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

May 13, 2016	**8:30 a.m.**	**Commission Conference Room**

1. CALL TO ORDER

Chairman Kelly McGuire called the meeting to order at 8:40 a.m.

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

Police Officers’ Pension Board member present was Amanda Hayes.

Chairman Joe Dupree called the meeting to order at 9:10 a.m.

Firefighters’ Pension Board members present were Chairman Joe Dupree Tommy Bozeman, and Jim Shaw.

Also present were Mark Harrell of Apex Capital Management, Lee Dehner of Christiansen & Dehner, and Charles Mulfinger and Scott Owens of Graystone Consulting.

2. APPROVAL OF MINUTES OF FEBRUARY 12, 2016

Mr. Sam Butler moved, seconded by Mr. Mike Furman, to approve the minutes of the February 12, 2016, meeting. The motion passed unanimously.

The Police Officers’ Pension Board did not have a quorum.

Mr. Tommy Bozeman moved, seconded by Mr. Jim Shaw, to approve the minutes of the February 12, 2016, meeting. The motion passed unanimously.

3. APPROVAL OF MINUTES OF GENERAL EMPLOYEES’ SPECIAL MEETING ON FEBRUARY 24, 2016

Mr. Sam Butler moved, seconded by Mr. Mike Furman, to approve the minutes of the February 24, 2016, special meeting. The motion passed unanimously.

Mr. Joe Dupree stated that Mr. Sam Butler had entered the DROP and he asked if he was allowed to continue to serve as a trustee; whereby, Mr. Lee Dehner, Christiansen & Dehner, advised pursuant to an Attorney General Opinion of a couple of years ago, someone in the DROP could serve as a trustee as an elected member, but they could not vote for an elected member.

4. PUBLIC COMMENTS

There were no public comments.

5. PRESENTATION OF APEX CAPITAL MANAGEMENT (Small-Mid Cap Growth)

Mr. Mark Harrell stated he was head of Development and a principal of Apex Management, who were Small-Mid Cap Growth managers. He stated that Apex had entered into an agreement to be acquired by a Canadian-based asset managing firm and expected to close on the acquisition on May 31. He stated that 100% of Apex would stay intact, employees would stay intact, and the portfolio managers and owners all signed long-term employment contracts. He stated the philosophy process, trading and operations, and decision-making all would stay within Apex. He stated the reason they were interested in an acquisition was they had grown in assets (over $7 billion) and needed to continue to spend and build out on infrastructure, IT, compliance, HR, admin and accounting, and plugging into an already made infrastructure, let the portfolio manager focus on portfolio management rather than having to built out ancillary items. He stated this was a perfect world to the portfolio manager. He stated that being owned by an asset management firm outside the U.S. let them continue to do what they did without getting into day-to-day decision-making, and was also a perfect scenario.

Mr. Charles Mulfinger, Graystone Consulting, stated that Apex had notified them of the acquisition, the due diligence was performed on the firm, and Graystone was satisfied with the way the acquisition was progressing.

Mr. Harrell stated that they were small-mid cap growth managers with an asset base that was roughly 60% institutional and 40% high net worth. He stated that they were a team with more than 23 years of investment management experience and had been together for a long time. He noted that they had never lost a portfolio manager in the history of the firm, which was 30 years old. He stated that the newest addition to the team joined them over eight years ago. He stated that the team had significant experience. He stated their philosophy and process was top down/bottom up, which was not what was considered top down as it was not a macro economic forecast. He stated they were trying to find secular trends that could lend a tailwind to the earnings streams of the companies they identified from the bottom up. He stated they felt that the marriage of their top down secular trend ideas and bottom up stock selection was where alpha was driven. He stated in the small-mid cap space they looked for companies between $150 million and $10 billion hard cap. He stated if a company grew to $12 billion, it tended to be trimmed out of the portfolio, as they wanted to stay true to the small-mid cap space.

Mr. Harrell stated they were growth as opposed to value or core, so they were looking for companies that were growing faster than the rest of the market. He stated they looked to find two distinct types of companies, stable growth and emerging growth. He stated that stable growth were names that had strong top line revenue growth and had strong bottom line earnings per share growth and consistency of earnings to share growth. Ideally, he stated these names would be a little less volatile in difficult environments, but they were still growth companies. He stated they were looking for emerging growth companies who had explosive revenue growth and might not have any earnings per share growth yet, because they were younger and were spending on infrastructure, research and development, and sales, and the earnings per share was on the come. He stated they were admittedly more volatile but certainly alpha oriented. He stated they balanced the portfolio between a combination of these stable and emerging growth names. Typically, he stated they were 70% stable growth, 30% emerging growth, and the most stable we would see would be 80% stable and 20% emerging, and the most aggressive would be 60% stable growth and 40% emerging growth.

