CORAL GABLES RETIREMENT SYSTEM
Minutes of February 13, 2014
Youth Center Theater/Auditorium
405 University Drive
Immediately after the Investment Committee Meeting

MEMBERS:	D 12	F 13	M 13	A 13	J 13	A 13	S 13	O 13	N 13	J 14	F 14	APPOINTED BY:
Andy Gomez	-	-	-	-	P	P	P	P	P	P	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	P	P	P	P	P	P	Vice Mayor William H. Kerry, Jr.
Bob Campbell	-	-	-	-	E	E	P	P	E	P	E	Commissioner Patricia Keon
Jon G. Ridley	-	-	-	-	-	-	P	P	E	P	P	Commissioner Vince Lago
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Frank C. Quesada
Joshua Nunez	-	-	-	-	-	P	P	P	E	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	Finance Director
Elsa Jaramillo-Velez	-	-	-	-	-	-	-	-	P	P	P	Human Resources Director

STAFF:
Kimberly Groome, Retirement System Administrator
Alan E. Greenfield, Board Attorney
Dave West, The Bogdahn Group

P = Present
E = Excused
A = Absent

GUESTS:
Vince Carrodegous, Goldstein, Schechter & Koch
Clement Johns, Goldstein, Schechter & Koch
Rosa Salum, Goldstein, Schechter & Koch

Vice-Chairperson Randy Hoff calls the meeting to order at 8:39 a.m. There was a quorum present. Mr. Campbell and Mr. Nunez 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 Report of the Administrative Manager.

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

1. The City of Coral Gables invoice #05158 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 January thru March 2014. This invoice includes an increase of $17.49 in rental of public facilities for October thru December 2013 and a decrease of $27.00 in the general liability insurance for October thru December 2013. Total amount of invoice is $2,335.23.

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

3. Items from the Board attorney.
Mr. Greenfield informs that he has nothing to report. There is one item that was brought to his attention by Ms. Groome. One of the Police Officers made a request to have his DROP date changed. Vice-Chairperson Hoff explains that it doesn't affect the Retirement Board but because of the 185 shares, you have to be working for the City on April 1st to be eligible for your 185 money for that particular year. This Police Officer entered the DROP on April 1st and he has to leave the City on March 31st. He asked for the attorney's opinion if there is anything this Police Officer could do. Mr. Greenfield states that his opinion is he cannot change his DROP date.

Chairperson Gueits arrived to the meeting.

4. Attendance of Attorney Richard Sicking on behalf of Charles Berryhill, Service Connected Disability retiree, requesting an appeal to the reduction of his disability benefit from 75% annualized pay rate to 66.7% annualized pay rate as according to Retirement Ordinance Section 50-231(e) that after rehabilitation and retraining Mr. Berryhill cannot engage in any occupation for wage or profit due to his service connected injury. Mr. Berryhill's reduction began February 1, 2014. He has been reduced from $46,476.96 per year to $41,333.52 per year according to Ordinance Section 50-231(e). The Retirement System Administrator recommends approval of Mr. Berryhill's continued disability benefits based upon the Physician Report by Dr. Jerome Bettner.

Richard Sicking, attorney representing Charles Berryhill, informs that Mr. Berryhill has requested a continuation of his disability retirement at the 75% level because he is totally disabled. He is 52 years old with 17 years of service with the City as a Sanitation Worker. In 2001 he was hit by a truck at work and seriously injured his left ankle and back which he has had multiple surgeries. He was approved for in-line of duty disability by the Board two years ago and under the ordinance, after the two year anniversary if he continues to be disabled from all work, he is entitled to continue his benefit at the 75% level. He was recently examined by an orthopedic who said that was the case. He understands that the administrator has recommended Mr. Berryhill continue at that level. Ms. Groome informs that Mr. Berryhill was reduced at the beginning of February so if this is approved by the Board she will put him back to 75% for February. Mr. Sicking informs that they tried to get it on the agenda as timely as they could.

A motion was made by Mr. Hoff and seconded by Mr. Hill to approve returning Mr. Berryhill back to 75% annualized pay rate.

Discussion:
Dr. Gomez informs that this item is dear to his heart because he was given 100% disability from the university. He is not sure how many of these they have seen before and he is not sure how many will come later on. His concern is that to penalize someone and reduce their benefits because they have a legitimate disability and reducing the benefits because he or she might engage in some type of activity at home using his or her mind is extremely detrimental. Literature shows that in most of those cases people go into other severe health problems and it is not just depression. Maybe they should entertain looking at this particular ordinance and amending it to some of the concerns he has.

Motion unanimously approved (9-0).

5. Presentation of the 2012-2013 Audit Report by Goldstein Schechter Koch.

Vince Carrodeguas of Goldstein, Schechter & Koch presents the 2012-2013 audit report. He introduces Clement Johns and Rosa Salum who are both directors to their public employee's retirement system audit group.

Ms. Salum covers the opinion letter. The first paragraph sets forth the audit of the financial statements as of September 30, 2013. The second paragraph talks about management's responsibility for the financial statement. In that paragraph it says that management is responsible for the preparation and fair presentation of the financial statements. It includes maintaining, implementing and designing internal controls. Then it talks about the auditors responsibilities which is rendering an opinion on those financial statements based on their audit. The audit requires them to obtain reasonable assurance that the financial statements are free from material misstatement. The next paragraph talks about what an audit involves and it also says that they look at internal control and consider internal control but they do not render an opinion on internal control. Had anything come to their attention during the performance of the audit like a material weakness or a significant deficiency they would have brought it to the Board's attention but that was not the case. The next paragraph is the actual opinion on the financial statements which is a clean opinion. The second page talks about supplementary information. They do not render an opinion on the required supplementary information. They perform limited procedures. For the schedules of investment expenses and administrative expenses they do render an opinion. Those schedules are fairly stated in relation to the financial statement.

Mr. Johns reviews the financial statements. As of September 30, 2013 the total assets of the plan were at $358 million. The plan liabilities were $46 million. The major component of this is approximately $45 million in obligations for securities purchase. These are transactions that went in before the year end that were settled after the year end. The total liabilities when deducted from the total assets give a net position held in trust for pension benefit at the end of the fiscal year at $311 million approximately. Last year the number was $279 million. During the fiscal year, the net assets of the plan increased by $31 million. The plan's total additions were $66 million. This is comprised of the contribution of about $28 million between the City, the employees and the shared plan. There was a net investment income of $37 million. In terms of a percentage of the net investment income it is approximately 13.2% investment return for the fiscal year. It is down from last year which was 17.36%. From what they are seeing, everybody has been down. They had total deductions of $34 million and the bulk of that is the pension benefit payments.

Ms. Salum points out the plans funded ratio. As of October 1st it is at 51.7%. Mr. Garcia-Linares states that it is getting worse as opposed to better. Mr. Johns informs that it is as of October 1, 2012 so it may change in the valuation of October 1, 2013. Mr. Garcia-Linares thinks they are going in the opposite direction. How are other plans doing? Mr. Carrodeguas informs that every year they issue a report where they benchmark this fund's statistics versus other plans. Some are going up, some are stagnant and some are going down. It is only their population of about 30 clients in this arena but the 51% is on the lower end of their clients. Chairperson Gueits asks what the highest plan is. Mr. Johns replies that they have two plans in the 80s. One of those plans had taken out a bond for the unfunded liability. Most of the plans are in the 70s. Mr. Garcia-Linares thinks that Ms. Gomez needs to take this information to the City because they are going opposite of where they should be going. He thinks as they plan for the next budget, he knows it continues to hurt to fund it at the current level or a higher level, but he thinks it is something they seriously need to consider. They were at 57% in 2010 and now they are at 51% as of 2012. He thinks that the City needs to start thinking and not do what it has done in the past which was when the market starts doing better to continue to fund at the same levels as opposed to reducing the level of funding.

Chairperson Gueits asks when they get the October 2013 numbers. Ms. Groome responds that they will get it this year. The actuary is working on that report now. Mr. Hoff asks when do the bad years in the smoothing start to drop off. Ms. Groome replies that the 2008 number will drop off this year but there are still two negatives in that 5-year smoothing. The 2008 number was the biggest negative number in the 5-year smoothing. Mr. Garcia-Linares thinks they need to continue funding the plan at the same level to improve the amounts.

Mr. Easley states that it was mentioned earlier that out of all the funds they are doing the accounting for that this plan seems to be doing on the better end as far as performance wise. He has requested from their consultants on a yearly basis how they do and over the last three years they haven't been underperforming their peer group, they have just had some bad years tied in and they have made some corrective measures as far as bringing some assumptions up to date.

Mr. Hoff points out that if you look at the annual funded payroll in 2006 when they were at 59% was $51,000 and now it is down to $39,000. There is a huge reduction in the amount of payroll. Mr. Easley agrees with Mr. Garcia-Linares. What happened in the past with the better years the City underfunded the plan and have been irresponsible in its actions. Ms. Gomez states that they have always paid the minimum amount. Mr. Garcia-Linares understands but when the economy went down, the market went down and what he is saying is to learn from the mistakes and as the market is doing better at least continue to fund at the current levels and not fund less. Ms. Gomez informs that in the last couple of years that contribution has been going up. Mr. Garcia-Linares knows it has been going up because of what happened in the past. If in the past they had done the right thing they would not be having this issue now. This is all cyclical. He thinks the City needs to understand that.

Ms. Salum reviews the supplementary schedule of investment expenses and administrative expenses. Compared to last year the change is very inconsequential. Chairperson Gueits states that they paid Northern Trust more this year than previous years. He recalls having a discussion about Northern Trust regarding their fees. Mr. West informs that they received fee reductions on the index funds. You have the securities lending program so they are sharing the income from that program and those moneys offset their fees. They have not done a custodial review on that. Mr. Garcia-Linares asks how this compares with their other clients. Mr. West believes they are in line. There are significant savings in the concessions they receive from substantial dollars in the index funds. That doesn't show up on the line item expense. The fees would appear to be in line. Mr. Garcia-Linares asks if they are recommending that they go out and find whatever custody banks are out there other than Northern Trust. Mr. West informs that they can have an informal review. Ms. Groome adds that they can always invite the client representative from Northern Trust down to the meeting. Mr. Garcia-Linares asks why the subscriptions went up. Ms. Groome informs that she will have to look it up. Mr. West states that they will do a fee analysis and bring it back to the Board.

Chairperson Gueits states that JP Morgan is the leader in fee collections. They managed the real estate portfolios. Mr. West informs that JP Morgan manages two real estate portfolios. That asset class usually demands a higher fee usually higher than the domestic equity funds. Compared to their peers, JP Morgan's fees are in line with those fees. Mr. Easley asks if they can renegotiate the money manager fees on an annual basis. Mr. West thinks that overall balance of fees is pretty good. They are seeking to negotiate the lowest possible fee in these relationships and they are looking to make sure they receive most favored status when they engage in a manager. There is every effort to make sure they are engaging with any manager to get the lowest possible fee. As for mutual funds, the SEC does not permit a fee concession on mutual fund strategies. The only place they can get a fee concession is from separately managed funds.

A motion was made by Ms. Gomez and seconded by Mr. Hoff to approve the report contingent to the final subsequent events section does not have any significant changes to the report. Motion unanimously approved (9-0).

Mr. Carrodeguas informs that they issue a report that new standards came out about six or seven years ago called a Statement of Audit Standards 114 Auditor's Communication With Those Charged With Governance you would not know it from having a standard review of audited financial statements. The critical items that are reported on that report are whether there were any significant adjustments to the audited financial statements of which there were none. That is important to you because as you review interim financial statements a year after the fact it would be a material adjustment. Then you would know that your system of internal control of financial reporting probably has some problems and those financial statements you received previously were distorted or materially inaccurate. Another item was if there was any conflict with management or any significant difficulties encountered during the audit engagement of which there were none. Lastly did they have to refer to outside counsel, an outside CPA or outside professional for any issues within the realm of the audit and they did not have to.

6. Investment Issues.

Dave West reports on the January performance. They opened the month with $345,394,473 and closed the month with $336,832,870 with a depreciation of $6,386,120. On a fiscal year to date basis their income has grown to $2,483,201 with an appreciation of $10,788,138. All of the domestic equity managers were down less than the benchmarks marginally and the active international managers were down a little more than the benchmarks. They are viewing the domestic equity market as a long overdue pull back where the grand scheme of the market still seems to be favorable. From the international equity emerging market standpoint that is a different situation there. Countries are grouped together. Of all the assets that flow to emerging markets over 50% of those dollars are invested in ETFs or index funds. As emerging markets go, they are really subject to the flows in and out of the index funds where in reality there are stark differences between what is going on in Argentina versus what is going on in Saudi Arabia, etc. Because of the money flow and the propensity of index trading and very volatile swings in money, that tends to make all of the country markets move in the same direction or have a bias to that so they all move together over the shorter term money movement periods.

Their recommendation on the table regarding the international equity space is to terminate Barings Asset management as indicated at the last meeting. This is a termination in the course of normal business. It is not a fire sale. They are recommending that they seek more opportunistic alternatives. Their recommended manager replacement which was discussed at the Investment Committee meeting this morning was WCM management. They would be participating in the focused growth international fund. The fee on this fund is 115 basis points. It is on the higher end of the average. They reviewed their returns on a net of fee basis compared to the other seven recommended managers. They gave this extra consideration. One of the benefits is if they find that performance does not live up to expectations or policy requirements they can move out of this fund, which is a mutual fund delivery, at no cost. The risked managed results have been all in with this manager. They will fill the international equity growth portion of the portfolio and will be investing in emerging markets up to 35%. That is the recommendation. Ms. Groome adds that the recommendation of the consultant is also the recommendation of the investment Committee.

A motion was made by Mr. Hoff and seconded by Ms. Gomez to approve the recommendation of the consultants and Investment Committee to terminate Baring Asset Management and invest with WCM Management.

<u>**Discussion:**</u>

Mr. Ridley asks how they found the manager, WCM. Mr. Hoff asks for Mr. West to give an overview as to why they are recommending WCM as the manager. Mr. West informs that the way they are structured right now is that they already have the Northern Trust index fund. They have plenty of beta and are exposed to the market for better or worse through the low cost index fund representation. Then they have Thornburg, the other incumbent foreign equity manager. Thornburg has a value orientation in their style so they are looking to replace the manager with the growth orientation. They are structured where they have two active managers surrounding the core index. He and Troy Brown reviewed the finalists and looked at the style suitability as the best fit and it was their opinion if they were going to have to pay active management they are paying for alpha. They want good risk adjusted return and significant value add. As they look across the growth managers WCM stands out in that they have excellent down market capture. They have a very high alpha and they preserve capital very well on the downside while keeping up with the market when everything is rallying. This is a concentrated strategy, it holds 30 stocks, and if they are looking at a manager to add value they are going to be different from the index and a 30 stock portfolio will get that done. WCM has been able to deliver very consistent risk adjusted returns despite only having 30 stocks in the portfolio through a very good discipline process. They are recommending mutual fund delivery as opposed to separate account delivery for foreign securities. They will go with the commingled fund because it makes it very efficient and that keeps the administrative costs down to a minimum. The downside to the recommendation is the higher than average fee and the manager has been at the top of their performance cycle for some time. All the managers that were on the recommended list have been fully vetted by the Bogdahn Group. For the record, the Bogdahn Group receives no compensation whatsoever from any vendor or manager that they bring to the table or make a recommendation of. Their recommendation is based solely on their best efforts to find the most appropriate product.

Motion unanimously approved (9-0).

7. Old Business.

Dr. Gomez asks if there is any additional information regarding help for the Retirement Administrator. Ms. Groome responds that there is no additional information yet. Ms. Jaramillo-Velez comments that the Board Attorney was going to research it. Mr. Greenfield informs that Ms. Groome was going to work with him and come up with a schedule of how they think the department should work and what help she needs. Ms. Groome didn't have the time for the past two weeks to get together for that meeting. Dr. Gomez informs that he is working on a project with the City and he has an intern that has a Master's Degree from the University of Miami and the university pays for him. Ms. Jaramillo-Velez states that the person hired for help will be dealing with sensitive information. Dr. Gomez understands. Mr. Hill doesn't think a part-time person would fit the bill because of the sensitive information they will be handling and they will want to vet them with background checks. Mr. Hoff points out that they had an issue in the Police Department with hiring a temporary who stole officers' identifications and committed fraud. Chairperson Gueits thinks that everyone gets vetted or is it because they are part-time they don't get vetted. Ms. Jaramillo-Velez informs that they do get vetted. Ms. Groome informs that they can bring this back for a future meeting. Mr. Hoff states with the people he has dealt with and every individual who is about to retire, their problem is the most important thing in the world and he has gotten a lot of complements on Ms. Groome and how she gets back to these people and knowing everything else she is doing, she is doing a fantastic job balancing everybody's needs.

8. New Business.

Ms. Groome states that in the past there used to be retirement seminars for people who were close to retiring within 5-years and the Human Resources Department hosted and prepared the seminars but a few years ago it stopped. She has spoken with a lot of investment consultants for individuals and they do this for free. She was wondering if the retirement office could offer these seminars for the employees. Mr. Hoff asks if that was part of what the actuary said they could do to put on a retirement seminar. Ms. Groome answers that she will speak with the actuary. Mr. Garcia-Linares states that his concern is that the investment consultants that come in for free is because they want the employee to use them and by choosing one over another are they giving the impression they are vouching for that person. He would be very concerned with bringing someone in. He would rather the actuary do the seminar. Ms. Groome informs that she will contact GRS.

9. Public Comment. There was no public comment.

10. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, March 13, 2014 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:12 a.m.

APPROVED

JAMES GUEITS
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR