CORAL GABLES RETIREMENT SYSTEM
Minutes of August 21, 2014
Youth Center Theater/Auditorium
405 University Drive
8:00 a.m.

MEMBERS:	S 13	O 13	N 13	J 13	F 14	M 14	A-10 14	A-18 14	M 14	J 14	A 14	APPOINTED BY:
Andy Gomez	P	P	P	P	P	E	E	P	P	P	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	P	P	E	E	P	P	Vice Mayor William H. Kerdyk, Jr.
Bob Campbell	E	P	E	P	E	P	E	E	E	E	E	Commissioner Patricia Keon
Jon G. Ridley	P	P	E	P	P	P	P	P	P	P	E	Commissioner Vince Lago
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Frank C. Quesada
Joshua Nunez	-	P	E	P	E	E	P	P	P	P	E	Police Representative
Randy Hoff	P	P	P	P	P	P	P	P	P	P	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	Finance Director
Elsa Jaramillo-Velez	-	-	P	P	P	P	P	P	P	P	P	Human Resources Director
Keith Kleiman	-	-	-	-	-	-	-	-	-	P	P	City Manager Appointee
Pete Chircut	-	-	-	-	-	-	-	-	-	P	P	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Alan E. Greenfield, Board Attorney
Dave West, The Bogdahn Group

P = Present
E = Excused
A = Absent

GUESTS:
Craig Leen, City Attorney
Ron Cohen, Rice Pugatch Robinson & Schiller, P.A.
Jim Linn, Lewis, Longman & Walker, P.A.
Mike Tierney, Actuarial Concepts

Chairperson James Gueits calls the meeting to order at 8:10 a.m. There was a quorum present. Mr. Easley was running late to the meeting. Mr. Ridley resigned because he moved out of the City. Mr. Nunez and Mr. Campbell were excused.

1. Roll call.

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 June 12, 2014 Retirement Board meeting minutes.

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

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

1. GRS invoice #407775 dated June 10, 2014 for actuarial consulting services rendered during the month of May 2014 in the amount of $13,677.00.
2. The City of Coral Gables invoice for period ending March 31, 2014 in the amount of $8,798.89 for expenses of the retirement system paid out of the general ledger account of the City.
3. The City of Coral Gables invoice for period ending June 30, 2014 in the amount of $20,884.90 for expenses of the retirement system paid out of the general ledger account of the City.
4. GRS invoice #408491 dated July 8, 2014 for actuarial consulting services rendered during the month of June 2014 in the amount of $4,828.00.
5. The City of Coral Gables invoice #05454 for the rental of City's public facilities in the amount of $1,260.24 ($420.08/month) and general liability insurance in the amount of $1,084.50 ($361.50/month) for the months of July thru September 2014.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Hoff to approve the consent agenda. Motion unanimously approved (9-0).

Chairperson Gueits informs that he received a request from a firefighter to speak before the Board. Dan Thornhill of the Coral Gables Fire Department appreciates the courtesy of being allowed to speak before the Board. He thanks the Board for their time as Board members. He is also speaking on behalf of John Baublitz, President of the FOP. They wanted to ask permission of the Board to consult with GRS. They have a couple of issues they wanted to get the opinion from the actuary and they will pay the cost. As a formality they wanted to make sure it was okay with the Board prior to speaking with the Board's actuary.

A motion to approve the request was made by Mr. Hoff and seconded by Mr. Hill.

<u>Discussion:</u>
Ms. Gomez asks if the unions have asked to use the Board's actuary in the past. Ms. Groome answers affirmatively. The Board's actuary has all the information for the plan. Ms. Gomez asks if the unions will pay for the work. Mr. Thornhill answers affirmatively. Mr. Garcia-

Linares asks if it is anything contentious with the City. Mr. Thornhill informs that it is in relation to the DROP program. They want to get some data references to the DROP program.

Motion unanimously approved (9-0).