Mr. Harrell stated that some of the secular trends they were involved in were longer term in nature, so they did not change the themes very often, but how they played the themes over time might change. He stated there were themes they felt had a long life still ahead of them and could power earnings of the companies they identified through different types of environments. He stated they had had the pleasure of working with the City of Ormond Beach and the three pension boards since January 6, 2015, which had been a very volatile environment and since that time they were a little behind their benchmark (Russell 2500 Growth), as well as the Russell 2000 Growth as a secondary benchmark to them. He stated there was a lot of volatility, but returns had been right around zero for most of the time. He stated it had been a really odd environment, especially the first quarter or first four months of the year. He stated they had seen non-traditional sectors lead the market the first quarter of the year, as the worst performers were Healthcare, Technology and Financials; and the growth benchmarks, Healthcare and Technology were typically the largest sectors in the benchmarks. He stated the smallest sectors tended to be Telecom, Utilities, Materials and Industrials. He stated their slight underperformance was driven more because of structure rather than stock selection, as they were under weight in Telecom, Utilities, Industrials, and Materials, which cost them about 1.7% in performance. He stated they were overweight in Healthcare and Technology, which were the two underperforming sectors. He stated that structure hurt them in the first four months of the year.

In Technology, Mr. Harrell stated they had one particular name, Cabo Software, that cost them about 100 bps. (1.0%) in performance. He stated it was a 2.0% position, an emerging growth name that missed earnings slightly, which announced an increase in capital expenditures, as they were going to hire almost 1,000 people. He stated their revenue growth was still really strong, almost 30%, so they were growing extremely strong, but it caught them by surprise that they would be increasing spending as much as they were. He stated their stock dropped 50% in a day. He stated they were assessing the name, but did not want to make any major reactions after the stock fell that far on one particular day. He stated they would watch margins, which were the key, especially in technology companies, as margin expansion was what you want to see. He stated they bought this name four years ago and had made a lot of money on it, but that type of drop in one day took everyone by surprise. He stated the increase in employee head count indicated the company was very pleased with their prospect, but Apex wanted to assess their competition and make sure the margins could continue to improve in the face of hiring this many people.

Ms. Amanda Hayes asked about Cabo; whereby, Mr. Harrell stated that they were a big data company query, who was the software behind the scenes. He stated that Microsoft and Amazon were beginning to penetrate that market as well, but Cabo was well ahead of them. He stated they were watching the stock very, very closely. He stated Cabo was one name that hurt them in the first quarter, but they had bounced back about 20% since the end of the first quarter. He stated that Apex believed they may have let Cabo grow a little too big for an emerging growth name.

Mr. Harrell stated in the first quarter, they saw the higher growth momentum types of growth names come out of favor and defensive type of stocks that should do well in a more difficult environment came in favor. He stated their belief in the fourth quarter of last year when the market started to get rocky was that this was more of a growth scare than an impending recession. He stated the market reacted as if though they were heading into an impending recession. He stated Apex decided to keep the structure they had going into the fourth quarter of 30% emerging growth/70% stable growth, believing if they got really defensive and the market rebounded they would get left behind if the market rebounded, so they did not want to do anything rash in the face of what they felt was more of a temporary phenomenon. He stated the change happened about February 11, where the first 1½ months of the quarter looked very ugly with commodities, China, and strong dollar battering the markets. He stated the switch flipped in February and they started to see a return to more normal type of economic environment (and not heading into an impending recession), and since then the market had behaved a little better. He stated Apex believed the second half of the year would be much stronger, earnings growth/profitability would return, and comparisons would be easier for companies' earnings in the second half of the year because they would be compared to the second half of last year where things started to deteriorate. He stated that the dollar, which had ceased to rise and had weakened, was no longer a headwind for companies that exported. He stated they believed commodities would rebound nicely, as oil was up to $46 per barrel from a low of $20+ per barrel. He stated commodities or companies in the periphery of energy or commodities should start to behave better. He stated they believed the second half of the year would be better, but there were a lot of headwinds.

Ms. Hayes asked if they believed oil was steady and they would invest in companies that would not be hurt by another downturn; whereby, Mr. Harrell stated that Energy and Commodities were not a big part of their benchmark or growth indices.

Ms. Hayes asked about companies that would be adversely affected by them; whereby, Mr. Harrell stated that the overall economy would not be pulled down by the negative news and disruption in lower Commodities prices.

Ms. Hayes asked if he was saying he did not see another hit; whereby, Mr. Harrell stated they believed oil would maintain where it was for a while. He stated that there were plenty of things that could change that view, but they did not believe there would be a retrenchment down to the $20's in the cards.

Mr. Harrell stated that there was a rosier picture for the next six months or so, as there were still the elections, and the vote in the U.K. about Brexit and whether they would leave the European Union, which could rattle markets. He stated they did not believe the Federal Reserve would raise rates before the election, unless there was a surprise increase in inflation. He stated that all these things pointed to a better second half of the year. He stated they would not change their structure much, as they were still slightly underweight in Consumer Discretionary, slightly overweight in Technology, and equal weight in Healthcare. He noted they added to a couple of Healthcare names that they believed got battered, Ophthotech and Acorn, two companies involved in eye care. He stated that Healthcare had been in the cross hairs for quite some time, and the negative narrative around the Healthcare sector was really the culprit for the significant underperformance in Healthcare in the first quarter. He stated they hoped that would turn around, but until the elections, there was still an overhanging negative narrative about potential caps on prices of drugs. He stated that Valiant Pharmaceuticals was a serial acquirer of other small drug companies whose drugs had been in the market place for some time. He stated that Valiant would acquire those drug companies and increase the price of the drugs dramatically, without doing additional R&D, changing the molecules, or the actual drug compound, which came under significant scrutiny, resulting in a dramatic drop in their stocks. He stated that any company that had a similar type structure to their firm was down substantially, as well. He stated the negative narrative in addition to potential price caps on drugs and the spotlight on Valiant and what some people believed was an unscrupulous type of formula for dramatically increasing the price of drugs without changing it at all, had put a negative cloud over Heathcare. He stated they hoped to see that lift over the second half of the year.

Mr. Harrell stated that their composite returns over time were very strong, five-year, seven-year, ten-year, 15-year, and since inception. He stated they were proud of the consistency of the performance, as Apex had outperformed 50 out of 53 rolling three-year periods.

Mr. Furman asked how that related to a five-year period; whereby, Mr. Harrell stated that three years was typically an institutional holding period and five years was 100% of outperformance, seven-year period was 100%, ten-year period was 100%. He stated they believed three years would show a full market cycle, and they had a terrific chance of outperforming the benchmark within three years.

Mr. Harrell stated they had the same history, same portfolio management team, same process, same philosophy, but it had been a tough market for growth. He stated they believed they could be in an environment going forward where value outperformed growth for a while. He noted that growth had outperformed value for quite some time. He stated rule of thumb that if growth was scarce, people would pay a premium for growth, so growth tended to outperform when growth was scarce. He stated when there was accelerating growth, value could tend to outperform growth. He stated Apex believed the second half of the year could be an environment where growth reaccelerated and would be easier to find companies that were priced cheaper, which may tend to outperform. He stated within their space they would continue to have that balance between stable growth and emerging growth and presently it was 70/30 respectively.

Mr. Harrell stated the existing portfolio was slightly underweight in Consumer Discretionary, which had been a tough place to be, as there was an Amazon effect. He stated Apex did not have a tremendous amount of apparel companies. He stated their Energy exposure was only 7.0% in the benchmark, which was very small. He stated they were slightly overweight because they believed it would rebound, and they believed the same would happen with Materials. He stated they were slightly overweight in Healthcare and would maintain that slight overweight. He stated that Technology had the biggest overweight, although they had pared back some of it. He stated that companies were still very cautious with the elections and potential tax changes, which had affected Technology by the lack of capital expenditures, but they did believe that it eventually would come back, which would help Technology.

Mr. Harrell stated that some of the secular trends they were involved in were payments and processing (electronic transactions). He stated that the rest of the world was catching up to that, especially emerging markets. He stated that mobile banking by using mobile wallets or Smartphones had increased. He stated that performance had been strong in this sector. He stated that manufacturing and renaissance had also worked well; genetics/ biotechnology area had been tough for the last year; consumer trends were hit and miss, although the area they liked the best was e-Commerce, which had continued to work well, kind of the Amazon effect. He stated they were small-mid cap stocks so they could not buy Amazon, but they were trying to find small names that benefit from e-Commerce in the U.S. and internationally. He stated they could invest up to 15% in ADRs, which were international companies whose stocks traded on U.S. exchanges. He stated they were trying to find companies that had large and growing adjustable markets, and one of the best performing names in the portfolio for a long period of time they just had to sell because it got too big, was Expedia. He stated Expedia was an example of e-Commerce on-line travel. He stated they were trying to take advantage of some of those types of companies.

Mr. Harrell stated that their $5.8 billion weighted average market cap was slightly larger than the benchmark, but that had always been the case. He stated the portfolio, which was 70% stable growth, tended to be companies that were a little larger, but still in the small-mid cap space, who had proven products, navigated through different market cycles, proven earnings, proven management teams, and tended to be a little bigger, so 70% of the portfolio was a little bigger than market cap. He stated the other 30% were the smaller companies, emerging growers, disrupters changing the way business was done in the nature of their industry, but admittedly smaller and less proven, so that was why their market cap was a touch bigger than that of the benchmark.

6. INVESTMENT MONITOR REPORT (GRAYSTONE CONSULTING)

<u>Performance</u>

Mr. Charles Mulfinger stated that they were able to work with Cambiar Investors and worked out a final contract. He noted that GW Capital had originally said they would be closing on March 31, but they kept their people around until April 15 to monitor and continue managing the portfolio because some of their clients had not finalized their contract to convert to other managers. He stated we had the time period from April 15 to now to sign the contract and had been waiting for Cambiar to accept responsibility and do the buys and sells and create the portfolio they wanted.

Mr. Mulfinger stated that there was some nervousness for a while that maybe the contract would not go through because some of the things Mr. Dehner included were for the protection and/or benefit of the plans, which Cambiar had not initially agreed to, but Mr. Dehner was able to convince them that it would be better for both parties and Cambiar finally agreed. He noted that Mr. Dehner would report about this later in the meeting. He stated that Cambiar would be managing the money as soon as the boards signed the contracts and returned them to Cambiar. He stated that he had notified Regions Bank that this change was occurring, who wanted to help to get it done as quickly as possible so that the money did not sit without having a manager over top of it. He stated they notified Cambiar who called Regions to let them know they were ready to go as soon as Regions was ready. He stated they had another document today that would authorize Regions to work with Cambiar. He stated he believed as soon as the documents were signed the new manager would take over very quickly.

Mr. Mulfinger stated that overall the funds had beat the index for the quarter with different managers outperforming or underperforming, with Apex one of the managers that underperformed. He stated he was happy to hear it from Apex first, but they had had a very short track record with us. He stated Apex could be more volatile because they owned companies called emerging growth (tech type of stock in more of the cloud that were smaller companies), which could go up and down a little more. He stated he was not concerned in such a short time period.

<u>Economy</u>
Mr. Scott Owens stated that it had been kind of a crazy market. He noted that they had been saying for multiple quarters that what was expected was a little more volatility with muted returns, and they would maintain that going forward. He stated the third quarter of last year was down 7.0%-9.0% and the fourth quarter was up 7.0%-9.0%, and the first quarter of this year actually made money, but no one would have thought that at the end of January. He stated a lot of these events were driven by macro type events.

Mr. Owens noted the Federal Reserve said they would raise interest rates and rising interest rates typically had a negative impact on Utilities, which was what we saw last quarter, as Utilities and Telecom did not do well. He noted that Financials did well in a rising interest rate environment, and you would expect managers to position the portfolios likewise. He stated that the rates actually went down, which helped Utilities and Telecom, as they did really well and Financials did not do well. He stated the managers positioned the portfolio for what they expected to happen in the market to get as much on the upside and protection on the downside and then it did not happen and impacted the return. He stated there was also the discussion about China and oil prices, which were big macro events that had an impact. He stated that fundamentals have not had a big impact on the drivers in the market as we had seen historically. He stated some of that was starting to turn around as earning seasons were more of a mixed bag with more of a potential for positive earnings, positive growth, revenue growth, low leverage—those types of things.

All in all, he stated the country continued to be on solid footing, not exciting, but solid. He stated the unemployment rate went from 12.9% to 5.0%, which was brought on because wages were starting to go up and people that were not being counted in unemployment (those that had given up) were starting to look for jobs, plus in mining and manufacturing there were some connective excessive layoffs because of what was happening in the oil industry. He stated that both the manufacturing and service index have indicators above 50, as a reminder that the economy was expanding.

Mr. Owens stated that the GDP growth was about 2.0% and during the first quarter about 0.5%. He reiterated it was not exciting but growing with solid footing. He reported that the small-cap growth was down about 5.0% which brought down the index to -1.52%. He stated that the best performer was the Russell Mid Cap at 2.24% and the Russell 1000 (large cap) at 1.17%. He stated that value outperformed growth at 3.92% (Russell Midcap Value Index) vs. 0.58% (Russell Midcap Growth Index). He stated that Telecom and Utilities outperformed all other sectors at 16.60% and 15.60% respectively. He stated that Financials and Healthcare were both negative at -5.10% and -5.50%.

Mr. Joe Dupree asked about this quarter's performance; whereby, Mr. Owens stated that it had been choppy and not up as much.

Mr. Dave Ponitz commented that in previous discussion they said if interest rates went up that affected Utilities; whereby, Mr. Owens stated it affected the borrowing rate, which had an impact on earnings.

Mr. Mulfinger stated that people were looking for yield, and Utilities typically had that, so people wanted to invest in Utilities just to get income. He stated in that quarter people were scared; and if people were frightened, there was a bigger decline like in January. He stated they were really looking for yield then. He stated when fixed income rates went lower, they compared them to bond rates and determined they can make more money by buying Utilities to get income than they can in buying bonds, so that allowed more money to flow into that space.

Mr. Mulfinger stated that Graystone believed that regulated industry that had low growth rate going forward that was trading at high value was not a good bargain. He stated the managers also felt that way because they were active managers and did not want to pay a high price for less growth in the future, so in the quarter when it went up 15%, a lot of the managers did not own it and that was the reason for part of their underperformance.

Mr. Owens stated when they looked at the companies on paper looking at earnings, revenue and growth to make a decision, the stock price should increase on the ones with the best earnings and growth. He stated that was not what was happening as the valuation was so high on the stock price. He stated that Netflix was a good example, as it was one of the biggest drivers of the S&P 500 with a P/E ratio between 300 and 500. He stated based on just earnings, not price, it would take ten years to get their money back. He stated that people were buying stock based on their earnings, but there were other reasons for that such as a lot of revenue growth and spending money, which had an impact on earnings. He stated that a lot of the managers looked at the fundamentals with certain criteria, and just could not buy it because of the high evaluations, which were some of the things that had been driving the market.

Mr. Mulfinger stated that part of the market was looking for guilt and had driven prices up for companies that were considered more defensive, which were now highly valued and not cheap. On the other end of the market, he stated there were companies that had had great rates, but were trading at crazy multiple prices. He stated that the managers were in the middle, and did not own the companies on either end.

International Markets
Mr. Owens stated that developed markets were down about -3.0% for the quarter and -8.27% for the 12-month period. He stated that emerging markets were very positive at 5.75% and -11.70% for the 12-month period.

Fixed Income
Mr. Owens noted that as rates went down, the value of bonds went up. He stated the longer bonds had a fair duration up over 7.0% for the quarter. He stated the Barclays Capital Aggregate returned 3.03%, and the corporate bonds did a little better than government bonds, which was what we should expect, but we had had some quarters where it was the other way around.

Mr. Mulfinger reported that the value of the General Employees' portfolio was $41,613,272 and made money in a difficult quarter of $580,528 net of fees. He stated the portfolio was 66.0% in stocks vs. 65.0%, and within the policy range. He stated the bonds were 33.68% vs. 35%, which was also within the policy range. He stated no rebalancing was required.
HGK

Mr. Mulfinger noted that we had had a lengthy discussion with HGK, who was overweight in Energy, which had hurt their returns. He noted that the boards had asked him to bring HGK's long-term returns at this meeting. He stated Graystone had updated their research report on HGK and made a recommendation change from "focused," their highest rating, to "approved," which was still a good rating. He stated they would not be putting them on watch or recommending changing managers. He stated that his firm still liked and believed in Mike Pendergast, but their underperformance was heavier in Energy which hurt their relative performance to the benchmark. He stated that the report also talked about loss of assets, which was being monitored very closely. He stated their assets were at $2.687 billion, which they believed was enough, but they were still monitoring them.

Mr. Mulfinger stated HGK beat the benchmark for the quarter at 1.92 vs. the benchmark at 1.64%.

Mr. Michael Furman asked if Mr. Mulfinger's team was still recommending HGK as a manager; whereby, Mr. Mulfinger stated that they had not had a search recently, but if they did have a large cap value search, he would probably not include HGK as a new manager, although three quarters ago they did a search and HGK was hired. He noted that he had told HGK at the last meeting that they expected to see outperformance on an ongoing basis.

Mr. Mulfinger stated that they would be happy to do a search for the boards and if Ms. Hayes had someone in mind, to let him know.

Ms. Hayes stated that the market had been very choppy and there was a lot of cash available; whereby, Mr. Mulfinger stated that in a pension plan, the money was disbursed between stocks, and they agreed the market was not trading cheap anymore and was trading at 16-18 times earnings; and bonds were very expensive because interest rates were going up. He stated in a pension plan we did not want to go to cash because we had a rate of return assumption that had to be met over time. He stated by going to cash, we would get almost zero return. He stated that we rode it out with the best diversification possible and so the managers tried to get the highest return with an acceptable rate of risk, without market timing. He stated we were paying them a fee to invest the money, and the managers held very little cash, except when they were buying stock. He stated that each manager had a different objective relative to their index. He stated they were managing their piece of the puzzle, not looking at the big picture/whole market and trying to get in and out.

Ms. Hayes suggested this was something HGK had to ride out or buy and hold, but she felt when they bought and held the wrong types of stocks, it was detrimental to the overall plan. She stated that HGK was overweight in

Energy and she felt it was unrealistic that oil would come back in the next five years. She stated she was also concerned with their loss of assets.

Mr. Owens noted that they did several manager searches last quarter and there was never a consensus of the board on any of them.

Mr. Bozeman commented that the loss of assets by HGK was scary and maybe an indicator of how they would perform in the future, but they were a value manager who had underperformed the index, but still made money. He felt it would be interesting to hear from other managers and he suggested bringing in mangers and then evaluating HGK the next quarter.

Mr. Butler asked if the board took that same opinion on Apex; whereby, Mr. Mulfinger stated that Apex had not been hired for a long enough period of time.

Mr. Furman stated he felt it would be a waste of the board's time to interview other managers if we were not ready to do a change. He favored listening to the money managers when the boards were definitely interested in replacing HGK.

Mr. Butler suggested following their performance closely for the next few quarters.

Mr. Mulfinger advised that when the boards were ready for a search, he would bring back three managers in that space, explain their differences, and then the boards could decide if they wanted to interview them or not.

Mr. Mulfinger noted that Polen was 15% below the benchmark right after they were hired because Mr. David Polen had passed away. He stated that Polen had come back beating the benchmark in all time periods, except for this quarter. He stated you had to be very careful to not replace a manager right before they outperformed.

Mr. Mulfinger noted that Renaissance had just had a bad quarter, but they were doing fantastic for the boards.

Mr. Mulfinger noted that HGK was overweight in Industrials, Utilities, Consumer Discretionary and Materials. He stated that four of the best performers HGK was overweight in and underweight in Financials and Healthcare and that was the reason their return was a little better for the quarter. He stated their long-term returns were below the benchmark, so we needed to see outperformance. He stated that Energy prices that were as low at 26 were at 47 yesterday. He stated there had been a big move in Energy prices in a relatively short period of time.

Sawgrass
Mr. Mulfinger stated that he was glad to see some outperformance here because a lot of growth managers had struggled recently. He stated that Sawgrass was the more defensive, more conservative large cap growth manager. He stated they were overweight in Telecom, which was a top performer, and Consumer Staples, and were underweight in Financials, Healthcare and Consumer Discretionary. He stated it worked out and was a great quarter. He stated with this quarter the one-year number was above the benchmark, three-year was still slightly below, and since inception they were above the benchmark over the whole time period with less risk.

Polen Capital
Mr. Mulfinger stated that Polen was a little below the benchmark this quarter as they had underweighted Consumer Staples, Telecom and Industrials. He noted that Polen did not own any Utilities stocks.

Mr. Dave Ponitz asked if this manager would be the most diverse of all the investment managers; whereby, Mr. Mulfinger stated that the manager was in the large cap growth space and he liked to see them compared to the Russell 1000 Growth benchmark. He stated that some managers had concentrated holding and had what was called "high active share," which meant their holdings were different than the benchmark and acted differently than the benchmark overtime. He stated that Polen had very high active share, very different holdings than the benchmark. He stated the next question was what benchmark should Polen be compared to; whereby, Mr. Mulfinger stated that an "R-squared" meant how much the return they had was explained by the benchmark, which should be a number greater than 80 in order to be comfortable with the benchmark they were compared to. He stated they looked at every benchmark possible to see what to compare them to and the Russell 1000 Growth had the highest R-squared, highest correlation and explained it the best at 81. He stated that explained 81% of their return and the Russell 1000 Growth was the best benchmark to compare them to.

Mr. Mulfinger stated that the reason we have two large cap growth managers was because Polen was so concentrated. He stated this was the only space in the portfolio where there were two managers. He stated with Polen we were looking for bigger returns with more volatility because it was more concentrated, and Sawgrass was more conservative, and the two together complimented each other. He commented that over the past 20 years Polen was in the top one percentile of large cap growth managers.

GW Capital

Mr. Mulfinger stated that GW's return for the quarter was a little less than the benchmark, but they were no longer managing our portfolio.

Apex Capital

Mr. Mulfinger stated that Apex reported they had overweighted Healthcare and Technology, which were two of the lowest performers, and underweighted Industrials, Materials, Consumer Discretionary, and Consumer Staples, which was the reason their return was more negative. He stated Apex reported they had stable small cap growth companies and small cap emerging growth companies with about 30% in emerging growth companies, which got hit during the quarter. He stated we had had Apex only a short period of time in order to evaluate their performance.

Delaware

Mr. Mulfinger stated that we had had both international managers for a long time in both up and down markets. He stated they had crushed their return, as Delaware had beaten the benchmark in every time period going back to 2005 with less risk, adding a lot of value. He stated that this quarter they underweighted Financials, and overweighted Energy, Telecom, Utilities and Consumer Staples, and that was the reason they were flat vs. the market at -3.0%. He stated it was a great return at 0.25%.

Renaissance

Mr. Mulfinger stated that the quarter was difficult for Renaissance, but their one-year, three-year, five-year and since 2009 returns had beaten the benchmark by almost 2.0% per year over the whole time period. He stated they were confident Renaissance would continue to do well. He stated they had had a higher return, less risk, and added a lot of value. He stated this quarter was the only time period they were a little below the benchmark.

Garcia Hamilton

Mr. Mulfinger stated Garcia Hamilton's return was unbelievable. He stated that everyone thought rates would go up, and then they went down, whereby Garcia Hamilton's longer bonds benefited them. He stated they had a good quarter up 2.85% vs. 2.45%, and all time periods were above the benchmark. He stated they had a higher return, little more volatility, and had added a lot of value.

Total Return

Mr. Mulfinger stated the total time-weighted return was above the benchmark for the quarter and all other time periods. He stated that it had not been easy to beat the benchmark in the last five years because the benchmark had low quality, which had done very well off the bottom, yet we still beat the benchmark with active management in a difficult environment.

He noted that we had captured 98% of the up move and outperformed by capturing 95% of the down move. He stated the alpha vs. market was 39 bps. per year, and the sharp ratio at 0.43 vs. 0.41. He stated that all our indices explained 97% of the return (R-squared), which meant all the statistics had value. He stated everything was good.

<u>Investment Policy Checklist</u>
Mr. Mulfinger stated that the "no's" from HGK were discussed and Apex because we have only had them a short period of time.

Mr. Mulfinger stated that Mr. Dupree had requested them to look at some of HGK's longer-term returns, which he distributed to the board. He stated it went back ten years, pointing out that the shorter-term returns were below the benchmark and since inception was a little above the benchmark. He stated that poor short-term returns impacted the long-term numbers.

