

CORAL GABLES RETIREMENT SYSTEM

Minutes of September 12, 2019
 Youth Center – 2nd Floor Classroom
 405 University Drive
 8:00 a.m.

MEMBERS:	S	O	N	J	F	M	A	M	J	A	S	APPOINTED BY:
	18	18	18	19	19	19	19	19	19	19	19	
Andy Gomez	P	P	E	P	P	P	P	P	P	P	E	Mayor Raul Valdes-Fauli
Rene Alvarez	E	P	P	P	P	P	P	E	P	E	P	Vice Mayor Vince Lago
Alex Mantecon	-	-	-	-	-	-	-	-	P	E	P	Commissioner Jorge L. Fors, Jr.
James Gueits	P	P	E	P	P	P	A	P	P	P	P	Commissioner Michael Mena
Michael Gold	P	E	P	P	P	P	P	E	P	P	P	Commissioner Patricia Keon
Joshua Nunez	P	P	P	P	P	P	P	E	P	P	P	Police Representative
Election needed	-	-	-	-	-	-	-	-	-	-	-	Member at Large
Jesus Cordero	-	-	-	-	-	P	A	P	P	P	P	General Employees
Troy Easley	E	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
Raquel Elejabarrieta	P	P	P	P	P	P	P	P	P	P	P	Labor Relations and Risk Management
Carter Sox	-	-	-	-	-	-	-	-	-	E	P	City Manager Appointee
Pete Chircut	P	P	P	P	P	P	P	P	P	P	P	City Manager Appointee

STAFF:

Kimberly Groome, Administrative Manager
 Ornelisa Coffy, Retirement System Assistant
 Dave West, AndCo Consulting
 Manuel Garcia-Linares, Day Pitney LLC

P = Present
 E = Excused
 A = Absent

GUESTS:

Janna Hamilton, Garcia Hamilton & Associates
 Jeff Detwiler, Garcia Hamilton & Associates

1. Roll call.
 All members are present except for Dr. Gomez, Mr. Gold and Mr. Gueits. Mr. Randy Hoff is no longer on the board and his position has not been filled yet.
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 August 8, 2019.
- 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 \$4,450,000.00 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 August 2019 for the September 2019 benefit payments.
 2. For the Board's information, the following Employee Contribution checks were deposited into the Retirement Fund's SunTrust Bank account:
 - Payroll ending date August 4, 2019 in the amount of \$203,105.38 was submitted for deposit on August 12, 2019.
 - Payroll ending date August 18, 2019 in the amount of \$184,408.58 was submitted for deposit on August 23, 2019.
 3. Copy of detailed expense spreadsheet for the month of August 2019 is attached for the Board's information.
 4. Attached for the Board's information is the Retirement System's Estimated Budget for fiscal year 2019-2020.
 5. Attached for the Board's information is a report from the Berwyn Group showing two death records found from the current list of retirees' and beneficiaries' Social Security numbers as of August 16, 2019. A letter of verification has been sent to the family of one of the deceased retirees and a carbon copy of that letter was sent to the Board Attorney. The report states that retiree Charlie Davis' Social Security number on file is incorrect and that he is deceased as of November 1968. Mr. Davis retired from the City on January 1, 1995 and this is the Social Security number given by him at the time of his hire in 1953.
 6. Employee Benefit Statements from Gabriel Roeder Smith & Company for October 1, 2018 were distributed to the active members of the Coral Gables Retirement System in June 2019. A summary of the statements are attached for the Board's information.

A motion is made by Mr. Rene Alvarez to approve the consent Agenda. The motion is seconded by Troy Easley. Motion unanimously passes (10-0).

3. Comments from Retirement Board Chairperson.

Chairperson Mr. Nunez welcomes Ms. Carter Sox to her first meeting. He then welcomes Garcia Hamilton and advises that they can begin their presentation.

4. Attendance of Janna Hamilton and Jeff Detwiler, fixed income manager Garcia Hamilton & Associates, addressing their perspective on the market and how they are approaching investments in the current market.

Dave West explains that managers are usually not brought in to speak with the Board unless there is an issue or an initial interview. There are no issues on the table but he did receive calls from a few trustees who were expressing concern of the possibility of a recession. He believed it to be an appropriate time to bring in Garcia Hamilton to address the issue and to also further discuss the environment and their approach. As they are a newly obtained manager, he thought it was a good idea to bring the manger in. He adds that he has recommendations today that he will go over after the presentation which will involve allocation of funds to this manager.

Janna Hamilton introduces herself and Jeff Detwiler. She thanks the Retirement Board for their business. She explains that since an initial meeting was not held prior to doing business she wanted to provide some history on their firm. Garcia Hamilton was founded in 1988 and has been in business for 30 years. They are a Houston based firm and she is from Delray Beach. The firm has 34 employees. The ten members of the fixed income investment team have 198 years of combined experience. The firm manages \$14.2 billion in assets which are all fixed income. She turns the presentation over to Mr. Detwiler.

Mr. Gold arrives to the meeting at this time.

Mr. Detwiler introduces himself. He is a Florida native. He moved to Texas in 2003 and has been with Garcia Hamilton for 12 years. He explains that their goal is to outperform the benchmark, net of fees, over a full market cycle using a high-quality strategy with less risk and low turnover by setting realistic expectations and avoiding unnecessary risk. They have been recognized as one of the best bond managers in the business and want to outperform with a high-quality strategy. He adds that in the portfolio, risk will be taken in other areas and fixed income should be the rock or anchor of protection. His firm gets through by using three key tools. The first being interest rate anticipation. The second being sector rotation. The third is yield curve positioning/management. To protect their clients from volatility in the corporate market they only invest in large liquid deals. They do not invest in foreign bonds or Yankee bonds, no BBB securities, no derivatives and no soft dollars. They are flexible and will actively rotate sector. They will actively manage

the yield curve and will exploit smaller markets. There are multiple layers of risk control to monitor decisions and assure that all clients are inline and not taking on any unnecessary risk. From June 30th to August 31, 2019, the index was up 1.6% and their account was up 1.5%. Quarter to date the index was up 1.17% and performance was about even with the benchmark.

Mr. Gueits arrives to the meeting at this time.

Mr. Detwiler states that market sentiment is something that his firm looks at very closely. Market sentiment is the feeling or tone of a market, or its crowd psychology, as revealed through the activity and price movement of the securities traded in that market. He advises that once his firm sees the herd mentality and everyone is positioned on a trade his firm then looks to go the opposite way. He continues advising that today they are near extreme lows. This is a signal to them that everyone has piled up on the opposite side of the trade and so Garcia Hamilton wants to take the opposite approach.

Mr. Detwiler discusses monetary policy. The FOMC (Federal Reserve Open Market Committee) makes projections. They release those projections and decide as to raise, maintain or cut the level of what that fund is worth. According to market expectations for Fed funds rate cuts there is a 75% chance of five cuts. To him and his firm that seems to be an extreme overreaction. It reminds him of 1998 when the economy was very strong but the concern was more on what was going on outside of the country. During that time those cuts were insurance cuts to make sure the contamination did not bleed into the U.S. He sees that to be a very similar as to what is going on right now. He adds that one of the reasons why he believes the economy is going to really start showing strength is because of money supply growth. Mr. Detwiler points to the formula at the top of page 12 of the presentation. The formula $MV=PQ$ means money supply times velocity equals crisis times economic activity. According to the graph, money supply is increasing so rapidly because of the several moves that the Federal Reserve has done is to lower the interest on access reserve relative to the Feds funds ratings. The Fed allows banks to have deposits with them which serve as rainy day funds. To encourage banks to do this the Fed started paying interest on these reserves. Recently they have started to cut the interest and so now it is less desirable for banks to keep extra reserves. Banks have now begun to pull those funds and used them for loans essentially putting money into the economy as credit growth. Historically anytime money supply growth gets to 6% or higher it is typically inflationary. Periods of money supply growth rates of over 8% are extremely rare. Today they are at a growth rate of roughly 9%. These are very strong stimulus impulses that are taking place in the economy right now. His hypothesis is that President Trump, being the business man he is, is getting the tailwind of the stimulus from the Fed and a trade deal is coming sooner than later to send stocks at an all-time high. That will be the tail wind of him going into the elections. The Fed will have to investigate hiking the Fed funds rate again and at that point we the President will already be into his second term and it will be less of an issue for him but that is his guess.

Mr. Detwiler informs that small business is expected to make up 44% of the economy. The National Federation for Individual Business (NFIB) calls small businesses and asks questions. Based on their responses it gives the results of the NFIB survey results. The survey goes back to 1974 and in the presentation the recession times have been shaded gray. Looking at the report it shows that optimism rolls over significantly and it is a good signal of a recession pending. Currently, where they stand today according to the report, is 103 which is a very high level of optimism and not consistent with previous recession eras.

Mr. Detwiler discusses the unemployment rate. The unemployment rate is low now and could go even lower. That is important because if there is a strong labor market then the consumer will be confident about the economy and consumer spending makes up 68% of GDP growth. Consumer confidence is currently at 135.1 which is a very high number which again is not consistent with a recessionary period and if the labor market remains strong, he suspects that the confidence in the economy will remain. He adds that currently the job market is at a point where there are 7,217 million job openings and 6,044 million unemployed workers so there are 1.2 million more jobs open than there are unemployed workers. Logically this means employers will be fighting overqualified workers. They will need to increase wages and to entice workers to come to their jobs or to keep and retain employees. The spreads are not signaling a recession. Corporate bond spreads are at relatively high levels and this is consistent with a very healthy and strong economy. With reviewing the market and the economy, Garcia Hamilton does not see a recession on the horizon. Hourly earnings have increased and more recently there has been very low CPI numbers. Treasury yields fall significantly during times of stress or crisis.

Mr. Detwiler hopes that this narrative aids the Board in understanding how their firm will be positioning the portfolio. The firm sees rates as extremely overvalued, little value in fixed rate and corporate bonds market. They do not see a recession in the near term and they expect to see rates moving higher. They expect to see the Fed resume the hiking cycle. He explains that 34% of GHA's portfolio is in corporate gains and all are U.S. corporate gains rated at least single A or better. Of that 34% the breakdown is 4% fixed rate and 30% floating rates. The 31% of agencies are all U.S. floating rate securities. This means 60% of the portfolio is investing bonds that have coupons that will float or adjust higher as interest rates rise. This is a much more defensively set portfolio.

Mr. Garcia-Linares asks Mr. Detwiler what he expects rates to be at between now and the election. Mr. Detwiler responds that he could certainly see about two more cuts from the Fed and believes that will probably be it. He believes the President will want to get some type of trade deal done probably before year end because, in order to have positive signs in the economy and since these things take time to flow through and see results during the time of the election, he will want to do this sooner rather than later. Otherwise the trade deal will benefit the next President and if he wants it to benefit himself then he will need to do it soon.

Mr. Detwiler ends his presentation. There are no further questions or comments from the board. Chairperson Nunez thanks both Mr. Detwiler and Ms. Hamilton for their presentation.

5. Items from the Board Attorney.

Mr. Garcia-Linares informs that the first issue he wanted to make sure was taken care of was Ms. Coffy's interest that was discussed at the previous meeting. He advises that it has been taken care of but believes it would be good for Mr. West to give a quick report of the percentage he came to. Mr. West explains that he was directed to do a calculation. They were given a begin and end date. His directions were to calculate the full return. The calculation was completed and forwarded to Ms. Groome. The rate of return calculated was 3.25%. Mr. Gold asks Ms. Coffy if she was comfortable with that number. Ms. Coffy answers affirmatively.

Mr. Garcia-Linares reports on the issue with the GRS case. He explains that he received an Excel chart with all the cases listed from Ms. Coffy and he is using this to continue his further conversations with GRS to hopefully come to an agreement soon.

6. Election of Investment Committee members [Retirement Ordinance Section 46-129]. The members of the Investment Committee shall be the Trustee, a Commission-appointment Retirement Board member, two participant Retirement Board members and three other Retirement Board members selected by the Retirement Board. The chairperson of the investment committee shall be elected by a majority of the investment committee members. The 2019 Investment Committee members are Joshua Nunez, James Gueits, Troy Easley, Michael Gold, Pete Chircut and Javier Banos. Mr. Banos is no longer on the Board, so his replacement needs to be appointed by the Board.

Ms. Groome advises the Board that the Committee only needs one person to replace Mr. Banos who is no longer on the Board. Mr. Mantecon volunteers to replace Mr. Banos.

A motion was made by Ms. Gomez and seconded by Mr. Alvarez to nominate Mr. Alex Mantecon to the Investment Committee. Motion unanimously passes (11-0).

7. Investment Issues.

Mr. West explains that his objective for this meeting was to bring in Garcia Hamilton. He will be making recommendations for the allocations of the annual City Contributions as well as a few administrative updates after he reviews the August performance.

The total fund net is down a negative 1.07% for the month. The fiscal year to date number stands at 3.46% and it is not likely that the fund will meet the rate of return for this fiscal year end due to all of the market volatility. The fund is annualizing at 3.75% and the five and seven year numbers are all very solid. The good news is that the fiscal year to date number is nicely ahead of the self-imposed policy. There has been significant

value added and that value has come from active managers and over-wage and under-wage in various parts of the market. Mr. Gold asks if a calendar year to date could be added as a column in the performance reports just for perspective and to clarify what the members are reading. Mr. West believes that is a great idea and would be happy to add a calendar year to date as a column in the monthly performance report. All of the returns for the real estate managers continue to migrate down. The JP Morgan fund did make an adjustment. They are one of the earlier managers to make an adjustment. Their returns have been steady and there are no issues. There have been some additional write downs in some other funds and so they are very fortunate that the money is with JP Morgan.

Mr. West advises that one of the biggest surprises of the year is that investment fixed income would be one of the biggest contributors to achieving the rate of return assumption. Mr. Garcia Linares asks what the rate of return assumption is right now. Ms. Groome replies that it is 7.6%. Mr. Garcia-Linares adds since it appears that the fund will not hit the assumption rate, would it be a good time to speak on lowering the assumption rate? Ms. Gomez comments that this conversation has been had a million and millions of times. There was a plan to reduce the rate slowly and she respectfully asks that it not be brought up again as it has been a discussion many times. Mr. Garcia-Linares replies that it is as if the Retirement plan is about to purchase another mortgage and so those were his reasons for asking. Ms. Gomez informs that there was an agreement between the City Commission and the Retirement Board that there would be a reduction of the assumption rate of return every year by 5 basis points. The details of the agreement are in place. Mr. Garcia-Linares points out that he is not trying to stir the pot but he just sees that the issue is being faced again. He was merely raising the issue for discussion. Mr. Gold replies that due to smoothing everything should smooth just fine. Mr. West confirms that there are still gains on the shelf that will add in smoothing and if the number is not hit it will not impact the contribution. He explains that right now the trend still favors growth stock investments and it is still a risk on the environment. The portfolio continues to be overweight in growth. At the last meeting he asked to table allocating the funds from the Titan Masters fund so that Garcia Hamilton could come in and speak to the Board. The Titan Masters fund in a year over year basis was .85% which is not a great contribution.

Mr. West informs that prior to the next meeting the annual City Contribution will be hitting October 1, 2019. It is roughly \$26 million and that will include the additional contribution from the City. Ms. Gomez states that the regular required payment is \$24 million and this year there will be an additional payment of \$4 million. She estimates the payment to be a high \$27 million. Mr. West advises that he did a calculation on roughly \$26 million. He recommends taking \$5 million of the \$26 million for the next quarter operating funds, \$16 million to go to Garcia Hamilton which is consistent with getting the long-term objective of getting the fixed income back to target and the other \$5 million to go into the S&P 500 index fund to reach the equity allocation. This will still push the risk on but it will bring the quality of the fixed income portfolio closer to target. Ms. Gomez adds that the required payment is \$24.2 million and there is a \$4 million extra contribution on top of that and so it will be \$28 million as opposed to \$26 million.

Mr. West then changes his recommendation to take \$5 million of the \$28 million for next quarter's operating funds, \$17 million to Garcia Hamilton which is consistent with getting the long-term objective of getting fixed income back to target and the other \$6 million to go into the S&P 500 index fund. Mr. Gold asks if Mr. West would be more interested in investing less money with Garcia Hamilton and instead of all going to the S&P 500 index fund putting more to the value side. Mr. West explains that the reason he is requesting for the interim period to allocate the funds to the S&P 500 is because he would like to get the money invested and get equity exposure. That will serve as the place marker. In the future he will be recommending bringing the value allocation at least equal to the current growth allocation. He expresses that the fund is very underweight in value versus growth as of right now but that is absolutely at the top of his agenda.

Mr. Mantecon asks if a stress analysis is done to see if certain scenarios or incidents were to happen to know where the impact would be. Mr. West answers affirmatively. On the general portfolio level they are running their model and then scenarioizing the different outcomes and coming up with an average outcome. With individual managers they are taking into consideration the stylistic ways in which they play the game. Mr. Mantecon asks how often this is done. Mr. West replies it is done periodically.

Ms. Sox has a general question on how the Board operates. She asks how often the target numbers are looked at and adjusted. Mr. West explains that starting from the top moving down, the guidelines are set by the Investment Policy Statement and the target allocation ranges within that statement and that is where all that modeling comes into play. On a monthly basis he reviews the asset allocation versus the target allocation monthly with the Board to be sure they are compliant and to address any necessary changes. Any recommendations are made to the Board and the Board directs the action of that and the implementation is then done by Ms. Groome.

A motion was made by Mr. Gold and seconded by Mr. Alvarez to approve the recommendation made by Mr. West to retain \$5 million of the \$28 million for the next quarter operating funds, allocate \$17 million to Garcia Hamilton which is consistent with getting the long-term objective of getting fixed income back to target and allocate \$6 million into the S&P 500 index fund. The motion was unanimously approved (11-0).

8. Old Business.

Chairman Nunez informs that he received a letter from Ms. Menegazzo advising that due to the hurricane she had to complete some preparedness plans and was unable to catchup, so she is working on finalizing the RFP. It is approximately 50 pages and she will only be billing for the one month and no additional time although the RFP will take more than a month to complete. There will be no additional cost and will be ready for the October board meeting.

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9. New Business.
There was no new business.
10. Public Comment.
There was no public comment.
11. Adjournment.

Meeting is adjourned at 9:46 a.m.

APPROVED

JOSHUA NUNEZ
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER