CORAL GABLES RETIREMENT SYSTEM
RETIREMENT BOARD AGENDA
THURSDAY, FEBRUARY 11, 2016
8:00 A.M.
POLICE COMMUNITY MEETING ROOM
2801 SALZEDO STREET – POLICE STATION BASEMENT

MEMBERS:	M 15	A 15	M 15	J-11 15	J-25 15	A 15	S 15	O 15	N 15	J 16	F 16	APPOINTED BY:
Andy Gomez	P	P	P	P	P	P	P	E	E	P	P	Mayor Jim Cason
James Gueits	P	P	P	P	P	E	P	E	P	P	P	Vice Mayor C. Quesada
Charles Rigl	-	-	-	-	-	P	P	P	P	E	P	Commissioner Jeanette Slesnick
Michael Gold	-	P	P	P	P	E	P	P	P	P	P	Commissioner Patricia Keon
Rene Alvarez	P	E	P	E	E	P	P	P	P	E	P	Commissioner Vince Lago
Joshua Nunez	P	P	P	E	P	P	P	P	E	P	P	Police Representative
Randy Hoff	P	P	P	E	P	P	P	P	P	P	P	Member at Large
Donald R. Hill	P	P	P	P	P	P	E	E	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	E	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	P	P	Finance Director
Elsa Jaramillo-Velez	P	P	P	P	P	P	P	E	P	P	P	Human Resources Director
Manuel A. Garcia-Linares	P	P	P	E	P	P	P	P	P	P	P	City Manager Appointee
Jacqueline Menendez	-	-	-	-	-	P	P	P	P	E	P	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Ornelisa Coffy, Retirement System Assistant
Dave West, The Bogdahn Group
Dan Johnson, The Bogdahn Group

P = Present
E = Excused
A = Absent

GUESTS:
Craig Leen, City Attorney

Chairperson Hoff calls the meeting to order at 8:05 a.m.

1. Roll call. Mr. Easley was excused and Mr. Gueits was not present at start of meeting.

2. Consent Agenda.

All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be *removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.*

2A. The Administrative Manager recommends approval of the Retirement Board meeting minutes for January 11, 2016.

2B. The Administrative Manager recommends approval of the Report of the Administrative Manager.

1. For the Board's information, there was a transfer in the amount of $4,200,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of January for the February 2016 benefit payments.

2. For the Board's information:

    - Gregg Webber, Firefighter, entered the DROP on February 1, 2008 and left the DROP on January 31, 2016. He received his first retirement monthly benefit on February 1, 2016 and was not affected by the IRS 415(b) limits for the 2016 year.
    - Francisco Rodriguez, Police Sergeant, entered the DROP on February 1, 2011 and left the DROP on January 31, 2016. He received his first retirement monthly benefit on February 1, 2016 and was not affected by the IRS 415(b) limits for the 2016 year.
    - James Simpson, Police Officer, entered the DROP on February 1, 2011 and left the DROP on January 31, 2016. He received his first retirement monthly benefit on February 1, 2016 and was not affected by the IRS 415(b) limits for the 2016 year.
    - Gail Springer, Public Works City Dispatcher, entered the DROP on February 1, 2011 and left the DROP on January 31, 2016. She received her first retirement monthly benefit on February 1, 2016 and was not affected by the IRS 415(b) limits for the 2016 year.

3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:

    - Payroll ending date January 10, 2016 in the amount of $171,611.50 was submitted for deposit on January 21, 2016.
    - Payroll ending date January 24, 2016 in the amount of $170,934.59 was submitted for deposit on January 29, 2016.

4. Copy of the detailed expense spreadsheets for the month of January 2016 is attached for the Board's information.

5. For the Board's information the Northern Trust Securities Lending Summary Earnings Statement for January 2016 is attached.

6. Attached for the Board's information is a report from the GRS Death Check website showing that no death records were found from the current list of retirees' Social Security numbers as of February 1, 2016.

