

CORAL GABLES RETIREMENT SYSTEM  
 Minutes of August 31, 2015  
 Police Community Meeting Room  
 2801 Salzedo Street – Police Station Basement  
 8:00 a.m.

MEMBERS:	A	S	O	N	J	F	M	A	M	J	A	APPOINTED BY:
	14	14	14	14	15	15	15	15	15	15	15	
Andy Gomez	P	E	E	P	E	P	P	P	P	P	P	Mayor Jim Cason
James Gueits	P	P	P	P	P	P	P	P	P	P	E	Vice Mayor C. Quesada
Charles Rigl	-	-	-	-	-	-	-	-	-	-	P	Commissioner Jeanette Slesnick
Michael Gold	-	-	-	-	-	-	-	P	P	P	E	Commissioner Patricia Keon
Rene Alvarez	-	-	-	-	P	P	E	P	P	E	P	Commissioner Vince Lago
Joshua Nunez	E	P	E	P	P	P	P	P	P	E	P	Police Representative
Randy Hoff	P	P	P	P	P	P	P	P	P	E	P	Member at Large
Donald R. Hill	P	P	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	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	P	P	P	P	Human Resources Director
Manuel A. Garcia-Linares	P	P	E	P	P	P	P	P	P	E	P	City Manager Appointee
Jacqueline Menendez	-	-	-	-	-	-	-	-	-	-	P	City Manager Appointee

STAFF:

Kimberly Groome, Administrative Manager	P = Present
Ornelisa Coffy, Retirement System Assistant	E = Excused
Alan E. Greenfield, Board Attorney	A = Absent
Dave West, The Bogdahn Group	

GUESTS:

Craig E. Leen, City Attorney  
 John Baublitz, FOP  
 Ludwig Janiga, City Employee  
 James Skinner, Resident  
 John Holman, City Employee  
 Ayliin Hernandez, City Employee  
 Dan Thornhill, IAFF L-1210  
 David Perez, IAFF L-1210

Chairperson Randy Hoff calls the meeting to order at 8:13 a.m.

1. Roll Call

Chairperson Hoff calls the meeting to order. All members are present except Michael Gold and James Gueits who are excused from the meeting. Chairperson Hoff acknowledges two new

Board members Charles Rigl, appointed by Commissioner Slesnick and Jacqueline Menendez appointed by the City Manager.

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 June 11, 2015.

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 \$2,500,000.00 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 June for the July 2015 benefit payments.

2. For the Board's information, there was a transfer in the amount of \$4,650,000.00 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 July for the August 2015 benefit payments.

3. For the Board's information:

- Lillian Quiroz, Agenda Coordinator, entered the DROP on January 1, 2012 and left the DROP on June 30, 2015. She received her first retirement monthly benefit on July 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.
- Kimberley Springmyer, Code Enforcement Officer, entered the DROP on July 1, 2010 and left the DROP on June 30, 2015. She received her first retirement monthly benefit on July 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.
- Shantell Millings, Receptionist in the Police Department, entered the DROP on March 1, 2013 and left the DROP on July 17, 2015. She received her first retirement monthly benefit on August 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.
- Rene Brito, Construction Inspector, entered the DROP on November 1, 2010 and left the DROP on July 31, 2015. He received his first retirement monthly benefit on August 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.

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  - Alex Castello, Police Officer, entered the DROP on August 1, 2010 and left the DROP on July 31, 2015. He received his first retirement monthly benefit on August 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.
  - Michael Frevola, Police Lieutenant, entered the DROP on July 1, 2012 and left the DROP on July 31, 2015. He received his first retirement monthly benefit on August 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.
  - Charles Brannock, Firefighter, entered the DROP on August 1, 2007 and left the DROP on July 31, 2015. He received his first retirement monthly benefit on August 1, 2015 and was not affected by the IRS 415(b) limits for the 2015 year.
  - Lenore Veitia, Assistant City Clerk, passed away on May 28, 2015. She retired from the City on August 1, 1997 with No Option. Her benefits have ceased.
  - John Abbott, Code Compliance Specialist, passed away in July 2015. He retired on July 1, 2013 with No Option (5 years certain). As soon as the Retirement Office receives the appropriate paperwork, his beneficiary will begin receiving post retirement survivor benefits as of August 1, 2015 and will receive the benefit until July 1, 2018.
  - Chris Vanni, Police Officer, passed away on July 23, 2015. He separated from the City with vested rights and began receiving his benefit on August 1, 2010. His benefits have ceased.
4. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
- Payroll ending date May 31, 2015 in the amount of \$181,599.37 was submitted for deposit on June 9, 2015.
  - Payroll ending date June 14, 2015 in the amount of \$176,430.83 was submitted for deposit on June 23, 2015.
  - Payroll ending date June 28, 2015 in the amount of \$177,451.88 was submitted for deposit on July 2, 2015.
  - Payroll ending date July 12, 2015 in the amount of \$184,427.49 was submitted for deposit on July 21, 2015.
5. Copies of the detailed expense spreadsheets for the months of June 2015 and July 2015 are attached for the Board's information.
6. For the Board's information the Northern Trust Securities Lending Summary Earnings Statements for June 2015 and July 2015 are attached.

7. For the Board's information the Northern Trust class actions report for the 2<sup>nd</sup> quarter of 2015 is attached.
8. For the Board's information, a letter is attached dated June 23, 2015 from Richmond Capital stating that they are in compliance with Florida Statute 215.473.
9. 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 August 4, 2015.
10. A copy of the Chapter 112.664 Compliance Report in connection with the October 1, 2014 Actuarial Valuation Report and the Plan's Financial Reporting for the Year Ending September 30, 2014 from Gabriel Roeder Smith & Company is attached for the Board's information. The information was posted to the Retirement System website on July 15, 2015.
11. A copy of a letter dated June 30, 2015 from Julie Browning of the State of Florida Municipal Police Officers' and Firefighters' Retirement Trust Funds is attached for the Board's information regarding questions they have on the 2014 State Annual Report.
12. A copy of the July 2015 FPPTA Newsletter is attached for the Board's information.

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

1. Goldstein Schechter Koch invoice #20409827 dated March 30, 2015 for final billing in connection with September 30, 2014 audit services in the amount of \$3,200.00.
2. GRS invoice #414647 dated June 12, 2015 for actuarial consulting services for the month of May 2015 in the amount of \$7,284.00 and invoice #415302 dated July 7, 2015 for actuarial services for the month of June 2015 in the amount of \$11,582.00.
3. The City of Coral Gables invoice #06724 for the rental of City's public facilities in the amount of \$1,317.00 (\$439.00/month) and general liability insurance in the amount of \$982.26 (\$327.42/month) for the months of July thru September 2015.

2D. The Administrative Manager recommends of Retirement Benefit Certifications (one DROP benefit may be subjected to the benefit limitations under the Internal Revenue Code Section 415 – the actuary will continue to monitor):

Retirement Benefits: Randy Thomas (General/Teamster).

DROP Benefits: Tristan Bittschwan (Firefighter), Vincent Brown (Firefighter), Lydia Calvo-Florentino (General/Teamster), Kattia Castellanos (General/Teamster), Albert Coscia (Firefighter), Belkys Garcia (General/Teamster), Hope Gibbs (Firefighter), Vivian Gonzalez (General/Teamster), Thomas Harley (Firefighter), Jaime Haro (Firefighter), Dean James (Firefighter), David Johnson (Firefighter), Jerome Leslie (Firefighter), David Martin

(Firefighter), Maria Cristina Martinez (General/Teamster), Timothy McAlister(Firefighter), Tim Mungovan (Firefighter), Jesus Perez (Firefighter), John Perrotti (Firefighter), Nelson Rodriguez (Firefighter), Carla Rossby (Firefighter), Robert Sportsman (Firefighter), Alejandro Tapanes (Firefighter), Eduardo Toledo (Firefighter), Joe Torres (Firefighter), Stephen Turpin (Firefighter), Tom Zelenak (Firefighter), John Zipse (Firefighter).

Re-certification of DROP due to grandfather clause: Martha Boyd, Rene Brito, Juan Diaz, Hancel Felton, Michael Grant, Donald R. Hill, Cornelius Jacob, Walter Lesser, Shaffee Mohamed, Patrick Moore, Carmen R. O'Donnell, Antonio Silio, Marvin Smith and Gail Springer. All are General/Teamster employees.

**A motion was made by Mr. Garcia-Linares and seconded by Dr. Gomez to approve the consent agenda. Motion unanimously approved (11-0).**

3. Items from the Board attorney.

Mr. Greenfield reports that nothing has been going on much in the legal world during the summer as everyone is on vacation. There are no updates on the Nyhart case. Mr. Greenfield informs that those who were not at the FPPTA conference that he won a scholarship to attend the New York Stock Exchange for the FPPTA Certified Public Pension Trustees' Continuing Educational Units Wall Street Program. He mentions this because members who do not regularly attend the FPPTA functions should look at doing so very seriously because it is a fine organization and they receive a lot of information that assists Board members with their duties as trustees of the Board. As a member of the Board it is required to have continuing education as a trustee and by being active in the FPPTA that satisfies that particularly responsibility.

Mr. Garcia-Linares asks if there is any update with the City's case. Mr. Greenfield replies that he spoke to Mr. Cohen who had a request for something he wanted to get from the Retirement System. He advised Mr. Cohen that he would need to speak with Craig Leen before providing him with the details which Mr. Cohen requested. He did not receive a response from Mr. Leen and Mr. Cohen has contacted him again regarding his request. Mr. Greenfield continues adding that Mr. Cohen indicated that there would be some prejudgments on both parties part and the court will ultimately hear it and hopefully it will be resolved. Dr. Gomez asks for Mr. Greenfield to give a brief synopsis of the cases for the new Board members. Mr. Greenfield advises that he has already briefed them on the cases.

Ms. Gomez informs that Mr. Leen will try and attend the meeting by 8:30am.

4. Discussion continuing the March 2015 meeting discussion regarding Board member Education and attendance at conferences. (This item was deferred at the last three meetings).

Chairperson Hoff informs that the Board has a resolution before them. He asks for a motion.

**A motion was made by Dr. Gomez and seconded by Mr. Hill to approve the resolution.**

**Discussion:**

Mr. Rigl informs that he would like to participate in the next FPPTA meeting depending on his schedule. Chairperson Hoff explains that it is an excellent opportunity. They hold two sessions a year. After you complete the basic, intermediate and advanced courses then you are a Certified Public Pension Trustee. They also have an annual conference. They are at different locations in the State of Florida. The schools are held in January and October and the conference is in June. All Board members are members of the FPPTA. You just need to let the Administrative Manager know when you would like to attend and she will set it up.

Ms. Gomez asks if the resolution states that all Board members are to attend all schools and all meetings every year because she is looking at this from an expense side. That is three different trips, three different hotels and three different registrations. It seems a little excessive and she knows there is different material brought at every session but she is not sure that it is necessary for members to attend both schools and the annual conference. Once you become certified you only need to maintain 10 credits and that is attending one school. She understands the reasoning for attending the annual conference because it is more of a networking conference as opposed to an actual school. She wonders if it is necessary that once obtaining the necessary certification for a Board member to attend both schools and the annual conference. As a side bar, she thinks there needs to be some type of standard as to what methods should be used in terms of per diem. There needs to be more discussion on this instead of approving attending all the FPPTA functions

Chairperson Hoff respectfully disagrees. He generally does not go to every function. However, each and every conference the information presented is all up to date and things change quite frequently. He thinks it is a minimal amount of money for the safe guard. He believes Mr. Garcia-Linares and Mr. Easley were the only Board members on the Board when they went through the UBS issue and education was a huge portion of that. He thinks that the FPPTA is what saved the Board during that time because of their educational programs. He thinks it is a small price to pay for the benefits provided. If there is a procedural thing that needs to be setup then it should be discussed.

Dr. Gomez agrees with everything the Chairperson has said. He would like to interpret Ms. Gomez's concerns a bit differently. For the sake of transparency as a public entity it may be worth having policies in place so that everyone who the Board represents can have full transparency so they have a very clear picture as to what are done with the funds. Mr. Garcia-Linares thinks that the reality is that a lot of the Board members are very busy and more than likely will not be attending all three meetings. He personally does not have time to attend any of those functions. He adds that the resolution states that Board members should attend and does state that they must attend so that leaves it up to the individual Board members to determine if they can attend or not.

Ms. Jaramillo-Velez comments that there should be procedures set in place. The City's policy is that employees have to get pre-approval and the Florida Statue does provide what the per diem should be. Mr. Garcia-Linares responds that he thought there was a procedure. When he has gone to meetings in the past there was a form to fill out that has per diem and a limit. Ms. Groome informs that the form has been recently updated and she uses the GSA rates like the City's expense form. It was updated in July 2015. Mr. Garcia-Linares thinks it is a good idea to circulate that form to the Board. Ms. Gomez adds the form is there but there is no

explanation of the form. She adds that there should be a uniformed method and a policy for travel.

Mr. Garcia-Linares would like to review the form. He asks Ms. Gomez if her overall concern is the cost if everyone went to all three meetings. Ms. Gomez replies that she is speaking as the Finance Director regarding time out of the office and the perception that Board members are traveling three times a year at the cost of the plan. She wants to know if it is necessary to go to every meeting and who makes the determination. Mr. Garcia-Linares would like to see at the next meeting the form, the cost per person for each meeting and how many days it entails for employees out of the office. He would like for the motion to be deferred. Ms. Groome informs that Dr. Gomez made the motion for the approval of the resolution and Mr. Hill seconded it. Dr. Gomez withdraws his motion.

**A motion was made by Dr. Gomez and seconded by Ms. Gomez to defer the item. Motion unanimously approved (11-0).**

City Attorney Craig Leen addresses the Board on legal items.

Craig Leen advises the Board on the Nyhart case. That case is proceeding slowly. They are still getting information. He is hoping to have settlement discussions on that case soon to try and resolve it if possible. For those Board members who are not aware of the case, it is in regard to a former actuary involving some interpretations that he gave that turned out to be incorrect. It is believed that he should have foreseen some of the things that occurred and prevented them. It caused a lot of harm to City employees. Ultimately the City was able to rectify and remedy by paying those employees money. They had to bring in a new actuary because of this issue. In more detail one employee was told that they almost lost their whole pension. This was due to a part of the IRS regulation 415. That regulation indicated that even if you were entitled to a pension payment with the DROP and the yearly pension payment there was a regulation that limited per year what you can get which would be less you're your yearly pension depending on your age when you retired and the amount of years of service. Their view was that when the actuary provided the certified numbers to these employees there should have been some notification given on the limitation that could occur because of IRS Section 415 and that was not occurring. They believe this was a mistake by the actuary that caused harm. Ultimately the City settled these issues and there was a change in the Code. There were a number of things done to address the situation. This is the case pending between the City and the Pension Board against the previous actuary.

The second case involved the retiree COLA. Mr. Greenfield informs that he will speak to the new Board members regarding that case. Mr. Leen informs that he will speak very generally on this case. A lawsuit was brought on by certain retired City employees who receive pension benefits related to an interpretation the City gave as to when an individual is entitled to a COLA. It involves the interaction of State law and the City Code. If you look at the City Code the way it is written indicates that there would be a COLA given in certain years when there is a return of investment over a certain percent. The City Attorney's interpretation is because there is a State Statue which says it is incorporated into the City Code which indicates that there also has to be positive actuarial experience from which that money is paid. In situations where that doesn't exist, and it doesn't exist here because there was a negative actuarial experience. That is a condition of the COLA being paid and there is a significant dispute over that. That is why there is a lawsuit pending for that legal issue. It will

ultimately be resolved. He is not sure if they have completed the class certification phase but this case will most likely be certified. The class certification motion basically means the retirees are suing the City as a class which is not a bad thing because no matter what happens in the case it should apply to everyone. After class certification the City is looking for some re-judgment. Mr. Leen adds this is a legal issue that will be resolved but it still can take a while because regardless of the verdict there still can be an appeal. He adds that a former State Supreme Court Justice Raoul Cantero is representing the City in this case. Mr. Garcia-Linares asks who is that case pending before. Mr. Leen informs that it was in front of Judge Dresnick but it got transferred. He will have to double check.

5. The Administrative Manager recommends approval of the Goldstein Schechter Koch audit and engagement letters for the year ending September 30, 2015 audit and 2015 State of Florida Annual Report allowing payment of retainer fee in the amount of \$4,800.00 to be paid prior to commencement of preliminary work. There is no increase in their fees for the audit or Annual Report for 2015.

Mr. Greenfield informs that he reviewed the engagement letters and they are acceptable.

**A motion was made by Mr. Garcia-Linares and seconded by Dr. Gomez to approve the engagement letters for the September 30, 2015 audit and the 2015 State of Florida Annual Report.**

**Discussion:**

Chairperson Hoff understands that GSK was dragging their feet on the response to the State of Florida. Make sure that response gets done before paying the retainer fee. Ms. Groome informs that she will follow-up with them today.

**Motion unanimously approved (11-0).**

6. Discussion of memorandum from the Finance Director regarding IRS penalty for 2014.

Chairperson Hoff asks for Ms. Gomez to elaborate on the matter. She begins advising that in June of 2015 the Retirement System received a penalty from the IRS regarding late submission of tax withholdings. She continues informing the Board that every time the Retirement System cuts a check to the IRS the taxes are to be paid within 24 hours. Ms. Groome comments that the payments are due the date of payment. Ms. Gomez informs that with the City the payment is due within 24 hours. Ms. Groome advises that with the Retirement System it is due the day of payment and not within 24 hours. Ms. Gomez continues. When those funds are late there is a penalty. There have been several instances when the payment has been late. She doesn't remember these discussions on the topic ever happening about these penalties with the Board. She thought the Board should need to know about it and find a way to address it. It is something that can easily be avoided and wanted to bring it to the Board's attention.

Mr. Garcia-Linares asks why this happened. Ms. Groome states that the payments were late. She does not have an excuse why. With the work load that she has had in the past sometimes the information she needs to make the payment would get caught underneath other work that had piled up on her desk. Chairperson Hoff points out that there is a list on the letter from the

IRS that shows the dates the payments were late. They aren't talking about weeks late but there are a few that are one day late and a few that are four days late. Ms. Groome indicates that for 2015 she was late in March but the other months she has been on time. Mr. Garcia-Linares asks what they can do to make sure going forward that this doesn't happen again. Ms. Groome informs that the issue has been remedied. Now she has to process the retirement payroll about a week before the checks are sent out because the way the mail system works now because checks take more than two days for delivery. So when she processes the checks a week in advance and now she has help to do a lot of the work, she is able to do everything the day she processes the checks which means she makes the payments to the IRS on that date.

Ms. Gomez states that she did bring this issue to the City Manager's attention. One of the things the City Manager wanted her to ask the Board is that whether or not the model of having a City employee as the Retirement Administrator is the correct model for this Board or should it be an independent firm like in Hollywood where the City Manager came from it is an independent contractor that reports directly to the Board so there wouldn't be a liability. Mr. Garcia-Linares points out that the Board currently pays the Administrator. Ms. Gomez states that she is still a City employee. The City Manager would like the Board to consider if this is the right model of having a City employee as the Retirement Administrator. She is not saying that anyone would be out of a job because there are other placements and assignments. Mr. Garcia-Linares is trying to figure out the difference because the Board gets a bill for the City expenses of the Administrator. Mr. Easley asks if that is because a company would be liable for a mistake. Ms. Gomez explains that a company would be responsible as opposed to a City employee. The City Manager asked for the Board to consider it. Chairperson Hoff adds that ultimately Ms. Groome is the Board's employee. How she is paid it doesn't matter, if she screws up then the Board own it. Dr. Gomez doesn't want to tie whatever mistakes that have now been remedied for now looking for a reason to go outside. These are two separate issues. We had an issue that has been corrected and if you want to go the other way then they have to think about it but he doesn't want to tie the two together. Ms. Gomez states that there have also been other issues like the 415 issue. You go after the third party. Mr. Easley understands what Ms. Gomez is saying. However, going back four to five years ago, Ms. Groome had indicated she needed an assistant. He is not giving any excuses for Ms. Groome and she has taken responsibility for the error. She has also indicated that she needed help. An independent firm would have had all types of resources available to them and Ms. Groome did not. He knows what Ms. Groome does because when sees it when he stops by her office to talk to her about different issues. She has an assistant now. It seems to him that they are all human and all make mistakes. Mr. Garcia-Linares thinks there is a bigger issue because if the Board is looking into making things independent then Ms. Gomez's position has always been an issue because she is a Trustee and the Finance Director and now a Board member. There are times when there is a conflict of interest. If they are looking to revamping what they have and making people independent then they made need to look beyond just this one position to make sure that everything is independent because Ms. Gomez is wearing three hats. Ms. Gomez points out that if you look at the responsibilities of the Trustee in the Code they are ministerial for the most part. If you look at the Code she thinks they will be surprised of the Trustee's responsibility to the Board. It is a Code provision. Mr. Easley thinks it is also a Miami-Dade County ethics and State ethics. Ms. Gomez thinks that one of the issues of getting the extra help was because the Board wanted it to be a City employee and that has to go through budgetary and Human Resources. The Board could hire City contractors. Chairperson Hoff

does not believe that was the case. Ms. Jaramillo-Velez remembers it was a problem with the confidentiality of the employee. Mr. Easley states that the problem with having a full-time person versus part-time versus outside was because of the confidentiality issue. Ms. Gomez recalls that the Board wanted to have an employee that was a City employee to receive the pension benefits of the City. Mr. Easley informs that was one of the discussions. Mr. Hill agrees because it was more of a concern of the confidentiality. Mr. Easley appreciates that the issue of the penalty was brought to the Board's attention and Ms. Groome is aware of it and given that Ms. Groome is in the current environment she is in, he does not think this issue will happen again. She has been telling the Board for over four years that she has been overwhelmed and that the Board needed to hire an assistant and the Board has hired an assistant. He thinks the IRS issue has been resolved.

Mr. Leen continues his previous discussion.

Mr. Leen advises that he spoke with Justice Cantero who is representing the City in the case and at this point they are still in the class certification phase. They are working out the wording and trying to come to an agreement about proceeding forward with class certification. They are trying to get the specific legal issue resolved. At some point they will resume settlement negotiations as well. There was mediation and he doesn't believe there has technically been an impasse at this point. They are open to resolving the matter if there is a reasonable settlement that can be reached. They are doing their best to resolve the matter and understand this is a tough case that affects people. It is also a substantial amount of money for the City. This is a very serious issue and they are hoping to resolve the matter soon.

7. Discussion of creating a Long Term Funding Policy as presented at the Retirement Board workshop.

Dr. Gomez begins by thanking Ms. Groome for organizing what he believed to be a good workshop. He also thanks Dave West for his participation in the presentation. As a follow-up to that, he believes the Board should begin by developing a conceptual framework that can lead to a flexible funding formula as to how they will address the issue of the pension liability. He asks Mr. West to follow-up to what was suggested at that workshop. Mr. West informs that held a workshop where the FPPTA and GRS presented a presentation to the Board as to potentially larger management issue in the oversight of the finances of the Pension plan. There was a seminar held at the FPPTA at the June conference. There will be a break out session at the October school where GRS will be funneling in on funding policies as a part two discussion of the overall discussion of the workshop. He recommends that members who are attending the October school should attend that session. Dr. Gomez states that the Board gave them permission to use the Coral Gables Retirement System as a case study. Mr. West informs that he is not an actuary and would really strongly recommend that their actuary, Pete Strong needs to be a part of the conversation.

There are two macro issues on the table. One is if there is a process that can be adopted from a city management perspective in the financial management of the pension system. Are there things that can be done in a long-term standpoint that could improve the funding situation? The second part is if there things that the Board can do to help the fundamental program as an example controlling actuarial assumptions. As a part of the presentation one city was used as a

poster child for success. That city was Clearwater Fire. The actual assumptions they adopted were close to reality. As an example the mortality table adopted was always the most current which means it was the most expensive mortality table and it forced additional funding. Their funding methodology was very responsive to the dips and ups and downs of the investment cycle. In most cases, investments contribute to about 65% to 70%. The costs of running a pension system you have employee contributions, city contributions and investment contributions that all contribute to operate the system. The legacy investment issue with the Board impacted everyone in 2000 and in 2008. From a management standpoint there may need to be a discussion on adopting a policy where the pension contributions stay steady on some basis and that way when investments rise the City is still contributing what they are supposed to put in and when the investments dip they would have to put in less but make up the fall for that period of time. In Clearwater, when the investment program fell below during the crisis period, the City stepped up and made the contribution differential. From an investment standpoint that is the best possible thing they could do. Mr. Hill remembers that Clearwater's minimum city contributions were 7% of payroll. Mr. West agrees. They have an ordinance in place that requires a minimum city contribution of 7% of pay and it is required even when the contribution is less. The idea is by stabilizing payment you offset a reciprocal contribution from investments will reduce total dollars that the plan sponsor has to put in. It is just a prudent man policy. Mr. Hill realizes that this is a budgeting issue and their City knows they are always going to be paying 7% of payroll. They can project that out over 20 years. Mr. West agrees. They also have the option, if necessary, to make additional contributions during the period when investments dip. Money ends up going into the system from an investment pool at the right time when you need it so you get much stronger appreciation. This is 20 years of history. From a cash flow management standpoint it is a best practice to get the maximum amount of dollars into the pension system. There is no greater returning investment pool that the City can put money in than the pension system. The operating funds, the cash reserves are going to make money overtime but the pension program is going to make a lot of money. There is no better to pool to put assets into and overtime if they can manage cash flow it becomes less expensive over time. From a macro management standpoint these are some things that the Board could afford here with the help of the actuary running some scenarios. Then those ideas could be bantered around with the City. The second part is what the Board is doing. Recently there has been meaningful effort to adapt realistic funding assumptions. Adopting more conservative funding assumptions would force the sponsor to put more money into the system. Chairperson Hoff thinks this is a very deep subject that bears a lot of consideration and he would like that they schedule a special meeting and invite the City Manager and the Finance Department staff to discuss it and have the actuary attend. Ms. Jaramillo-Velez informs that the City Manager has suggested to the Commission of going into a defined-contribution plan. Mr. Hill asks if they understand that does nothing to the unfunded liability. It is going to stay there. Ms. Menendez states that going from a defined benefit plan to a defined contribution plan is an enormous step for any municipality. Mr. Easley agrees. There has also been a lot of turn backs from defined contribution plans back to defined benefit plans. Chairperson Hoff reminds that this is not a decision that this Board will address. It is a City responsibility.

8. Investment Issues.
  - a. Monthly Performance

Mr. West reports that the total fund net of fees picked up 1.33% for the month and the fiscal year to date is at 8.29%. They have exceeded the actuarial return. The three year number for the period ending July is 11.79% and the five year number is 10.94%. Eagle Capital is up at 12.49% vs a benchmark of 4.96%. MD Sass is ahead along with Winslow, and Wells Capital. Moving to the international portfolio new managers RBC and WCM are largely ahead so the changes made are way ahead of the benchmark. The income managers have not been able to bring much to the table. The PIMCO Diversified Income fund fiscal year to date is doing well at 2.71%. Templeton global bond fund is doing well against its benchmark. As everyone is aware interest rates went up and it was a global phenomenon that investment grade fixed income delivered a total return of negative and the aggregate bond market loss over 1½%. They lost less in that year and are benched against less interest rate sensitive benchmarks. They are using intermediate maturity bonds with the idea that at some point interest rates would go up. They wanted to minimize their losses so they created benchmarks less sensitive to changes in interest rates and their active managers have been able to perform pretty well. The DISCO fund continues to perform well moving at a tempered pace. Fiscal year to date that fund is at 3.1%. A big engine continues to be the real estate investments. The JP Morgan Strategic Property Fund fiscal year to date was at 11.97%. The JP Morgan Special Situation Fund performed exceptionally well at 16.85%. The over allocation to real estate has really pulled them along and has helped put them over the top in the investments. They are in very good shape coming into the end of the fiscal year.

Mr. Rigl asks if all returns are net of fees. Mr. West answer that they are mixed. The total is shown on a net basis and all the non-mutual funds show gross so they can make an apple to apples comparison to the peer group.

Mr. West reviews the cash flow for the month. The month opened at \$352,692,244. Contributions for the period totaled \$6,615. Distributions were \$4,650,005. Management Fees invoiced and paid by the custodian were \$146,988. Other Expenses for plan administration was \$2,957. The investment earnings were broken down into income and totaled \$380,999. The appreciation for the month was \$4,462,881 and at the end of July 31<sup>st</sup> they took a market position at \$352,742,790. On a fiscal year to date basis the income earned was \$9,096,578 and the appreciation was \$21,295,807.

Mr. West reviews the second quarter report. There are no compliance issues to address regarding the investment managers. He shows the cash flow to the plan and the net contribution at the end of the period is \$134 million. Since September of 2003, investment earnings have grown to \$352 million. This goes back to the idea that investments contribute a meaningful part of the cost for paying for this program. Mr. Easley states that Mr. West noted that from September 2003 to where they are now has gone from \$185 million to \$352 million. A more recent case, from March 2009 they have gone from the same base line of \$185 million to \$352 million. In a seven year period, they have come back significantly from that huge downturn. Mr. West agrees. One of the secondary objectives is for the plan to rank in the better than the 50th percentile. It shows the rank of all public funds in the State and across the country. It ranges from very high to very low funds. It includes pension systems that are closed

and pension systems that are opened. The asset allocations are very different for all types of systems but they are all thrown into the public fund universe so they have a general idea of where they are navigating down that channel. He is happy to report that on a fiscal year to date they are ranked number one. On a one year basis the fund ranks one. On a three year annual basis the fund ranks top ten percentile. On a five year basis the plan ranked in the seventh percentile. This is not an aggressively managed program. The equity allocation is below the average pension system and most of the returns have been due to the allocations to alternatives, real estate being one of the big drivers for this time period putting them over the top of the peer ranking.

b. Hedge Fund of Fund manager selection

Mr. West informs that the Board was provided a summary sheet that was put together by Dan Johnson. Back in June, the Investment Committee had a meeting where they went through adding a 5% allocation of total plan assets the Investment Policy for alternative investments. The Committee reviewed and the Board interviewed for the GTAA asset. BlackRock was selected for that asset class. The GTAA will be allocated half of the 5% allocation of that asset allocation. Then the Board interviewed for the hedge fund of funds with the managers Titan Advisors, Sky Bridge and Entrust Capital. They weren't able to make a decision on the manager at that date. He would like to recommend a priority or an order of preference of these managers rather than select one single manger in the event that the Board attorney is unable to come to terms on engagement agreements and then the decision will not hold up the process. The quantitative results of the best managers are Sky Bridge, Titan and Entrust. They are looking for a low correlating strategy for diversification purposes and the order was Sky Bridge, Titan and Entrust. From a fee standpoint depending on the strategy Sky Bridge ranked first. The fees for Sky Bridge would be 85 basis points with no incentive fee, Titan was 75 basis points plus a 10% incentive fee, and Entrust was 130 basis points or 1.3% incentive fee or a 125 basis points plus a 5% incentive fee.

In all cases the managers may close the door if they feel it puts their current investors at risk and they can close the door for an indefinite period of time. Titan was previously closed but they were able to open up temporarily. They will be closing back down in the near future but we do have a place card should the Board select that manager. One of the issues with Sky Bridge is that their asset growth has been luminous over the past few years and they have exploded in asset growth and have been very successful. That is something they want to watch. Titan has a history of judiciously closing their fund once they think they have reached a level where they don't want to impact their investment return opportunity of their investors and they will close that fund. Entrust is also a very large manager that remains open. Entrust is a large manager that has a heavy credit orientation. Titan has a home grown bias looking for smaller to mid-size hedge funds and has had great success with that strategy. Sky Bridge strategically changes the allocation when they feel they are in the economic cycle and they have moved and changed managers significantly overweighting and underweighting certain themes as they go through the economic cycle. Entrust and Titan has a more stable pool. They have tried to group various investment types in a risk adjusted way and are stable with that allocation at the time adjusting to managers as necessary. All managers

are a great choice and he opens the floor for discussion. Mr. West adds that for the record, The Bogdahn Group receives no fees or any compensation from any managers they bring to the table for the Board's consideration.

Mr. Rigl asks Mr. West if he has a recommendation. Mr. West replies that his recommendation is that the Board does a ranking of the managers. Chairperson Hoff has an issue. He has a concern with Sky Bridge not having any other client in Florida and they have not been fully vetted by The Bogdahn Group. Mr. West responds that they did an RFP and went back in and fully vetted each of the managers in that process. Titan and Entrust have already been fully approved by their Investment Policy Commission and are on The Bogdahn Group's list of managers where consultants can competently go out and recommend them for client review. Sky Bridge has not received that element. Mr. Easley states that they have discussed their performance in the past but given the current global economic situation with China and the ECB, which of the three managers does he feel going forward will provide their plan the best results or should the investments be split. Mr. West advises not to split. He continues that the Titan fees and the notion in participating in a hedge fund of fund may have more potential. Historically, Titan has done a better job.

Mr. Nunez asks Mr. West about the anti-union remarks made by someone from Sky Bridge. Mr. West is aware of some press floating around and from their perspective they are trying to present the best investment option. They will not dig into an issue like that and it is a subjective consideration but from their perspective they are trying to stay black and white looking at the investments. In their opinion, all three firms do a good job in the due diligence process and have a good portfolio assembly process. Sky Bridge has the highest manager turnover. Entrust has the lowest manager turnover of the group and Titan has a low manager turnover.

Chairperson Hoff asks how the Board would like to provide the ranking of the hedge fund managers. Mr. Garcia-Linares was leaning toward Titan. Mr. Easley agrees. He thinks they can eliminate Sky Bridge because of the vetted issue and also because they do not have any pension plans in the State of Florida. He would like to see some connection to Florida plans because States are very different from each other. Mr. West informs that they don't have any pension systems with Titan in the State of Florida but they do have foundations that use Titan. Chairperson Hoff then announces that Titan is the first pick and Entrust is the second pick. Mr. Garcia-Linares likes the fact that Titan is 100% employee owned and the fees are attractive. Chairperson Hoff states that Titan is the first pick and Entrust is the second as long as the Board Attorney is able to complete a contract with Titan.

**A motion was made by Mr. Easley and seconded by Ms. Jaramillo-Velez to have Titan as the first pick of the hedge fund of funds manager and Entrust as the second as long as the contract is approved by the Board Attorney. Motion unanimously approved (11-0).**

Mr. West continues the final portion of this issue which is to choose the funding option. When they changed the investment policy allocation they added opportunistic income

and moved the DiSCO II funding into that category. They added another asset category at 5% and that is the space they are trying to fill right now. They would like to recommend funding by two potential ways. The first funding option is to take \$10 million from JP Morgan Strategic Property fund. They are over allocated in real estate. They have something that has worked extraordinarily well but they start to begin and take profits and move back to policy, they are aware when the money flow shifts they could get a line at the door again sometime to get out. He is suggesting the Strategic Property fund because that is their core fund and to leave the Special Situation fund alone because it is in the sweet spot of the economy right now. The core properties are fairly valued and that is what the Strategic Property fund is primarily investing in. If they were to take profits of that fund it would move us toward the policy statement. They still have a big representation in real estate and they will still be over weighted because they are only taking half. The other half would come from the DiSCO II fund. There would be some overlap in the hedge fund manager pool investing in similar securities to what the DiSCO II fund is doing. They would be realizing that this was a phenomenal investment and they are going to take their profits and fund something else moving forward. He advises that this is a tough decision because the DiSCO II fund did well. The first option would be capturing profits from two phenomenally performing investments at \$10 million from JP Morgan Strategic and \$7.5 million coming from DiSCO II. The second option would be liquidating \$17.5 from DiSCO II or just closing out the \$21 million dollar investment from DiSCO II and using it at the source of funds. There will be some overlap. You still are in the PIMCO TacOps fund which invests in some of the same types of securities and spaces.

Mr. Garcia-Linares comments that he is in favor of the second option. Mr. Easley asks why take out of the Strategic fund instead of just pulling out of the DiSCO II fund. Why is that the first option? Mr. West explains that it is a supposition and projecting ahead. It is possible that for those funds that have been fortunate enough to have an overweight in real estate at some point they are going to be talking about rebalancing. It happened in the pre-real estate crash in 2000 and 2008, real estate hung in there while everything else tanked. A lot of the redemption orders came in because pension systems had to rebalance. When the equity market fell through the floor, they were overweight in real estate and underweight so they went to the area they were overweight and put in redemption orders and that arguably helped create the investment queue and caused the door to close. They are supposing here. They are overweight by 3.5% because the investments have done so well. It always behooves the investor to be the first at the door to get their profits because they will never time the pop exactly. That is impossible. They are capturing profits and rebalancing back to policy targets in an environment where it is very easy to get that done. That is the thought process behind the rebalancing and taking profits from the real estate. Also by taking half of real estate and half of DiSCO II they are keeping the main program allocation intact.

Mr. Rigl asks if the current interest rate situation have anything to do with pulling out of PIMCO. Mr. West responds that the current interest rate situation is the realization of what they have been positioned for and that is the increasing rate environment. In that environment they definitely what a minimal investment grade bond investment and they want to maximize their real estate investment and secondarily the PIMCO investment.

They have realized significant gains if they had not made that shift. Without getting into market timing and interest rate forecasting he thinks you have to say there is a fair argument that while interest rates may increase the rate of increase may be fairly benign and that means the impact to the PIMCO bond investments may be minimal and most likely negative and that furthers the argument to keeping the overweight in real estate. They are trying to capture profits in an environment when it is easy to do. Mr. Rigl states that Mr. West's point is that they are sticking to the target allocations with the first recommendation. Mr. West agrees. At the end of the day you can never be faulted by going back to the policy.

**A motion was made by Mr. Hill and seconded by Mr. Rigl to use the first option recommended by the consultants which is to liquidate \$10 million from the real estate Strategic Property fund and liquidate \$7.5 from the DiSCO II fund. Motion unanimously approved (11-0).**

Dr. Gomez left the meeting at this time.

Ms. Groome asks Mr. West to inform the Board regarding any issues with PIMCO. Mr. West informs that the PIMCO organization has received a Wells Notice which is basically the FCC police serving a warrant because they don't like something that has been done at the firm and they are giving them the opportunity to provide a rebuttal and defend their position. This is not a firm wide policy concern. It pertains to the ETF that was created back in 2012. The purpose of the ETF was to mimic the Bill Gross managed total return fund. During the first six months of the ETF's existence it outperformed the fund by 3% and that put up some flags. They are reviewing the pricing policies in place at the time when they were funding that EFT and how they priced the underlying bonds and it is the less liquid securities that were funding that ETF. PIMCO has the opportunity to refute as they will and defend their practices. Their position is that there is nothing they can do except keep the Board informed when they get a final opinion from the FCC and the conclusion of the Wells Notice. Mr. West asks if there was anything else. Ms. Groome informs that she saw an article regarding the fiduciary rule change. Mr. West explains that PIMCO, Morgan Stanley, State Street and another advisor were in an article expressing concern over the DOL new proposed fiduciary standard that the DOL would like to implement on advisors. Basically, the DOL is really stepping up fiduciary requirements. They acknowledge fiduciaries and think it is a good thing. From a brokerage type business model perspective, it becomes problematic because as a fiduciary technically the current rules you cannot recommend to a client to purchase your own product and it creates a higher level of accountability to an organization that was previously able to run without having to worry about that standard being applied to them. They were expressing their concerns to that DOL proposal.

9. Old Business.

There was no old business discussed.

10. New Business.

Ms. Gomez informs the Board that the City has created a committee to review the deferred compensation plans with the City and The Bogdahn Group has been assisting them in evaluating that process. The Committee did recommend that they use The Bogdahn Group as a fiduciary to help them consolidate the plan. She wanted to let the Board know that the City is using The Bogdahn Group.

11. Public Comment.

Employee Ludwig Janiga presents an issue he wanted to bring before the Board. He believes that the retirement calculations are incorrect. He advises that the Summary Plan description does not correspond with the City Code specifically Section 50-25 and 52-30. He continues adding that the retirement calculation has two parts. The first is the 3% of your highest three year average plus the second part which follows section 52-30.

Mr. Garcia-Linares left the meeting at this time.

He continues adding that Ms. Groome provides calculations to the employee. He reviewed an example calculation and what the numbers represent. He shows an example to the Board. The problem is there is nothing wrong with the calculation and if you take the same numbers and move them ahead in this case you are calculating only the 5% average. He asks if he is correct. Ms. Groome advises that he is not because according to the ordinance he would still need to use the three-year average. Mr. Janiga continues. He is calculating for someone who began working in 2011. Ms. Groome informs that she has not done a retirement calculation for a person hired in 2011. Mr. Janiga advises the reason he has done this is to show that the calculation is different for persons hired with the same pay. He states that the problem is because the retirement payments are higher. The verbiage in the Summary Plan Description says to add the calculations two sections and the ordinance advises to choose one of the two calculations depending on which is higher.

Chairperson Hoff thinks this issue needs to be addressed by the actuary. Ms. Groome provides the calculations but they are all reviewed by the actuary. Ms. Gomez asks if Pete Strong, the actuary, has looked over this issue with Mr. Janiga. Ms. Groome informs that Mr. Janiga did not bring this issue to her attention prior to the meeting. Ms. Gomez advises that this is a matter that needs to be looked at because there seems to be some confusion. Ms. Groome states that Mr. Strong explained the calculation to her after a Board meeting previously and an email was then forwarded to Ms. Jaramillo-Velez who contacted Jim Linn about the way Mr. Strong was interpreting the calculation. Mr. Linn responded by email and informed that the way the actuary explained the new calculation was correct and that is when she sent an email out to all the Board members that she had not been calculating the retirement estimates correctly according to what the actuary told her. Chairperson Hoff states that the actuary is responsible for interpreting the ordinance and so Mr. Strong should be called in to further explain. He informs that the Board will look into the matter and will hopefully have this on the agenda for the next Board meeting.

Mr. Janiga states that he has another issue. He is waiting on his certification. Chairperson Hoff responds that they are waiting on the actuary. Mr. Janiga wants a date of when he will receive his certification. Mr. Easley asks if he will be leaving the City soon and if that is his reason

for needing a date. Mr. Janiga does not think it is important whether or not he is leaving the City. He needs his certification. The calculation he received had interchanged numbers and he believes that Ms. Groome purposely did this. He has proof that the numbers were manually changed and if he does not receive a date he will officially file a complaint. Ms. Groome explains that when she prepares the retirement estimates, she does not include any retroactive adjustments in the estimate but when the retirement is calculated for review by the actuary and certification the retroactive adjustments are included. Mr. Hill reiterates that it is just an estimate and that due to the IRS 415 issue an actuary had not been used which has caused the delay in the certifications. Chairperson Hoff asks how long it should take for all the certifications to be all caught up. Ms. Groome guesses that they should be caught up by the middle of September. Chairperson Hoff asks for Mr. Janiga's certification to be completed as soon as possible.

12. Adjournment.

The next scheduled Retirement Board meeting is set for September 10, 2015 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:53 a.m.

APPROVED

RANDY HOFF  
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME  
ADMINISTRATIVE MANAGER