

CORAL GABLES RETIREMENT SYSTEM  
 RETIREMENT BOARD AGENDA  
 THURSDAY, APRIL 14, 2016  
 8:00 A.M.  
 YOUTH CENTER CLASSROOM 2 – 2<sup>ND</sup> FLOOR  
 405 UNIVERSITY DRIVE

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

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

P = Present  
 E = Excused  
 A = Absent

GUESTS:  
 Craig Leen, City Attorney

Chairperson Hoff calls the meeting to order at 8:07 a.m.

1. Roll call. Mr. Garcia-Linares and Mr. Gueits were excused. Mr. Easley and Ms. Jaramillo-Velez were not present at the start of the meeting. There was a quorum.
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 March 16, 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 \$2,850,000.00 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 March for the April 2016 benefit payments.
  2. For the Board's information:
    - Helen Fagerman, Post Survivor Beneficiary, passed away on February 13, 2016. She began receiving Post Survivor Benefits on July 1, 1971. Her benefits have ceased.
    - Virginia Cooper, Building and Zoning Secretary, passed away on February 29, 2016. Her retirement date was July 1, 1999 and separated from City's employment on March 31, 2002. She chose No Option and her benefits have ceased.
    - Joel Tierce, Police Officer, passed away on March 14, 2016. He retired from the City on June 13, 1977 with service connected disability. His spouse began receiving 50% of his monthly benefit on April 1, 2016.
    - Manuel Lopez, Building Official, entered the DROP on April 1, 2011 and left the DROP on March 31, 2016. He received his first retirement monthly benefit on April 1, 2016 and was not affected by the IRS 415(b) limits for the 2016 year.
    - Cornelius Jacob, Welder Mechanic Foreman, entered the DROP on April 1, 2011 and left the DROP on March 31, 2016. He received his first retirement monthly benefit on April 1, 2016 and was not affected by the IRS 415(b) limits for the 2016 year.
    - Garcia Williams, Sanitation Worker, separated from the City on September 15, 2006 with vested rights. He began receiving his retirement monthly benefit on April 1, 2016 after his 52<sup>nd</sup> birthday.
  3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
    - Payroll ending date March 6, 2016 in the amount of \$167,290.26

- was submitted for deposit on March 22, 2016.
  - Payroll ending date March 20, 2016 in the amount of \$165,388.47 was submitted for deposit on April 1, 2016.
4. Copy of the detailed expense spreadsheets for the month of March 2016 is attached for the Board's information.
  5. For the Board's information the Northern Trust Securities Lending Summary Earnings Statement for March 2016 is attached.
  6. For the Board's information the Northern Trust class actions report for the 1<sup>st</sup> quarter of 2016 is attached.
  7. 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 April 1, 2016.
  8. For the Board's information, attached is an email from John Maschoff of Winslow Capital, equity manager, regarding the performance for the first quarter 2016.
  9. For the Board's information, a letter is attached dated March 29, 2016 from Richmond Capital stating that they are in compliance with Florida Statute 215.473.
  10. A copy of an article reporting on Philadelphia's \$5.7 billion unfunded liability issue is attached for the Board's information.
- 2C. The Administrative Manager recommends approval for the following invoices:
1. Gabriel Roeder Smith invoice #420376 dated March 11, 2016 for actuarial services during the months of January 2016 and February 2016 in the amount of \$9,862.00.
  2. Gabriel Roeder Smith invoice #421065 dated April 6, 2016 for actuarial services during the month of March 2016 in the amount of \$15,792.00.
  3. The Bogdahn Group invoice no. 13495 dated March 17, 2016 for Performance Evaluation and Consulting Services from through March 31, 2016 in the amount of \$36,250.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008 and in accordance with the fee increase approved by the Board and signed by the Chairperson on April 28, 2011.
  4. Goldstein Schechter Koch invoice #20419426 dated March 30, 2016 for the final billing in connection with assurance services for the year ended September 30, 2015 in the amount of \$3,220.00.