7. A copy of the January 2016 FPPTA Newsletter is attached for the Board's information.

2C. The Administrative Manager recommends approval for the following invoices:

1. GRS invoice #419064 dated January 6, 2016 for actuarial consulting services for the month of December 2015 in the amount of $12,978.00.
2. The City of Coral Gables invoice #94459 for the rental of City's public facilities in the amount of $1,479.00 ($499.00/month) and general liability insurance in the amount of $972.00 ($324.00/month) for the months of January thru March 2016.

A motion was made by Mr. Garcia-Linares to approve the consent Agenda and seconded by Mr. Hill. Motion unanimously approved (11-0).

3. Items from the Board attorney.

Chairperson Hoff announces that Board Attorney, Mr. Greenfield, is ill with severe bronchitis and will not be able to attend the meeting. Chairperson Hoff was updated on the items that Mr. Greenfield was to discuss. The City amended the Nyhart case to include Randall Stanley and Associates. There is a hearing coming up on the COLA case on February 26th. Ms. Gomez adds that the City Attorney, Craig Leen, advised he would try to stop by the meeting and Chairperson Hoff adds that they can revisit the agenda item if needed.

4. Presentation of the 2015 State Annual Report and final 2014-2015 audit report by Goldstein Schechter Koch. Ms. Groome informs that the representatives may be at the Youth Center due to the change in the meeting location. Mr. Hoff advises that they will return to the item when they arrive.

5. Discussion of who should complete the review of performance on the Employee Performance Evaluation form for the Administrative Manager.

Dr. Gomez asks to for the Board to be brought up to date of what the process has been. Ms. Gomez informs that in previous years the Assistant Finance Director did the evaluations. She is not sure why. Ms. Groome adds that before the Administrator was hired by the Board the Administrator was the Assistant Finance Director so the same process was kept and not changed. Ms. Gomez states that as the Finance Director she does not exactly direct the Administrator or gives her work to do. As the Trustee she does review some things but the Board gives her work to do. She doesn't believe that she assigns work to the Administrator. Chairperson Hoff informs that when the item was placed on the Agenda he asked Ms. Groome to research what other Administrators regarding their evaluations. Chairperson Hoff shares the results for the record. Coral Springs Administrator advises she is a City employee and the HR Director does her evaluation. City of Miami says they have a personal Committee Board and they conduct an annual evaluation of the Administrator and the Administrator conducts and annual evaluation of staff. City of Miami Beach Fire and Police do not have a formal performance evaluation. They present a review of the annual accomplishments and request an increase amount and the Board as a whole votes on it. Pompano General Administrator advises that her review is done by the entire Board at a Board meeting. Each Trustee fills out their own evaluation form with comments and ranking. The Chairperson collects them and summarizes everything for discussion. The Pompano Police and Fire Administrator states that a performance appraisal is done annually by the Board Chairperson and Vice-Chairperson.

Chairperson Hoff recommends that the Investment Committee meet to complete the evaluation and then present the evaluation to the Board and have it open for discussion. Ms. Jaramillo-Velez does not believe that only the Committee should do the evaluation as each member of the Board agrees on the assignments to the Administrator. Mr. Garcia-Linares agrees that the entire Board should do the evaluation and give it to the Chairperson who can summarize them all and give a report on his collective thought of the evaluations. Ms. Gomez asks if they want to use the City's evaluation form. Mr. Garcia-Linares thinks that this year the Board should use the City form but if it is decided that the City form and if they don't like the City form another form can be created. Dr. Gomez would like to take the discussion a bit further. He would like to see the Administrator in conjunction with the Trustees at the beginning of the fiscal year should have goals that need to be accomplished. That is something they can review in advance.

Mr. Gueits arrives to the meeting.

Mr. Garcia-Linares thinks that they should also be evaluating the other Staff that works for the Board. Chairperson Hoff believes that the Board should be doing an RFP every three years. It is required by the 175 and 185 Boards. Ms. Gomez thinks that it may be difficult to switch over providers every three years. Mr. Hoff states that it is not to switch the provider but to simply have an evaluation of the vendors.

A motion was made by Mr. Garcia-Linares and seconded by Dr. Gomez to have the entire Board fill out the evaluation of the Administrator. Motion unanimously approved. (12-0)

Ms. Gomez suggests that when the Board members receive the evaluations to fill out and then send their completed evaluation to the Board Attorney who will then send them to the Chairperson for review.

