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

December 16, 2016	8:30 a.m.	Commission Conference Room

1. CALL TO ORDER

Chairman Ken Artin called the meeting to order at 8:35 a.m.

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

Police Officers' Pension Board members present were Chairman Ken Artin, Secretary Shane Jarrell, Amanda Hayes, Dr. Andy Harris, and Jim Doggett.

Firefighters' Pension Board members present were Chairman Joe Dupree, Secretary Dominic Morgese, Tommy Bozeman, Lee Strong, Jr., and Jim Shaw.

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

2. APPROVAL OF MINUTES OF August 12, 2016

Mr. Dave Ponitz moved, seconded by Mr. Sam Butler, to approve the minutes of the August 12, 2016, meeting. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Dr. Andy Harris, to approve the minutes of the August 12, 2016, meeting. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Dominic Morgese, to approve the minutes of the August 12, 2016, meeting. The motion passed unanimously.

3. APPROVAL OF MINUTES OF August 26, 2016

Ms. Amanda Hayes moved, seconded by Dr. Andy Harris, to approve the minutes of the August 26, 2016, meeting. The motion passed unanimously.

4. CERTIFY ELECTIONS

Ms. Amanda Hayes moved, seconded by Dr. Andy Harris, to certify the election of Mr. Jim Doggett as Trustee of the Police Officers' Pension Trust Fund to serve the remainder of the term of Royce James to September 30, 2017. The motion passed unanimously.

Mr. Jim Shaw moved, seconded by Mr. Dominic Morgese, to certify the election of Mr. Tommy Bozeman as Trustee of the Firefighters' Pension Trust Fund to serve a two-year term to September 30, 2018. The motion passed unanimously.

5. PUBLIC COMMENTS

There were no public comments.

6. APPROVAL OF 2016 MEETING DATES (February 10, May 12, August 11, December 15, 2017)

Mr. Sam Butler moved, seconded by Mr. Dave Ponitz, to approve the meeting schedule for 2017. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the meeting schedule for 2017. The motion passed unanimously.

Mr. Dominic Morgese moved, seconded by Mr. Jim Shaw, to approve the meeting schedule for 2017. The motion passed unanimously.

7. APPROVAL OF ANNUAL ACCOUNTING FOR FISCAL YEAR 2015-16

Mr. Ken Artin asked about the Annual Accounting; whereby, Mr. Dehner stated that it was one of the requirements of Senate Bill 172. He stated there were two requirements: 1) to adopt a budget for the next fiscal year, which had been done; and 2) to approve actual expenses that were incurred for the prior fiscal year.

Ms. Towey commented that this was the second year of compliance.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the Annual Accounting for FY 2015-16. The motion passed unanimously.

Mr. Jim Shaw moved, seconded by Mr. Tommy Bozeman, to approve the Annual Accounting for FY 2015-16. The motion passed unanimously.

Ms. McGuire noted that Ms. Towey had provided the Annual Accounting to the General Employees' board, at their request, but it did not need to be approved.

8. PRESENTATION OF ACTUARIAL VALUATION AND REPORT BY FOSTER & FOSTER

Mr. Patrick Donlan, Foster & Foster, stated he had relatively good news for all three plans. He stated that every year as of October 1 they looked at the assets in the plan and projected out all the future retirement benefits to determine an appropriate funding requirement for the next year. He noted that all three plans had to make one assumption change, because the state passed a law last year that said every plan in the state had to use the same mortality assumption as the Florida Retirement System (FRS), which increased the liability for all three plans. He noted the cost would have gone down on three plans, except for the mortality change. He noted that FRS assumed that people would live longer, but last year was the first year that life expectancy went down.

Mr. Donlan reported that in the Fire plan, the total contribution would have gone from 65.8% to 62.8%, but with the mortality change it went back up to 65.7%. He stated that everyone talked about the Unfunded Actuarial Accrued Liability (UAAL) and all three plans were behind where they would like to be, but all three plans had actuarial gains, except for the assumption changes. He stated that part of the actuarial gains in all three plans was the investment return. He stated they used a four-year smoothing technique whereby all three plans beat their assumption for the one-year period and on the four-year rolling average. He stated that all three plans had gains from salary increases, which were less than their current expectations (assumption), so the projected benefits upon retirement that were based on the final average salary that grew less than expected, resulting in an actuarial gain. He reported that active decrements were fairly neutral on all three plans (turnover in retirees). He stated that in active mortality there was a loss on police because no one had passed away. He stated that the general plan had more than expected deaths, which resulted in a gain of $321,000.

Mr. Donlan noted that the assumption changes wiped out the actuarial gain because if they assumed people would live longer and be paid out longer, that would increase the liability.

Mr. Donlan reported that all three plans beat their assumption on the rolling four-year average, but the bad news was that the best return was 2013 and would be dropping off next year. In the general plan, he stated if the return was 6.75% this year, then the four-year average would be 6.38%, which would be a little bit of an actuarial loss on the four-year smoothing next year. He stated if the return was 8.62% this year, then the four-year average would be 6.75%. He stated that the four-year average would not be quite as good unless the return this year was 13.87%.

Mr. Bozeman asked if this was a weighted average; whereby, Mr. Donlan stated it was a geometric average, which was 1+ the first year, 1+ the second year, and 1+ the third one.

Ms. McGuire suggested that the second year would be worse with the 11.92% dropping off; whereby, Mr. Donlan stated that was correct, and if the return was 6.75% for the next two years, then the four-year average would be 5.13%.

Mr. Donlan stated that the traditional funded ratio was the actuarial value of assets over the actuarial accrued liability, and plans should be in the 80-100% range for that. He stated the general employees' plan was 82.3%, police at 70.8% and fire at 72.7%. He stated under the old assumption, all three plans had an improvement in the funded ratio between October 1, 2015, and October 1, 2016.

Mr. Dave Ponitz asked about the determined city contribution this year and if this assumption included that assumption; whereby, Mr. Donlan stated this it did not, as it was looking at a snapshot of October 1, 2016, of the liabilities and assets.

Mr. Dupree asked if the total annual payroll percentage could be changed to a dollar figure; whereby, Mr. Donlan stated that it could be a percent or dollar, but the plans had decided in the past to keep it a percent.

Mr. Dupree asked for a dollar value; whereby, Mr. Donlan stated that payroll was about $2.7 million, so 0.01% was only $2,700. He stated it pretty much stayed flat and would have gone down, except for the mortality assumption change required by the state.

Mr. Sam Butler moved, seconded by Mr. Dave Ponitz, to approve the Actuarial Valuation and Report as of October 1, 2016. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the Actuarial Valuation and Report as of October 1, 2016. The motion passed unanimously.

Mr. Dominic Morgese moved, seconded by Mr. Jim Shaw, to approve the Actuarial Valuation and Report as of October 1, 2016. The motion passed unanimously.

9. APPROVAL OF ESTIMATED RETURN FOR NEXT YEAR AND LONG-TERM (Prior GE & PO 6.75%, FF 7.0%)

Ms. Kelly McGuire noted that this was not the return used in the actuarial valuation report.

Mr. Dupree commented that if they lowered the assumption, the city's contribution would increase, but if they raised the assumption, the city's contribution would decrease; whereby, Mr. Donlan stated that was correct but there were many other assumptions involved in the calculation.

Mr. Dehner advised that this item was not addressing the actuarial assumption, but it was what the board actually expected the fund to earn. He stated this was required by *Florida Statutes*.

Mr. Charles Mulfinger, Graystone Consulting, stated that they believed the rate of returns of 6.75% for general and police and 7.0% for fire were reasonable for the short-, intermediate- and long-term.

Mr. Dave Ponitz moved, seconded by Mr. Sam Butler, 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.

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. Dominic Morgese, 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. Michael Furman asked if this would be their assumption for next year; whereby, Mr. Donlan stated that the boards would still discuss the valuation assumption in August and decide what they wanted to use for October 1, 2017.

10. INVESTMENT MONITOR REPORT (GRAYSTONE CONSULTING)

Mr. Charles Mulfinger, Graystone Consulting, stated that he was glad to hear from Mr. Donlan that the return was above the assumed return for each of the plans. He stated he showed the returns at about 8.7% for the year. He stated it was a good year and good quarter at 3.0% for each plan. He stated looking forward that they should not expect an annualized 8.7% return. He stated that this year the market started out very strong, but the bottom part of the market was getting punished. He stated there would be negative returns on bonds, and the fact that there was 35% in bonds in each plan would impact the plans because of rising interest rates. He noted that the ordinance did not allow them to move any money into another asset class. He stated that once interest rates moved up and bonds moved down temporarily, then we would be able to buy bonds at higher rates, but we would have to go through the pain first, which was being felt right now.

Mr. Dupree asked if the board should try to revisit the alternative asset classes since there was a new City Commission; whereby, Mr. Bozeman noted that they had briefly discussed this at the last meeting and decided to wait until 2017 to bring this up again.

Mr. Mulfinger stated that people would be shocked when they got their fourth quarter statement. He stated that people had been buying long-term bonds to get the highest yield to generate income, but they would be shocked to see what happened to the bond prices.

Mr. Mulfinger noted that there had been 30 years of declining interest rates and we were not at the beginning of the up movement. He stated the interest had gone from 1.59% to 2.5% at the end of September in the 10-year Treasury. He still recommended moving a portion of the 35% in fixed income to an alternate asset class. He noted it would have been better to have done so three years ago, but he still recommended doing it.

<u>Economy</u>
Mr. Scott Owens noted that the market had had more than 25 highs this year so far, which a lot had been driven by perception. He stated that meant you would be buying the future earnings of a company. He stated that fundamentally when the earnings went up, the price of the stock went up. He stated that this year there was a lot a perception driving the market, such as Brexit when nothing really happened in the market, but the market thought something was going to happen, and then three days later they realized nothing was going to happen and the market came right back. He stated the same thing happened in our country with the election, at 2:30 a.m. the night of the election, the futures were down 800 points or 6.0%, but by 9:30 a.m. the market opened up and nothing happened. He stated

fundamentally, our country continued to be strong, or at least on solid footing. He stated that they had heard this for multiple quarters.

Mr. Owens stated that the third quarter GDP came out at 2.9%, and was revised to 3.2%, which was good. He stated the second quarter GDP was also revised upward, so the economy was on the right path.

Mr. Owens stated that the unemployment rate was down to 4.95%, which was the lowest it had been in about eight years, and wages were going up. He stated that wages were the highest they had been since the 70's. He stated the economy was driven by the consumer, as there were more consumers working at higher wages, which was good for the economy.

Mr. Owens stated that the manufacturing index indicated that the economy was expanding with the expectation that it would expand even more with the new president. He stated the service index was also above, which indicated the economy was expanding. He stated that the index was between 50 and 55 depending on which quarter you looked at. He stated it indicated slow growth. He stated they also expected slow growth going forward.

Mr. Owens noted that Morgan Stanley believed that earnings in companies that were in a trough right now would continue to improve, which should help fundamentally with stocks. In the past earnings season, he noted that 80% of the companies reported earnings and beat their expectations. He noted they had also revised their estimates down earlier in the year, so they beat a lower target.

Mr. Owens stated he felt it was more telling that 60% of the companies with revenue estimates beat their target. He stated that was good news and Morgan Stanley believed this would continue. He noted that since 2008, some companies beat their earnings estimate just by reducing costs, which was also good.

Equity Markets

Mr. Owens stated that everything was positive in the equity markets for the quarter with smaller companies outperforming larger companies and growth outperforming value in every single asset class. He stated the large cap (Russell 1000) was up 4.03%, mid-cap (Russell Midcap) up 4.52%, and small-cap (Russell 2000) up 9.22%.

Mr. Owens reported that seven of the ten sectors were positive with Information Technology being the most positive at 12.90%. He noted that Telecommunications and Utilities were the most negative, both being down -5.60% and -5.90% respectively.

