund is in, personal knowledge is important.**

**Trustee Glover said that from a Board member's perspective, he can't understate the importance of history in a fight. He asked John to consider staying until the fight is complete. Mr. Keane said he would like to retire August 2015. The City Council and Mayor's election will be over. Chairman Deal agreed with Trustee Glover. We have the history, the City asks us for copies because they don't have them.**

**Trustee Herbert agreed that the continuity is important. Hopefully the Scheu commission will help resolve the problems. He feels John shouldn't have to wait until 2015 to retire since he originally planned to go August 2012.**

**Trustee Bussells would prefer to not use a headhunter. The plan, once a salary range is determined, is to advertise on the City website, NCPERS, NASRA, Pension and Investments for the Deputy Director. Background and credit checks will be needed. A personnel committee will be needed. Mr. Klausner estimates it will take 2-3 months. The full Board should interview the top 2-3 candidates.**

**Mr. Klausner said a headhunter will charge up to 4 months pay plus costs. He feels the Board can do themselves. Committee of 2 will have to meet in the Sunshine.**

Establish Time Table for Filling Positions

**December 13<sup>th</sup>.**

Create a Selection Process for Leadership Positions

Establish Qualifications for Leadership Positions

## **5. ANNUAL EVALUATION PROCESS FOR DIRECTOR**

Qualitative and Quantitative Evaluation Criteria Evaluation Criteria for Director

**Trustees Herbert and Bussells feel this instrument needs to be redesigned to be qualitative and quantitative, as well as reflecting the things discussed in today's meeting. It should reflect the assigned goals added today. It was suggested that it be shorter with no activity list and instead use bullet points from the job description and accountability. Trustee Bussells said the evaluation needs to have**

**more accountability. Chairman Deal appointed Trustees Herbert and Glover to act as Personnel Committee. Mr. Keane will work with Trustee Herbert to revise the evaluation.**

Update Evaluation Instrument – Executive Director - Administrator and Deputy Executive Director – Assistant Administrator attached.

## 6. **ADDITIONAL ITEMS BY BOARD MEMBERS**

Re-design agenda

**Mr. Keane proposed that the personal dollar amounts be removed and the Consent Agenda would be a separate document. It would be posted on the website. Trustee Glover wants the Consent Agenda included on the agenda. Chairman Deal said the Board should receive the normal Consent Agenda and the dollar amounts will be removed for the website.**

Consider Member vs. Beneficiaries

Peyton Bonus – Copies of Ordinance and Settlement Agreement provisions Attached.

**The funds used for the bonus cannot be used to pay down unfunded liability and must be used for enhanced benefits. Trustee Bussells feels the money should be saved for other purposes for hard times. Trustee Tuten asked if the funds could be used for active members and have the Economic Analyst look at the amounts the retirees have. Could we give each person the same amount?**

**Mr. Keane said the City will not authorize spending the Chapter money. Mr. Klausner said you could with future money set up a DC type benefit (share plan) for the active Members. It would be uniformly divided, not a percentage. Shares would be distributed to accounts each year but they would not receive their share until they retire.**

**Trustee Bussells thinks the money should be kept for future needs. He also feels it's wrong for the beneficiaries to get bonuses and COLAs while the Members are not. If the bonus is going to be paid, he would prefer that it be a set amount to everyone instead of a percentage. Trustee Tuten said the retirees need to remember that it is a bonus decided each year.**

**Trustee Glover said he would not give his opinion since he was a retiree and received the bonus if approved and the annual COLA.**

**Chairman Deal said the money is earmarked in the account for the bonus and if we have a better plan to give it equally, the vote it, put it out. Change it if you want. But to save it for a rainy day or not pay it because our Members are not receiving raises; there's people in the Mayor's office that are receiving raises the last 2 years. Rank and file have not received raises, but you don't shut down and**

say we're not going to do anything until this thing works out, cause it will never be fair.

Trustee Glover did say the retirees needed to know if a change is going to be made. Trustee Bussells said to let the retirees know they will get the bonus this year but it will not necessarily be paid next year.

Mr. Keane said it will be on the next agenda and letter will be sent with the statements saying it is discretionary and not necessarily paid in the future.

#### **UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT**

Trustee Bussells said he was asked about how we were complying with this act and he had never heard of it. Mr. Klausner said it was for ERISA plans and did not cover us. No states have adopted it for government funds.

#### **7. ITEMS DEFERRED FROM OCTOBER BOARD MEETING**

##### Senior Staff Voluntary Retirement Plan

1. Draft actuary study Attachment

Trustee Bussells ask if other public sector SERPs appropriated annually per cost. Controller Stork has not worked with other SERPs. Mr. Bussells asked External Auditor Linda Dufresne. She also had not seen any other. Mr. Bussells says he's used to annual appropriations.  
**DEFERRED TO TRUSTEE WORKSHOP.**

It was explained that this is the Senior Employee Retirement Plan. Confusion had been caused using SERP as an abbreviation. Trustee Bussells why it was being funded at a higher level than our Members. Mr. Klausner explained that it was a closed plan that should be fully funded when Mr. Keane retires, presumably August 2014.

2. \$125,993.25 needed to balance SERP budget. Attachment  
Due to the Actuary already moving the funds, we need to move the actual money. We are out of sync due to a gap in knowledge from the Deputy Director's death last year. It was decided to take it up during the workshop.  
**DEFERRED TO TRUSTEE WORKSHOP**

The Controller explained that the adjustment was be in sync with the Actuary. Right now the Actuary has already made the entry and the Controller is a year behind. The Controller explained that the adjustment was be in sync with the Actuary. Right now the Actuary has already made the entry and the Controller is a year behind. It will put the budget over by the amount. Mr. Klausner said we can

**do what we want with our budget. We are legally obligated to fund the Senior Employee Retirement Plan. It will be on the next agenda.**

**2013-10-1 Investment Reports from Summit Strategy. Attachment**

**All asset classes performed above their benchmark on both gross and net basis for the fiscal year, with a gross 14.86% and net 14.35% performance. Dan Holmes pointed out that the return would have been even higher if the Fund could invest in Private Equity.**

**Chairman Deal said that speaking to Trustees from other plans, they are amazed that we can achieve our returns with our restricted investments.**

**Trustee Bussells asked about the difference between what Summit records as fees and what is actually the fee payments in our budget. Right now it is a difference between 49 basis points and 51. Dan said his office and Kevin were working on that.**

**The City Retirement system has a 17% return. Their fixed income assets have been diversified for several years giving them a positive return in that area while ours was negative.**

**Mr. Holmes says investing in Private Equity would help greatly, even 5% would raise returns. If we are ever able to go in that direction, he would recommend 5% in Private Equity and 5% in Private Natural Resources.**

**Dan suggested rebalancing pointing out that US SMID was 5.9% over the benchmark. It has to stay in Fixed Income. He recommended 1% to Thompson Siegel & Walmsley's Core Fixed Income portfolio and fund a Core Plus manager that the City is using.**

**Mr. Keane informed the Board that an amendment was being introduced by Council by Council Member Schellenberg that would allow us to invest in Private Equity, Distressed Funds, Venture Funds. He thinks that it will be deferred until Chairman Scheu's committee finishes their findings.**

**Mr. Holmes suggested Franklin Templeton Global Multi Sector Plus for Core Plus for the 4.9%. The City uses them but there would be no price break. The fee would be set at 80 basis points. They are able to invest in hi-yield. It gives the diversification of a comingled fund.**

**Trustee Tuten was concerned that they did not go back 10 years. Dan said that the Fixed Income team has a lot of experience. Mr. Tuten said he thought they were too expensive and wanted to know how much they raised their returns with high yield.**

**They may go down to DDD bonds which is not allowed for us. We have to stay within A. Mr. Belton said this manager was in place when the**

administration came in and he would have been reluctant to go into it. Mr. Holmes said that we are allowed to do this in a comingled fund. Trustee Tuten asked for a list of the next best managers. Trustee Bussells said he was a fan of diversification. Energy fell out 2 times in his past but he likes the energy exposure. If it is legal for us to use this manager, he is for it. Real Estate has fallen out several times also. He wants to know more.

Chairman Deal suggested the Board take it up at the workshop following up with a Board meeting to adopt the decisions.

Acadian is an Emerging Markets manager that the City uses but they are about to close to new business. Dan has reserved a place for us if we are interested. Other companies are also recommended. AJO and Oaktree are brand new. Lee Munder and Thomas White have been around awhile and good managers. One of these would take 1/2 of the Northern Trust Emerging Managers Index.

Joey Grieve said they were very pleased with Acadian and that there could possibly be a price break for the City & the Fund. Mr. Holmes pointed out that it is a comingled fund and could not be sure if there would be a fee break.

Mr. Holmes then asked the Board if they would be interested in investing in NonCore Real Estate which would include such opportunities as what Henry Cisneros has spoken of earlier. **This was deferred to the workshop.**

The Chairman thanked everyone for spending the time for the workshop.

Trustee Herbert mentioned that Summit's contract ends soon and understood the City was rebidding. Mr. Keane explained that the City rebids every 3 years even if they are going to keep who they have. We do 2 year contracts, renewing each time. If we are not satisfied, we will terminate and do an RFP.

The workshop was adjourned at 2:40 p.m.

**APPROVED BY THE BOARD OF TRUSTEES  
AT THEIR JANUARY 17, 2014 MEETING**

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Nathaniel Glover, Board Secretary