MINUTES
GENERAL EMPLOYEES' PENSION BOARD
POLICE OFFICERS' PENSION BOARD
FIREFIGHTERS' PENSION BOARD
HELD AT CITY HALL

December 9, 2015	8:30 a.m.	Commission Conference Room

1. CALL TO ORDER

Chairman Kelly McGuire called the meeting to order at 8:33 a.m.

General Employees' Pension Board members present were Chairman Kelly McGuire, Secretary Sam Butler, Dave Ponitz, and Michael Furman.

Police Officers' Pension Board members present were Secretary Shane Jarrell, Amanda Hayes (arrived at 8:55 a.m.), and Royce James.

Firefighters' Pension Board members present were Chairman Joe Dupree (telephoned at 9:32 a.m.), Secretary Dominic Morgese, Tommy Bozeman, and Lee Strong.

Also present were Lee Dehner of Christiansen & Dehner, Charles Mulfinger and Scott Owens of Graystone Consulting, and Patrick Donlan of Foster & Foster.

2. APPROVAL OF MINUTES OF AUGUST 14, 2015

Mr. Sam Butler moved, seconded by Mr. Michael Furman, to approve the minutes of the August 14, 2015, meeting. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the minutes of the August 14, 2015, meeting. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Lee Strong, to approve the minutes of the August 14, 2015, meeting. The motion passed unanimously.

3. CERTIFY ELECTIONS

Ms. Kelly McGuire stated that both Sam Butler and Dave Ponitz were reelected by the members to serve two-year terms to September 30, 2017.

Mr. Butler asked if he was allowed to make the motion; whereby, Mr. Dehner stated that he could.

Mr. Sam Butler moved, seconded by Mr. Michael Furman, to certify the elections of Dave Ponitz and Sam Butler as trustees of the General Employees' Pension Board to serve two-year terms to September 30, 2017. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to certify the election of Mr. Royce James as trustee of the Police Officers' Pension Board to serve a two-year term to September 30, 2017. The motion passed unanimously.

Mr. Lee Strong moved, seconded by Mr. Tommy Bozeman, to certify the election of Mr. Joe Dupree as trustee of the Firefighters' Pension Board to serve a two-year term to September 30, 2017. The motion passed unanimously.

4. ELECTION OF FIFTH TRUSTEE

Mr. Tommy Bozeman noted that he had spoken to Mr. James Shaw, who was a retired Ormond Beach firefighter and a resident of Ormond Beach, who was willing to serve as fifth trustee, if elected by the board.

Mr. Dominic Morgese stated that he, too, had a proposal for the fifth trustee. He stated he proposed Mr. Paul Strong, who had 20 years of experience with Morgan Stanley as a Financial Advisor. He stated that Mr. Strong did not live within the city limits of Ormond Beach, which did not apply to the fifth trustee.

Mr. Morgese asked Mr. Lee Dehner if there would be a conflict of interest with his brother, Mr. Lee Strong, who was currently a trustee on the board; whereby, Mr. Dehner stated that it would not be a conflict of interest.

Mr. Morgese asked if Mr. Lee Strong would need to abstain from voting; whereby, Mr. Dehner stated that Mr. Lee Strong could abstain if he felt he would benefit somehow from an issue.

Mr. Lee Strong stated that he would not benefit from any issues before the board, but he would abstain today so there was no question of any misconduct.

Regarding the statutory standard, Mr. Dehner stated that if there was a conflict of interest or they would benefit by voting on an issue before the board, or someone they were affiliated with would benefit, then they could abstain from voting and file Form 8B Memorandum of Voting Conflict for County, Municipal, and Other Local Public Officers. He stated that the form would need to be filed within 15 days with the recording secretary.

Mr. Dehner advised that they would need three votes to carry an action, so if Mr. Lee Strong abstained, then they would have to table any action today.

Mr. Morgese stated that Mr. Paul Strong would be a very good candidate for fifth trustee, as he was very knowledgeable of pension issues.

The board tabled this item until Mr. Dupree called in at 9:32 a.m.

Mr. Dehner advised that in order to conduct business, there had to be a physical presence of a quorum, and it needed to be noted on the agenda that a trustee may be attending by phone; therefore, Mr. Dupree could not vote since this was not done, but he was allowed to discuss the item with the board.

Mr. Bozeman stated to Mr. Dupree that Mr. Morgese had submitted the name of Paul Strong, who was very qualified to serve, but since he was Mr. Lee Strong's brother, Mr. Lee Strong would be abstaining from voting for Mr. Paul Strong.

Mr. Dupree stated that Ms. James Shaw had the membership's approval for nomination.

Mr. Tommy Bozeman moved, seconded by Mr. Dominic Morgese, to elect Mr. James Shaw as the fifth trustee of the Firefighters' Pension Board to serve a two-year term to September 30, 2017.

Mr. Bozeman asked when Mr. Shaw's appointment would be effective; whereby, Mr. Dehner advised that it would be effective upon affirmation by the City Commission.

Ms. Towey stated that she would notify Mr. Shaw that he was elected fifth trustee.

5. PUBLIC COMMENTS

There were no public comments.