Mr. Garcia-Linares asks if they want to make a motion regarding evaluating the providers and decide on which one they want to do first. Chairperson Hoff is open for it.

A motion was made by Ms. Gomez and seconded by Dr. Gomez to begin evaluations on a provider and then continue two per year setting contracts for three years with three one year options to renew however at the three year mark re-evaluate if they want to issue an RFP when the initial contract is up doing an RFP each year beginning with the vendor the Board has had the longest. Motion unanimously approved (12-0).

Ms. Jaramillo-Velez states that there should be some procedure and that Ms. Groome should work with Procurement to create a procedure if there is a protest.

Chairperson Hoff asks what the Board needs to do to make the Assistant full-time. Ms. Gomez responds that is a budgetary question. Mr. Garcia-Linares thinks they need to do the evaluation first. Chairperson Hoff asks Ms. Coffy if she would go full-time if the position was made a full-time position. Ms. Coffy responds that she would.

6. Investment Issues.

Dave West of The Bogdahn Group reports on the investment performance for the quarter ending December 31, 2015. There are no manager issues. From a compliance standpoint they are watching all the managers. There are no material violations that they need to address. The actual net cash flow into the plan was $139,839,856 as of December 2015. From the investment program they accumulated $355,605,705 which goes back to September 2003. They are negative in the cash flow in paying out in this system. The circumstances for the plan remain the same.

The total fund for the year over year period ended in December ranked in the top ninth percentile. The three year rolling annualized at 9.43% the fund ranked in the top decile. The five year annualized at 8.64% they ranked in the top sixth percentile. Their asset allocations decisions have been driving their peer group ranking. The asset allocation rank without fees in a year of year basis was ranked in the top 23rd. They are doing different things here trying to manage risk but still achieve that rate of return number. The asset allocation has been a very big factor in their peer group status in helping them achieve a nice absolute return. The active management element has given them an extra peer group boost. All of the managers are in compliance with the solid peer group rankings. The strongest came from the revamped International Equity Portfolio. WCM and RBC just continue to give great returns and superior peer group performance.

Mr. Gold asks where the standings come from. What institution are they comparing themselves to? Is it other pension accounts? Is it other institutional accounts? Is it foundations or is it everything? Mr. West answers that the peer group they are using they subscribe to the consultant database that pulls from public pension systems across the

Country. There are both very small and large systems and it is a very broad range set of systems. It also includes systems that maybe closed. It does encompass the National public pension systems.

Mr. West reports on the January investment performance. It was a very ugly January. The total fund net was down 4.14% on a year over year basis so since inception the fund is at 5.75%. At time of this print they did not have data for the fixed income funds. It has been a tough quarter. There was not a lot of support from the active management element. Most the managers underperformed from the equity standpoint. The only manager to outperform was WCM. The MD Sass portfolio was the worst hit given their stock position in the portfolio.

Mr. Garcia-Linares asks if the 5.75% puts into question if there is a wrong number that was put into as a long term target. They are trying to hit 7.75% and their inception number is 5.75%. Mr. West thinks they need to be careful because that rate of return number is set with very long term assumptions in mind. Unfortunately they have had two negative periods. If they look at the rolling experience there have been times where they have achieved 7.75% in individual years with reasonable probability. Mr. Garcia-Linares states that every year that they don't it creates an additional payment for the City to pay. Mr. West adds that every rolling 5 years smoothing they do not make 7.75% it will cause an additional payment. An individual year is going to weigh poorly in the averages but on a rolling 5-year basis that increases the probability Mr. Gold asks if they use forward looking or backward looking capital market assumptions. If they look backwards of the past thirty or forty years, backward looking capital market assumptions will assume higher rate returns because bonds have done really well. Looking at the next 30 years he doubts that rate assumptions on fixed income will be that high considering where interest rates are today although they keep going lower so their bond portfolios are working well. The 10-year Treasury is 1.56% today and a month and a half ago it was over 2%. It is a huge move in the fixed income market. Do they assume moving forward looking at the long term rates of return and trying to make 7% in a zero interest rate world? Mr. West responds that they vetted the various capital assumption providers and in their opinion JP Morgan provides a quality, well founded set of forward looking capital market assumptions. Their assumptions project more of a 12 to 15 year time horizon. They also use the backward looking. They use a blend of both.

Dan Johnson of The Bogdahn Group comments that Mr. Garcia-Linares makes a very good point in regards to the 5.75% trailing number since 2003. If you look back 20 years and hit it and in the past seven years you hit it but the interim period which includes the tech bubble and the financial crisis as it relates to the system's numbers over the past seven years the system has hit 9.78% per year for seven years. The bigger issue is that from a six year period from 2003 to 2009 they had a six year number that was negative. Since then they have been able to rebound and reverse that issue. The issue with the 2003 number is the starting point. From 2003 to 2009 was such challenging aberration in investment markets but subsequently they have succeeded pretty significantly at 9.78% per year on an annualized basis and that is very strong results. Mr. Garcia–Linares asks what the reality is going forward that the Board will be able to continue to keep up with hitting these numbers. Mr. Johnson responds that they have a very large plan and it is very complicated and there is a lot than goes on to it. Prospectively, looking forward they can't expect to get a great return from bonds. It is going to be challenging given the 10 year yield at 1.56%. During the course of the 4th quarter of 2015, they did not have two investments funded. There is a big process in getting funds invested but they did fund BlackRock and the Titan hedge fund-of-fund strategies. There are two big problems for pension plans; low interest rates for bonds a high volatility in the stock market. Being calculated with risk exposures, prospectively to help them to achieve the 7.75% it will be tough having such a large exposure in core fixed income with yields around 1%. He wanted to point out that during the quarter the way they combatted that to stay ahead keeping that 7.75% is you added those two new allocations. That is how they plan to address those challenges in capital markets. Mr. Gold informs that he has a worry that if you look at future returns they are based off the risk-free rate and the risk-free rate right now is nothing. Ninety day Treasuries are almost zero so if you take a little more risk you can get a little more than zero in fixed income. If you go to equities you can get no risk plus a couple percent. Mr. West thinks those are excellent points. The risk-free rate they are using with the forward looking assumption is they are taking a longer term projected risk-free rate.

Mr. West addresses the rebalancing of the plan. As of January 31, 2016, they are 5% underweight in domestic equity versus the policy target. Following the 5% rebalancing rule they have set up to objectively manage this in a civilized institutional manner that is a trigger point for them to rebalance. The total real estate is 5.2% over their threshold. They have a 10% target for their real estate allocation. They have strategically by design over weighted this area and it has been extremely beneficial to the plan. Now the real estate portfolio has appreciated so much relative to the rest of the investments in the system that they are actually .2% in violation of their policy limits for real estate. Their recommendation is to rebalance. The recommendation is to liquidate the Global Bond portfolio which is roughly 5% of the total assets. It would be a liquidation of the Templeton Bond fund and the PIMCO diversified income fund. These are institutional share classes readily liquid, daily liquidity funds. They are still keeping the other PIMCO products. By liquidating those two bond funds they would be using that as their source of funds to get their domestic equity up and put those proceeds into the S&P 500 index fund. The idea is that later in the cycle, large cap tends to outperform small and mid-cap. The second recommendation is that they rebalance their real estate portfolio. They suggest taking 3% off the table to get them down to 12% in that portfolio. They will still be overweight. They will move that 3% out of the JP Morgan Core real estate fund. Since it is quarterly liquidity they will not have access to that capital until the next quarter. Those assets can be out there to meet distribution requirements of the fund. They suggest they make a subtle strategic shift in the allocation of the portfolio. It is based on the evolution of the liquidity or lack of liquidity that has been arising in the bond market for non-U.S. government bonds. They think it is appropriate at this time to take some nice profits and close out the Global bond portion.