**A motion was made by Mr. Hill to approve the consent Agenda and seconded by Mr. Nunez. Motion unanimously approved (9-0).**

3. Items from the Board attorney.

Craig Leen, City Attorney, formally requests on behalf of the City that the Board defer the changing the mortality table assumption for one year. This request came out of the joint meeting between the Retirement Board and the City Commissioners at the March Retirement Board workshop. He has the email from the Board's actuary which says that if the Board elected to defer the change to 10/1/2016 when it is required and the total City contribution requirement will exceed the required amount even if the FRS mortality assumption was implemented 10/1/2015 the actuary would not otherwise object.

Mr. Easley arrives to the meeting at this time.

Mr. Leen continues. In light of the fact that the City is paying this additional amount every year and the City and the Board are working together to address the issue with the pension and have as good of a relation as he has seen since he has been City Attorney, he respectfully requests on behalf of the City that the Board reconsider changing the mortality table assumption prior to when it is required to be changed and defer that decision until next year.

**A motion was made by Ms. Gomez and seconded by Mr. Gold to defer the changing of the mortality assumption to the FRS mortality table until 10/1/2016.**

**Discussion:**

Dr. Gomez explains that he will vote on behalf of the motion and the reason is because he believes the Board has established a much improved relationship with the City Commission. He thinks they have a long way to go. He asks for Mr. Leen to let the Commission know that he appreciates their willingness to continue to work with the Board. Mr. Leen informs that he will do that. He thinks it great they had that joint meeting. Pete Strong of Gabriel Roeder Smith explains why he recommended the early implementation of the FRS mortality table for 10/1/2015. It was because, in his opinion, it would reflect the true liability of the ongoing plan and the fund needed to be funded in accordance with that mortality table. His main concern was that funding level of the retirement plan be in line with the new FRS mortality table and because the City has decided to make extra payments toward the unfunded liability. The extra contribution amount from the City would not change whether the FRS table was implemented in 10/1/2015 or 10/1/2016. It is just how much would be allocated to extra payments and a one year delay will not make a major difference. He was not aware that the City was going to make extra payments last year when he made the recommendation for the change. He is alright either way if the Board decides to adopt the FRS table for 10/1/2015 or 10/1/2016.

**Motion unanimously approved (10-0).**

Ms. Jaramillo-Velez arrives to the meeting at this time.

Board Attorney Alan Greenfield reports to the Board. It has been a relatively quiet month. He deals with Ms. Groome on a daily basis relative to the administration of the plan. Although these issues do not need to be brought to the Board he does want the Board to be aware of how hard she works. He, Chairperson Hoff and Mr. Nunez attended the New York Stock Exchange event of the FFPTA and it was a very informative program. He was there as a trustee of the City of Aventura Police Pension Fund. They went on the floor of the NYSE. They went to NASDAQ and Bloomberg and saw the inter-workings of the operations. There is nothing new to add to the ongoing litigations. Nothing new has developed with Nyhart however there should be new details at the next Board meeting. As for the COLA matter it is now a class action and Ms. Groome complied in getting all the information both to the City and retirees. The mediation was not successful but there may be more mediation as the case goes on. He encourages the Board members who have the time to go to any of the FPPTA events to attend as they will help with all activities of the Board.

4. Attendance of Northern Trust Relationship Manager, Caitlin Wysocki, and Northern Trust Securities Lending, Jivko Chiderov, reviewing Northern Trust products provided to the Retirement System.

Caitlin Wysocki informs that she is the Trust Relationship Manager. She advises that her team along with herself will be discussing the financial strength & stability of Northern Trust as well as trust custody, GASB72, asset management and securities lending.

Lindsay Ambroski, the Sr. Vice President of Corporate & Institutional Services, begins the presentation. Northern Trust's focus is providing asset servicing, asset management and banking for personal and institutional clients. It is supported by their integrated operating platform. As of 12/31/2015 Northern Trust had \$875 billion in asset management, \$6.1 trillion in asset servicing and \$3.8 trillion in assets under administration. They have ten public fund clients in the State of Florida. They have 33 client service professionals in Chicago and have grown the team by three people. Northern Trust is sharply focused on asset servicing and asset management.

Ms. Wysocki reports on the custody aspect of Northern Trust. The different types of services they are current providing to this fund are asset management, securities lending, cash sweep and the online tool Passport. The one thing she did not see that this fund uses is the benefit of payments feature. They are starting to see an industry trend where plans are starting to use this feature to cut costs of their plans and this is a feature that can be used by the Coral Gables Retirement System if needed. A lot of pension plan's that have smaller staffing have come to Northern Trust to provide benefit payments as a way they

can outsource that responsibility for the fund. Chairperson Hoff suggests that Ms. Wysocki send Ms. Groome information on this type of service.

Ms. Wysocki continues. As this plan has evolved and as regulations have evolved so has custody. Back in the 1980s, custody was a safe keeping device which provided reporting and that was it. As ERISA came into play, fiduciary responsibility has come into play and things have gotten more challenging. They have developed additional products and services to help pension plans meet more challenges. Northern Trust is here for the Board to make their fiduciary job easier. When she sees things changing in the market place she brings the information to Ms. Groome so the Board can stay in front of the changes that are coming up. She explains the Coral Gables Retirement Board service volume overview for the 2015 fiscal year. There are ten custody accounts currently opened, there was \$58,022.95 class action claims collected, \$3,600,459.27 income was collected and there was 2,674 trade settlement volume.

Ms. Wysocki discusses GASB72. GASB72 is a new accounting requirement that is impacting public funds this fiscal year. It is a requirement that all investments are to be measured at fair value then you take that measurement of fair value and split it into three different levels, depending on the observability of the inputs to the valuation. Level 1 would be quoted unadjusted prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 is unobservable inputs for an asset or liability. Each level is to be determined by prices. As custodian they are responsible for pricing their assets on a daily basis and they work with multiple vendors to get those prices. Those vendors use multiple sources to get their prices. Northern Trust offers three levels of fair value reporting and currently provides service option 2 which is the Level Determination Template (LDT). She forwarded this information to Ms. Groome and Ms. Groome shared the information with the fund's auditors. The auditors have asked to do a trial run of the LDT and see what the next steps would be to get to the next level of service. As she stated earlier, they work with multiple vendors and get the prices. From those vendors they figure out what is the price type. They gather all that information. Their vendors provide additional insight into what they are using to come up with their prices. Those are the inputs. They put all the information into a fact sheet. They have 23 fact sheets based on the different asset categories. As a fiduciary, they will be requiring to review that data to see what those inputs are. Northern Trust does is read all that information and put together suggested levels. They get the level of determination detailed report where they share with the fund what their level of assets is in their portfolio. Inputs can vary by asset, market and asset type. The fair value leveling was created because auditors were under pressure by the regulators to improve deficiencies in auditing fair value measurements. New vendor transparency tools are now available. The benefits are more precise fair value leveling based on actual inputs. It shifts the mechanics of scrubbing pricing data from your staff to Northern Trust's experienced team. It provides support during the audit of the valuation measurements and disclosures.

There is a waterfall technique to determine what level the fund would fall under and she would work with both Ms. Groome and Ms. Gomez to determine that level.

Ms. Gomez asks for clarification regarding the option 2 and option 3 of the levels of fair value reporting. Is the tiering only provided in option 3? Option 2 doesn't really have any tiering it is just what they think it is? Ms. Wysocki responds that is correct. Ms. Gomez states that it is the fiduciary's responsibility to come up with the numbering system. She thinks it will be a discussion she has with the auditors of what level of supporting documentation they will require for the determination. She is not sure what they will require and she would like to have a conversation with them first to see to see what type of support or mechanism to back-up what they come up with. Ms. Wysocki thinks that is a great point because it will vary by auditor and they will happy to get on the line with the auditors. FASB has been doing this for a while now so it is not new to FASB. She has heard that a lot of GASB auditors will talk with the FASB auditors to find out what they have been doing in their reporting.

Melissa Gala, Senior Vice President and Investment Relations Manager, reports on the investments. They run the investment management. Northern Trust had \$875.3 billion under management as of 12/31/15. About 47% of what they do is indexing. Indexing is a core business of theirs. About 53% of their business is active management. They are a very well rounded asset manager. Their leadership team has been quite stable for a long time. They have offices in London, Hong Kong and Chicago. The fund's portfolio is managed in Chicago. They do have a worldwide reach so they have their eyes and ears open to everything that happens in the investment universe today. The Northern Trust S&P 500 Index fund is tracking nicely with the benchmark as of 3/31/2016. The fund has returned 1.9% vs the benchmark 1.8% over the last year. You will see incremental return in the figures due to the securities lending that is happening in the fund. The Northern Trust S&P Midcap 400 Index Fund is also tracking nicely but did not have as much of a contribution from securities lending until you go to the one-year period where there was nine basis points of incremental return. The Northern Trust ACWI ex-US Fund has a good amount of incremental return. The fund without lending will still add a little value because they are getting a more favorable tax profile in terms of reclaims. Tax reclaims are money that comes back to you as an international investor. It has to do with tax treaties between different countries and because you are participating in a fund leveraging a larger capital base you are actually getting a more favorable tax profile and that translates into tax savings for their particular interest in that investment. From a securities lending standpoint it has added roughly six basis points for the trailing year. Overall you can see \$62 million in the index funds. Money market reform has been talked about for quite some time. The first implementation date is coming up in October 2016. There are going to be changes in how some money markets vehicles report in their NAV. Right now the money markets are stable at a dollar per share. For some money market funds, that dollar per share may be .99995 or 1.0003. It may fluctuate a little. Their collective day to day cash earning in their broad portfolio isn't impacted by money market reform right now. That is because the collective funds are run and overseen by

the OCC and not the SEC. The SEC which does mutual funds is where this is concentrated now. Down the road they suspect the OCC may pick up those same rules and if they do they may see the collective STIF move to a floating NAV reporting situation. Right now it does not affect this plan. If the OCC does adopt, they will get a year to year and a half notice before that happens.

Jivko Chiderov, Securities Lending Relationship Manager, reports on the securities lending program. Securities lending is the process where securities are temporarily lent by the lender to a borrower through a lending agent who negotiates and facilitates the loan. The borrower then provides collateral in exchange for the securities and pays a fee. The borrower provides cash as collateral and the cash is invested according to the client's guidelines for generating revenue. Loaned securities are marked-to-market daily by the lending agent. The borrower then provides further collateral if the market value of the security increases. Borrower selection follows stringent approval procedures and financial viability standards.

Mr. Chiderov talks about the risk of the securities lending program. Borrower risk is borrower default combined with insufficient collateral. They always collateralize their loans so in the event a borrower defaults they seize the collateral in hand and use that cash to repurchase the securities in the open market. In the event the collateral they have to repurchase the securities is insufficient Northern Trust steps in and provides the difference. The main risk in securities lending is the cash collateral reinvestment risk. When they take cash collateral for the loans they reinvest it into a collective fund vehicle. This is cash collateral investment that becomes impaired or decreases in value. The risk is a risk similar to a money market investment. Trade settlement risk is when the investment manager sells the security and don't get the security back on time from the borrower. The interest rate risk is something that comes into play when they see the Federal Reserve start raising the interest rate environment. To limit this risk, the majority of borrowers will have long term individual or parent level credit rating of A- or better. Each borrower and parent borrower must provide audited financial statements to show they are financially sound.

Mr. Chiderov reviews the securities lending for the fund. Coral Gables began securities lending in 2004 and since then it has earned \$1,179,795. The current fee split is 70/30 where the fund earns 70% of earnings and Northern Trust earns 30% of the earnings. The cash collateral is reinvested in SL Core STIF which is a collective fund. It has experienced no losses within the securities lending program. The average loan balance is approximately \$45,185,558 with about an average lendable base at \$132,453,808 as of 2015. The net earnings were \$85,482 and there were \$36,549 in bank fees for 2015. Since inception, the fund has earned a net amount of \$896,711 and 4% of the fund is refinanced on a day to day basis. The current yield of the fund is 67 basis points.

Ms. Wysocki thanks the Board for their time and they appreciate their business.

5. Presentation of summary of preliminary valuation results of fiscal year 2014/2015 by Gabriel Roeder Smith.

Mr. Strong presents the preliminary 10/1/2015 Actuarial Valuation Results. They have been working diligently to finalize the report. They didn't want to finalize anything until they knew the direction of the Board regarding the FRS mortality table. They were thinking the Board was going to move toward changing their decision on changing the mortality table until 2016. These numbers are not final as they have not been thoroughly reviewed yet. The preliminary actuarial value of assets is approximately \$332 million. They are still smoothing in gains from 2012, 2013 and 2014. Even though they had a market experience loss, they did not have a negative return. The return was around 2% for the year which is less than the 7.75% assumption rate so that creates an experience loss on the market value side. Overall net they have a gain on the actuarial value of assets with a return of about 9.1%. That closed the gap between the market value and the actuarial value. That helped to smooth over the market experience that happened last year. The actuarial liability is approximately \$559.1 million which increased from \$553.2 million. That is expected to climb each year. The net funded ratio on an actuarial value basis as of 10/1/15 is 59.4% vs 56.6% from last year so it increased. That funded ratio would have been about 58.7% without the City's extra payments toward the unfunded liability. The market value based funded ratio is about 59.7% down from 60.8% because the market value return was less than the 7.75% assumption. The total unfunded liability is approximately \$226.8 million. This amount would have been about \$230.9 million without the extra City contributions payments to the unfunded. The total required City contribution for the year is roughly \$21.8 million without any adjustments for the cost sharing which is usually capped at 15% for the general non-excluded employees. Mr. Hill asks if that could also be done capped at 10% just for his information. Mr. Strong agrees. It will roughly be another \$500,000 to \$600,000 extra toward the City's required contribution.

Mr. Strong continues. There was an actuarial experience gain for the year primarily driven by the investment return on the actuarial value of assets. They have a small experience gain on the demographics side this year. The total experience gain was approximately \$4 million with approximately \$3.3 million being attributable to the investment return on the actuarial value of assets. He reiterates that these numbers are not final and the final numbers will be presented within the next couple of weeks. He adds the full report will be presented at the May 2016 meeting.

6. Review of the Coral Gables Retirement System Policy and Procedures for Request for Proposals.

Ms. Groome advises that she submitted the Policy and Procedures for the Request for Proposals for review of the Board. Chairperson Hoff advises that he reviewed it briefly. The policy seemed to fit the same guidelines as the most recent RFP. Then the policy and procedures were reviewed by the Board. Only minor changes were made.

**A motion was made Dr. Gomez and seconded by Ms. Jaramillo-Velez to adopt the Request for Proposal Policy and Procedures. Motion unanimously approved (11-0).**

Mr. Hoff advises that he is aware this was not an Agenda item however he would like to discuss for Ms. Groome's performance evaluation. From what he understands, all the Board members are going to fill out the evaluation and then send it to Mr. Greenfield as to not violate the Sunshine Law. Then Mr. Greenfield will send the evaluations collectively to his email address. He will summarize them so it can be presented to the full Board. He asks for all Board members to do this as soon as possible. He confirms with Ms. Groome that Ms. Coffy's evaluation was recently completed. Ms. Groome agrees. Chairperson Hoff understands that Ms. Gomez is going through the budget process. He believes the Board still intends for Ms. Coffy's position as Assistant to the Retirement System to become a full-time position. Ms. Gomez explains that for the budget process a decision packet request needs to be made. She further explains that she would need a formal memo stating what the request is, the explanation of the request and the associated costs. Then they see how much funding is available. Chairperson Hoff comments that the funding is coming from the Retirement System. Ms. Gomez understands. It is for the head count. Chairperson Hoff asks for Ms. Groome to prepare that before the next meeting. Ms. Gomez informs that the information was due last Friday but it is fine if it is submitted. They haven't met yet. They need to submit the request.

7. Investment Issues.

Mr. West presents the monthly investment performance. For the month the total fund net was 4.11%. Fiscal year to date that put the plan back at 2.71%. The year over year basis for periods ending March is down -1.02. The three year annualizing number was at 6.65%. The five year annualizing number was at 6.90% and the seven year annualizing number was at 10.84%. The total domestic equity line for the month came in at 6.03% versus the benchmark at 7.04%. For the fiscal year to date, the domestic equity was at 2.38% versus the benchmark at 7.3%.

Eagle Capital for the month is at 5.20% however for the quarter it was down 3.73% versus the benchmark at 1.64%. MD Sass was down 3.09% versus the benchmark at 1.64% and the S&P 500 Index was at 1.31%. The Winslow Large Cap growth strategy was down 5.47% versus the benchmark at .74%. Wells Capital was down 6.29% versus the benchmark at .34%. The mid-cap managers had a huge recovery with returns at 8.52% versus the S&P 500 Index at 6.78%. The small/mid-cap stocks had a huge rebound in March.

Dr. Gomez left the meeting at this time.

Mr. West informs that they have been tracking a difficult performance period for Wells Capital. He suggests that they have Wells Capital come in at the May meeting and discuss their strategies; what they have been doing and what they haven't been doing. Any time a manager has had a string of tough performance periods and they as the

consultant still endorse the process, he thinks the Board needs to hear from the manager regarding the poor performance numbers.

The international equity manager RBC was at 7.04% for the month and was down 0.69% for the quarter. WCM was up .33% for the quarter. Those managers hung in there pretty well. Both domestic fixed income portfolios are hanging in there. Richmond has added 1.85% fiscal year to date and JK Milne was at 1.9%. The Disco II fund had a lot of volatility for the month and were up .75% and for the quarter they were up .11%. There has been huge movement in high yield bond prices. Chairperson Hoff asks if the Disco II fund is near its end. Mr. West informs that the Disco II fund will continue in perpetuity for the time being. They are continually assessing the return opportunities with them. In December they were discussing whether or not they were going to sunset and at that time they notified that they thought they had ample opportunity to keep the fund opened. They have lowered their use of leverage due to a different risk environment. With lower risk and lower expected returns they can lower their expected return in total for that fund going forward however they still felt there was enough opportunity to warrant participating in that strategy. They are going to continue to monitor that PIMCO product and if something changes and the Disco II fund declines they will take a hard look at getting out of that fund.

Mr. West states that the real estate fund has had a good month and quarter. The JP Morgan Strategic Property fund for the month was up 1.88% and JP Morgan Special Situation fund was up 3.06% for the quarter. They are in the queue to rebalance in July. He will have some reinvestment ideas for that when they go through the numbers. The BlackRock Multi-Asset Income Fund was up for the month at up .63%. The PIMCO TacOpps was down .26% and the Titan hedge fund-of-funds was down 5.94%. This grouping of hedge funds did not fare too well with the huge market volatility.

Mr. West reviews the cash flow for the month. The fund opened the month at \$331,030,900. There was some rebalancing. They moved the global bond strategy out and it ended up being a very fortuitous rebalancing. While they didn't recapture the higher rebound they did recapture quite a bit of it. The S&P 500 Index Fund was funded the \$12.5 million that was liquidated from the bond portfolio so they did benefit from the timing of that rebalancing. He continues the cash flow. Contributions were \$16,872, distributions were \$2,850,000. The management fees invoiced and paid for were \$40,120. Other expenses for plan operations for the month were \$37,038. The investment income earned on the month were \$466,150. The appreciation was very nice at \$13,181,796. The total fund snap shot at the end of March was \$341,768,559.

Mr. West comments that April has been very strong and so far so good. On a fiscal year to date they have earned \$4.4 million in income and \$5.8 million in appreciation. On an administrative note, Bogdahn was able to negotiate a 20% fee reduction with Wells Capital Equity Strategy. A notice will be sent out to the fund and it will take effect over the next four quarters. Chairperson Hoff asks if that is 5% per quarter or 20% for all four

quarters and then the fee goes back to the way it was. Mr. West clarifies that it is a 20% reduction on the annualized fee so you will see a pro-rata 20% reduction. Wells Capital has a graduated fee schedule and they are at 80 basis points for the first \$25 million now and then 70 basis points for the next \$25 million so they are on a graduated scale. Basically it is 80 basis points and the 20% reduction will be off that 80 basis points.

Mr. West informs that at the next meeting they would also like to move forward with some bond index fund recommendations. They had mentioned this previously. At this point they really need to implement an index fund to help them with the rebalancing. Right now all the rebalancing comes out of the liquidations of the S&P 500 and S&P 400 index funds to make the negative cash flow requirement. As a result of this, they have been taking a lot of high earning power out of the portfolio on a constant basis. They want to introduce a bond index fund with equal efficiency and no cost to rebalance the portfolio more in a pro-rata position. This way the money would come out of the bond index fund instead of the equity index fund so they can preserve the underlying asset allocation of the fund. Mr. Gold asks if the cash flow is easy to predict. Ms. Groome explains that it isn't all the time due to a large amount of people leaving DROP some months and no one leaving DROP some months. When employees leave the DROP it raises the cash flow especially when firefighters leave the DROP since they all get in at the same time and then they all leave at the same time. That does raise the cash flow. Most of the time the cash flow is easier to predict when there are no large amount of employees leaving the DROP. Ms. Gomez states that they could predict who leaves the DROP however it is only when someone leaves early from the DROP that it is less predictable. Mr. Gold asks if they could do something by the way they manage the portfolio to have those allocations. Is there a cost for asking their managers to reduce the size of their portfolio? Is that an expensive option? Mr. West responds that they are currently working with Ms. Groome and Northern Trust on the cash flow. They are monitoring the extent that they do have predictability so they are setting up contributions with a liquidation that typically they project a quarter out so they have enough working capital so it is minimally disruptive to the investment program. The reason they have used the equity index funds was that there is no cost to transact and they are not interrupting the portfolio managers where they may see a big liquidation and have to rebalance their entire portfolios just so the system can make a distribution. Ms. Groome adds that they also pay the manager fees for the liquidation. Mr. West agrees. They were trying to minimize securities transactions to keep costs down and the cleanest way was to use the index fund and Northern Trust is willing to work with them. Ms. Groome points out that is better to keep everything in the market instead of having the moneys in their cash account at Northern because they always used to hold those large amounts of money in the cash account. Mr. West states that if they introduce an index fund on the fixed income side strategically it would be a minimum allocation. It would be used to help them manage the rebalancing in a cost effective manner. They are not suggesting targeting a material amount of the allocation in the bond index fund like they do with the equities. It would be for portfolio maintenance.

Ms. Groome points out that Winslow Capital did reach out to the system about their performance and that information is included in her Administrative Report.

8. Old Business.

Ms. Menendez informs that Dr. Gomez requested that she ask what the next procedure is after the workshop with the Commission. Ms. Groome responds that she asked the investment consultant, the actuary and the City for some dates so they all can meet to collectively work together. She needs to see who the City Manager wants to appoint to the workgroup regarding the funding policy. She is waiting for dates where everyone involved are available to meet and work on the funding policy.

9. New Business.

There was no new business.

10. Public Comment.

There was no public comment.

11. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, May 12, 2016 at 8:00 a.m. in the Youth Center Auditorium, 405 University Drive, Coral Gables, FL.

The meeting adjourned at 9:59 a.m.

APPROVED

RANDY HOFF  
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME  
ADMINISTRATIVE MANAGER