

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

August 10, 2018

8:30 a.m.

Commission Conference Room

1. CALL TO ORDER

Chairperson Kelly McGuire called the meeting to order at 8:39 a.m.

General Employees' Pension Board members present were Chairperson Kelly McGuire, Denise Roeper, John Olivari, and Michael Furman.

Police Officers' Pension Board did not have any members present.

Firefighters' Pension Board members present were Mike Scudiero and Tommy Bozeman (arrived at 8:44am); therefore, they did not have a quorum.

Also present were Pedro Herrera of Sugarman and Susskind, P.A., Janna Hamilton, Partner at Garcia Hamilton & Associates, Charlie Paviolitis of Macquarie Investment Management (formerly Delaware International), Mike Streitmarter of Renaissance Investment Management, and Charles Mulfinger and Scott Owens of Graystone Consulting.

2. APPROVAL OF MINUTES OF MAY 11, 2018 (GE, FF)

Mr. John Olivari moved, seconded by Mr. Michael Furman, to approve the minutes of the May 11, 2018, meeting. The motion passed unanimously.

The Firefighters' Pension Board did not have a quorum present to approve the minutes of the May 11, 2018, meeting.

3. APPROVAL OF MINUTES OF DECEMBER 15, 2017 (PO)

The Police Officers' Pension Board did not have a quorum present to approve the minutes of the December 15, 2017, meeting.

4. PUBLIC COMMENTS

There were no public comments.

5. ELECTIONS/BOARD VACANCIES (GE, PO, FF)

Ms. McGuire stated that Mr. Dave Ponitz, Secretary, was no longer an employee of the city and had taken an opportunity elsewhere. She stated that Mr. Ponitz wanted to be there to tell them about the resignation himself, but had to attend meetings that day for the new job. She noted they would miss him and asked if the group had received an email with his letter; whereby, various members said no.

Ms. Wendy Nichols, Recording Secretary, stated that she had copies of the letter and gave them to Ms. McGuire for distribution.

Ms. McGuire stated they would need to do an election for a new member, and confirmed that it would be an employee. She explained the process for the election; she would request nominations, distribute the ballots, and then she and someone from the City Clerk's office would count them. She noted that she might need Ms. Denise Roeper's assistance during the process.

Ms. McGuire moved to the next item on the agenda and noted they would return to this item after the presentations.

Ms. McGuire stated that with Mr. Ponitz's departure, a new secretary needed to be approved and that person needed to be readily available to sign off on pension benefits, invoices, and other items.

Ms. Denise Roeper, General Employees' Pension, asked for more details on what that position entailed; whereby, Ms. McGuire stated it involved reviewing calculations for a new retiree or someone withdrawing, invoices for services, and other items that needed approval. She explained that everything required two signatures, with hers being one of them.

Ms. Roeper stated that she would volunteer; whereby, Ms. McGuire asked that someone nominate Ms. Roeper for the position.

Mr. John Olivari moved, seconded by Mr. Michael Furman, to nominate Ms. Roeper for the position of secretary. The motion passed unanimously.

6. PRESENTATION OF GARCIA HAMILTON

Ms. Janna Hamilton, Partner at Garcia Hamilton & Associates ("Garcia Hamilton"), appreciated the opportunity to manage fixed income assets for the city for the prior 17 years. She stated that the numbers were almost identical for all three pensions, but that she would use the General

Employees' Pension as the example. She noted they were founded in 1988 and managed \$10.7 billion in fixed income assets.

Ms. Hamilton stated that everything in the portfolio was rated A or better, and their goal was to outperform the index over time over a full market cycle. She noted they actively managed the portfolios using sector rotation, controlled interest rate anticipation, and yield curve positioning. She stated that the numbers since inception were good in all of the time frames, and that the current quarter had a nice outperformance of 50 basis points ahead of the benchmark. She noted the absolute returns were not the best, but the numbers were good on a relative basis.

Ms. Hamilton stated that Garcia Hamilton ran an intermediate bond portfolio, and that it was defensive all the way across the board with the shorter duration. She noted that all bonds on the short end had been in floating-rate bonds, and that was a benefit to the portfolio because normally bond prices would decline with interest rates rising. She stated that would not happen with a floating-rate bond, and those would instead fluctuate with interest rates. She stated that the ten year treasury rose by 11 basis points, the two year was up 26 basis points, and the 30 year was only up 1 basis point, noting that the flattening yield curve was continuing to flatten with the shorter rate going up. She stated they were moving towards shorter term, than longer term, since the results were better there.

Ms. Hamilton stated that they liked to keep volatility out of the fixed income portfolio and stayed away from the BBB Corporate Index. She noted the portfolio was currently underweight in corporates, and overweight in treasuries, agencies, and mortgage-backs. She indicated there was not a lot of excitement in the bond market.

Mr. Mike Furman, General Employees' Pension, asked what she thought would happen with the Fed going forward; whereby, Ms. Hamilton stated that Garcia Hamilton thought the rates would continue to increase, potentially two to four times the next year.

Mr. Furman asked about the three year outlook; whereby, Ms. Hamilton stated they were maintaining a short duration, and the over 50 percent floating rate position in the portfolio regarding rates.

Mr. Furman asked if they were looking for 4 percent and no invert, which meant they were looking for the ten year to be less than 4; whereby, Ms. Hamilton stated he was correct and estimated it to be around the mid threes.

Mr. Charles Mulfinger, Graystone Consulting, commented that the returns and fixed income had beaten the benchmark by a good percentage.

Mr. Scott Owens, Graystone Consulting, wondered if Garcia Hamilton's coupon was about the same as the benchmark, but the duration was a lot less, if that was due to the overweight in the floaters; whereby, Ms. Hamilton stated it was.

Mr. Owens wondered on the long end of the barbell, if Garcia Hamilton's interest was in treasuries; whereby, Ms. Hamilton stated it was always treasuries, and no corporates, when they did the long end barbell.

Ms. Hamilton thanked the boards for their time that day.

7. PRESENTATION OF MACQUARIE

Mr. Charlie Paviolitis, Macquarie Investment Management ("Macquarie") formerly Delaware International ("Delaware"), stated it was a pleasure to work with the City of Ormond Beach, and that he had been with Delaware for the prior 13 years. He wondered if the boards wanted Macquarie to provide a presentation on the screen or the physical books to look at during the meeting, noting they had only been providing the books previously; whereby, Ms. McGuire stated it would be nice to have both, especially since members of the public attending the meeting would not have the book.

Mr. Paviolitis stated that he would do what he could for them. He noted that Macquarie had owned Delaware since 2009, Delaware was founded in 1929, and nothing had changed with the portfolio. He discussed the asset management team and emphasized their experience, while pointing out that they managed well over \$350 billion worth of assets.

Mr. Paviolitis stated that on the stock basis, they did a dividend discount analysis which would give a steady stream of income giving them a meaningful return that was greater than the rate of inflation. He noted that it was important to preserve the capital when they saw global market declines. He stated that in the past, they did not keep up with the index on the bull market performance, but significantly outperformed in the bear market time frame. He stated that by not losing capital during the periods of extreme distress in the marketplace, they had extreme outperformance versus the index. He then discussed their thought process on international funds.

Mr. Paviolitis stated that in regards to the portfolio France and Japan were underweights, while Italy and the United Kingdom were overweights at that time. He noted that international news gave an indication that things were not good, but the economic growth was actually very strong. He stated that going forward, they were putting a lot of money in sterling-denominated

assets as they felt if the currency was expected to strengthen it should help the stocks.

Mr. Paviolitis stated that through June, the America Depository Receipts (ADR) portfolio was down 4.25 and the EFO was down 2.75, but in the long term they were still outperforming. He noted that Energy had been a significant contributor in performance for the prior 12 months, but that Telecommunications was the worst performer. He stated that overall the team felt comfortable with everything.

Mr. Furman wondered if they were taking into account potential effects that the trade or tariff war could have and potentially adjusting how they handled the portfolio going forward; whereby, Mr. Paviolitis stated that they would take it company by company, and told the fable of the Chinese farmer who viewed any situation as potentially good or bad.

Mr. Paviolitis finished his presentation and thanked them for their time.

8. PRESENTATION OF RENAISSANCE

Mr. Mike Streitmarter, Renaissance Investment Management (“Renaissance”) stated that they were located in Cincinnati, Ohio, and had about \$5.3 billion in assets under management, of which about \$2 billion was in the international strategies. He noted there were no personnel changes over the prior year, but that managing partners Mr. Mike Schroer and Mr. Paul Radomski increased their ownership in the firm, as well as another partner, Mr. Andy Temming. He stated that the investment process had not changed over the prior year either.

Mr. Streitmarter discussed their two-step process and noted they were in compliance with the last investment policy statement, dated December 2015. He noted they had a positive absolute performance over the prior year, but trailed the benchmark; however, all the long term numbers had beaten the benchmark, so they planned to focus on the long term and not worry too much about the short term results.

Mr. Streitmarter stated that one of their overweights, Information Technology, had been a strong performer but they were underweight in Energy, which was the best performer, and that was a negative allocation. He stated that in regards to their stock selection Information Technology was the worst in performance, due to their lack of exposure to some of the popular names that had done well. He noted they had underperformance in Mexico and Turkey, but good performance in Singapore.

Ms. Roeper asked about Denmark and noted that country looked negative as well; whereby, Mr. Streitmarter stated she was correct and discussed which areas affected the performance.

Mr. Streitmarter stated only 5 percent of the time over the prior ten years that international equities had traded at cheaper relative valuations to the S&P 500. He noted they were still positive on economic growth, but the potential for a trade war could affect that.

Mr. Owens stated that what he heard Mr. Streitmarter say was if the tariffs took place, it would reduce the amount of exports going out which could hurt manufacturing in the United States (U.S.), and there would also be tariffs on the imports coming in, which meant it would raise the price. He wondered if there was a number where the U.S. could manufacture whatever it was they were importing to replace those jobs; whereby, Mr. Streitmarter stated that there was but due to time constraints, supply chains, and company investments, a factory could not be moved from China to the U.S. easily; instead it would have to be looked at as an overtime situation.

Mr. Owens noted that Mr. Streitmarter mentioned moving factories, and stated that if the factories were in the U.S. already, whatever was being targeted by the tariff would not have to be moved; whereby, Mr. Streitmarter stated that even if a factory were in the U.S. they would probably produce the end good, but parts were being pulled from other countries and would be affected by the tariffs and prices would still have to be raised.

Mr. Streitmarter asked for other questions and hearing none, thanked everyone for their time.

9. INVESTMENT MONITOR REPORT (GRAYSTONE CONSULTING)

Mr. Charles Mulfinger, Graystone Consulting ("Graystone"), stated that all plans made a lot of money for the prior quarter, and the General Employees' Pension specifically made over \$1 million. He noted the equity markets did much better than the fixed income markets, and the reason that all three plans beat their benchmark was because they were overweight in stocks. He stated that even though the Police Officers' Pension amounts still needed to be adjusted to fit the policy, they had a slightly higher return than the other two plans. He noted that all three plans were over two percent which was good news. He indicated that the managers had done well over the long term and were taking less risk.

Mr. Scott Owens, Graystone Consulting, stated that the GDP number was higher than prior years due to the tariff possibility. He noted that the unemployment number was at 3.9 percent, down from previous years, and

good for the economy. He explained that the economy was consumer-driven, that the Fed was talking about potentially raising rates, but overall the economy was great. He noted that smaller companies outperformed larger companies, and both outperformed midsize companies; however, midsize companies were up 2.82 percent for the quarter, which showed that all had good returns. He stated that growth outperformed with the large and midsize companies, and value outperformed with the small companies. He noted that Energy was the best performer, up 13.5 percent, for the prior quarter. He stated that on the other side, Financials and Industrials were the worst, down 3.2 percent.

Mr. Owens stated that international markets were a little different; local currency was up 3.75 percent, but down 1.24 percent for developed markets. He explained that the increased value of the dollar to them as a U.S. investor in foreign investments had a negative impact. He noted that emerging markets locally were down 3.41 percent, and for the quarter they were down 7.86 percent for the portfolio. He touched on fixed income and the possibility for the boards to get into real estate or other asset classes. He noted that as rates increased bonds had a negative impact, showing that corporate bonds were down almost a full percent and government bonds were up a tenth of a percent for the quarter.

Portfolios

Mr. Owens stated that there were \$1,086,569 net of fees and transaction costs for the quarter for the General Employees' Pension, with the total equity exposure at 69.55 percent and fixed income at 30.30 percent. He indicated that was within the policy and they were not recommending a change.

Mr. Owens reviewed the breakdown of returns from all groups they managed including HGK Asset Management, Sawgrass Asset Management LLC, Polen Capital, Cambiar, Fiera (formerly APEX), Delaware Investments, Renaissance Investment Management, and Garcia Hamilton and Associates. He stated that all funds were in the northwest quadrant in regards to risk and return, which was a good place to be, and they were not recommending any changes at that time. He noted they were watching Fiera closely and might have a recommendation after the next quarter. He stated that an appropriate benchmark was anything over 80 percent, and they were at 97 percent, which meant it was the right benchmark and a good indicator for the portfolio.

Mr. Furman commented on Fiera and that by monitoring them quarter to quarter, it seemed that Graystone were postponing the inevitable. He thought Fiera was following their process and was not doing anything different to keep the city as a client.

Mr. Mulfinger noted the real concern was not their returns, as the long term returns had been fine, but the fact that Fiera had acquired APEX and the impact that would have on the company and performance going forward. He wondered if they would still follow the same process when contracts and employment agreements expired, bringing in new people with new processes. He noted that Graystone had been watching them because of the lower performance since the merger, but explained that the same people were handling the accounts at that time.

Mr. Furman asked if Graystone had other alternatives if the situation got to the point described; whereby, Mr. Mulfinger stated they did.

Mr. Owens stated that the General Employees' Pension was compliant in every aspect, while the Police Officers' Pension and Firefighters' Pension were a little overweight on fixed income.

Mr. Mulfinger noted that the Firefighters' Pension was underweight on fixed income, but if cash was included, they were fine and did not recommend a rebalance at that time. He stated that Police Officers' had 71.95 percent in equity, which was above the policy limit, and needed to be rebalanced. He stated that if the pension boards were able to get a new policy and ordinance to include real estate, Graystone might not be in a hurry to invest there due to the prices at that time.

Mr. Mulfinger and Mr. Owens thanked everyone for their service.

10. APPROVAL OF BUDGET FY 2018-19 (PO, FF)

11. DISCUSSION OF UPDATED SUMMARY PLAN DESCRIPTIONS

Ms. McGuire asked the other members if they agreed to have the new attorney, Mr. Pedro Herrera, review the updated summary plan description before approving it; whereby, the group agreed.

Ms. McGuire sent the documents to Mr. Herrera, asked him to review them and send comments, so they could take a vote at the next meeting.

Mr. Herrera asked if the Firefighter's Pension had one that needed to be reviewed; whereby, Ms. McGuire stated that she would send it to him, but there could potentially be some changes at their next meeting.

12. DISCUSSION OF DRAFT ORDINANCE AMENDMENTS (FF)

13. DISCUSSION OF DEPARTMENT OF MANAGEMENT SERVICES CONFERENCE NOVEMBER 14-16 (FF)

14. **DISCUSSION OF RFP FOR PENSION BOARD ATTORNEY SERVICES (PO)**
15. **DISCUSSION OF PD DISABILITY CLAIM**
16. **DISCUSSION OF REBALANCING LETTER (PO)**
17. **ATTORNEY COMMENTS**

Ms. McGuire asked Mr. Herrera if he had anything to share at that time.

Mr. Herrera stated that he was still working to catch up on all details of the plans and status of documents. He noted that all financial disclosure forms were due on July 1, 2018 and hoped everyone had submitted them.

Mr. Herrera asked if the General Employees' Pension were members of the FPPTA; whereby, Ms. McGuire stated they were.

Mr. Herrera stated there was a conference coming up in Bonita Springs that would run from September 30, 2018 until October 2, 2018. He noted there was a free Division of Retirement school, primarily for police officers and firefighters for the 175 and 185 plans, but informative for anyone. He indicated those were a few ways to receive education.

Ms. Roeper asked about timelines and requirements; whereby, Mr. Herrera stated that the Florida Statute mandated a continuing education requirement for trustees but no specific timeline. His firm preferred to have their trustees attend one conference a year if possible, and noted the value received from the conferences.

Ms. Roeper noted that she had not attended any training up to that point, but had been on the board less than one year; whereby, Mr. Herrera stated the upcoming conferences might be a good opportunity for her.

Mr. Herrera stated there was a possibility of bringing training to Ormond Beach, to make it easier for everyone to attend. He discussed more details about education, including certifications, and that other schools would be available throughout the year.

Ms. McGuire stated that certain members had received certification but did not maintain it due to the cost involved. She emphasized that the actual education to get the certification was worthwhile. She told Ms. Roeper she would provide information that would assist in finding education opportunities.

18. OTHER BUSINESS

Ms. McGuire reminded everyone that the next meeting would be on Friday, December 14, 2018.

Mr. Furman moved, seconded by Mr. Olivari, to adjourn the meeting. The motion passed unanimously.

19. ADJOURNMENT

The General Employees' Pension Board adjourned at 10:23 a.m.

Respectfully submitted,

Wendy Nichols, Recording Secretary

Attest:

Kelly A. McGuire, Chairman
General Employees' Pension Plan

Ken Artin, Chairman
Police Officers' Pension Trust Fund

David Randall, Chairman
Firefighters' Pension Trust Fund