6. APPROVAL OF 2016 MEETING DATES (February 12, May 13, August 12, December 16, 2016)

Mr. Sam Butler moved, seconded by Mr. Dave Ponitz, to approve the 2016 meeting dates. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the 2016 meeting dates. The motion passed unanimously.

Mr. Lee Strong moved, seconded by Mr. Tommy Bozeman, to approve the 2016 meeting dates. The motion passed unanimously.

7. APPROVAL OF BUDGET FISCAL YEAR 2015-16

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the Police Officers' Pension Trust Fund Annual Budget for Fiscal Year 2015-16. The motion passed unanimously.

8. APPROVAL OF ANNUAL ACCOUNTING FOR FISCAL YEAR 2014-15

Mr. Dehner stated that the statutory requirement for police and fire came from Senate Bill 172 and became effective this year. He stated this required an annual budget ending FY 2015-16 and actual accounting for FY 2014-15.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the Annual Accounting for Fiscal Year 2014-15. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Lee Strong, to approve the Annual Accounting for Fiscal Year 2014-15. The motion passed unanimously.

Ms. Lois Towey, Recording Secretary, stated that the General Employees' Pension Board had also requested the annual budget and actual accounting, which was included in their agenda packet.

Mr. Dehner stated that the statutory requirement did not require the General Employees' to do either.

9. PRESENTATION OF THE ACTUARIAL VALUATION AND REPORT BY FOSTER & FOSTER

Mr. Joe Dupree telephoned at 9:32 a.m.

Mr. Patrick Donlan of Foster & Foster reported it was a pretty good year, which was surprising because of a down market. He stated the reason was because they used the four-year smoothing technique with the assets.

Mr. Donlan stated that on the Fire plan the total required contribution went from 69.3% to 66.1% of payroll and after taking away the members and state contributions, the city's total annual payroll went from about 47.5% to

44.3%. On the Police plan, the total required contribution went from 59.3% to 61.1% and the city's contribution went from 39.8% to 41.6%

Mr. Donlan noted that the Police plan's cost would have gone down as a percentage of payroll, except for the assumption change. He stated that the Police and General plans changed the assumption for the investment returns from 7.0% to 6.75% and all three plans would have gone down except for that issue.

Mr. Donlan stated that the General plan went from a total required contribution of 31.5% to 30.0%, even with the assumption change. He noted that it would have gone from 31.5% to 27.9% without the assumption change.

Mr. Donlan stated that the Firefighters had lower turnover in the long run than the Police and General plans, so if everyone would be working until retirement, there would be much higher costs. He stated that was the big picture of why firefighter plans across the state always had higher funding requirements than the General Employees especially. He stated it was good for the department but not so good for the pension plan.

<u>Assumption Change</u>
Mr. Donlan stated that the assumption change had a bigger effect on the Police plan than on the General plan, but that was because the Police plan was heavy with retirees. He noted that the active members on the General plan for retirement benefits was $26 million and retirees were $22 million, so it was pretty well split on the General plan with about half the liabilities for the active employees and half for the retirees and terminated/vested, but on the Police plan about two-thirds of the liabilities were the retiree groups and one-third was the active employees. He stated the investment return and mortality experience were stronger on the Police plan than on the General and Fire plans.

<u>Funded Ratio</u>
Mr. Donlan stated that there was a little more information on funded ratio this year. He stated that one measure of the funded ratio was the traditional funded ratio that looked at the actuarial value of assets and the accrued liability, which increased in all three plans, because the actuarial value of assets went up and liabilities did not grow quite as much. He stated the market value of assets compared to the accrued benefits went down on all three plans, because the market value of assets went down in all three plans. He stated a 7.0% return was expected, but it was only about 1.5% in all three plans, so the market value of assets hurt us in all three plans.

Mr. Michael Furman asked if that was a smoothed return; whereby, Mr. Donlan stated that it was not, it was just the market value.

Ms. Kelly McGuire asked if the General plan was in the 80% range of funding; whereby, Mr. Donlan stated that the General plan was in the 80% range and Police and Fire were in the 70% range.

Mr. Dave Ponitz asked about the Police plan; whereby, Mr. Donlan stated that the actives vs. service retirees' numbers were similar to the General plan but the liability was higher for the Police retirees because they retired at a younger age and received a higher benefit.

Actuarial Asset Valuation
Mr. Donlan stated the smoothing technique worked well because there were three strong returns and one negative return, which averaged out for four years with a return above the assumption. He stated that next year the largest returns would drop off, and he expected the four-your average would be right at the assumption or slightly above. He stated that in three years we would reach the full effect of the negative returns this year. He stated we should be able to weather the negative returns next year.

Mr. Donlan stated in the Fire plan there was an actuarial gain of $752,061.92, but the market value was a loss of $2,094,000 because the return was -1.6%, instead of the assumption of 7.0%. He stated that market value loss in the Police plan was $2.4 million and General plan was $3.4 million. He stated the General plan had an actuarial gain by using the smoothing of $1.4 million but there would have been a loss of $3.4 million, which was almost a $5 million difference using the actuarial value, rather than the market value.

Unfunded Actuarial Accrued Liability (UAAL)
Mr. Donlan stated that the UAAL in the Fire plan was $11,198,378 and as of October 1, 2015, $11,034,477, with an actuarial gain of $899,396. He stated that in the Police plan there was a $681,026 gain and General plan $2,356,459 gain. He stated on the Police and General plans there were the assumption changes which increased the liability of $1,068,158 million in the Police plan and $1,295,120 million in the General plan.

Ms. McGuire clarified that the General and Police plans' assumption was 6.75% and Fire was 7.0%.

Mr. Ponitz asked if the board would reevaluate the assumption change; whereby, Mr. Donlan stated that the boards had decided to reevaluate the lowering of the assumption each year until they reached down to 6.5%, but he stated they did not need to go any lower. He stated that on the state list of all the plans' assumptions, we would be in the 5.0% of the lowest assumption.

Mr. Ponitz noted that on the Statistical Data page the number of people in the plan was going down and the average age was going up, which he asked if that was related to the closing of the plan to new employees; whereby, Mr. Donlan stated that was correct. He stated that most of the terminations were of younger members in the plan.

Mr. Michael Furman asked if new employees were included in the valuation; whereby, Mr. Donlan stated that the General plan was closed to new hires that were not included in this report.

Mr. Donlan stated that the General plan had another great year so the UAAL went down and the payment went down. He stated payroll this year went from $7,324,598 to $7,015,996. He stated they were amortizing the UAAL as a fixed dollar amount, so in a normal year if everything went as expected; the payment would stay the same for paying down the UAAL (mortgage payment). He stated that payroll would go down and the percentage of payroll would normally go up each year. He just wanted to warn the board that payroll would eventually begin to look worse as a percentage of payroll.

Mr. Donlan noted that the normal cost of the active members accruing one more year of benefits would have gone from $990,039 to $949,574 under the old assumption. He stated in a normal situation, the normal cost as a dollar amount would go down, but the assumption change brought it back up. He stated the UAAL payment would gradually go down when some of the losses were paid off, which depended on the investment returns going forward.

<u>Future Assumption Changes</u>
Ms. Hayes asked about the assumption change; whereby, Mr. Donlan stated that next summer the boards would address it again. He noted that at the August meeting, the Police and General plans decided to drop it another quarter of a percent and Fire kept theirs the same. He suggested the boards have the same review next summer. He noted that 6.5% was the original goal.

Mr. Shane Jarrell asked if the city's contribution was expected to go down within the next couple of years; whereby, Mr. Donlan stated he felt the Police would stay fairly level because they did not expect any gains or losses from salary increases and turnover. He stated the four-year average should be slightly above 6.75%, so the cost would come down a little bit for the city next year, and then probably stay about the same. He stated that by reducing the assumption, they could expect the city's cost to come down a little bit each year.

Mr. Bozeman asked where in the valuation it showed the firefighters that would have a lesser benefit rate; whereby, Mr. Donlan stated that issue was in the normal cost, but in the Fire plan, there was one new entrant in 2015. He stated the normal cost had to do with the entry age and other factors, besides just the new benefit rate.

Mr. Donlan noted that Mr. Mulfinger had done a study for the boards whereby a 7.0% return was in his long-range projection.

<u>FRS Mortality Table</u>
Mr. Donlan stated that the legislature adopted a law that said all local law plans had to use the same mortality assumption that the Florida Retirement System (FRS) used but the effective date for any valuations done after January 1, 2016, would be in the October 1, 2016 valuation report. He stated they did not know if mortality would improve every year going forward, although it had improved lately, as people were living longer. He stated the FRS valuation projected that this would happen every year going forward. He stated they did not feel that was necessary. He stated they had done a study for the State of Illinois for all their police officers and firefighters and found that they were dying earlier than the general population. He stated they felt the current mortality tables were accurate. He stated the FRS mortality tables would increase the city's funding, unless they were overturned by the legislature. He stated they had heard there might be challenges to it.

Ms. McGuire asked if it was a requirement, not an option; whereby, Mr. Donlan stated that was correct.

Mr. Lee Dehner, Christiansen & Dehner, stated that it would be effective on January 1, 2016. He stated there had been some discussion on judicial challenge, but that was typical of legislation, as there was often talk and nothing materialized. He stated that something could happen in the next legislative session that started in January, but if there were no changes these changes would need to be incorporated in 2016.

Ms. McGuire asked if the state was overreaching their authority; whereby, Mr. Dehner stated that it should be a board decision, rather than being imposed upon the boards.

Mr. Donlan stated in the Police and Fire plans they used the RP 2000 mortality table which had a set rate for each age. He stated in the General plan they projected improvements from 2000 until the valuation date, so if it was 2015 they were doing the valuation, they actually put in 15 years of improvements and used the same scale pretty much that the FRS used and took it from 2000. He stated they had an assumption that only went to the current year, whereby FRS went on forever. He stated there would be increased costs for the General plan, but a bigger increase for the Police and Fire plans.

Mr. Bozeman asked if FRS used one table for all occupations; whereby, Mr. Donlan stated they assumed a certain number of blue collar and a certain number of white collar employees, and for special risks they assumed more blue collar, which did help because blue collar had higher mortality. He stated there would still be an increase in the Police and Fire plans.

Mr. Dehner stated that primarily the basis for the challenge would be a reasonable estimate and expectation of what actual future experience was going to be. He stated it should be tailored to the population, but FRS was different. He stated that it should not be a one-size-fits-all situation, so that would primarily be the basis for the challenge. He stated that the state would see pushback from the plan sponsors because of increased funding costs.

Mr. Dehner stated in his opinion this was all part of the effort to move away from defined benefit plans, as the legislation was trying to show increased expense in the imposing of unfunded state mandates that added nothing to the administration of the plans, (i.e. the requirement of additional calculations, incorporation of a defined contribution share plan, the mortality table situation, etc.).

<u>Default Procedure</u>
Mr. Donlan stated the legislation said that if the city and union could agree on how to handle the state monies, then the state was fine with that; but if they could not come to an agreement, then they outlined a default procedure to be used.

On the Police plan, Mr. Donlan stated that there was a new frozen amount in 2013 of $287,764.55 and anything that came in above that amount would be split 50/50 between the membership and the city. He stated the city could use their half to offset their funding requirements and the police officers would get the other half in a share plan. He stated that this year $314,798.10 was received, which was a $27,033.55 increase, whereby $13,517.00 would go into a share plan. He stated the city would have been right about $301,000 ($287,764.55 + $13,517.00) to offset their funding requirement, if the default was entered into.

Mr. Dehner stated that if the membership was interested in improvements to the defined benefit plan, they would want to avoid the default provision because it was mandated that the money would go into the defined contribution arrangement, as opposed to improving benefits in the defined benefit plan. He stated where there was not a union, the date was October 1, 2016; and where there was a union, it was the next contract date. He stated that in a number of plans there was mutual consent to use the money to fund existing benefits.

Ms. McGuire asked if the union and city would have to agree to that again; whereby, Mr. Dehner stated that they would have to agree to what was existing and confirm it in the next contract. He stated that it could be put in the contract, but he also recommended a separate mutual consent agreement that specifically stated what would be done with the excess state money. He stated that an important factor was if they reached mutual consent it would not expire upon the expiration of their contract, and would remain in effect until when and if there was another mutual consent agreement entered into. He stated he thought they should also consider having Mr. Donlan calculate what the numbers would be for the default provision for utilization in discussion about the mutual consent issue.

Mr. Donlan stated that on the Fire side the frozen amount would be $348,933.85 and $358,367.33 was received this year, so there would be about $10,000 to split. He stated that there was also a reserve of $334,809.05; whereby, Ms. McGuire stated that there was an agreement to split it 50/50 with half going into a share plan and half going to the city to pay down the unfunded liability.

Mr. Dehner stated that the share plan component was in the proposed ordinance.

Ms. McGuire stated that the agreement was for this contract and did not carry forward. She stated that any new increase would be split under the default provision, unless something else was agreed upon; whereby, Mr. Donlan stated that was correct.

Mr. Donlan stated that the Fire plan had an agreement when they increased the multiplier to 3.37% in relation to the frozen amount at $364,000. He stated that if the state money fell below the frozen amount, then the multiplier would be reduced prospectively, but last year the money went above so the multiplier became 3.37% for all years of service. He stated that this year the state money went back down slightly, so the multiplier will be reduced to 3.35% for service after January 1, 2016, but it would still be 3.37% for all prior years of service. He stated the 3.35% was probably only temporary assuming the state money would go up again.

Mr. Sam Butler moved, seconded by Mr. Dave Ponitz, to approve the Actuarial Valuation and Report as of October 1, 2015. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the Actuarial Valuation and Report as of October 1, 2015. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Lee Strong, to approve the Actuarial Valuation and Report as of October 1, 2015. The motion passed unanimously.

10. APPROVAL OF THE ESTIMATED RETURN FOR THE NEXT YEAR AND LONG-TERM (PRIOR 7.0%)

Mr. Dehner advised that by *Florida Statute*, the boards now had to determine the expected annual rate of return for the current, intermediate and long-term. He stated that it should be based on Mr. Mulfinger's recommendation. He advised that a letter would need to be sent to the Division of Retirement, City Manager, Foster & Foster, and him.

Mr. Donlan stated that the expected rate of return should be the same as it was in the actuarial report just approved.

Mr. Mulfinger stated the expected returns for General and Police of 6.75% and for Fire 7.0% to be reasonable for the short, intermediate and long term.

Mr. Sam Butler moved, seconded by Mr. Dave Ponitz, to approve an expected rate of return of 6.75% for the current year, the next several years, and long term based on the recommendation of its consultant. The motion passed unanimously.

Mr. Michael Furman asked if 6.75% was in the normal range from a statewide perspective; whereby, Mr. Mulfinger stated that it was in the low end and conservative.

Mr. Ponitz stated he understood the 6.75% was already computed within the actuarial valuation but in the investment policy, he asked if this was something else; whereby, Mr. Donlan stated that ten years ago the state actuary required that every board make a declaration of their return every year for the next year, next several years and long-term thereafter. He stated this statement went up to the actuary at the Division of Retirement who reviewed the valuation report along with it. He stated that was why he was saying the statement should be consistent with the valuation report.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve an expected rate of return of 6.75% for the current year, the next

several years, and long term based on the recommendation of its consultant. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Lee Strong, to approve an expected rate of return of 7.0% for the short term, the next several years, and long term based on the recommendation of its consultant. The motion passed unanimously.

Mr. Dehner advised that this letter should be transmitted to the Division of Retirement, Foster & Foster and the city. He noted the boards had done this every year since 2000.

11. INVESTMENT MONITOR REPORT (GRAYSTONE CONSULTING)

Mr. Charles Mulfinger of Graystone Consulting reported that it was a difficult third quarter as stocks did not perform well. He stated that the market had rebounded since September 30. He stated that our portfolios were down less as compared to other portfolios.

<u>Economy and Market</u>
Mr. Scott Owens of Graystone Consulting stated that the market had not had a 10% pullback in about four years as discussed in prior meetings. He stated a lot of the pullback was brought about by news out of China, which had been an engine for global growth for quite some time. He stated that growth was starting to slow down, which was having an impact globally. He stated the question was how much of an impact there would be and where the impacts would be, and if it would be a hard or soft landing.

Mr. Owens stated that China said it would be kind of a soft landing, as a lot of the growth would come from their own borders/their own citizens, resulting in less of a negative impact. He stated that China slightly decoupled their currency from the U.S. dollar, causing a devaluation, which created a lot of uncertainty in the market. He stated this would make all their exports cheaper, making the market very suspicious. He stated that since their growth numbers internally would not be that good, that was why they took this action to help their export numbers. He stated the market reacted very quickly and sharply and then realized it was only a 3.0% devaluation and not that big of a deal, and they were doing it more to become part of a reserve currency of the IMF.

Mr. Owens reported that the market recovered quite nicely, almost bouncing back in a 30-45 day period and had recovered just about all losses. He stated it was the devaluation of China's currency and the threat of deflation that were the issues. He stated that the inflation the Feds targeted was about 2.0% and we have been well below that, with a long-term average at

3.3%. He noted that deflation was worse than inflation, as an inflationary environment in the 2.0% to 3.0% range was good for the market.

Mr. Owens stated that our economy continued to be on strong, solid footing. He stated it was slow, steady growth and that was their forecast going forward. He stated the first GDP number for the third quarter was 1.5% and was revised up to 2.1%. He stated the first and second quarter GDP numbers were also revised up. He stated the numbers were not exciting, but were slow, steady growth. He stated that interest rates came down from 2.3% to 2.01%. He stated that there was a 70% chance that rates would finally go up this month; he noted they had said that three times this year so far.

Mr. Owens stated that the unemployment rate was 5.1%, and had dropped to 5.0%. He noted there had been two jobs reports that were better than expected. He stated the manufacturing services indices at the end of the quarter were both above 50, which indicated that the economy was growing. He stated that housing starts for the year were up over 10% for new homes. He stated they were expecting the same type of growth with a little more volatility as the market became more fully valued and we saw this type of economic data come out. He stated that having managers that protected on the downside was very important, as well as those participating on the upside.

Mr. Owens stated that the very best performer was large cap growth which was down -5.28%. He stated the worst performer was the Russell 2000 Growth Index at -13.07% with mid-cap down -8.01%. He stated that domestic equities performed terrible for the quarter. He stated this bad quarter brought nine of the indices down to negative numbers for a 12-month period.

Mr. Owens stated that nine out of the ten S&P 500 sectors were negative, Utilities was the only sector with a positive return at 5.40%. He stated that Health Care, Materials, and Energy were the most negative. He noted that Energy was down -17.40% for the quarter and continued to fall.

Mr. Owens stated that MSCI EAFE was down -10.24% for the quarter and down -8.65% for the 12-month period. He stated that Emerging Markets were down -17.78% for the quarter and -18.98% for the year. He stated the only bright spot was in fixed income. He noted that when interest rates went down, the value of bonds went up. He stated the Barclays Capital Aggregate (broad market index) return was 1.23%. He noted that Barclays Capital Government bonds did better at 1.71% vs. Barclays Capital Credit bonds at 0.53%, but typically over the longer term, Credit did better. He stated there was a flight to safety and people wanted the safest thing, so they went to U.S. Government bonds.

Performance

Mr. Charles Mulfinger stated that the General Employees' total portfolio balance was $40,241,078 with a loss of $2,118,229 net of fees. He stated he did not like to see a loss like that. He stated that equity weighting was within range and did not need to be rebalanced. He stated that fixed income was also within range.

HGK

Mr. Mulfinger stated that HGK had reported that they would be going more into Energy and by doing so and being heavier in Materials and Industrials underperformed for the quarter. He stated HGK believed the economy would pick up over time, but being overweight in economically sensitive areas punished them during the quarter. He stated they were overweight in Energy, Materials and Industrials which performed at the bottom and underweight in Consumer Staples which was at the top as far as performance and this was the reason their return was -12.67% vs. the benchmark at -8.40%. He stated the one-year return was -13.72% vs. the benchmark at -4.43% and the longer term numbers were below the benchmark. He stated that the shorter term performance definitely had an impact on the returns going back to 2009. He stated the overweight in Energy caused a dramatic difference.

Mr. Mulfinger stated that all the other managers did not have this problem and their returns were what he expected. He stated he would expect HGK to be more negative, but not that much negative. He reiterated the overweight in Energy was what caused the negative returns. He stated he was talking longer about HGK because they were the manager we should be the most concerned about.

Sawgrass

Mr. Mulfinger stated that Sawgrass's return was less negative at -4.15% than the benchmark at -5.28%, which was what he expected. He stated they were a more defensive manager and underweight in Materials and Health Care and overweight in Consumer Staples, which helped their return. He stated the one-year return was less positive, three-year a little above, and since inception a little bit above the benchmark. He stated this was a little better than he anticipated. He stated they had higher return, less risk and added value to adjust for risk, positive alpha and positive sharp.

Polen Capital

Mr. Mulfinger stated when we first hired Polen, he was concerned because their returns were terrible and had considering terminating them, as a result of Mr. David Polen's death. He stated in the *Wall Street Journal* last month, Polen was reported to be the number one large cap growth manager in the world for the last year. He stated we could see this in our returns, as the return of this quarter was 1.0% vs. the benchmark at -5.28%, one-year return at 18.34% vs. the benchmark at 3.19%, with the three-year and since inception returns now above the benchmark.

Mr. Mulfinger noted that Polen had said that the companies they bought had reported earnings better than the estimate for those companies but they had not been rewarded.

GW Capital
Mr. Mulfinger stated that GW was our top-down manager in the small-mid cap space and was slightly less negative because they had reduced their Energy exposure in this quarter and had cash as part of their holdings. He stated they had a decent size position greater than 5.0% which caused us to be less negative. He stated the one-year was down -9.67% vs. the benchmark at -2.45% because of their previous overweight in Energy. He stated that the three-year and five-year returns were a little below the benchmark, but since inception, which included a down market in 2008, the return was above the benchmark at 14.33% vs. 12.68%. He stated we had a higher return, less risk, and had added value.

Apex Capital
Mr. Mulfinger stated that Apex was hired January 31, 2015, and we did not have a full 12 months of return. For the quarter, he stated that their return was a little more negative, but nothhing significant. He stated that they were a little less negative since inception at -1.89% vs. the benchmark at -2.36%. He stated Apex was overweight in Energy and Health Care and that was the reason their return was more negative.

Delaware
Mr. Mulfinger stated that both international managers had consistently outperformed every time period. He stated that both managers had provided extra value. He stated that Delaware's returns for the one-year, three-year, five-year and since inception were better than the benchmark. He stated that Delaware underweighted Materials and Financials and overweighted Utilities and Consumer Staples.

Renaissance
Mr. Mulfinger stated that Renaissance's returns for the one-year, three-year, five-year and since inception were better than the benchmark. He stated that Renaissance underweighted in Energy and Materials and overweighted in Utilities and Consumer Staples. He stated that the two international managers had the same weightings which benefited the portfolios. He stated both had higher returns, less risk, positive alpha and positive sharp.

Garcia Hamilton

Mr. Mulfinger stated that Garcia Hamilton's returns continued to "*knock the socks off*," as bond managers should not be beating the index as much as they beat the index. He stated they continued to outperform the benchmark in all time periods by a substantial amount per year (1.5% per year), which was unusual. He noted in this quarter Garcia Hamilton had longer bonds, so when rates went lower and went from 3.2% on the 10-year Treasuries down to 2.05%, that was the reason that helped them. He noted that when rates went down, bond prices went up. He stated that since the end of the quarter, rates had gone back up, so that might hurt them, but in this quarter it helped them. He stated they had moved out of Corporates and went more into Governments during the quarter. He stated that by being higher quality, they actually performed better, and that was the reason they were up 1.66% vs. 0.95%. He stated they had higher returns, a little more volatility, positive alpha, and had added value.

<u>Total Return</u>
Mr. Mulfinger stated that the total return was -4.86 vs. the benchmark at -4.94. He stated the one-year return was slightly more negative because of the Energy exposure of a couple of the managers. He stated the three-year and five-year returns were above and since 2001 above at 5.37% vs. 3.82%.

Mr. Mulfinger stated we had had higher returns and less risk, approximately 17 bps. higher return per year. He stated that our standard deviation at 10.55% vs. the policy index at 10.91% was less volatile. He stated that another way to look at risk was our volatility vs. the market and we were 0.95% vs. 1.00, so we were less volatile than the market. He stated that when the market went down, we went down less at -28.93% vs. -31.33%, and when the market went up, we did not capture 100% of the up capture at 98.32% and when the market went down we only captured 95.02%. He stated that since that was more favorable than the down capture and what we did not capture on the up capture, we had positive alpha, which meant our managers had added 40 bps. per year per return when adjusted for risk. He stated our sharp ratio was better at 0.41 vs. 0.38. He stated 97.43% of the return was explained by the benchmark, which was a good benchmark to compare to.

In summary, Mr. Mulfinger stated that we had had a little lower risk and a little higher return, which was the same thing that happened in the quarter.

<u>Investment Policy Checklist</u>
Mr. Mulfinger stated that the "no's" from HGK were because of the Energy overweight. He stated that Sawgrass's "no's" were because they took less risk and were understandable, so they were fine.

<u>Tactical Asset Allocation (Graystone's view)</u>

Mr. Mulfinger stated they were positive in the equity markets and believed the economy would continue to grow slowly. He stated they did not see rates going up dramatically, although they did see them going up gradually. He stated they were overweight in the U.S. market and international and emerging markets.

Within bonds, Mr. Mulfinger stated that they were overweight in Corporate bonds because they believed the economy would do okay and corporations would not go bankrupt and bonds would pay a little higher yield in that area.

Mr. Mulfinger stated that they went from an underweight to an overweight in Inflations-linked Securities as they believed we were just starting to see inflation. He stated that there was some wage increase in recent wage numbers, so it looked like wages were starting to move up, which would be inflationary and that was the reason they moved to an overweight.

Mr. Mulfinger stated they did not own REITs or private real estate. He stated they were now overweight in Commodities and believed there would be good value in the next 12-18 months. He stated we did not own Master Limited Partnerships or Hedged Strategies.

Mr. Mulfinger stated they believed the economy would grow slowly and were not looking for a recession. He stated we were positioned defensively and so far our blend of managers had provided a little higher return plus risk.

Mr. Dominic Morgese asked how China devalued their currency; whereby, Mr. Mulfinger stated China would purposely pay to our currency. Behind the scenes about a week ago, he stated their chief investment officer/head of their global investment committee said China was told to do that because they wanted to become a reserve currency; and in order to do so, they could not stay linked to the U.S and had to be independent. He stated that China was told this by the IMF and Federal Reserve. *[International Monetary Fund (IMF) was an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. Created in 1945, the IMF is governed by and accountable to the 188 countries that make up its near-global membership.*] He stated the perception was they were going into a hard/soft landing and looking to do exports, but in reality it was announced that they had become a reserve currency. He stated they were now part of the basket of reserve currencies, which put more stature behind China for a more stronger representative of the global economy.

Mr. Morgese asked if it was done by printing more currency; whereby, Mr. Mulfinger stated that China would just not track their currency alongside the

U.S. dollar; so when their dollar moved up, it was based on China's currency and not based on the United States'.

Mr. Morgese asked if there was a mechanical way to devalue the currency; whereby, Mr. Mulfinger stated that the reserve controlled interest rates. He stated that China was forcing their exchange rate to be the same as the U.S. dollar. He stated the fear was that China's currency would decline dramatically relative to the dollar, which it only declined 3.0%.

Mr. Mulfinger used Greece as an example, whereby Germany benefited greatly because Greece was part of the euro and kept it weak, so Germany was able to sell their goods much cheaper globally because of the weak currency. He stated from Greece's standpoint it was terrible for the value of their assets, but it could be good for their ability to recover, because they could sell their goods cheaper. Behind the scenes, the countries were saying they needed Greece to stay in because they kept their currency cheaper, as well as the export market.

Mr. Morgese asked if each country's national bank controlled their currency relative to other countries; whereby, Mr. Mulfinger stated that the weaker country would have weaker currency which allowed them to export more, which should rebalance trade among the countries over time by allowing the currency to flow.

Mr. Tommy Bozeman asked about coupling of the currency; whereby, Mr. Mulfinger stated that if a country's currency was low, they would want to couple to the U.S. because they could sell more exports; and if their currency went up and they were coupled to it, their currency would go up relative to other currencies. He stated it would be negative for exports, but not negative for the value of the assets in that country.

Mr. Mulfinger stated that a strong dollar did not always mean a strong economy, but usually it did. He stated that it was relative to what you were comparing yourself to, so if everyone else was weak, you could be less weak and still have a strong dollar.

Mr. Lee Strong suggested on the consumer side the purchasing power would be greater; whereby, Mr. Mulfinger stated the problem was that the purchasing power was greater because the currency was stronger and the other currency showed a lot of weakness, so you were buying goods at a lower price. He stated you would be importing deflation, because you were buying goods cheaper than what the goods were in the U.S. and that could drive your prices down. He stated that was a terrible spiral and was the thing the Fed was most worried about. He noted the Fed had said they did not want deflation in our country because that encouraged putting off purchases which could drive the economy lower.

Mr. Owens stated that there was also an impact on whether it was a consumer driven economy or an export driven economy. He stated it was very, very complex, as about 70% of the GDP was consumer spending. He stated they had talked about it being a tailwind for the consumer. He noted he read recently that lower gas prices put about $300 extra dollars in every U.S. citizen's pocket, which equaled several billion dollars.

Ms. Amanda Hayes asked about their opinion of oil prices; whereby, Mr. Mulfinger stated they felt it was over supplied and would continue to rise. He stated that oil would eventually settle in at a price higher than where it was now, just not short-term. He stated there was a concern about going into a global recession where there would be more supply and less demand, but demand had not slowed, as the problem was the over supply.

Ms. Hayes asked about exporting of oil; whereby, Mr. Mulfinger stated that the fracking technology in place allowed horizontal drilling whereby the wells could be turned on and off, rather than capping the wells. *(Fracking was the process of drilling down into the earth before a high-pressure water mixture was directed at the rock to release the gas inside. Water, sand and chemicals were injected into the rock at high pressure which allowed the gas to flow out to the head of the well.)*

Mr. Owens noted that natural gas had become a big deal, such as the facility in Louisiana that was built as an import facility that had been retooled as an export facility. He stated the U.S. was the number one producer in the world of natural gas. He stated that Opec was low cost in oil and the U.S. was low cost in natural gas. He stated the U.S. could ship natural gas to Europe and still make a large profit.

Mr. Dave Ponitz asked about HGK as the only large cap value manager; whereby, Mr. Mulfinger stated that it was because Polen was a very concentrated portfolio with only about 25 stocks total. He stated because of the higher risk with Polen being concentrated that was the reason the boards looked at having another growth manager that had a larger number of holding and was more defensive. He stated he was glad that the boards did not terminate Polen, because it had really worked out to have a more conservative growth manager to complement Polen. He stated that HGK had 60-80 companies, so it was diverse already on its own.

12. APPROVAL OF REVISED INVESTMENT POLICY

Mr. Mulfinger stated the revisions were as follows:

1. Secondary Objective: The annual rate of return was revised from <u>8.0% to 6.75% for general employees and police</u> and <u>7.0% for fire</u>.
2. Davis Hamilton's name was revised to <u>Garcia Hamilton & Associates.</u>

3. GW Capital Management's name was revised to GW Capital, Inc.
4. Perimeter Capital has been replaced by Apex Capital Management.

Mr. Sam Butler moved, seconded by Mr. Dave Ponitz, to approve the revised Statement of Investment Policy Goals and Guidelines. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the revised Statement of Investment Policy Goals and Guidelines. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Lee Strong, to approve the revised Statement of Investment Policy Goals and Guidelines. The motion passed unanimously.

The Police Officers' Pension Board adjourned at 10:32 a.m.

The Firefighters' Pension Board adjourned at 10:34 a.m.

13. DISCUSSION OF GENERAL EMPLOYEES' COLA REQUEST

Ms. McGuire stated that a few weeks ago she was approached by Ms. Sharon Malek with a request for a one-time COLA for the General Employees' retirees. She stated that the retirees had received COLAs in the past, but there was no automatic requirement for them to receive a COLA.

Mr. Furman asked if there was ever a built-in COLA; whereby, Ms. McGuire stated that there had been a few occasions where the board had requested a 2%-3% COLA which was approved by the City Commission.

Ms. McGuire noted that the Police Officers' had an automatic COLA, which they paid for as part of their 9% contribution, but the General Employees did not pay for their COLA.

Mr. Furman suggested the board needed to have a study performed by Foster & Foster; whereby, Mr. Donlan suggested the board could ask him to do a study for a 1% ad hoc COLA at a cost of $500 for the study. He stated an impact statement would cost $1,000.

Mr. Ponitz asked how long it had been since the last COLA; whereby, Ms. McGuire stated that it had been several years since the last COLA.

Mr. Donlan stated that the information was in the ordinance as follows:

- October 1, 1999 – 5.0% COLA

- October 1, 2002 – 3.5% COLA
- October 1, 2005 – 3.0% COLA

Mr. Donlan noted that it had been ten years since the last COLA and they had been three years apart. He stated that the city would have paid for the cost of the COLA.

Ms. McGuire stated that the union had always had the option to try to negotiate an automatic COLA, such as Police did, at their cost, but they had chosen not to do so.

Ms. Donlan stated that he would show the increase in the UAAL in the study.

Mr. Dehner advised that the board should identify who should be included in the COLA. He noted that in 2005, the ordinance amendment excluded DROP participants and terminated/vested members.

Mr. Donlan stated that they could include everyone currently receiving benefits.

Ms. McGuire asked the board members if they wished to include those in the DROP; whereby, it was the consensus that they did wish to.

Mr. Dave Ponitz moved, seconded by Ms. Kelly McGuire, to approve a $500 study to determine what a 1.0% increase would cost the city, which included retirees currently receiving monthly benefits including DROP participants. The motion passed unanimously.

Ms. McGuire stated that the study would be brought back to the board in February whereby the board could make a recommendation to the City Commission, if they desired to do so.

Mr. Donlan stated that he would perform the study as of October 1, 2015.

Ms. McGuire asked to have the study prior to the next meeting in February.

14. ATTORNEY COMMENTS

<u>Senate Bill 172 and House Bill 1309</u>
Mr. Dehner discussed Senate Bill 172 and House Bill 1309 at the end of Item 9.
<u>Senate Bill 534</u>
Mr. Dehner stated that as required by Senate Bill 534, Mr. Donlan had performed the additional calculations and electronically filed them with the

Division of Retirement and the city was required to post them on their website, along with Mr. Mulfinger's 60T calculations, as referenced by the Florida Administrative Code which essentially compared assumed rates of return vs. the actual rates of return. He stated he was following up to see if the posting had been done on the city's website; whereby, Ms. McGuire stated that they had done so.

15. OTHER BUSINESS

The Firefighters' Pension Board requested their draft ordinance be placed on the February 12 agenda for discussion.

Mr. Ponitz stated that he wanted to let the board know that he and Mr. Butler would be attending the winter FPPTA Trustee School next month.

16. ADJOURNMENT

The meeting was adjourned at 10:48 ~~p.m.~~a.m.

Respectfully submitted,

Lois Towey, Recording Secretary

Attest:

Kelly A. McGuire, Chairman
General Employees' Pension Plan

Ken Artin, Chairman
Police Officers' Pension Trust Fund

Joseph F. Dupree, Chairman
Firefighters' Pension Trust Fund