So their recommendation is to rebalance the portfolio back to policy targets by purchasing 5% to get domestic equity back to policy target to the S&P 500 index fund and the source of funds for that is the Global Bond portfolio by liquidating the Templeton bond fund and the PIMCO diversified income fund. The second recommendation is to rebalance back to policy targets as far as their real estate allocation goes so they are back in compliance and they are recommending liquidating 3% of total plan assets of JP Morgan Core real estate funds. Those funds will remain in cash for future distribution requirements.

A motion was made by Mr. Gold and seconded by Mr. Gueits to approve the recommendations of the investment consultants. Motion unanimously approved (12-0).

Craig Leen, City Attorney, reports on the COLA case. The City and the plaintiffs are agreeing to class certification in this matter with the agreement that whatever decision was reached in the case would apply to everybody. He is hopeful that this case will get resolved. Mediation is ongoing. The other issue is regarding the previous actuary. They recently amended their complaint to include the actuary's prior company before merging with Nyhart. They are hoping to resolve this matter also. Mr. Gold asks if they win either case does that money come back into the pension system. With the COLA case there has been disagreement between the Retirement Board and the City. The City has been open with their position and continues to brief the Board on the case. The Board had original granted the COLA and the City reversed that decision. Then his office issued a legal opinion. The City is trying to move forward. Chairperson Hoff states that on the other case the City paid out the money so that money would go back to the City. Mr. Leen agrees. Anything lost from the pension will go to the pension and anything lost from the City will go back to the City. The City paid those amounts and it was not out of the pension. They are trying to recoup that. Chairperson Hoff thanks the City Attorney for his time.

7. Old Business.

Ms. Groome informs that the Workshop date is March 16th. They are still trying to find a room. Dr. Gomez suggested using the University of Miami. Ms. Menendez informs that there is a possibility of looking at the Alumni Center which is on San Amaro. She will check the availability.

Dr. Gomez states that the first workshop they had he thought was very informative. What he envisions with this workshop coming up is to begin to move forward from a policy point of view. Ms. Gomez states that from the City's perspective, the City has already set the funding policy of the pension contributors. The City has, by Resolution, stated that it will maintain a larger than required contribution and the amount will increase each year the amount they budget for to pay off the unfunded liability. That is a Resolution funding policy that the City has already set. They will pay off some unfunded basis. They have already funded $4 million as an excess contribution. If the annual required contribution goes down then the amount of additional payments will continue to grow over time. Obviously there are other factors in there because sometimes all the assumptions are not met. There are some fluctuations. That commitment has already been made by the City Commission in the form of a Resolution. In terms of how much funding the City is giving has already been decided. The Funding Policy for the Board is more so about when they are going to review things and how often. The Board cannot set how much money the City will pay. Chairperson Hoff doesn't think directly but indirectly because the Board is able to change assumptions. He was very happy to see that all four Commissioners, the Mayor and City Staff are committed to this. He thinks in discussing this issue with the Board's consultant and actuary that this is a huge step forward. He has been on the Board since 2010. They have been trying to get a joint meeting with the Commission for the entire time. They are moving forward. He understands that the City has made a huge commitment by doing that but there is so much more. It is almost like their Investment Policy for their assumptions. Why are they considering even changing the assumption rate? The whole thing is to have a documented reasoned way of going about doing things. He thinks this is a matter of getting it all together so all the issues are addressed in the document because in 20 years none of them will be on the Board and people in the future can look back and have that document as a reference. Mr. Gold states that he keeps hearing over the past few months when they have this conversation about the unfunded and where the City's payments will go but they need to be conscious that this is one pot of money and they have sometimes used the mortgage metaphor. It is absolutely not a principle and interest payment. It is a forever accruing liability. He gets nervous when they talk about the City wants to fund this much required and the rest goes to unfunded liabilities; it is left hand pocket right hand pocket. It is money going into the same thing that needs to be accrued. When they talk about it he wants to make sure they don't pretend it is a mortgage because it is nothing like a mortgage. It is an accruing liability. Ms. Gomez explains that the City wants the unfunded ratio lower for other reasons like they want to keep their AAA bond rating and look like they are making progress. So paying down the unfunded has benefits to the City and it is still putting more money into the plan. Using the mortgage metaphor is the easiest way to explain it. Mr. Gold doesn't want it to be part of the conversation again and again because it can shade how people see it. It is misleading. There is a difference of looking like the plan is better and actually being a healthier plan. They are concerned about what the City can do because the planning rates for the City are valuable to everybody who lives in the City and operates in the City so it is a balance. Ms. Gomez explains that the goal now is this goal and understanding that there are other pieces to it. They can't address everything at the same time.

Mr. Leen states that from the City's perspective when you lower the return rate assumption it immediately increases the unfunded liability and the concern was that since they were already putting more money into the plan that lowering the return rate assumption would not be helpful. Ultimately, the Board has their fiduciary obligation and the City has its authority. They are trying to work together. Chairperson Hoff states that when Dr. Gomez brought this issue up at the very beginning the return rate is what everyone focuses on. That is just one small component of the whole thing. They keep going back to the rate of return assumption and this is so much broader which is why he thinks they need to look at the whole picture. Mr. West states that there are two issues.

One is how can they increase the surety of the contribution requirements going forward. They can do that by changing the assumption rate and it has its ramifications but there are steps and there are other assumptions. There are other things within the purview of the Board to be done to increase the surety of funding going forward. The second issue on the table is how can they make a material impact in closing that chunk of the unfunded liability. If they were to shift the rate of return assumption from 7.75% down to 6% they will not do anything to close the funding gap. They might be increasing the surety of funding the benefits being accrued going forward. Ms. Gomez states that two Board meetings ago the Board asked her to discuss this with the City and come back with a proposal of possibly lowering the unfunded. She has been having those discussions with the City Commission and the City Manager. Those discussions are still ongoing. She will be discussing it with the Commission as a whole at the next Commission meeting in terms of what the City's recommendation for the investment return assumption. Mr. Garcia-Linares doesn't see how they can come up with a recommendation other than coming to the workshop and listening to the Board so they can explain to them what it should be. It makes no sense to him that the Commission would have a meeting to make a recommendation prior to listening to this Board's experts. Ms. Gomez informs that the City Manager was at the last workshop when the Board discussed the investment return assumption. The City recommendation is from City Staff, the City Manager and specialists of the City Commission. They are making the recommendation. Mr. Leen explains that they are not making a recommendation. They would look at all the evidence and the Chairperson could come and speak or have a designated person to speak. There are a lot of options they can do. They may send it back to the Board and ask for you to look at it with your thoughts. Mr. Garcia-Linares states that he doesn't want to go into the workshop with a Mayor and group of Commissioners that have already made up their minds before they even hear from the Board's experts. Dr. Gomez believes they are very open about this issue.

Mr. Garcia-Linares left the meeting.

Chairperson Hoff states that if the Commission is having a discussion about the Retirement Board and the City Staff senior level administration has allegiance to them. Was there ever a point where they would seek the interaction with this Board? It would appear that they are going to have this meeting because he doesn't look at their agenda every two weeks. Mr. Gold is appointed by a City Commissioner who communicates with him so he know there is one who has a good sense of what is going on here. Chairperson Hoff thinks that as a Board they would seek input at the Commission meeting to discuss this. Dr. Gomez asks if they can formally request to speak at this meeting. Mr. Leen informs that they can talk to them individually and express their views. They are concerned about anything that goes against the policy they have set. Dr. Gomez believes he is seeing positive energy coming from the Mayor and the Commissioners and the administration. Chairperson Hoff thinks this discussion may be moot because the most recent Actuarial Report for the State of Florida they may not accept anything above a 7.5% assumption rate. They are already recommending changes like the mortality table where they did not have a choice. As the City Attorney has said before the State trumps the City. They have set the wheel in motion and go back to see where they go from here.

The approval of the 2015 State Annual Report was deferred.

8. New Business.
There was no new business.

9. Public Comment.
There was no public comment.

10. Adjournment.

The next scheduled Retirement Board meeting is set for Wednesday, March 16, 2016 immediately after the Retirement Board Workshop at University of Miami Alumni Center 1st Floor Library, 6200 San Amaro Drive, Coral Gables, FL.

Meeting adjourned at 9:44 a.m.

APPROVED

RANDY HOFF
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER