

**CITY OF FORT LAUDERDALE
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
316 NE FOURTH STREET, SUITE 2, FORT LAUDERDALE, FL
Thursday, August 4, 2016
12:00 Noon**

**BOARD'S COMMUNICATION TO THE CITY
COMMISSION**

Items Requiring City Commission Action

- None at this time

Items That May Be Of Interest to the City Commission

- None at this time

Items Submitted For City Commission Consideration

- None at this time

Present: Mark Darmanin, Chairman
Jon Stahl, Vice Chairman
Mark Burnam, Trustee
Ron Cameron, Trustee
Paul Tanner, Trustee
Lynn Wenguer, Secretary
Kirk Buffington, Ex-Officio Designee

Absent: Pat Long, Trustee

Also Present: Greg Slagle, Retiree
Alan Vordermeier, VMC Realty
Chris Niles, UBS
John Herbst, City Auditor
Richard Dahab, Dahab Associates (via teleconference)
Bob Dunckel, City Attorney
Laura Garcia & Marian Dollard, City Finance Department
John Meyer & John O'Shea, Loomis, Sayles & Company
Tom Nolte & Jason Hans, BMO Asset Management Corporation
Damon Ficklin & Jim Haymes, Polen Capital Management
Chris Greco & Martin LaPrade, Sawgrass Asset Management
Nick Schiess, Pension Administrator
Jane Dyar, Pension & Recording Secretary

CALL TO ORDER

Chairman Darmanin called the meeting to order at 12:00 Noon. Roll call was taken. Chairman Darmanin opened the floor for public comment. There was no public comment.

APPROVAL OF MINUTES

Chairman Darmanin requested the Board to review the minutes of the meeting held July 7, 2016. **Mr. Stahl made a motion to approve the minutes. Mr. Tanner seconded the motion. The minutes were approved unanimously.** Chairman Darmanin requested the Board to review the minutes of the Audit Committee meeting held July 25, 2016. **Mr. Stahl made a motion to approve the minutes of the Audit Committee meeting held July 25, 2016. Mr. Tanner seconded the motion. The minutes were approved unanimously.**

CONSENT ITEMS

Chairman Darmanin requested the Board review the consent items including the benefit review, education calendar and disbursements. Mr. Schiess introduced supplemental additions to the benefit review. **Mr. Stahl made a motion to approve the consent items. Ms. Wenguer seconded the motion. The motion passed unanimously.**

BENEFIT REVIEW

RETIREMENT

Name	Date	Service Time	Type
Anthony Pantin Finance	8/4/16	10y, 5m	Vested
Roger Snider Parks & Recreation	8/5/16	9y, 2m, 1d	Vested
Virgilio Gutierrez Public Works	8/20/16	30y, 9m, 16d	Normal
Laurie Conver Sustainable Development	7/31/16	12y, 19d	Normal

POST RETIREMENT DEATH

Name	Date
Linda Brunelle Spouse of Paul Brunelle	6/26/16
Nancy Bollinger Spouse of Conrad Bollinger	7/19/16
Helen Slayton Spouse of Gary Slayton	7/22/16
Naomi Tillman	7/18/16
Charlotte Denham	7/18/16

CHANGES

Name	Date	Type	Reason
Raphael Bain PSA/Police	8/1/16	Transfer Benefit	Transfer of GERS Service Credit to Police & Fire Pension
Jada McClendon Beneficiary	8/1/16	Stop Benefit	Benefit Ceases at the age of majority

AUDIT COMMITTEE REPORT

Mr. Stahl provided a report on the Audit Committee meeting held July 25, 2016. He reported that the Committee Members, along with representatives from the Finance Department, received presentations for custodial services from Amalgamated Bank, Comerica Bank and the Wilmington Trust Corporation. The attendees provided their comments on the qualifications, experience, fees, references, service team and other factors important in the evaluation of custodial service providers. Mr. Dunkel expressed concern over indemnification language found within one sample agreement but would attempt to negotiate this provision if that candidate was ultimately selected. The Board reviewed a comparative summary developed by Mr. Dahab and a lengthy and careful discussion ensued. **Mr. Stahl made a motion to engage the custodial services of Comerica Bank. Mr. Burnam seconded the motion.** The Board tasked the Plan Administrator to attempt to reduce their fees through negotiation. **The motion passed unanimously.**

INVESTMENT MANAGER INTERVIEWS

POLEN CAPITAL MANAGEMENT

Jim Haymes and portfolio manager Damon Ficklin appeared before the Board to provide a presentation on the firm's domestic large cap growth equity investment management services. Mr. Haymes discussed the firm's qualifications and experience. He reported that the firm managed over \$9 billion in assets including many public pension funds within Florida. Mr. Ficklin reviewed their investment philosophy, investment strategy including stock selection process and other factors important to the evaluation of an investment manager all in very great detail. He discussed their competitive advantage, specifically the construction of a concentrated portfolio of only 20 holdings and a long-term focus in the holdings of financially superior and competitively advantaged businesses. Mr. Ficklin reviewed the risk measurement indices and long-term performance, noting significant outperformance of the market net of fees and their peers for all trailing time periods with considerably less risk and volatility. Mr. Ficklin was questioned regarding the continuity of portfolio management after the firm's founder, David Polen, passed away in the year 2012. He explained that Mr. Polen had been participating only in a very limited role since the year 2008 and the portfolio management strategy that achieved the historical performance remained completely intact and unchanged. Mr. Ficklin was questioned regarding underperformance of the market in the year 2013. He responded that the market bias did not favor fundamental growth managers during this period and then discussed in detail the specific detractors to performance. Mr. Ficklin was questioned regarding the very low turnover of holdings within their portfolio and responded that low turnover was congruent with their investment strategy. It was noted that their investment management fees were higher than the other prospective candidates and Mr. Haymes was questioned whether fees were negotiable and responded that fees were negotiable. A lengthy question and answer session ensued.

LOOMIS SAYLES & COMPANY

John O'Shea and John Meyer appeared before the Board to provide a presentation on the firm's domestic large cap growth equity investment management services. Mr. O'Shea discussed the firm's qualifications and experience. He discussed the portfolio

management team led by Aziz Hamzaogullari, who founded the investment strategy and the team joined Loomis Sayles & Company from Evergreen Asset Management in the year 2010. Mr. Meyer reviewed their investment philosophy, investment strategy including stock selection process and other factors important to the evaluation of an investment manager all in very great detail. He explained that the investment strategy involved the protection of capital and very low turnover of holdings. Mr. Meyer reviewed the risk measurement indices and long-term performance, noting significant outperformance of the market net of fees and their peers for all trailing time periods with considerably less risk and volatility. A lengthy question and answer session ensued.

BMO ASSET MANAGEMENT CORPORATION

Jason Hans and portfolio manager Tom Nolte appeared before the Board to provide a presentation on the firm's domestic large cap growth equity investment management services. Mr. Hans discussed the firm's qualifications and experience. Mr. Nolte reviewed their investment philosophy, investment strategy including stock selection process and other factors important to the evaluation of an investment manager all in very great detail. He explained that their selection process has produced holdings with strong fundamental characteristics and attractive valuations with consistent performance in both up and down markets. Mr. Nolte reviewed the risk measurement indices and long-term performance, noting significant outperformance of the market net of fees and their peers for most trailing time periods with less risk and volatility. A lengthy question and answer session ensued.

The meeting recessed at 1:55 PM and resumed at 1:58 PM with no business discussed during recess.

SAWGRASS ASSET MANAGEMENT

Chris Greco and portfolio manager Martin LaPrade appeared before the Board to provide a presentation on the firm's domestic large cap growth equity investment management services. Chris Greco discussed the firm's qualifications and experience, noting that the firm was located in Florida and dedicated to the Florida public pension fund market. Mr. LaPrade discussed their investment philosophy, investment strategy including stock selection process and other factors important to the evaluation of an investment manager all in very great detail. He reviewed the risk measurement indices and long-term performance, noting significant outperformance of the market net of fees with considerably less risk and volatility. Mr. LaPrade advised that the primary goals were to protect capital and obtain consistent investment performance. He discussed market and economic conditions and anticipated continuing volatility but a tremendous amount of opportunity for active management. A lengthy question and answer session ensued.

Chairman Darmanin requested Mr. Dahab to review his analysis of the prospective managers provided to the Trustees in advance of the meeting and the presentations by the prospective candidates. A very lengthy and careful discussion ensued regarding performance, fees, risk measurement indices, performance attributes, and other factors important to the selection of investment management services.

A discussion arose regarding the funding of the proposed new investment portfolios and it was noted that \$45M in proceeds resulting from the termination of former manager Navallier & Associates was temporarily invested in the Russell 1000 Index Fund managed by State Street Global Advisors.

A lengthy discussion ensued regarding active versus passive management for this allocation. It was noted that the presenting active investment managers had provided evidence that their historical returns exceeded the Russell 1000 Growth Index net of management fees for nearly all time periods. Additionally it was noted that the System's Investment Consultant recommended active management but expressed that he was not opposed to passive management.

A question arose whether a limitation within the Investment Policy Statement regarding single equity concentration would affect prospective candidates with very concentrated portfolios and it was determined the maximum limitation was applicable to the entire investment portfolio, not individual portfolios and therefore was not a concern.

A lengthy discussion ensued regarding the selection of multiple candidates and their allocations. **Mr. Cameron made a motion to engage Polen Capital Management to manage a \$25M portfolio, Sawgrass Asset Management to manage a \$25M portfolio and leave the remaining balance within the Index Fund. Mr. Burnam seconded the motion.** A discussion ensued and a suggestion was made to amend the motion reducing the engagement to \$20M for each manager. Mr. Dahab was questioned regarding the degree of overlap between Sawgrass Asset Management and existing manager Garcia Hamilton & Associates and responded that any potential overlap was minimal. **Mr. Cameron made an amended motion to engage Polen Capital Management to manage a \$20M portfolio, Sawgrass Asset Management to manage a \$20M portfolio and leave the balance within the Index Fund. Mr. Burnam seconded the amended motion.** There was lengthy discussion. **The motion was called and failed with 3 ayes, 3 nays.**

Mr. Burnam made a motion to engage Polen Capital Management to manage a \$15M portfolio, Sawgrass Asset Management to manage a \$15M portfolio, Loomis, Sayles & Company to manage a \$15M portfolio and leave the remaining balance within the Index Fund. Mr. Cameron seconded the motion. After a lengthy discussion, **the motion was called and failed with 3 ayes, 3 nays.**

Ms. Wenguer made a motion to engage Polen Capital Management to manage a \$30M portfolio. Mr. Tanner seconded the motion. A lengthy discussion ensued. **Ms. Wenguer amended her motion to engage Polen Capital Management to manage a \$20M portfolio. Mr. Tanner seconded the motion. The motion was called and passed with 5 ayes, 1 nay.**

Mr. Stahl made a motion to engage Loomis, Sayles & Company to manage a \$20M portfolio. Mr. Tanner seconded the motion. The motion failed with 3 ayes, 3 nays.

Mr. Dahab suggested engaging Loomis, Sayles & Company and Sawgrass Asset Management to manage \$15M each and further discussion ensued. **Mr. Cameron made a motion to engage Sawgrass Asset Management to manage a \$15M portfolio and**

Loomis, Sayles & Company to manage a \$15M portfolio. Mr. Burnam seconded the motion. The motion was called and passed with 5 ayes, 1 nay.

Mr. Schiess suggested amending the previous motions to include contingency on successful negotiation of agreements contract by legal counsel, execution of agreements between meetings by the Chairman and immediate funding of the mandates as they become finalized. Ms. Wenguer added negotiation of fees with Polen Capital Management by the Chairman. **Mr. Cameron made an amended motion to add that the prior motions are contingent upon successful negotiation of agreements by legal counsel, negotiation of fees and execution of agreements by the Chairman and immediate funding upon finalization of the process. Ms. Wenguer seconded the motion. The motion passed unanimously.**

Mr. Dahab suggested trimming the position of the Garcia Hamilton & Associates portfolio down to \$25M with the proceeds to be applied towards benefit payment obligations for September 2016 and the Board agreed.

DAHAB & ASSOCIATES UPDATE

Mr. Dahab provided the Board with a report on the investment portfolio for the quarter ending June 30, 2016. He reported that the investment return was 2.1%, which ranked in the top 21st percentile of the Public Fund universe. The return for the fiscal year-to-date was 5.9% and Mr. Dahab expressed optimism in meeting the actuarial return assumption of 7.5% by the end of the fiscal year.

Mr. Dahab reviewed the performance of the individual investment products in great detail and provided a report of the value added for the quarter and trailing one-year period. He noted the performance of the large cap value portfolio managed by DePrince Race & Zollo was extraordinary and congratulated the Board on the decision to retain the manager after a their previous period of underperformance. He expressed disappointment in the performance of both the Lord Abbett mandates and advised that their performance will be carefully monitored. Mr. Tanner noted that the ranking of several investment products fell in the lower quartile of performance over the trailing five year period and requested that the quarterly investment report be expanded to include trailing ten-year returns.

Mr. Dahab reviewed the asset allocation, noting that the portfolio had a growth bias.

Mr. Dahab concluded his report with a review of market and economic conditions and anticipated continued volatility and measured growth prospectively.

REAL ESTATE COMMITTEE REPORT

Mr. Vordermeier provided an income and expense report for the 4800 Building, noting a decrease in expenses and 15.8% growth in income attributable to contractual rent increases. He advised that air conditioning equipment required replacement. He presented the Board with two cost estimates with the lowest bid in the amount of \$10,248. The Board discussed requesting a third bid. **Mr. Cameron made a motion to request VMC Realty to solicit a third bid and then approval for replacement of the air conditioning equipment at the**

4800 Building at a cost not to exceed \$10,248. Ms. Wenguer seconded the motion. A short discussion ensued. The motion was approved unanimously.

Mr. Cameron reported that he had inspected the property previously identified by Mr. Vordermeier as a prospective alternative office location and advised that the building was not suitable. After a brief discussion, Mr. Vordermeier speculated that perhaps the incorrect property had inadvertently been inspected and he agreed to verify the correct address for Mr. Cameron.

ADMINISTRATOR'S REPORT

Mr. Schiess reviewed a report of receipts and disbursements for July 1, 2016 to date, noting that a capital call had been fulfilled for the American Realty Strategic Value Realty for \$2.5M.

Mr. Schiess provided an updated report on the status of the capital commitments and fulfilled capital calls for the alternative investment products.

Mr. Schiess updated the Board on the upcoming retirement seminar and presented the announcement and agenda.

Mr. Schiess reported that the revised Investment Policy Statement and Declaration of Investment Return approved at the last meeting had been filed with the appropriate agencies.

Mr. Schiess reported that investment manager reports would resume to the Board starting at the next meeting.

Mr. Schiess provided an update on organizational changes. He advised that the next immediate projects are the implementation of electronic devices for the Trustees, periodic review of disability and beneficiary benefit recipients and overhaul of the website including updating required disclosures.

Mr. Schiess reported that VMC Realty's June 2016 report and portfolio monitoring reports were available for review in the file room.

Mr. Schiess reported that the air conditioning was repaired at the office and the new property manager was very responsive in this regard.

Mr. Schiess provided an update on the securities litigation case against Green Mountain Coffee Roasters. He reported that he had provided a deposition in the case on behalf of the System. Mr. Schiess explained that the System is one of five co-lead plaintiffs in the action along with pension funds in Louisiana, Sweden, Virgin Islands and Mississippi. He summarized the allegations, noted that the case is in the discovery phase with two of the co-lead plaintiffs already having been deposed and mediation is scheduled for the fall of this year.

ATTORNEY'S REPORT

Mr. Dunckel provided a final report on proposed amendments by investment manager Invesco to their Operating Agreement. He opined that the amendments did not significantly impact the Agreement or the System's interests and expressed no objection to the execution of the Consent Form. Chairman Darmanin reminded the Trustees that the Board had already authorized him to execute the Consent Form at the last meeting contingent upon approval by legal counsel.

Mr. Dunckel reported that the City Attorney's office was generally supportive of the Board's request for engagement of outside legal counsel and the matter was under consideration by additional parties.

Mr. Dunckel provided an update on the pending disability appeal, noting that a pre-trial catalog was being developed and Mr. Schiess was preparing calculations of service and non-service related benefits.

Mr. Dunckel discussed State law, local Ordinance and the effects of a recent Supreme Court redefinition of marriage, specifically same-sex marriages. He opined that the Supreme Court's recognition of same sex marriages trumps local and State law and therefore the System must recognize same sex marriages in the payment of survivorship and death benefits. Mr. Dunckel further opined that it was unnecessary to amend the Ordinance accordingly.

Mr. Dunckel discussed an inquiry received by the Plan Administrator regarding DROP participation, specifically whether the maximum participant requirement of three years after either age fifty-five or thirty years of service is applicable or affected when a previously ineligible participant becomes eligible due to promotion. Mr. Dunckel opined that the original intent was to allow the management/exempt classification three years of DROP participation and it was most likely beyond the contemplation of City Council that this situation would arise. Mr. Dunckel opined that it would be acceptable under the Ordinance to extend the participation period past the age or service eligibility requirements after promotion because the affected members were not previously eligible through no fault of their own. He added that allowing promoted members to participate in the DROP for three years was consistent with the original intent of City Council. Ms. Dyar informed the Board that past practice was for the maximum participant requirements to be applied regardless. Mr. Dunckel agreed that past practice was a very important consideration. Chairman Darmanin requested research of past practice in this regard and with a report back to the Board at the next meeting. The Board agreed by consensus.

MONTHLY FUND ASSET MIX

Mr. Schiess reviewed the monthly fund asset mix. Mr. Dahab recommended raising necessary cash to fund benefit payment obligations and capital calls by trimming the large cap growth portfolio managed by Garcia Hamilton & Associates down to \$25M and the balance from the Russell 1000 Index Fund managed by State Street Global Advisors, and the Board agreed.

OLD BUSINESS

All old business had already been considered during the meeting.

NEW BUSINESS

There was not any new business for consideration.

PLEASURE OF THE BOARD

There was nothing for the pleasure of the Board.

BOARD COMMUNICATION TO THE CITY COMMISSION

Board consensus was for Chairman Darmanin to provide the City Commission with any new information from the meeting.

ADJOURNMENT

Ms. Wenguer made a motion to adjourn. Mr. Stahl seconded the motion. The motion passed unanimously and the meeting adjourned at 5:00 PM.