

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

February 15, 2019

8:30 a.m.

Commission Conference Room

1. CALL TO ORDER

Chair Kelly McGuire called the meeting to order at 8:31 a.m.

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

Police Officers' Pension Board Pension Board members present were Chair Chris Byle, Ray Llanes, Benita Hamilton, and Ken Artin.

Firefighters' Pension Board members present were Chair David Randall, Mike Scudiero, Travis Taft (appointed at this meeting), and Barry du Moulin.

Also present were Pedro Herrera of Sugarman & Susskind, Matt Witschel of HGK Asset Management, Anthony Xuereb of Polen Capital, Greg Gosch and Marty LaPrade of Sawgrass Asset Management, Charles Mulfinger, Scott Owens, and Andy Mcilvaine of Graystone Consulting, and Assistant City Clerk Andrew Moss.

2. APPROVAL OF TRUSTEE – TRAVIS TAFT

Mr. Randall moved, seconded by Mr. Scudiero, to certify the election of Travis Taft to the Fire Fighters' Pension Board and to have him serve as the Secretary. The motion passed unanimously.

3. PUBLIC COMMENTS

There were no public comments

Mr. Pedro Herrera, Sugarman & Susskind, welcomed Mr. Taft to the board and reminded him to file a Financial Disclosure Form (Form 1) with the State Ethics Commission, noting he would help if needed.

4. PRESENTATION OF HGK ASSET MANAGEMENT

Mr. Matt Witschel, HGK Asset Management (“HGK”), reminded the boards that HGK managed the large cap value portion of the pension funds and they sought out companies with great management that created shareholder value. Mr. Witschel stated they wanted companies with strong balance sheets and dominant market share that were well leveraged and had a consistent history of providing positive cash flow. He provided a presentation (*on file in the City Clerk’s Office*) to the pension boards. The presentation included a performance update, equity review, and an overview of the current holdings. He highlighted the first three quarters were excellent but the fourth quarter experienced the worst December in the stock market since World War Two, noting the main detractors were financials, energy, and technology. Mr. Witschel noted that real estate investment trusts (REITS) contributed to good performance, including the purchase of Avalon Bank and Welltower. He offered a synopsis of both fourth quarter (Q4) and yearly figures for all three pension boards.

Mr. Mike Scudiero, Firefighters’ Pension Board, mentioned a portion of HGK’s investment was in REITS, which the board was not allowed to invest in currently, noting they had done well for HGK.

Mr. Herrera explained these REITS were publicly traded and were essentially a stock, noting it fell in line with the ordinance and investment policy statement.

Mr. Barry DuMoulin, Firefighters’ Pension Board, asked how Brexit or the Green New Deal would affect the long term outlook.

Mr. Witschel responded he did not believe those circumstances were currently impacting how HGK was positioning their portfolio, but could change in the future.

Mr. Travis Taft, Firefighters’ Pension Board, asked what was being done in case there is another downtrend.

Mr. Witschel explained they had reduced some exposure in technology and increased exposure toward consumer staples, noting the portfolio was being positioned a bit more defensively.

5. PRESENTATION OF POLEN CAPITAL

Mr. Anthony Xuereb, Polen Capital (“Polen”), introduced himself and explained they were the U.S. large cap growth manager for the pension plans and have managed assets for the City since 2012. He mentioned the firm recently increased the employee ownership to 71 percent, noting currently the Polen Family Trust still owned nine percent and iM Global

owned 20 percent. Mr. Xuereb believed this further aligned the firm's interests with that of their clients. He provided a presentation (*on file in the City Clerk's Office*) to the pension boards. The presentation included total assets managed by both strategy and client type, invest team changes, philosophy and competitive advantages, focus growth strategy, account summary and performance, risk and return rankings, and recovery periods. He explained their firm considers a long term approach and managed a fairly concentrated portfolio. He stated they only owned about 20 companies at a time, noting that over the last 30 years they had owned approximately 110 companies total. Mr. Xuereb stated Polen focused on high quality companies with large competitive advantages. He noted some companies like Facebook and Google, which were traditionally considered technology, were part of a new sector that was introduced by Russell called communications services.

Mr. David Randall, Firefighters' Pension Board Chair, asked if the amount invested in Facebook was back to where it used to be or if it was higher or lower.

Mr. Xuereb explained Facebook was at a full position, which was typically around five or six percent, considering they only owned 20 companies.

6. PRESENTATION OF SAWGRASS ASSET MANAGEMENT

Greg Gosch introduced himself and explained that his firm, Sawgrass Asset Management ("Sawgrass"), is also a large cap growth manager, noting he thought the two of them worked well together. He gave a brief overview of their firm, noting they were 100 percent employee owned and introduced Marty LaPrade to give their presentation

Mr. Marty LaPrade, Sawgrass, began his presentation (*on file in the City Clerk's Office*) noting before December of 2018 the market had been extraordinary. He explained his firm considered themselves risk managers with regards to their investment approach, noting risk was a key tenant as they built their portfolios. The presentation included an account and performance review for the previous quarter as well as previous year and performance since inception, a market review with comparisons between the Federal Reserve (Fed) and the S&P, current positioning of the portfolio for all three pensions, and considerations of what the market and this portfolio is expected to do over the next year and into the future. He explained that he believed there was still opportunity in the market, but expected more volatility, noting he did not believe they were in a crisis mode, rather there was a need for global growth from consolidation. He also felt the mix of managers was good as one complimented the other by providing something different.

Mr. Mulfinger asked where Sawgrass was in the first quarter relative to the benchmark.

Mr. LaPrade responded the benchmark was around 11.5 percent and they were just above eight, noting they were behind but if they could capture the upswing and protect on the downside it would work out well. He thanked the Pension Boards for their business and good relationship, noting they understood how important the pool of assets they manage were to the city's retirees.

7. INVESTMENT MONITOR REPORT – GRAYSTONE CONSULTING

Charles Mulfinger explained they were the pension board's consultant, not a money manager who bought and sold stocks and bonds. He explained their job was to advise and protect the pension boards and they were in no way affiliated with the fund managers. Mr. Mulfinger stated this was one of the worst quarters they have seen in a long time, noting the new quarter was looking a lot better. He noted a big part of the decisions they make with the pension boards was in the asset allocation, noting the city's ordinance currently only allowed for stocks, bonds, and cash. Mr. Mulfinger stated to achieve the return target over time the pension needed to have money in stocks relative to bonds, which benefitted the pension plan for nine and a half years, until Q4 2018.

Mr. Andy Mcilvane, Graystone Consulting ("Graystone"), talked about the economy and the market noting the S&P 500 had its worst quarter since 2011, and December was its worst month since 2009, noting January rebounded well and was the best January the market has had in 30 years. He mentioned there were a lot of reasons for the downturn like Brexit, rising interest rates, mid-term elections, and trade wars. He stated there were still uncertainties with the exception of mid-term elections, noting uncertainty brings volatility. Mr. Mcilvane gave a presentation (*on file in the City Clerk's Office*) on several fundamentals, gross domestic product (GDP), and its relation to consumer confidence, unemployment, corporate profits, inflation, increasing interest rates, housing data, Purchasing Managers' Index (PMI) and Non-Manufacturing Composite Index (NMI), U.S. equity market returns for the quarter through seven year mark, S&P 500 returns for the quarter by sector, regional and multi country indices, emerging markets, and fixed income returns.

Mr. Randall mentioned inflated performance because of the recent tax breaks and asked if Mr. Mcilvane saw potential growth in the future.

Mr. Mcilvane stated the revisions moving forward were that there would still be positive earnings, but not as much as they were, noting it was trending downward.

Mr. Scott Owens, Graystone Consulting, noted there was a big spending push prior to the quarter which created a higher inventory than normal for most companies. In turn, this created less spending because there was not a current need for more inventory. He noted while the quarter was bad and had the worst December in ten years, there was still a day during that month, where the market was up over 1,000 points, illustrating how much volatility was in the market. He gave a brief overview of the three plans and continued the presentation by going over the individual fund managers and their performance.