Mr. Artin asked why Telelcom was down; whereby, Mr. Owens stated that Telecom and Utilities were driven by rates and because there was a shift in the market from value to growth. He commented that last quarter the best performing sectors were Telecom and Utilities and the worst performing sector was Information Technology. He noted that the board's decision for diversification was demonstrated in the last two quarters whereby last quarter large value companies outperformed and it was exactly the opposite this quarter with growth outperforming. He stated that one never knew when the shifts would take place, so having a diversified portfolio in order to get a better risk adjustment return was the way to go.

International Markets
Mr. Owens stated that the international markets did well, also. He reported that the developed markets returned 6.43% and emerging markets returned 9.15%. He noted that international markets had bounced around the bottom for the last several quarters; but since the election, the international markets had given some back.

Mr. Owens noted that President-elect Trump mandated that he wanted to repatriate dollars, which meant that dollars overseas earned by U.S. companies had a lower tax rate in a foreign country. He stated President-elect Trump wanted to lower the U.S. tax rate in order to bring those companies back to the U.S. He stated that was great news for the U.S., but the money would be taken from somewhere, i.e., the foreign country.

Mr. Ponitz asked about local currency (home currency) vs. U.S. dollars; whereby, Mr. Owens stated that as the dollar increased in value, it had an impact on the return. He stated when it went up, it had a negative impact on the return, and when it went down, it had a positive impact on the return.

Fixed Income
Mr. Owens reported that interest rates went up at the end of the second quarter to 1.47% and at the end of the third quarter about 1.59%, and yesterday at 2.55%. He stated that when interest rates went up, the value of bonds went down. He reported that the Barclays Aggregate (broad market index) was up at 0.46%, but corporate bonds at -0.01% and government bonds at -0.25% were down. He stated in active management, the manager tried to annualize the portfolio so when the bonds were bought with the expectation of rising interest rates, they bought something with a higher coupon in order to get their cash back sooner so it could be reinvested at a higher rate. He noted that a rising rate environment would hurt the fixed income.

Mr. Mulfinger noted that Mr. Owens said we were in a slow growth environment, and it looked like that slow growth environment had been extended some with the policies of the new president-elect, as he has promised new jobs and growth by infrastructure spending, making the military stronger, cutting taxes, repatriating dollars, which should help the economy. He stated that eventually the government would have to pay off all those things, which was currently the biggest fear. He stated that this was a worry that they would hear more about over time.

Mr. Mulfinger noted that he had read an article by Steve Munsen, who stated that as taxes would be cut, deductions would be decreased, which would not cause an increase in the deficit based on reducing the taxes. He noted that it would be interesting going forward.

Mr. Mulfinger stated that we went from a “risk off” environment to a “risk on” environment as they believed the economy was improving, such as the flip from value to growth. He stated in the second quarter and previous quarter, there was talk about a recession, Brexit, and the election. He stated that since the election the market had rallied back and was pretty strong, except for the bond market.

Mr. Mulfinger reported that all three plans were underweight in bonds relative to the target (with police and fire underweigh more), but they had cash plus the fixed income, which helped the portfolios. He advised that we did not need to rebalance.

Mr. Mulfinger reported the General Employees’ fund had a balance of $43,069,546 including a gain of $1,221,428. He stated the portfolio was slightly underweight in Large Cap Value and slightly overweight in Large Cap Growth and slightly overweight in Small/Mid Cap Value and Small/Mid Cap Growth, both Internationals slightly underweighted, but overall 66.94% vs. 65.0%, which was slightly overweight.

Ms. Hayes asked if we could put our fixed income in cash; whereby, Mr. Mulfinger stated he did not recommend doing that because that would be market timing and would be delegating fiduciary responsibility to the members. He stated the fixed income manager would hopefully shorten the portfolio appropriately.

<u>HGK</u>
Mr. Mulfinger stated that HGK, the large cap value manager, who was more economically sensitive and looked for companies with free cash flow, said that fundamentals had not been rewarded but they would be. He noted they had been overweight in Energy, but were now overweight in Tech, Consumer Discretionary and Energy, were up 4.88% vs. 3.48%. He stated it was nice to see the gain, because they were below the benchmark in the one-, three-, five-year and since inceptions time periods. He stated it was important that they were finally outperforming, even though they were still

underperforming. He stated he hoped they would continue to outperform the benchmark.

Sawgrass

Mr. Mulfinger stated that Sawgrass was more diversified with a larger number of holdings, than Polen. He stated that Sawgrass was also very defensive and very conservative. He stated that last quarter Sawgrass did well but this quarter they were only up 0.32% vs. 4.58%, which caused their one-, three-year and since inception returns to be below the benchmark, but they had also taken less risk and we hired them knowing that. He stated they actually had a positive outlook and had added value to adjust for the lower risk they had taken.

Mr. Mulfinger reported that Sawgrass overweighted Consumer Staples, overweighted Telecom and underweighted Tech and Energy. He noted their overweight was in more defensive sectors.

Polen Capital

Mr. Mulfinger stated that when we first hired Polen, we were pretty nervous because they were underperforming dramatically right after we hired them. He stated that David Polen had passed away that year, and fortunately they have outperformed pretty dramatically. He stated that now the quarter was above the benchmark, the one-year was still a little below, three-year and since inception returns were above. He stated we had had higher return, less risk and positive alpha. He stated they outperformed this quarter at 5.00% vs. 4.58% because they had over 50% in Tech stocks, and underweighted Consumer Staples, Real Estate and Telecom, all the areas that were at the bottom.

Cambiar Investors

Mr. Mulfinger stated that we hired Cambiar in May 2016, who was a little more economically sensitive, and overweight in Tech and underweight in Utilities and Telecom. He stated the return was 6.34% vs. 6.18% for the quarter, and it was nice to see a good start.

Delaware

Mr. Mulfinger stated that Delaware was the international manager and was more value style and more defensive. He stated Delaware reported that they owned companies that paid higher dividends, which would make them more defensive. He stated in this quarter they overweighted Telecommunication and Utilities and underweighted Materials and, Consumer Discretionary. He stated they were up but up less than the benchmark. He stated the one-, three-, five-year and since inception beat the benchmark. He stated they had higher return, less risk and added value.

Renaissance

Mr. Mulfinger stated that Renaissance had beaten the benchmark in all time periods by a lot. He stated since 2009 their return was 10.18% vs. 7.66%, which was outstanding to beat the benchmark over two percent. He stated they were more economically sensitive and were overweight in Tech, Consumer Discretionary and underweight in Consumer Staples and Healthcare. He stated they had a higher return, less risk, and added a lot of value.

<u>Garcia Hamilton</u>
Mr. Mulfinger stated that Garcia Hamilton was the fixed income manager and had been outstanding in all time periods. He stated they made some bets, rolled their duration, and had ten-year Corporate bonds, which had benefited the portfolio. He started he hoped they were making the right decisions because their duration was a little long in prior quarters. He noted that if the duration was long and interest rates moved up, it would hurt the return. He stated they still beat the benchmark for the quarter at 0.26% vs. 0.16% and in all other time periods. He stated he hoped they would not be as negative as the bond market in the next quarter.

Mr. Morgese stated that when bond prices went down, they would buy more bonds in order to keep the 35% allocation; whereby, Mr. Mulfinger stated that was correct, but we could be on the lower end of the range. He stated that we were currently on the lower end of the range in all three plans, which had benefited the portfolio and would continue to do so as rates went up. He stated the idea was that one would sell areas that were high and put them to areas that were low.

Mr. Mulfinger stated their view was that this trend would be for a while, so there was no reason to hurry to move more money into fixed income. He stated we would not be market timing, but we would also not be in a hurry to bring it to target.

Mr. Mulfinger stated that the Feds said yesterday that they were going to raise short-term rates three times next year, but he noted that long-term rates would react to it.

Mr. Morgese commented that it was complicated; whereby, Mr. Mulfinger stated that it was complicated that there was not another avenue that we could put money in while the rates were going up, as we were locked in.

<u>Total Return</u>
Mr. Mulfinger stated the portfolio was up 3.02% vs. the benchmark at 3.19%. He stated the one-year was up 9.27%, which was great.

Mr. Michael Furman asked about the policy index; whereby, Mr. Mulfinger stated the policy was looking at our targets for each asset class, and looking at the performance of the index that represented the asset class, and then calculating what the total return was weighted by the policy.

Mr. Mulfinger stated that the one-year return was a little below the benchmark, but the three-, five-year and since inception returns were all above the benchmark. He stated the dollar rate of return was what Mr. Donlan used to determine how the funds had done relative to the actuarial assumptions. He stated the time-weighted return was the return the managers made based on not having in-flow/out-flow of cash. In other words, he stated it linked quarterly returns; whereby, the dollar-weighted return was based on the total value (cash) quarter by quarter.

Since inception, Mr. Mulfinger reported that the return was 6.02% vs. the benchmark at 5.93%; standard deviation at 10.21% vs. 10.57%; beta vs. market at 0.95 vs. 1.00; up capture vs. market at 97.83% vs. 100.00%; down capture vs. market at 95.02% vs. 100.00%; alpha vs. market at 0.35% vs. 0.00%; sharp ratio at 0.45 vs. 0.43; R-squared vs. market at 97.40% vs. 100.00%. He stated that if the R-squared was better than 80, it was a good policy.

<u>Investment Policy Checklist</u>
Mr. Mulfinger stated that there was a “no” from HGK, but it was good to see them outperform; and Apex was still a no, but not a concern.

<u>Tactical Asset Allocation (Graystone’s view looking forward)</u>
Mr. Mulfinger stated they liked stocks better than they liked bonds, but within stocks they were overweight in the U.S. markets. He stated that the policies in place would help earnings and the market. He stated they were equal weight in developed countries and were overweight in emerging markets because they had gotten cheap.

In bonds, Mr. Mulfinger stated they were underweight in U.S. Investment Grade and International with an overweight in TIFs (securities where interest rate changes with the change in rates) and high yield. In REITS, he stated they were underweight, as these were public REITS and not private REITs, which was what he had originally recommended, and still recommended. He stated they were overweight in Master Limited Partnerships and equal weight in Hedge Funds.

In summary, Mr. Mulfinger stated the portfolios were doing fine on a risk adjusted basis and had beaten the benchmark. He stated the only thing that concerned him was 35% in bonds which would be tough going forward to make the actuarial assumption in the short-term. He stated that long-term it was good that rates moved up.
<u>Active Management vs. Passive Investment</u>

Mr. Mulfinger stated that in the past few years passive management had outperformed active management and when that happened the concept of buying high was used (buy after stock had done well). He stated that the press said this was what should be done.

Mr. Mulfinger stated that they took a look historically to compare passive management to active management. He provided a six-page study to the board members (copy attached).

Large Cap
Mr. Owens explained that the first page depicted the rolling three-year returns for all active managers, with the blue bars being the top 25%, red bars being the bottom 25%, and the yellow and green bars being in the 50% range. He stated that in 1999 of the three-year rolling average, the passive investment was in the top 50%. By the third quarter of 2000, he stated that there were more than 50% of active managers outperforming passive, as passive was starting not to do quite as well relative to active managers. In 2001 and 2002 when fundamentals mattered and the market had gone down and not doing so well, 75% of active managers were outperforming the benchmark, because active managers would pick the companies that were fundamentally more sound and had strong cash flow, strong balance sheets, increasing revenues, and so forth. He stated as the market started to recover, between 2003 and 2007, passive was starting to do a little better on the rolling average but active management was still outperforming.

In 2009 when the market fell apart, 75% of active managers outperformed passive and then there was a low quality rally where companies that had not had strong earnings and negative earnings started to do well. He stated that passive started to go back up because active managers were struggling because they would not own the low quality companies.

In 2013, Mr. Owens stated that 75% of the mid-cap returns were driven by companies with zero and negative earnings. He noted that an active manager would not own these stocks.

From 2012 to 2014, Mr. Owens stated that going back three years, whereby passive had done well, and in 2016 passive was a high as it had been. He noted that Mr. Mulfinger said over and over that you buy low and sell high, but right now passive was as high as it had ever been.

Mr. Owens stated that the study showed that there were times where passive outperformed. He stated typically passive did well when there was lower quality, rising markets, and correlations were closer to one. He stated that active was more important when there was more volatility and the correlation was further apart. He stated they felt that would be the environment they were in, after 7½ years of a bull market. He stated they thought it may have been extended with some of the mandates of the President-elect, but at some point the market was probably going to have a turnaround and being active at that point would probably have a much more positive impact.

During a five-year period, Mr. Owens stated that there was only one period of time in the S&P 500 where the passive was in the top 50%. He stated that every other time period on a five-year rolling average, active managers outperformed passive management, in a most efficient asset class.

Small Cap

Mr. Owen stated there was only one time between 2001 and 2016 where passive management was in the top 50%. He noted there was only one index, which was the red diamond.

Mr. Mulfinger stated that this should be surprising for most people to see, because of what you read you would not think this at all.

International

Mr. Owens stated that this was very similar to small cap over the three-year period between 2005 and 2009 where passive was just barely at the 50% range; but in every other timeframe, active management outperformed passive management.

Mr. Owens stated that they did not have any idea how the study would come out. He noted that there was a time for active and a time for passive, and also an asset class. He noted that passive was not in the top 50% even when the market was going down and active was in favor; and even in the more inefficient asset classes, passive still was not in the top 50%.

Mr. Mulfinger noted that retail investors could get indexes cheaper because the active manager fee was 1.5%, so they were not netting out a positive return relative to passive, so they were better off going passive; whereby, an institution like ours was paying a fee of 0.5% or one-third of what the average was and net of fees we would still be ahead.

Mr. Mulfinger stated that they were not against passive management, but they were saying if the market fell, which it had not done yet, everyone in the press would be saying it was the time to be active. He stated that after the market had fallen was the time to go passive, but everyone would be saying the opposite and their returns would be negative.

Mr. Mulfinger stated that when the market had fallen, he would bring up the study again.

Mr. Dupree asked if there was a universe that compared investment managers; whereby, Mr. Mulfinger stated that they were not money manager, as they were consultants, and the investment managers were independent of them. He stated on our report, they always showed the universe of managers' median returns compared to our managers' performance. He noted that their quarterly report showed the return, the index and PSN Money Managers, which was the universe of money managers.

11. INITIAL DISABILITY HEARING OF MICHAEL ARCURI (GE)

Mr. Dehner stated that the board was in the initial claims procedures for Mr. Michael Arcuri and in the vast majority of situations an IME was performed. He stated he had reviewed the records received for Ms. Arcuri indicating that he had renal failure and it looked like to him that this could be one of the rare instances where the board could waive the IME. He stated the issued before the board today was whether or not to waive the IME; and if so, then the board would consider the merits on the records provided. He stated the board did not have to make a decision on Mr. Arcuri disability pension today, but they should determine today whether to waive the IME based on what they had seen so far.

Mr. Mike Furman moved, seconded by Mr. Sam Butler, to waive the Independent Medical Examination based on the medical reports, the doctor's note, and the IME report provided to the board confirming that Mr. Arcuri had end stage renal disease. The motion passed unanimously.

Mr. Ponitz asked if social security recognized Mr. Arcuri's disability as total and permanent; whereby, Mr. Butler stated that Mr. Arcuri had been approved for social security disability benefits recently.

Ms. McGuire commented that should Mr. Arcuri receive a kidney transplant, the board would discover this through the annual affidavit and could reconsider the disability benefit at that time.

Mr. Furman stated that since Mr. Arcuri was receiving the social security disability benefit, he would favor waiving the IME because it was very difficult to receive social security disability benefits.

Mr. Butler commented that the chances of a kidney transplant for Mr. Arcuri were extremely remote, as he other health complications.

Mr. Ponitz stated he had concerns that the disability pension benefit would be in Mr. Arcuri's best interest long term; whereby, Ms. McGuire stated she had a discussion with Mr. Arcuri and a family member about the options available to him.

Mr. Dehner stated that the issue before the board was to determine whether or not pursuant to the ordinance, if Mr. Arcuri was totally and permanently disabled to the extent he was unable to render useful and efficient service as a general employee to the city. He stated that was the issue for the board's consideration.

Mr. Mike Furman moved, seconded by Mr. Sam Butler, to approve the total and permanent disability claim of Mr. Michael Arcuri, who was deemed disabled to the extent he was unable to render useful and efficient service as a general employee, effective December 16, 2016. The motion passed unanimously.

Mr. Dehner advised he would prepare an order and send it to Ms. Towey for their signature. He stated the effective date of the benefit would be December 16, 2016.

Ms. McGuire asked if there was an issue with one of the trustees contacting Mr. Arcuri and informing him of the board's decision; whereby, Mr. Dehner stated there was not an issue.

The General Employees' Pension Board adjourned at 11:05 a.m.

Retroactive Effective Date

Mr. Dupree commented that the disability process was very long and drawn out, as the person had to wait many months to receive a disability payment. He suggested that the start date should be retroactive back to an earlier date; whereby, Mr. Dehner advised this would require an ordinance amendment to make this change.

Mr. Dupree suggested that the person could be paid (money they had already earned) throughout the whole disability process, as the process was so long that it caused a hardship on the disability applicant.

Mr. Donlan stated that they could draw early retirement benefits, if they were eligible; whereby, Mr. Dehner advised that an early retiree was not eligible to be considered for disability.

Ms. McGuire asked if there was any way to do what Mr. Dupree was suggesting if the person was entitled to a benefit, so that they could start receiving a benefit while they went through the disability process; whereby, Mr. Dehner stated there was not currently a provision and it would be a major change to the ordinance.
Mr. Dehner advised that the board could amend the ordinance to provide for a different effective date on disability pension once the board determined

entitlement to it, but he strongly did not recommend that the board amend the plan so that the person could receive early retirement benefits and still apply for the disability.

Mr. Bozeman moved to make the retroactive date back to the termination date of employment, as long as the board ruled that they should be allowed the benefit; whereby, Mr. Dehner clarified that the effective date would be retroactive back to when the disability application was filed.

Mr. Donlan suggested that the termination date would be a better date because they could still be receiving wages from the city and you would not want to go back to the application date. Mr. Dehner advised that the person should not be terminated, as they should have their current employment status maintained, even if it was leave without pay.

Ms. McGuire stated that there was no one kept on leave without pay, as there was no in between, you were either working or terminated.

Mr. Dehner stated that he was saying that the person had to have an active employment status to apply for disability; whereby, Ms. McGuire stated that neither Mr. Arcuri nor Mr. Conte had an active employment status.

Mr. Dehner stated that if the reason you were no longer employed was that you had been terminated by the city for medical reasons, then you could still apply for disability benefits.

Ms. McGuire expressed her concern that someone did not have any leave time, but was under FLMA for 12 weeks, as they still were not being paid, so she did not believe they should be paid disability benefits either.

Mr. Bozeman noted that you had 30 days after termination to apply for disability benefits. He withdrew his motion.

12. DISCUSSION OF DISABILITY RETIREES AFFIDAVITS

Mr. Dehner stated that the disability benefit was until death or recovery, and not necessarily a lifetime benefit. He recommended an annual review of the continuing status of the disability retirees. He stated the affidavit asked some basic questions which may indicate to the board the person had recovered their health and may be considered for coming back to work. He stated that it also depended on the activities they engaged in, what their employment was, and required a physician’s statement to be attached stating that at least in one physician’s opinion the person was still totally and permanently disabled.

Mr. Artin asked if the affidavit should be dated timely with the request and if the doctor's exam should occur within what timeframe; whereby, Mr. Dehner advised the information should be within in a couple of months.

Ms. McGuire asked about the next step, if the trustees saw something that caused them concern; whereby, Mr. Dehner advised most likely the individual would be sent for an independent medical examination (IME) and subsequent report stating their opinion.

Mr. Bozeman asked if the boards usually required an IME outside the disability retiree's doctor that they had had for a significant amount of time; whereby, Mr. Dehner advised an IME could be requested if there was reason to indicate that they may have recovered their health.

Mr. Dupree asked about the difference between a disability retiree and a normal retiree; whereby, Mr. Donlan stated that a normal retiree would have to work until his normal retirement age.

Mr. Dupree asked about someone who was now 65 years old or older and would not be coming back to work, but was determined not to be disabled anymore.

Mr. Sam Butler suggested that a disability pension would be exempted from the 5.0% per year penalty until retirement age; whereby, Mr. Dehner advised that oftentimes the amount between service amount and disability would be different due to any number of factors, such as, if it was in-line of duty and there would be a worker's comp offset in the plan; or there could be a minimum benefit. He stated it would be unusual for the two amounts to be the same, but in any case, the trustees should not participate in defrauding the IRS.

Mr. Dupree asked if the beneficiary would be eligible for disability pension; whereby, Mr. Dehner advised that several years ago the statute was changed from ten years certain, to allow a disability retiree to choose two options under the statute, life annuity or joint and survivor.

Mr. Dupree asked about someone that was not vested who had been receiving a disability pension and the doctor or board decided they were no longer disabled; whereby, Mr. Dehner advised that it depended on the circumstance under the statute. He stated that if the disability retiree went to work as a firefighter somewhere else, then the disability benefit would cease.

Mr. Donlan added that if the disability retiree's payments were stopped, we should check to see if they had received a full refund of their contribution.

Mr. Bozeman asked if the disability retiree was able to return to work, if the city was under obligation to provide them their job back; whereby, Mr. Dehner advised that the requirement under the plan in that situation was the benefit would stop and the board would notify the city and recommend the person could come back and be reemployed. He stated that another consideration was if the city was willing to make a light duty position. He stated sometimes initially there would not be a position available, as it did not happen very often that there was a permanent light duty position available; but it may be a situation at the time when the disability was considered, whereby somewhere down the road a position may become available.

Ms. Towey asked about a situation where the disability retiree went out on a back injury which got better, but now he had a heart condition, which would prevent them from working. She asked if they would have to go before the board to obtain another disability approval; whereby, Mr. Dehner stated that was correct.

Mr. Dave Ponitz asked when the disability retiree reached normal retirement age, if the affidavits were still required; whereby, Mr. Dehner advised that the disability retirement did not convert over to normal retirement.

Mr. Ponitz stated that it appeared to be a risk to people who applied for and were granted disability benefits and were penalized from the long-term pension benefit because of other benefits, such as social security, whereby they could not exceed 100% of their salary. He suggested they could be penalizing themselves; whereby, Mr. Dehner advised that an example was the worker’s comp setoff.

Mr. Ponitz asked how the board could police that; whereby, Ms. McGuire stated that the city did not keep track of the other benefits.

Mr. Dehner stated that initially when Mr. Donlan did the calculation, he knew if they were receiving worker’s comp or not, and it was figured into the calculation.

Mr. Donlan stated that the offset was right away, and when the offset stopped it was up to the member to notify them that they wanted their monthly benefit to be increased, so the board did not have to police that.

Mr. Dupree asked if there was an age limit; whereby, Mr. Donlan stated that in most plans it stayed disability retirement, but sometimes it converted to normal.

Dr. Andy Harris asked about pre-existing conditions which were exacerbated due to the employee’s duties, resulting in a disability; whereby, Mr. Dehner advised that the general plan had a pre-existing condition exclusion, and police and fire were not permitted to have it because the Division of Retirement took the position that would be more restrictive than Chapter 175 (Fire) and Chapter 185 (Police). He stated that for police and fire it could be an issue for causation for in-line or not in-line of duty, but it was not an absolute exclusion.

Ms. McGuire asked if the disability hearing material provided to the trustees was public record; whereby, Mr. Dehner stated that it was public record and on the disability application was included a waiver of privacy rights to medical records because they knew the boards would consider it at a public meeting. He stated confidentiality provisions of *Florida Statutes* and HIPPA came into play. He stated that under HIPPA we needed to protect the privacy to the greatest extent possible. He stated the best we could do was have the meeting packets shredded at the end of the hearing. He stated that one official record should be retained for the pension file, separately from the pension minutes.

Ms. McGuire asked if the medical records were public records; whereby, Mr. Dehner advised that the person signed a waiver in order to be considered for a disability.

Ms. McGuire commented that workers comp and disability went hand in hand, one handled by the city and the other by the pension board. She asked if the information provided to the board was available to the city, as well; whereby, Mr. Dehner stated that it was.

<u>General Employees'</u>

Mr. Dave Ponitz stated that Mr. John Cusack's affidavit appeared to be thorough and met the requirements the board was looking for with a timely signed affidavit from a medical professional.

Ms. McGuire noted that she has spoken with Mr. Cusack's sister several times regarding his condition.

Mr. Ponitz asked if the board would need to continue requesting the affidavit when it was obvious that there would be no improvement or they got too old to work; whereby, Mr. Dehner stated that there would be no conversion on disability. He noted that if the board could reasonably determine that the disability retiree could not ever return to work, they could decide to suspend the affidavit requirement.

Ms. McGuire commented that the Confirmation of Receipt of Benefits form generated quite a few calls to her from retirees in poor health.

Mr. Mike Furman asked about the number of disability retirees in the general plan; whereby, Ms. McGuire stated that Mr. Cusack was the only one.

Mr. Michael Furman moved, seconded by Mr. Sam Butler, to accept the 2016 Affidavit of Disability Benefit Recipient of Mr. John Cusack. The motion passed unanimously.

<u>Police Officers'</u>
Upon reviewing the affidavit for Ms. Teresa McCutchen, Mr. Ken Artin stated it appeared the applicant had crossed out the acknowledgement that the affidavit and attachments were public record; therefore, he believed it needed to be resubmitted to the board recognizing Mr. Lee Dehner's comments that the affidavit and attachments were public record. Also, he stated the physician's report appeared to be slightly altered, and he stated he was not making any judgements as to intent, but the date of the recent exam was originally filled out in what looked like the doctor's handwriting as of June 9, 2015, which was almost a year earlier than the date to the right, which appeared to be in the applicant's handwriting, which meant the doctor's report had been altered. He stated he did not believe the applicant properly filled out the report and he requested the applicant to resubmit a proper affidavit and a clean report from the physician dated within at least a couple of months of the affidavit so the board could make a determination at the next meeting. He stated that he understood Ms. McCutchen was in the audience and he asked her if she understood what he was requesting and the reasons the board was rejecting her affidavit, or if she had any comments.

Ms. Teresa McCutchen stated she could not hear what he was saying; whereby, Mr. Artin stated that the board was asking her to refill out an affidavit as she had crossed out the public records acknowledgement. Ms. McCutchen asked to see the affidavit; whereby, Mr. Artin showed her the affidavit submitted in her own handwriting and explained that she had crossed off the public records acknowledgement and the board wanted her to resubmit the affidavit.

Ms. McCutchen asked who in the public would receive the affidavit; whereby, Mr. Artin stated that anyone who requested it would be provided with it, as that was the law.

Mr. Artin also stated to Ms. McCutchen that the date of the last medical examination was too old and the board was requesting a current form from the physician.

For the record, Mr. Artin stated that the board was rejecting the affidavit of Ms. Teresa McCutchen at this time and had asked the applicant to resubmit an affidavit with a more current doctor's report and then the board would review it at their next meeting.

Ms. McCutchen asked if her monthly disability benefit would be stopped for the month of December; whereby, Mr. Artin stated that the board was not making that determination at this time, but if the affidavit was properly submitted at the next meeting, the board would make that decision. He stated the board was giving her another opportunity to resubmit the affidavit as requested.

It was the consensus of the board to review the resubmitted affidavit at the February meeting.

The Police Officers' Pension Board adjourned at 10:25 a.m.

<u>Firefighters'</u>
Mr. Dupree stated they had two affidavits to review, Mr. John Schmidt and Ms. Amanda King. He stated that Mr. Schmidt's affidavit was not filled out by the doctor, but he was 73 years old and in poor health, so his chances of coming back to work were very slim. He asked if the board could waive the affidavit requirement for Mr. Schmidt.

Mr. Bozeman stated he did not believe the board required any further documentation.

Mr. Dupree suggested there needed to be a place for a spouse or beneficiary to complete the form if the disability retiree was unable to do so. He suggested revising the future form.

Mr. Dehner advised in such a situation, the person would most likely have a court appointed guardian, who would be able to complete the affidavit.

Ms. McGuire noted that the general plan had someone who was not capable of filling out the required form whereby his sister provided us with a power of attorney and did it for him.

Mr. Bozeman stated he did not believe Mr. Schmidt would ever be coming back to work, and he suggested not requiring the affidavit; whereby, Mr. Dehner stated that the board would need to put on the record why they did not feel an affidavit was needed and pass a motion stating same.

Mr. Tommy Bozeman moved, seconded by Mr. Dominic Morgese, to discontinue the annual Affidavit of Disability Benefit Recipient of Mr. John Schmidt based on his age and health conditions. The motion passed unanimously.

Ms. McGuire stated that he would continue to receive the annual Confirmation of Receipt of Benefits form that needed to be signed by him and notarized.

Mr. Dupree asked if the city could request the medical information of adisability retiree; whereby, Mr. Dehner advised that it was strictly under the purview of the board.

Mr. Dupree asked about the next step if the board had a concern about a disability retiree's improvement; whereby, Mr. Dehner stated that if there was anything that would indicate that the person had recovered their health or if there may be a position available, then the next step would be to request an IME.

Mr. Dupree asked the definition of recovery; whereby, Mr. Dehner stated that it meant completely recovered or recovered to a point where the person could do light duty, but there was not a position available at the time of the disability.

Ms. McGuire stated she thought a number of people had witnessed this individual doing things that would indicate that perhaps the disability was somewhat improved, as she was talking about very physical activities that made it difficult to make an assertion that the person was still disabled. She stated they were not doctors, so it might be appropriate to send the person to an IME, just for the sake of protecting the board.

Mr. Lee Strong noted that the affidavit limited the applicant to weightlifting of 30 pounds, which would indicate light duty, such as office work; whereby, Ms. McGuire stated she believed an IME would have to clarify the applicant's condition.

Mr. Dehner stated the board would need to decide if an IME was warranted based on their current information.

Mr. Jim Shaw stated that he believed the affidavit for Ms. Amanda King met everything requested; whereby Mr. Dehner advised if there was other information where someone had observed something, then that would be a reason to request an IME.

Mr. Lee Strong stated that he had reviewed Ms. King's affidavit and he did not believe the disability was total and permanent.

Mr. Bozeman stated that if there was a light duty position available, he felt Ms. King would be able to perform it. He stated he understood the first step would be to get an IME to show whether she could or could not perform a light duty position, and if the IME concurred that she could possibly do so.

Mr. Dehner stated that the light duty position would have to be in the Fire Department and a firefighter position. He stated she would lose the disability pension but would still be in the firefighters' pension plan for years going forward.

Mr. Shaw asked about the expectation of promotions; whereby, Mr. Dehner stated that there was case law on that and cases have held that the fact that you may be less promotable than before was not a basis for a disability.

Mr. Strong noted that a firefighter would be required to lift 100 pounds or more, whereby Ms. King's doctor's report limited her weightlifting to 30 pounds, which was much less than the requirements of the job.

Mr. Bozeman commented that the only way Ms. King could come back to work would be if there was a light duty position available, which there was not one available at this time.

Mr. Shaw suggested sending an affidavit to the city inquiring about the availability of a light duty position.

Ms. McGuire suggested tabling this item until the February meeting and she would provide additional information regarding a light duty position at that time.

Mr. Dehner stated if the board decided to proceed with an IME, one of the questions would be asking about the limitations; and then when the IME report was received back, sending the limitations to the city asking about a position.

Mr. Dominic Morgese moved, seconded by Mr. Lee Strong, to approve the request for an Independent Medical Examination for Ms. Amanda Joy King. The motion passed four (Joe Dupree, Tommy Bozeman, Dominic Morgese and Lee Strong) for and one (Jim Shaw) against.

Mr. Shaw stated he was in favor of the IME if there was a light duty firefighter position available for Ms. King.

Mr. Morgese asked how much more comprehensive the IME report would be; whereby, Ms. McGuire stated that it was more confirmation that the physician statement attached to the affidavit was accurate or if there was a discrepancy.

Ms. McGuire asked Mr. Dehner if his office would be coordinating the IME for Ms. King; whereby, Mr. Dehner advised that he would not.

13. DISCUSSION OF SHARE PLAN

Mr. Dupree noted that the share plan passed in the last ordinance amendment and the excess state money in 2006, 2007 and 2008 had now been split 50/50 between the firefighters and the city.

Mr. Dupree asked if the member had access to the share money if they were in the DROP; whereby, Mr. Donlan stated that the member had to be terminated to receive a distribution and Mr. Dehner confirmed that, as well.

Mr. Dupree asked about the share plan administration; whereby, Mr. Donlan stated that Foster & Foster would perform the accounting of the share plan.

Ms. McGuire confirmed that the money would remain in the fund, similar to the DROP; whereby, Mr. Donlan stated that was correct.

Mr. Dupree asked if the share plan money could be rolled into an ICMA; whereby, Mr. Donlan stated that when the member terminated, they could do so.

Mr. Dupree asked if the share plan money could be rolled into an HSA account before termination; whereby, Mr. Donlan stated that it could not be as you cannot receive a retirement benefit while you were still working.

Mr. Dupree clarified that the only way a member could receive their share plan money was by separation of service, as it would stay in the pension plan until termination.

Mr. Donlan stated that ideally next December, he would be bringing a green sheet and share sheet for the firefighters.

Ms. McGuire asked if the interest for the share plan would be consistent with the overall plan; whereby, Mr. Donlan stated that was correct, which was the amount provided by the investment consultant.

Mr. Donlan noted that the ordinance was not entirely clear, but he wanted the board to approve the methodology. He stated the board needed to approve the initial allocation.

Mr. Tommy Bozeman moved, seconded by Mr. Jim Shaw, to approve the initial allocation as presented by Mr. Patrick Donlan of Foster & Foster above. The motion passed unanimously.

Ms. McGuire clarified that the share money was currently in the pension plan fund. She clarified that the city's share ($167,405) would be to reduce the unfunded liability included in the actuarial valuation presented and approved this morning, and the employees' share plan would be set up and accounted for by Foster & Foster.

Ms. Towey asked if Mr. Mike Marstaller would be entitled to his portion of the share plan; whereby, Mr. Donlan noted that he terminated on September 30, 2016, so he was in the share plan and was entitled to earnings for 2016.

Mr. Dupree noted that Ms. Rhonda Ennist and Mr. Richard Conte would also be entitled to their portion of the share plan.

14. DISCUSSION OF RFPs FOR PENSION BOARD ATTORNEY SERVICES AND ACTUARIAL SERVICES

Mr. Dupree stated that he favored tabling this item until the next meeting.

15. ATTORNEY COMMENTS

Mr. Lee Dehner stated that the Legislature would convene on March 7 and run for a 60-day period adjourning in May. To date, he stated they had not heard if there was anything that may come forward that would have an adverse effect on any of the plans, but that could always change. He stated he would know more at the next meeting because bills were currently being pre-filed for consideration.

Website Posting – 60T
Mr. Dehner stated that Mr. Donlan would be preparing additional calculations required by *Florida Statute* 112.664. He stated Mr. Donlan would file this electronically with the Division of Retirement, and send it to us to be posted on the city's website within 60 days.

Mr. Dehner stated that Mr. Mulfinger would be sending us the 60T calculation to been posted to the city's website. He stated that the boards had to do that for the first time last year.

15. OTHER BUSINESS

Pre-retirement Death Benefit Amendment
Mr. Dupree noted that this item was brought up during negotiations. He stated that according to the impact statement provided by Mr. Donlan, the increase would be 0.2%, which he stated the members favored increasing their contribution by 0.2% to 8.6%, rather than increasing the city's contribution.

16. ADJOURNMENT

The meeting was adjourned at 11:33 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