Mr. Dupree expressed his concern about HGK's underperformance in 40+ quarters; whereby, Mr. Mulfinger stated that this did not mean that in every time period they underperformed, but over the whole time period most of the annualized returns underperformed. He stated that Energy caused the longer term trend to look bad.

<u>Tactical Asset Allocation (Graystone's view)</u>
Mr. Mulfinger stated looking forward they believed stocks would outperform bonds, U.S. stock markets would be okay, developed countries would be okay, bonds would not do well, but they did not believe we were going into a global recession and bonds would hold up. He stated they believed eventually rates would go up and bonds would go down. He stated we had to have bonds because if we went into a global recession, bonds would be the only thing that would do well.

Mr. Mulfinger stated those who believed higher returns expectations going forward were unrealistic. He stated we were in a global environment where there was too much debt across the whole world and a lot of things were happening to try to keep economies up, such as negative interest rates, which had not been done until recently. He noted there were companies in Europe actually going to negative rates, which meant they held your money without knowing what might happen.

In summary, the plan had a very good quarter, beat the benchmark, and made a little money, but longer-term the plan was doing fantastic with higher return and less risk.

Mr. Furman asked about other plans they monitored and if there was a more generalized investment policy statement which would allow alternative investing of 3-5%, such as endowments, that would be acceptable in the

State of Florida, and allow more flexibility to the trustees; whereby, Mr. Dehner stated that the trend had been over the past three to five years to provide more authority to the board to remove parameters from the ordinance letting it be developed by the investment policy statement. He stated that many cities were amending their plans in that manner.

Mr. Furman stated he was looking to create an investment policy statement that had parameters allowing a 0-5% alternative, giving the trustees the authority and flexibility, whether they used it or not, based on Mr. Mulfinger's recommendation.

Mr. Dupree noted that none of the City Commission had ever attended a pension board meeting that he could think of. He suggested they did not see firsthand how the meetings were conducted; whereby, Ms. McGuire stated that some of the Commissioners read the minutes. She commented that the boards could not bring this issue back to the Commission unless one of the Commissioners requested it.

Ms. McGuire suggested that when the new Commission came in, there was a reception held, which would be a good time for the board members to attend and introduce themselves to them.

7. DISCUSSION OF WOLF POPPER LETTER (GE)

Mr. Dave Ponitz stated that this letter was provided at the winter conference and he just wanted to bring it to the board for information purposes only. He stated he was very satisfied with Mr. Dehner's services.

Mr. Dehner stated that Wolf Popper was a securities litigation firm who would monitor the portfolio to determine whether or not we owned any securities that the company issuing securities was defending their shareholder litigation class action. He stated they provided information about the litigation and did not charge for it. He stated it was their hope to represent a lead claim, which would be one of the biggest stakeholders, and the firm that represented the lead plaintiff derived the contingency fee for the litigation.

Ms. McGuire commented that the board was represented by one of these firms already.

Mr. Dehner advised that if we were not lead plaintiff, the way we would participate in a recovery, via a judgment or settlement, was by filing a proof of claim with the court. He stated that typically the custodian did that. He stated that Regions monitored this for us. He stated that it was unlikely because of our size that we would be asked to be lead plaintiff, but it was important that a proof of claim was filed because that would enable us to share in any recovery.

8. DISCUSSION OF RICK CONTE DISABILITY PENSION (FF

Mr. Dupree asked if the board had to do anything regarding Mr. Conte's disability application; whereby, Mr. Dehner stated that his office was processing this claim pursuant to the rules for disability claims. He stated his office had sent out interrogatory medical releases for signature, a copy of the rules, and a copy of relevant provisions of the ordinance. He stated once everything was returned, they would send directly to the medical providers a request for medical records and request personnel records and/or workers comp records from the city. Once those were received, he stated they would set up an independent medical examination and when that was received, the board would need to meet to discuss all the documentation received and the status at that point.

Mr. Dupree asked if a second opinion was necessary; whereby, Mr. Dehner stated the answer was yes because it had to be determined if the person was totally and permanently disabled to the extent he was unable to render useful service as a firefighter. He stated the key was total and permanent; and if it was determined to be permanent, the next issue was causation of whether or not it was directly caused by performance of duty or not. He noted that even if a person was terminated for medical reasons, there were still issues that needed to be determined by the board.

Mr. Dupree asked if the person would have to pay taxes on a disability pension; whereby Mr. Dehner stated that there was a number of criteria that the IRS looked at to determine whether or not some or all the benefit was income tax free. He stated that the board did not give tax advice. He advised that if it ended up being an in-line of duty pension, there could be a portion of the benefit that would be tax free.

Ms. McGuire asked what date a disability pension would start; whereby, Mr. Dehner stated that it began when the board determined entitlement.

Mr. Dupree commented that he thought it was wasteful to require an IME; whereby, Ms. McGuire noted that the disability retirees were required to certify that they were still disabled on an annual basis, as they stayed on disability retirement the rest of their lives and would continue to receive whatever tax benefit they were entitled to receive. She suggested that Mr. Conte may wish to wait for full pension benefits.

Mr. Dehner advised that there could also be a workers comp offset.

Ms. McGuire stated that the disability retirees on all three boards would be receiving a form annually whereby they had to certify that they were still disabled.

Mr. Dupree asked if the disabled retiree was deemed employable, if the city had to give them their job back; whereby, Mr. Dehner advised that the benefit was until death or recovery. He stated that the person could work at something else and still be deemed disabled as a firefighter.

Mr. Dehner advised that the board's job was to provide information and not give advice, which could result in a liability situation.

Mr. Dupree recalled that the board had discussed death benefits for the spouse of a vested member for their lifetime; whereby, Mr. Dehner advised the death benefit could be restructured. He stated the first step would be to ask Mr. Donlan to provide different packages and the cost of them.

Ms. McGuire advised that Mr. Conte was eligible for early retirement on November 1, 2016, and full retirement on March 1, 2017.

Mr. Dehner reiterated that their job as trustees was to provide information and not to give advice, as Mr. Conte should seek counsel in some way from someone who knows his whole situation.

Ms. McGuire advised that the death benefit would be a bargaining item and he should provide the information to Mr. Eric Sommerlad and Mr. Matt Marteeny as soon as possible for upcoming negotiations.

Mr. Dupree expressed his frustration that the board could not make certain decisions; whereby, Ms. McGuire stated that the board could make decisions on assets, management and so forth.

Mr. Dupree referred to the Summary Plan Description (SPD) noting that a member had the ability to buy back prior military service one time prior to retirement. He stated the SPD was five years old; whereby, Mr. Dehner advised that the SPD reflected what was in the ordinance and if he wanted to make a change, the ordinance would need to be amended.

Mr. Dupree stated that he desired a change to allow multiple buy back requests; whereby, Ms. McGuire recalled that this was discussed during the last collective bargaining sessions and it did not go anywhere.

Mr. Dupree stated that there was a member who had a study performed, which had expired, and now he wanted to have another study done; whereby, Ms. McGuire advised that multiple studies could be done as long as the member paid for them, but the member could only buy back his prior service one time. She noted that the study expired after six months of the request.

Mr. Dehner advised that there were plans that allowed multiple requests for buyback. He advised that the military provision was required by federal law under the Uniform Services and Reemployment Rights Act, which appeared in our plan as accredited service definition.

Mr. Dupree asked if military accredited service applied to the years of service (not vesting); whereby, Mr. Dehner stated that it did.

9. DISCUSSION OF DRAFT FIREFIGHTERS' ORDINANCE

Mr. Bozeman referred to (1) Allocation of Chapter 175 Contributions, paragraph a, "…*Members of the System in 2006, 2007, 2008, 2014 and current members still employed on December 9, 2015, shall receive equal amounts of state money available for the Share Plan for each year of membership…*" He stated that the wording seemed ambiguous as it appeared that anyone employed on December 9, 2015, would receive a portion of the share accounts in 2006, 2007, 2008 and 2014. He stated he believed the language should state that the member was eligible only for the years he was employed.

Ms. McGuire suggested the language should not be "and current members" but "who are also current members as of December 9." She asked who administered the Share Plan; whereby, Mr. Dehner stated that the board administered it.

Mr. Dehner clarified that the language only covered the designated years, and anything beyond this would need to be negotiated.

Mr. Dupree asked if the board could approve the ordinance amendment at this time; whereby, Mr. Dehner suggested that the board should review the changes in the final draft at a special meeting.

Mr. Dehner clarified that new hires' benefit rate would be 2.75% after May 20, 2014. He asked if that also applied to disability retirees; whereby, Ms. McGuire stated that it was for all new hires for any purpose.

Ms. McGuire stated that she had read that this agreement was in place until another one was in place; whereby, Mr. Dehner stated that was mutual consent, which would remain in effect until there was a new mutual consent agreement. He noted the mutual consent agreement would need to be signed by both parties.

10. ATTORNEY COMMENTS

Mr. Dehner stated that the valuation report was done in December 2015, as well as additional calculations required by the actuary, which Mr. Donlan had done in February and filed electronically with the Division of Retirement. He stated it had to be posted to the city's website within 60 days of the valuation report. He stated that Mr. Mulfinger had also provided 60T calculations that needed to be posted on the city's website. He stated he was following up to be sure the reports had been posted to the city's website.

Mr. Dehner reminded the trustees to file their Form 1 by July 1.

Mr. Ponitz noted there was a check box added to the form this year; whereby, Mr. Dehner advised that it did not cover trustees, as it was for elected officials to certify they had had the proper training for the position.

The General Employees' board adjourned at 10:20 a.m.

Mr. Dehner stated that there were two bills pending, one to add cancer as a presumptive in-line of duty basis for disability, and another to protect former firefighters' names and addresses like active firefighters. He stated that neither got out of committee. He stated he would like to see both of these bills brought back.

Mr. Dehner stated that there had not been much pension activity in the legislature so far this year.

15. OTHER BUSINESS

16. ADJOURNMENT

The meeting was adjourned at 10:56 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