He started with HGK, noting he would be brief since HGK had already presented their performance for the last quarter. Mr. Owens stated HGK had performed well over the three year period, beating the benchmark pretty handily but had a lower return in all other timeframes.

Mr. Scudiero stated it seemed from HGK's presentation that they were struggling, noting the pensions had a good deal of money with them.

Mr. Owens responded that since 2009 HGK had a lower return with higher risk and higher volatility resulting in a negative alpha. He made a comparison to Sawgrass, explaining that Sawgrass did not underperform, they simply had a lower return accompanied by lower risk, resulting in a positive alpha. He explained the plan needed to have some low risk with low returns and high risk with higher returns to meet the target.

Mr. Mulfinger explained that HGK did underperform, noting in 2015 they were overweight in energy and took a loss. He stated they did well all year in 2019 until the last quarter, which made the whole year look bad. He stated the firm had not placed them on watch, but was looking more closely at their performance.

Mr. Owens moved to Sawgrass noting they had a lower return and lower risk, but they were a defensive manager and outperformed less defensive managers by 500 basis points on the downturn. He explained the relationship between return, risk, and volatility with relation to standard deviation, noting there was more certainty with a lower standard deviation. Mr. Owens also explained the relationship of beta as being volatile relative to its respective benchmark. He further explained to the board that a defensive manager with lower returns should not be viewed in a negative light because that is what they were hired for. He moved to Polen Capital, explaining they had a higher deviation but have had very good stock selection, noting they had higher risk but also higher returns over every

timeframe. He stated they add a real value and had a positive alpha at 2.05 basis points of excess return when compared to the risk. He compared the defensive stance of Sawgrass to the offensive stance of Polen, explaining that relative to risk they performed almost identically with regards to alpha, Polen was at 2.05 points while Sawgrass was at 1.92 points.

Mr. Owens moved to Cambiar Investors ("Cambiar")'s performance. He mentioned they were good for the quarter and over the year they protected the plans well, noting when the market was down 12.36 percent Cambiar was only down 1.81 percent. Mr. Owens mentioned the City's plans have used Cambiar since 2016, and while it is not a very long time, they were up 11.18 percent versus 4.75 percent, which produced an alpha of almost seven. He also explained that Cambiar captures 107 percent of the markets upswing and only captured 68 percent of the downswing. Mr. Owens stated he would not expect that over the long term though.

Mr. Owens went back to Sawgrass, noting their upswing capture was 89 percent and their downswing was 79 percent and Polen's upswing capture was 97 percent and their downswing was 84 percent. Mr. Owens moved on to Fiera Capital, noting their quarter was a little bit better, noting they have had lower returns since inception but also had lower risk and volatility. He noted his concern was they had a negative alpha since 2015 of about one percent at 98 basis points. He explained they were watching Fiera Capital ("Fiera") closely and internally they were considering other managers for that space. Mr. Owens moved to Macquarie Investment Management ("MacQuarie"), formerly known as Delaware Investments, noting they were the international value manager and had a higher return over every timeframe with lower risk and volatility, noting their upswing capture was 89 percent but their downswing was only 84 percent. He further stated their alpha was 123 basis points.

Mr. Owens moved on to Renaissance Investment Management ("Renaissance"). He explained on the shorter numbers their returns were lower, but since 2009 they have had higher returns with higher deviation and lower volatility relative to their benchmark. He stated their upswing capture was 97 percent and their downswing was 91 percent, noting that over the entire timeframe they had a positive alpha of 124 basis points.

Mr. Mulfinger reminded the board that Renaissance was a growth manager and the last quarter growth did not perform well.

Mr. Owens moved on to Garcia Hamilton & Associates ("Garcia Hamilton"), noting they were down a little over the last quarter from being overweight in corporate bonds. He further explained on every other timeframe they had higher returns and contributed to the portfolio. He summarized the quarter as having a 9.29 negative return versus an 8.82 return, noting most

managers protected but being overweight in equities brought the quarter's performance down. He also summarized that the year including the bad quarter was one percent higher.

Mr. Taft asked if Renaissance was charging more than the other managers.

Mr. Owens responded that all the managers had different fees and typically the fixed income managers would have the lowest fees, then the large cap, followed by the mid, small cap, and international. He continued the presentation stating the city's plans had higher returns with lower risk, noting the plans received a fifth percent excess return on an annual basis since 2001 and the excess was achieved with standard deviation that was lower than the benchmark. He also stated the beta relative to the dynamic benchmark was four percent less volatile and overall the plans captured 99 percent of the upswing and 95 percent of the downswing, resulting in a positive alpha of almost one half percent or 40 basis points.

Mr. Scudiero expressed concern that HGK had highest percentage of city's pension funds but was not necessarily performing the best.

Mr. Mulfinger explained they wanted the larger companies to dominate most of the portfolios risk with regards to equity. He stated value was more defensive historically. Mr. Mulfinger further explained the design of having managers essentially provide different services. He mentioned he would not re-allocate or change managers based on this, noting you have to be careful not to chase performance. He further stated Graystone still looks at other options.

Mr. Owens spoke briefly about the compliance checklist, noting all procedural items were "yes" for compliance but some items were "no's", for example Sawgrass had a "no" in a metric which was only concerned with returns and did not take risk into account. Mr. Owens explained why Graystone believed stocks were still greater than bonds with regards to returns.

Further discussion ensued regarding compliance and managers performance compared to peers and benchmarks.

Mr. Mulfinger mentioned the attorney had advised them to revise the compliance section, because the "no's" may lead a person to believe the plan and consultant did not address the compliance properly. The suggestion was to keep the compliance guidelines with the investment policy checklist and move the objectives under a separate "performance review" section to avoid potential litigation.

8. DISCUSSION OF ORD. AMENDMENT - ALTERNATIVE INVESTMENT LANGUAGE – GRAYSTONE CONSULTING / SUGARMAN & SUSSKIND

Mr. Herrera briefly went over the draft ordinance expanding the investment authority for each board. He explained that if all the amendments were adopted, they would essentially all read the same. He began with the General Employees' Pension Board, noting the amendment would expand and allow for real estate investments and would hopefully be specific enough to be approved by the City Commission. He mentioned the only change was to add subsection "i." Mr. Herrera mentioned that the Police Officers' Pension Board and Firefighters' Pension Board ordinances were the same as each other, noting they each added subsections "g, h, and i."

Mr. Ken Artin, Police Officers' Pension Board had concerns regarding the language in the ordinances that read: "any other investment which the board deems to be prudent." He felt the language already allowed the boards to invest however they wanted. He was also concerned with the section allowing the board to use the same investment vehicles as the State Board of Administration, stating they were allowed to use junk bonds.

Mr. Herrera understood what Mr. Artin was saying, but explained he was only adding that language to the Police Officers' and Firefighters' Pension Boards' ordinances because it already existed on the General Employees'.

Ms. Kelly McGuire, General Employees' Pension Board Chair had concerns about the "any other investment which the board deems to be prudent" language, but not the other.

Brief discussion ensued regarding the language to be included in the ordinances.

Mr. Olivari moved, seconded by Ms. Roeper, to delete subsections "g" and "h", add the new item "i" which would become "g", and allow Ms. McGuire to bring the ordinance before the City Commission for approval. The motion passed unanimously.

Mr. Scudiero moved, seconded by Mr. Randall to add subsection "g" but not "h" or "i" and allow Ms. McGuire to bring the ordinance before the City Commission for approval. The motion passed unanimously.

Mr. Byle moved, seconded by Mr. Llanes, to modify subsection number 6, add 7 but not 8 or 9, and allow Ms. McGuire to bring the ordinance before the City Commission for approval. The motion passed unanimously.

Ms. McGuire verified with Mr. Mulfinger that Graystone would put together a presentation on why the changes would be beneficial, noting it would be helpful if Graystone was present for the presentation as well.

9. DISCUSSION OF PROPOSED ORD. AMENDMENT RE: PRE-RETIREMENT DEATH BENEFIT (FF)

Mr. Herrera explained he had gone over the impact statement and was unsure what the Firefighters' Pension Board was wanting.

Mr. Mulfinger interjected and asked if they could go to other business (Item 12) first, because Graystone had another meeting to attend shortly.

Mr. Herrera agreed and moved to Item 12.

Mr. Randall continued the Item stating the issues previously brought up did not change the intent of the language but may have contained unnecessary wording. He felt the way it was currently written was sufficient to move forward and felt the board had a consensus on that.

Mr. Randall moved, seconded by Mr. Taft, to move forward with the ordinance as proposed. The motion passed unanimously.

Ms. McGuire asked what the impact was, whereby Mr. Randall responded they increased in the member's contributions from 8.4 to 8.6 percent, noting the members voted on it and it passed.

Ms. McGuire asked it went through negotiations, noting any benefit change had to go through the negotiation process and asked if it had gone through Claire Whitley, Assistant City Manager / Human Resources Director.

Mr. Randall explained he believed the board thought that because the cost was solely taken on by the members it did not need to be negotiated in negotiations, noting the members were made aware and were in agreement to the benefit and the additional cost.

Ms. McGuire responded it did in fact still need to go through the negotiation process, noting while Foster & Foster believed the additional 2.2 percent will cover the cost, the reality was that no one knew what the cost actually was and there was a potential for the city or the plan to have to pick up the additional costs.

Mr. Randall asked if meeting with Ms. Whitley and getting a Memorandum of Understanding (MOU) signed would be sufficient; whereby, Ms. McGuire agreed.

Mr. Herrera offered to e-mail the impact statement to Mr. Randall.

The Firefighters' Pension Board adjourned at 11:48 a.m.

10. ATTORNEY UPDATE ON DISABILITY CLAIMS (PO)

Mr. Herrera gave the Police Board brief updates on their two pending disability claims, David Starke and Lauren Sanders. He mentioned they were still in the process of gathering medical records for David Starke. Mr. Herrera explained Lauren Sanders had an independent medical examination (IME) scheduled for February 19, 2019, noting that after the examination was complete the physician will provide a report at which point the board would hold an informal hearing. He explained the difference between an informal hearing and a formal hearing and also provided a short summation of the steps and process involved with each.

Mr. Ray Llanes, Police Officers' Pension Board, asked what Lauren Sanders claim was for, whereby Ms. McGuire mentioned it was for post-traumatic stress disorder (PTSD).

Mr. Herrera stated for due process consideration he did not want to go any deeper with the claim.

The Police Officers' Pension Board adjourned at 11:43 a.m.

The meeting moved to Item 9.

11. ATTORNEY COMMENTS

Mr. Herrera had no further comments.

12. OTHER BUSINESS

Mr. Randall mentioned he created a cover sheet / form for any proposed ordinance changes, which offered a brief summary plan description.

Ms. McGuire asked when Mr. Randall wanted the form to be used, whereby Mr. Randall responded it could be used any time there was an ordinance or benefit change where a pension related decision would be made and asked Mr. Mulfinger or Mr. Herrera if he had seen something like that used from other clients.

Mr. Mulfinger was unaware of any of the other plans using a form like that and thought it would be better to have the attorney look at it.

Mr. Herrera stated it was a good idea but had not seen it, noting the only issue would be constantly updating the form, he felt it may be better in theory than practice.

Ms. McGuire thought the form had great information but it may be a better form to give their active employees, noting she would not recommend her board use the form. She felt when a new item comes before the City Commission she wanted them to look at that item rather than additional information, noting if it was pertinent it would be in her report anyway.

Mr. Herrera mentioned the boards had previously agreed to engage a securities portfolio monitoring firm named Kessler Topaz Meltzer & Check (“Kessler Topaz”), noting they were a securities litigation and portfolio monitoring firm who would step in and advise the boards if there were any class actions like securities fraud or breach of fiduciary responsibility. Mr. Herrera stated the custodial bank was typically handling the service but was going to begin charging for it, noting Kessler Topaz would handle the filing of those claims at no charge. He noted Kessler Topaz would have to be compensated if there was litigation and the firm was entitled to fees, however, the fees were not paid out of the pension funds. Mr. Herrera thought it appropriate to have each board authorize their respective chair to sign the monitoring agreement as approved by legal counsel.

Mr. Scudiero moved, seconded by Mr. Randall, to authorize the Firefighters’ Pension Board Chair to sign the monitoring agreement as approved by legal counsel. The motion passed unanimously.

Mr. Artin moved, seconded by Ms. Hamilton, to authorize the Police Officers’ Pension Board Chair to sign the monitoring agreement as approved by legal counsel. The motion passed unanimously.

Mr. Olivari moved, seconded by Ms. Roeper, to authorize the General Employees’ Pension Board Chair to sign the monitoring agreement as approved by legal counsel. The motion passed unanimously.

Mr. Herrera continued by offering a brief legislative update to the boards regarding two specific bills, noting the legislative session had just began and there could be more updates in the future.

Mr. Herrera mentioned the Florida Public Pension Trustees Association (FPPTA) had an annual conference coming up in June, noting he thought it was a worthwhile conference. He also mentioned that the Division of Retirement just released the dates for their pension trustees’ schools, which would be held April 30, 2019 – May 2, 2019 at Florida State University.

Mr. Artin asked what the requirement was for continuing legal education (CLE), whereby, Mr. Herrera responded that different professions had different requirements, noting attorneys and accountants needed to complete a certain number of hours of education within specific subject areas. He explained the Florida Statute of governing trustees was ambiguous and provided for a continuing education requirement but was not very specific. Mr. Herrera spoke briefly with the boards regarding ways to fulfill the continuing education duty.

Mr. Randall mentioned a three part class offered by the FPPTA that was offered twice yearly, which he found helpful, whereby Mr. Herrera stated the FPPTA certification program was good if anyone was interested, noting it was not required by statute.

There was brief discussion as to whether there was a rule stating the course had to be completed within six months of being on the board, to which Ms. McGuire stated there was a rule requiring eight hours per year, whereby Mr. Herrera agreed, noting the policy of the pension boards also required eight hours per year.

Ms. Denise Roeper, General Employees' Pension Board, suggested in-house training.

Mr. Herrera explained they tried in the past but could not find consensus on a date and location that worked for everyone. He suggested if the City of Ormond Beach would host it, perhaps there could be a date chosen, then he would try to get more attendees. The board had consensus to host the training and Mr. Herrera stated he would work on a good date and would invite neighboring plans, noting if there was not interest from neighboring plans, the city could have it alone.

Ms. McGuire wanted to go over an item she believe needed a vote. She mentioned that currently the benefit calculation estimates were signed by her as well as the chair and secretary of each board. She recommended having the chair and secretary still sign when someone was asking for a pension to begin or in the case of a final calculation, but thought the process would be expedited if the estimates could be signed by her alone. She asked if the boards would like to continue receiving estimates.

Mr. Randall stated he was okay with streamlining the process and not receiving estimates.

Ms. McGuire stated the chair and secretary will still receive any invoices to approve. She further stated with regards to the new expedited process, she

thought it would be good to have the Assistant Finance Director also sign off as a secondary signatory.

Mr. Randall moved, seconded by Mr. Scudiero, to allow the Finance Director and Assistant Finance Director to sign anything other than the Final Benefit Calculations and invoices to be paid for the Firefighters' Pension Board. The motion passed unanimously.

Mr. Byle moved, seconded by Mr. Artin, to allow the Finance Director and Assistant Finance Director to sign anything other than the Final Benefit Calculations and invoices to be paid for the Police Officers' Pension Board. The motion passed unanimously.

Ms. Roeper moved, seconded by Mr. Olivari, to allow the Finance Director and Assistant Finance Director to sign anything other than the Final Benefit Calculations and invoices to be paid for the General Employees' Pension Board. The motion passed unanimously.

The General Employees' Pension Board adjourned at 11:35 a.m.

The meeting moved to Item 10.

13. ADJOURNMENT

The Firefighters' Pension Board adjourned at 11:48 a.m.

Respectfully submitted,

Andrew Moss, Recording Secretary

Attest:

Kelly A. McGuire, Chair
General Employees' Pension Plan

Chris Byle, Chair
Police Officers' Pension Trust Fund

David Randall, Chair
Firefighters' Pension Trust Fund

DRAFT