3. Items from the Board attorney.
Alan Greenfield reports that they have had a relatively quiet month. They had an Investment Committee meeting that he attended. As far as the COLA is concerned, he asked Mr. Cohen to give him an update and he did. Mr. Cohen informed that the City's motion to dismiss was denied and that the City is now filing an answer to the complaint. Discovery is going to commence and they are discussing mediation. He was not able to see online the information on the case against Nyhart. He knows Nyhart was served and asked for an additional amount of time to respond. He asked Jim Linn to give an update so he would have information to report to the Board but Mr. Linn did not respond. He does not know whether an answer has been filed. Chairperson Gueits sent him an email in regards to whether or not the Board or the System wanted to enter an appearance in the Supreme Court of the United States filing an Amicus brief in regards to matters dealing with the ability of private and public pension funds to file class action lawsuits. The email was sent by the same attorneys who have been soliciting the fund to get business in the class actions. It is the same law firm that Mr. Garcia-Linares said they don't need because they have Northern Trust and they are looking out after the fund's class action matters. He read the email and he doesn't see any reason for the Board to enter into an Amicus brief in that case. Chairperson Gueits was just curious as to what was going on. Mr. Greenfield informs that he spoke with Les Space, a former Board member, who moved to Argentina. He comes up to Pennsylvania during the winter time in Argentina to spend the summers. He called to say hello and he says hello to the Board members he served with.

4. Investment Issues.
Dave West reports on the performance of the plan. For the month of July, the fund was down 1.32%. The rate of return for fiscal year to date was 8.58% so they are still running ahead of the actuarial required rate of return. They are in a good position as they are coming down the final straight away. For the year ending July they are at 11.63%. All of their active equity managers were down below the benchmark. Eagle Capital was down 2.5%. MD Sass was hit harder and was down 4.21%. The S&P 500 index fund was down 1.38%. Winslow was down 1.08% from the benchmark. The S&P 400 index was down 4.27%. The international equities were also down from the benchmark. Thornburg was down 1.58% and WCM suffered the same as the other active managers and was down 2.36%. Hopefully this will turn as the market bounces back. Richmond Capital was down in line with the benchmark at .32%. JK Milne was down .24%. Regarding the PIMCO Diversified income fund, there was some consolidation going on in the lower quality credits that had not been doing so well during July and they got hit by that for the month and were down 1.09% versus the Barclays benchmark which was basically flat. The Templeton Global bond fund actually did fairly well. They were flat and down .05%. The areas of the market that were not affected were the real estate funds and the PIMCO Tactical Opportunity fund.

Mr. Easley arrived to the meeting at this time.

Mr. Greenfield asks about some articles in the Wall Street Journal. One was about the California Pension plan which is the largest in the country. They have been rethinking their investment policy and they are talking about exiting or reducing commodities, actively managed company stocks and hedge funds. Then the other article was about the City of San Diego fund and it said that they were going to dial up their risks and they can't rely upon the equities and have to go and look to other areas to bring up the amount of income because of their shortfall. They are about 75% funded. They are two very large funds and have different attitudes. What is their attitude regarding this fund? Mr. West responds that there are two different philosophies at play there addressing the particular dynamics of each of those funds. In the case here they have been taking a middle of the road approach recognizing that they have funding issues but there has been a material aversion to risk. They are trying to balance those two competing philosophies. They have the portfolio structured aggressively enough so they are using investments to grow out of the deficit and at the same time they have tried to implement other alternative strategies. If they include real estate into that they definitely implemented material allocations to other strategies in an effort to try to keep that risk balance in place. He thinks they have a middle of the road approach at the moment philosophically. They are trying to close the deficit but at the same time recognizing the significant level of risk aversion.

Mr. Garcia-Linares states that if it wasn't for real estate and PIMCO investments they wouldn't be as close as where they are at now. Mr. West agrees. Those investments have helped materially. Mr. Garcia-Linares informs that it is concerning to him because PIMCO is about to sunset at some point. Their total fund inception to date return is 6.41%. They are low compared to the 7.75% they have to hit. If it wasn't for these other things he doesn't think they would be as close as where they are at. Mr. West thinks he is correct. The alternatives and the change that were put into place are material. The trade-off has been a lower risk allocation to equities. They have tried to come up with a way to help with that short fall. Chairperson Gueits asks what else they can do to chase higher yields and get better returns. Mr. West thinks that they can use this as an opportunity to revisit where they are here. They are trying to grow out of a funding deficit situation. At this stage in the cycle they are looking at the alternatives available and how much gain has been realized by all the other opportunities that they have used and other opportunities they haven't used. In the cases brought up by Mr. Greenfield, he thinks both of those plans are looking to increase returns by going into private equity as a source. The latter example is increasing their equity risk allocation and trying to do it in a low cost manner as possible. They are just buying indexes. If they were comfortable in increasing the risk allocation those would be the two areas to look into to increase return. They have realized all the outside gains in real estate and in PIMCO. Looking at the opportunities out there by default that leads them to looking at either increasing the equity allocation and consider other allocations to private equity. They have tried to keep the investment opportunities here as liquid as possible. If they were to follow the example of the California system and go into private equity which they view as a valid investment but by default it takes them into illiquid investments. They would be looking at opportunities that would lock up capital commitment anywhere between seven and ten years.

Mr. Garcia-Linares asks what type of private equity product Mr. West is referring to. Mr. West explains that it would be professional managed asset pools that would be managed in a similar way to the real estate fund. It is a collective pool that is professionally managed by specialists. The portfolio would be comprised entirely of private equity companies that are being brought up to go public and cash out. Mr. Garcia-Linares asks what type of returns it gives for the risk involved. Mr. West responds that if he starts top down from capital market assumptions they would assume that private equity would have a 2% risk premium above domestic equity associated with it. If they use 8% for long term capital market expectation they would expect something in the vicinity of 10% for the long term and over the near term private equity would be expected to give a higher level of return. Right now it is being viewed fairly opportunistically. This is an aggregation of investment opinions as far as what the opportunity set is out there. One of the biggest challenges with private equity is similar to real estate. You are making a capital commitment and you may or may not be charged on that capital investment. If your capital gets called it is going to be sitting in cash for quite some time so there is a bit of a j-curve where you see negative returns in the initial investment and this is that period of time where that money is being used to invest in these opportunities. Then you have the incubation period where each of these investment opportunities in the fund is being developed. Then you ultimately have to wait for that five, seven or ten year incubation period for the profit realization of those companies being sold and the profits being realized. What happens with private equity and makes it a challenge to analyze as an asset allocation space is it has its own cycle and timing is critical. If you were in private equity funds in the 1980's in the beginning of the bull market period you made unbelievable returns. If you had private equity funds later the returns were not as high. The returns you can get are very cyclical and very hard to forecast because of that. Your vintage experience is pretty material. At The Bogdahn Group they have private equity managers they work with and that investment is usually of greater interest to foundations and endowments who are more interested in alternative investment allocations. But for pension systems with material dollars it is a viable option to look at. It does have its structural issues to deal with. Right now for this fund to get additional potential returns out of the portfolio it would entail increasing equity and that would be done via the current structure with a higher allocation or by increasing and adding the private equity space on the margin.

Dr. Gomez thinks if they can get 20% return per year that they will never catch up with the unfunded liability. He doesn't want to hear the politicians talk about it and he thinks the Board has some fiduciary responsibility to address this issue. As much as the employees of Coral Gables for the services they provide the citizens they need to be made sure they have a pension when they retire and the citizens of Coral Gables don't want their taxes to go up. Their reserves have gone up close to $30 million but he thinks this is a public policy issue. He thinks somewhere down the line from a policy issue they have to come up and deal with the elephant in the room and talk about it and bring it to the attention of the Commission. He has had this conversation with the Mayor. Mr. Garcia-Linares comments that is why when they were approving the Actuarial Report he said he wanted a minimum number for the contribution and the Board said not to give a specific number. Now the City will fund the minimal amount and now they are going to wait and see what happens with the lawsuit. If the City would have put at least $25 million in the fund there would have been an extra $1 million funded. It didn't happen. They are living in la-la land here. If they think they don't give the City a minimum that the City will fund something above that number but they are not doing it. Dr. Gomez thinks they need to address the short-term and the long-term from a public policy issue. He doesn't think they can go back and forth and expect they are going to catch-up. Chairperson Gueits states that there is a limited amount of return that they will ever achieve with their investments so the only other source is for the City to put in the money and that arguably would be done over a period of time. Mr. Garcia-Linares thinks that the City has to start putting in extra contribution every year irrespective of what is there. Dr. Gomez believes it needs to be addressed now. They have to sit down and be able to come to the realization of this. Mr. Garcia-Linares points out that one of the cities in the articles Mr. Greenfield spoke about was 75% funded and this plan is around 50% funded. Mr. Easley remarks that numbers can be manipulated. If they are funded at 75% they may not have adjusted their assumptions in the last 25 years whereas this fund has adjusted some assumptions.

Chairperson Gueits asks what happens when they go back to an environment where the returns start to normalize and there is no Fed intervention and the stock market returns go back to 6% to 7% a year. How do they adjust their strategy at that point? Do they shift their allocations into other areas? Are they always going to be handcuffed by stocks and bonds and a couple of alternatives? Mr. West answers that they are never handcuffed. They can have this discussion at any time and make changes if it is deemed to be appropriate. He thinks if they enter a period of time where investment returns normalize from a more historical smooth perspective then he thinks what happens is they increase the probability of hitting their target actuarial rate of return. Right now they are in a period of time that is abnormal so they have been able to exceed that required rate of return by taking advantage of these other opportunities out there. They are getting outside returns from other parts of the portfolio. Chairperson Gueits believes that doesn't solve their long-term problem. Their long-term problem is they need year after year after year of 15% to 20% returns which is not realistic. Mr. West agrees. They have essentially established in conjunction with the actuary and the City what their risk tolerance and return expectation is going to be by setting the actuarial required rate of return where they did. Fortunately, this Board has been extremely judicious and extremely reasonable and has managed that return down which conversely forces contribution requirement coming from the other sources to offset that where as if they were going to make that decision today and decided they were going to use investments to close the funding gap. To do that what they need to do is to set what their expectation is or what their goal is. If they wanted investments to earn 9% then they will go in and make all the changes to the portfolio to give them the best probability of hitting the 9%. They would raise the risk. That is their philosophy and their objective. They have appropriately gone the other way which has forced a more stable source of contributions to go into the system. They have taken the first step in solidifying the asset funding level of the plan by being judicious with their rate of return requirement. In this environment when you look at all the areas that any plan sponsor can invest their money historically through 2008 financial crisis, the best earning pool for the City to put their assets is the pension system. There is an interest charge associated with not putting money in the system and the investment return generated from the pension systems are in excess of what you might be earning in any excess operating reserve fund investments from the City account. Taking the long-term perspective it makes sense to fund the system but it all has to be done within the confines of the City financials. Dr. Gomez informs that the reason he didn't support the $25 million number is because he thinks it puts off the bigger picture on the public policy issue. Where are they going? He thinks they need to look at the bigger picture. They might not have a solution but they need to address it even if they need to bring in experts that can tell them what they can consider. It is their responsibility. Most politicians are going to look for a quick fix. They don't want to look at what might be unpopular.

Ms. Gomez states that the Board's recommendation to fund the extra amount did come up with the City Manager and throughout the budgetary process. The City kept the funding level the same as last year which came down by around $1.8 million. The $1.8 million is set aside for pension expense. The idea was that the extra money will go to fund the pension in the event they don't have to settle on a COLA lawsuit. The City is going to have to come up with the money from somewhere. The City has heard the request of the Board and agrees but they have to make sure they have funding for all needs. Right now they are waiting to see what is going to happen. Mr. Garcia-Linares asks about Mr. West's suggestion of taking some of the money from the reserves and putting it into the retirement investments instead of leaving the reserves in some account that is not making money. Ms. Gomez responds that the reserves for the City are needed for the City. She would not recommend that. Mr. West thinks he should probably redefine operating reserves as excess operating reserves. Ms. Gomez informs that they are not there yet. Had the COLA issue not been there she thinks it would have been part of the contribution.

Mr. Garcia-Linares asks if this was the conversation that happened during the budget process with the City Manager. Ms. Gomez answers affirmatively. Mr. Garcia-Linares asks what was discussed with the Commissioners and the Mayor regarding this issue. Ms. Gomez answers that she does not know. Mr. Garcia-Linares thinks it may be time for one of these workshops with the Commissioners and the Mayor. They have an issue they need to deal with and sooner or later they are going to have to deal with it. Ms. Gomez states that from an administration standpoint they acknowledged the fact they have to keep recurring revenues to pay for this larger bill so the intention is there but they have this threatening pending lawsuit that is about $2.5 million or more and they can't just take it out of reserves and pay it after everything they have been trying to build. They saw this opportunity that they have extra funding and put it aside and did not apply it to capital projects. Hopefully in a couple of months it will be resolved.

Mr. Hoff asks what happened to the Pension Sustainability fund and that extra money that was set aside. Ms. Gomez informs that her understanding is that the Pension Stabilization fund is really a fund to cover the fluctuations in the City's payments. When the payments fluctuate more than what they budgeted it would cover the City's payment. It is in the general fund and at the discretion of the City Manager to use those dollars for anything. Ms. Jaramillo-Velez thinks the Commission has done some things to lower the unfunded liability. For example the direction to the City Manager and administration was to look at the pension and do some reforms. There were pension reforms to the labor unions. There were a lot of things done that the Commission directed the administration to do. Mr. Garcia-Linares understands but that solves the future. It doesn't solve the past problem. Ms. Gomez points out that they will start seeing more dents in the unfunded liability as the changes to the pension plan start to realize themselves as long as they are making the rate of return and all the other assumptions stay fairly on target. Dr. Gomez asks if they can get some projections as to where the liability might be down to in five years. Ms. Jaramillo-Velez thinks they can get that from the actuary. They did have numbers at the time of the negotiations. They know what the savings were based on the different contracts. Mr. Chircut thinks it depends on the market. If the market is going to be down in five years those numbers will be revised again. They might be able to reduce the cost based on those plan changes if they don't make the 7.75% anything below that the City will have to fund. That's where he thinks the stabilization fund comes in before because you have to have something so they don't dip into the general fund.

Mr. Easley points out that a lot of the members now are new on the Board. For Mr. Garcia-Linares and himself this is a deja vu. Every five years they go through this whole thing. Ms. Gomez and Ms. Jaramillo-Velez were both with the City and Mr. Hoff and Mr. Hill were on the Board when they did the Experience Study. That Experience Study demonstrated a few things. First they were a very anemic pension system and they looked great toward the end of the 1990s and early 2000s because they were 100% but they were not great. The reality was they were using assumptions from the 1980s and older than that. They all know that from the 415. He doesn't blame the current administration and Finance Director, HR Director, City management, Commissioners but they were in denial for many, many years. They had assumptions that they partially corrected because they were working with the City but there are some assumptions they need to revisit. They need to move gingerly with how they move forward. The market is going to turn and they are wrapping up the real estate and special alternative groups. Before those get out of their system they need to look at the assumptions and bring them up to date so they can satisfy the members of the Board who think the City should contribute more and those members who say the City needs to contribute what it contributes. He agrees the City should contribute what it needs to and in years past they have done that. The Board dropped the ball and didn't update all the assumptions. They did an Experience Study that looked at all aspects. He doesn't know how that Experience Study missed not funding past COLAs or looking at funding some sort of fund for future COLAs. That is something he thinks the City is working out with different means. They need to revisit some of the assumptions or at least clean up the edges to their situation. He is fine with keeping the actuarial rate of return it 7.75%. He thinks it is a good average. They need to revisit some of the minor assumptions and at least correct some of the custodial items and bring them up to date. Then they can satisfy everyone on the Board and not kill the City by letting them build up their reserves and also try to increase the fund. Ms. Gomez understands what Mr. Easley is saying and she agrees with him to a certain extent but it would mean that the City's annual contribution would be increased. Mr. Easley states that they can look at the increase and see if it is something workable with the City. He asks if they want a healthy pension plan. He thinks they could make their funding look like 70% right now if they changed all the assumptions back to the 1980s.

Chairperson Gueits requests that the discussion of their investments be interrupted so that the City Attorney can address the Board. Craig Leen informs that Mr. Greenfield contacted him and Jim Linn regarding the two lawsuits that are pending. The first lawsuit is regarding the actuary. They have not received an answer yet for the request of extension of time from the actuary. The Board will be notified of that answer when they receive it. They anticipate an answer and they asked for additional time to do that. They will try and assert any immunity that exists for this Board and individual Board members with Mr. Greenfield's approval because anything with this Board will go through Mr. Greenfield. The only thing that has happened is that they filed a complaint and it was served. They are waiting for a response from the actuary because they haven't given them their position so they have ultimately served a complaint and they are waiting for an answer.

The second case is the COLA case. The current status of that case is that the City filed a motion to dismiss and that motion was denied. It did require them to amend the complaint but it denied the motion to dismiss. Justice Cantero and Neal McAiley from White and Case, their outside counsel, are working on a motion of summary judgment. There will be some discovery. They are also talking with the other side in that case. There are plans to go to mediation to see if it can be worked out. They are open to that. That is the general status. Mr. Hill asks if there is a time table on the mediation or the lawsuit. Mr. Leen informs that the lead to amend was granted to make some more specific allegations. They did receive a response and the City answered. They are at the discovery motion for summary judgment stage in the COLA case. It could still take a while. There is an interest in meeting. Generally it is good to sit down and talk to the other side and try to work these things out. They have a mutual interest and they want to act in the best interest of the City and the retirees. He thinks there is something to talk about. Originally he gave an interpretation and he stands by it. He thinks they do have a good legal position. It was disputed and hopefully the Court will decide but they would like to try and resolve this as well. He would say if they were going to go all the way to a final decision with appeals and things like that it could take a few years. Mr. Garcia-Linares asks who is the case pending from. Mr. Leen responds that the COLA case is in front of Judge Dresnick. Mr. Garcia-Linares asks about the other case. Mr. Leen responds that there hasn't been anything in front of a judge yet.

Mr. West continues with the investment issues. The next item is the quarterly report. The total fund on a fiscal year to date basis is 10.03%. It is a little lower than the peer group. From a compliance standpoint they have two issues. One issue they are addressing today is Thornburg. The second manager that flags is Winslow. Their research team has done some follow-up and due diligence on Winslow. They were purchased again and changed ownership again from Nuveen to TIAA-CREF. TIAA-CREF is one of the larger public offering defined contribution plan providers. That puts this manager on the platform which potentially changes the make-up of the investor. There may be a shift in investor type moving from an institutional more stable investor to individuals in their retirement funds. That is a concern and something they are watching. The bottom line is their team suggests holding the line with Winslow. Those are the standout items in the quarterly report.

Mr. West informs that the Investment Committee had a meeting and reviewed the international investment manager and looked at potential replacements for Thornburg. Basically, they have the index fund at the core so they are extremely well diversified as far as their international equities. Then the manager WCM represents the growth part of their active manager. The decision was made to pursue a manager that has the greatest potential of getting them alpha so they are going for return over risk management for that added piece. WCM is a very concentrated manager. They are looking for a value manager in replacing Thornburg. They went through the same philosophical discussion what are they exactly seeking. The recommendation from The Bogdahn Group was depending upon which path philosophically they wanted to take. It was the same discussion they previously when they hired WCM. Their recommendation was consideration of the EuroPacific growth fund by the Capital Group or the RBC Global Asset Management which would be more for the return and alpha. After some good discussion the Investment Committee chose the RBC Global Asset Management as the recommended manager to replace the Thornburg mandate. RBC is sub-advised by Polaris Group by Bernie Horn out of Boston with a long track record. The only issues they had with funding this manager from an investment standpoint were the performance cycle of the manager. It is very volatile but that is to be expected from a manager delivering high alpha. There has to be a certain tolerance with 20/20 vision. If the manager underperformed during a period was it justified and they go back in to see what transpired. There will be periods of time that the manager may underperform. A particular concern is they are going into this manager after a period of phenomenal extended of outperformance. They did underperform during the June quarter at about 2.5% of the benchmark. They don't know when this cycle will end but they are funding this manager after a very good run. This is a long standing manager with outstanding track record that has brought excellent value to their clients. They have a number of clients who have been utilizing them. The fee for this product is 95 basis points and it is delivered via a comingled fund that was designed for institutional investors as opposed to a mutual fund delivery form.

Mr. West comments that The Bogdahn Group receives no compensation of any kind from any vendor, product or idea they bring to the table. They are paid exclusively from quarterly fees that they bill the Board in the arrears. They receive no benefit from any recommendations they bring forward to the Board.

Chairperson Gueits remembers this conversation and that they may be catching this manager at the possible tail run of investments. He knows they talked about how well they performed. He would like for Mr. West to let everyone else know what the difference was between the strategies of the two managers recommended. Mr. West informs that the strategies are very different. RBC is a more concentrated manager than EuroPacific. They have a very unique approach and the most significant thing to their approach boils down to two things. First they are buying companies based on a sustainable cash flow. Rather than looking at price ratios they are buying on a cheap price versus sustainable cash flow. It is arguably a defensive approach because they are buying companies through all different scenarios that are expected to generate good sustainable cash flow. For example, in the previous bear market because they were in these stable, safe companies generating cash flow, their down-market capture was around 50% to 65%. In the 2008 decline, a lot of managers didn't benefit from the down-market standpoint. They had two stocks affected significantly so the down-market capture in 2008 was not good. But in 2009, there was a realization by the markets that the companies had sustainable cash flow so that year was off the charts. The second element of this strategy is they have an ingeniously simple approach to how they address currency risk and country risk or geopolitical risk. They go in and look at the government bond rate and take that rate and add a risk premium for investing in international equity to that so you have some building blocks going on. Then they add a risk premium for investing in that particular industry and then they add on that what they expect that particular stock to return. Bottom line is, if they were to make an investment in Argentina or Brazil that is obviously a more speculative investment from a currency risk standpoint and that will be reflected in the interest rate of their government bond. Those countries have an extremely high hurdle rate. By virtue of that approach they were able to avoid a lot of the country's whose markets and currencies blew up. By contrast the EuroPacific fund is comprised of nine individual portfolio managers. It is more of a collection of different approaches and more of a core orientation investment. They are taking the best ideas of these portfolio managers and aggregating a portfolio that is going to have about 350 stocks. Two of the benefits of this approach is a much more stable performance cycle. You are likely to never have a meeting where you open the performance books and have some terrible surprise but at the same time they are never off the charts and it is very steady. The other benefit is that this is a very inexpensive strategy. It is 49 basis points for the institutional shared class mutual fund. It was felt that a 95 basis point fee for RBC was justified due to their returns.

Mr. Garcia-Linares asks why not split the money between the two managers. Ms. Gomez informs that they were looking at the long term. Ms. Groome adds that RBC also had the lowest correlation to the current manager, WCM. Mr. West explains that they determined that RBC is the least like to WCM regarding correlation. It is also the lowest correlating manager to the other manager they have in the portfolio which is the index fund. They were looking for low correlators to come in and be zigging and zagging at different times and then they didn't feel they would be getting the same diversification that they would with the EuroPacific fund. They have the index fund already. They would be potentially getting a lot of overlap and not as much differentiation with EuroPacific. The decision desired was to step out and go with a manager that is more concentrated and hopefully get that extra return so that was the decision to go with RBC. So their recommendation is not to split the investment between the two managers. The recommendation was to change outright so they would be liquidating Thornburg at their current allocation and taking their proceeds and putting that into the RBC fund. Then they would be looking at a material rebalancing when the City contribution is deposited in October. If they need to make any changes to the portfolio at that time they can discuss it at the next meeting.

A motion was made by Mr. Hoff and seconded by Ms. Gomez to approve the recommendation of the Investment Committee to replace Thornburg Asset Management with RBC Global Asset Management. Motion unanimously approved (10-0).

Mr. West informs that at the Investment Committee meeting they also discussed the potential sunset of the PIMCO DiSCO II fund. A few weeks ago they had the portfolio manager in their office and basically the expectation for that fund is the PIMCO investment group will be meeting at the end of the year and they will be making a determination if they think they can still make that 8% rate for the next foreseeable future. The bottom line is if these types of investments continue to be bid up in price and normalize the risk premium would have to compress by about 3% and if they lose that 3% of incremental risk premium they are getting now through that investment they will close the investment and work out a payout schedule. If spreads stay around where they are then they will meet to determine that and will likely keep that fund open for another year. In anticipation for that fund closing, they had a hedge fund of funds educational review. The Committee determined that it would be beneficial to continue on looking at other alternative investment products within this space in anticipation of the roll off of the DiSCO II fund. They will be providing additional information and schedule the course of normal business another Investment Committee meeting at some point but at this juncture the PIMCO DiSCO fund is definitely open between now and the end of the year and likely to stay open for another year. Mr. Hoff asks if they make the decision to close what is the normal close out period. Mr. West responds that they anticipate being able to refund all the capital and close the fund out within the course of the year. They don't anticipate any issues in liquidating the fund.

Mr. Easley asks where they see international equities going for the future. Mr. West thinks they can look at that in two different ways. The first way is that usually the US leads out of the economic recovery and the equity markets anticipate the recovery and then they get confirmation of it. Then the foreign equity economies start to come up on the heels of the US and their equity markets anticipate the recovery. His opinion is that they would be at the point where they are potentially turning the page where international equities may be the better performing equity market going forward. The Euro community is recovering slowly. They are addressing their structural issues with their banking. They are taking the correct measures. It looks like those economies are recovering country by country basis. But the US has recovered and the equity markets have rallied materially in anticipation and confirmation of that so the next page turn is likely the foreign counterparts to pick up. The second way is from a valuation standpoint. Foreign equities have lagged and look cheaper from a valuation standpoint than US. The third level is if it will be developing or emerging. The emerging markets are going to driven by commodities so they are commodity oriented exporting countries that is going to be function of the total global lift.

Mr. Easley asks if they have looked at infrastructure again to see if there is any potential in that sector. Mr. West informs that they continue to look at infrastructure. They have a fundamental issue with infrastructure in that the investment returns are very back end oriented which means the positive rate of return is very back end oriented. When you discount that and bring it forward it makes the investment less appealing than the number suggests. That is a principle reason they haven't gone that way. He thinks the second reason is because of the popularity of infrastructure several years ago that a lot of the assets have already been brought to the market and a lot of governments have already privatized their toll roads, airports, etc. There is a lot of money in these funds chasing these assets around and bidding up the price and lowering your expected internal rate of return. They have a fundamental issue from an accounting, return realization standpoint. They think the expected rate of return for that area is less desirable than where they are now or for other alternatives they could bring forward. Mr. Chircut asks if that would be a long term issue. Mr. West states that they would definitely take a long term viewpoint. The long term realization is at the end of the 10 year lockup. It would typically require a lock up of the capital for 10 years and the return realization comes in years 8, 9 and 10. Then you bring all that forward to get what the expected return is so your earlier years could even be potentially negative returns. Mr. Chircut states that he is looking at the long term and they really don't have a long term plan. Mr. West would argue that this whole investment portfolio is a long term plan. This is a long term 25 year investment horizon portfolio that has been set up. Chairperson Gueits comments that if there are any opportunities that Mr. West comes across that are compelling for other spaces that he should bring those opportunities to the Board. Mr. West informs that they will be doing that through the hedge fund of funds. There are a number of approaches they can bring forward. Through the Investment Committee, they will be following up with that. They want to be in a position so when PIMCO DiSCO redeems capital they can be ready to go.

Mr. Greenfield informs that the RBC fund is not a mutual fund. So there is a subscription agreement and an adoption agreement. He has been in contact with RBC and Mr. West. He had some questions that have been answered and he had some concerns they will address. When they have a subscription agreement that he believes is acceptable, they need a motion as to who will execute it on behalf of the Board.

A motion was made by Mr. Hoff and seconded by Dr. Gomez to allow the Trustee to sign the subscription agreement on behalf of the Board. Motion unanimously approved (10-0).

Mr. West informs that they have the opportunity to get into a lower cost-share class for the Templeton Global bond fund. For various administrative reasons, Templeton has made access to the share class available for this fund. There was a letter sent authorizing the share class exchange. That will be done and it will effectively reduce their operating expense ratio by 10 basis points. No motion is needed.

5. Old Business.
Dr. Gomez would like to suggest having a workshop with the Mayor and Commissioners for some time in the near future. He thinks it is important. Chairperson Gueits states that the plan for the workshop is to bring the body politic into their realm. Dr. Gomez does not want it to turn into a free for all where they have people pointing fingers. Mr. Hoff thinks they should give a little more time for the Commission to hire a new City Manager. Dr. Gomez disagrees. This is a pressing issue. He wants to educate the new City Manager when that person comes in. He doesn't want to wait six months for the new City Manager to say alright for a workshop. Mr. Kleiman states that typically when the political factions come in the first thing they want to do is close the pension. That is not necessarily the cheapest thing to do. They need to look at putting some possible ideas on the table and look at different options and cost things out before the workshop so they have some things to show them. Dr. Gomez thinks that is a good point. Chairperson Gueits suggests that Ms. Groome look further down the year at a meeting that doesn't have very many issues and put this issue on the agenda so they can spend a good portion of the regular meeting discussing it. Mr. Easley thinks it should be sooner than later. Mr. Garcia-Linares believes they need to get assistance from GRS. He thinks they need to get them to the next meeting and tell them what they want and give them some instruction as to what to look for so they can come up with some ideas. Mr. Easley comments that they need to look at the Experience Study first. Ms. Gomez adds that they can come up with some ideas on what is pending from the Study and then look at what they can add to it which can start their discussion of what they still need to do. Mr. Garcia-Linares states that the idea is that they would like to reduce the unfunded liability and if they can come up with some ideas as to how they can do that. Maybe Mr. West can come up with some ideas as to what their other clients have done and then they can direct them to do something else for October.

Ms. Groome informs that she did interviews for the part-time position and she is going to making a decision soon on who to hire. Mr. Hoff asks if the full-time position make it to the budget. Ms. Groome informs that it did not but the part-time position did. She also informs that her position was reclassified to Administrative Manager.

6. New Business.
There was no new business.

7. Public Comment.
There was no public comment.

8. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, September 18, 2014 at 8:00 a.m.

Meeting adjourned at 10:03 a.m.

APPROVED

JAMES GUEITS
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR