

**CITY OF FORT LAUDERDALE
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING**
316 NE FOURTH STREET, SUITE 2, FORT LAUDERDALE, FL
Thursday, September 1, 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
Pat Long, Trustee
Mark Burnam, Trustee
Paul Tanner, Trustee
Lynn Wenguer, Secretary
Pamela Winston, Ex-Officio Designee City Finance Department

Absent: Ron Cameron, Trustee

Also Present: Alan Vordermeier, VMC Realty
Richard Dahab, Dahab Associates (via teleconference)
Cole Copertino, Board Attorney
John Norman, Wedge Capital Management
Nick Schiess, Pension Administrator
Jane Dyar, Pension & Recording Secretary
Chris Niles, UBS

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 August 4, 2016. **Mr. Stahl made a motion to approve the minutes of the meeting held August 4, 2016. Mr. Tanner seconded the motion. A correction was noted. Mr. Stahl made a motion to approve the amended minutes. Mr. Long seconded the motion. The amended minutes were approved unanimously.**

CONSENT ITEMS

Chairman Darmanin requested the Board to review the consent items including the benefit review, education calendar and disbursements. **Mr. Long made a motion to approve the consent items. Ms. Wenguer seconded the motion. The motion was approved unanimously.** Chairman Darmanin noted that a supplement to the benefit review would be considered later during the meeting.

BENEFIT REVIEW

RETIREMENT

Name	Date	Service Time	Type
Mack Caesar, Jr. Parks & Recreation	9/10/16	16y, 3m, 27d	Normal
Elias DeOliveira Public Works	10/1/16	10y, 8m, 13d	Vested Retirement

POST RETIREMENT DEATH

Name	Date
Patricia Hery Retirement	8/3/16
Patricia Hery Beneficiary	8/3/16
Edith Lay	8/4/16
Genevieve Leach	8/17/16
Pasqualina Ursini	8/21/16
Marcie Moore	8/23/16

DROP RETIREMENT

Name	Date	Service Time
Stacy Shannon Human Resources	10/1/16	30y, 21d

CHANGES

Name	Date	Service Time
Cassandra Battle	10/7/16	31 y

INVESTMENT MANAGER REPORT: WEDGE CAPITAL MANAGEMENT

Mr. Norman appeared before the Board on behalf of Wedge Capital Management to provide a report on the large cap domestic value equity portfolio. He provided an update on the firm, noting no organizational changes and assets under management had grown to \$12B. Mr. Norman then reviewed the quantitative investment strategy and process in great detail. He reported that the investment return for the calendar year-to-date was 6.60% versus 9.38% for the index and discussed the market factors that attributed to the recent underperformance. Mr. Norman then reviewed long-term performance, noting that performance net of management fees had exceeded the index over multiple time periods including since inception. Mr. Norman reviewed the sector allocations, portfolio characteristics and factor attribution all in great detail. He discussed economic and market conditions and anticipated that the market will soon again favor active management, which he noted has demonstrated to be favorable over passive management for long-term investors.

Mr. Norman was questioned regarding REITs, which were noted to have grown in popularity. He responded that the prominence of REITs within small and mid-cap strategies had grown beyond expectation. Mr. Norman explained that the firm was investigating the efficacy of REITs as an enhancement to the large cap equity strategy.

REAL ESTATE COMMITTEE REPORT

Mr. Long reported that it was unnecessary for the Real Estate Committee to meet. Mr. Vordermeier provided an income and expense report for the 4800 Building, noting a decrease in expenses and growth in income attributable to contractual rent increases. As a follow up to the last meeting, he reported that air conditioning equipment was in the process of being replaced for the cost of \$10,248 previously approved by the Board.

Mr. Long requested the Board's approval for the bi-annual appraisal of the 4800 Building. A discussion arose regarding obtaining quotes for appraisals. **Mr. Stahl made a motion to authorize the Real Estate Committee Chairman to select an appraiser at a cost not to exceed \$10K. Mr. Tanner seconded the motion. The motion was approved unanimously.** Mr. Vordermeier suggested soliciting appraisal quotes from the previously used firms due to familiarity with the project. The Board directed the Plan Administrator to attain quotes for the Committee Chairman. A discussion arose regarding the possible liquidation of the property. Chairman Darmanin suggested the deferral of the discussion until after the appraisal had been completed. Mr. Long noted that that rental income and return on investment was very satisfactory and a compelling reason to retain the property.

AUDIT COMMITTEE REPORT

Mr. Stahl reported that it was unnecessary for the Audit Committee to meet. He reported that an Audit Engagement Letter had been proposed by the incumbent auditing firm Crowe Horwath to prepare the 2016 fiscal year audit for a cost of \$6,500. Mr. Schiess reported that the cost had increased by \$500 from the prior year but it was very discounted because the firm was also preparing the City's audit. He reported that the Audit Engagement Letter had already been reviewed and approved by legal counsel. **Mr. Tanner made a motion to engage the auditing services of Crowe Horwath for the amount of \$6,500 dollars and execution of the Audit Engagement Letter. Mr. Stahl seconded the motion. The motion was approved unanimously.**

ADMINISTRATOR'S REPORT

Mr. Schiess reviewed a report of receipts and disbursements for August 1, 2016 to date, noting that a capital call had been fulfilled for the Deutsche Asset Management RREEF REIT product in the amount of \$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 provided an update on organizational changes in the pension office, noting the completion of a thorough overhaul of the website including the addition of disclosures required by the State, correction of minor formatting issues, repair of broken links and general update of information. He reported the completion of research into the

implementation of electronic devices for the Trustees and a full report would be provided later during the meeting. Mr. Schiess advised that the next immediate projects are the periodic review of disability and beneficiary benefit recipients, research into a security system and equipment for video conferencing service providers.

Mr. Schiess apprised the Board of new money market reform rules issued by the Securities and Exchange Commission that affects the selection of the money market accounts utilized by the System's custodial bank. Mr. Dahab reviewed alternative money market account selections and ultimately recommended selection of the Dreyfus Cash Management Fund effective by October 1, 2016. **Mr. Stahl made a motion to select the Dreyfus Cash Management Fund as the money market fund effective October 1, 2016. Mr. Long seconded the motion. The motion passed unanimously.**

Mr. Schiess presented a supplement to the benefit review reflecting recently reported deaths. He reported that the family of a deceased retiree listed on the benefit review was discontented with the administration of survivorship benefits. Mr. Schiess reported that the matter had been reviewed by legal counsel who confirmed that survivorship benefits had applied correctly and in accordance with the Ordinance. He further reported that an explanation of benefits accompanied by the applicable provisions of the Ordinance had been provided to the family along with directions on petitioning formal review by the Board. **Mr. Stahl made the motion to approve the supplemental benefit review. Mr. Long seconded the motion. The motion was approved unanimously.**

POST RETIREMENT DEATH

Name	Date
Larry Mackey	8/12/16
Barbara Davis	8/14/16
Nancy Davies	8/26/16

Mr. Schiess reported that the request for bonding was being processed through the City Risk Management Department.

Mr. Schiess reported that questions had arisen regarding calculations of the Internal Revenue Service Section 415 limits on retiree benefit payments, disclaimer language provided by the System's actuary preparing the calculations and whether the matter had been reviewed by the Board's legal counsel. Mr. Copertino advised that the matter was under current review.

Mr. Schiess discussed the upcoming FPPTA Trustees' School in Bonita Springs, Florida.

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

ATTORNEY'S REPORT

Mr. Copertino reported that the agreements for Polen Capital Management, Sawgrass Asset Management, Loomis Sayles & Company and Comerica Bank were under review. He explained that the subscription agreement for the commingled fund with Loomis Sayles &

Company required negotiation on objectionable language to protect the System's interests. Mr. Dahab reminded the Board that originally Loomis Sayles & Company offered their large cap value product only through a commingled fund agreement for the \$15M allocation awarded but has since reduced their minimum investment for a separate account arrangement. He further explained that the Board now had the option between the original commingled fund arrangement for a fee of 50 basis points or a separate account arrangement for a fee of 57 basis points. He recommended the commingled fund agreement for the cost savings provided a favorable agreement could be negotiated. After a lengthy discussion, the Board agreed by consensus to continue the pursuit of a commingled fund agreement if negotiable under terms acceptable by legal counsel with the separate account arrangement as a contingency.

Mr. Copertino provided an update on the pending disability appeal, noting that a pre-trial catalog was being developed and he would update the Board accordingly.

OLD BUSINESS

Mr. Copertino reported that a decision on the use of outside counsel was still forthcoming. He explained that also under consideration were a couple of additional legal firms in addition to the firm recommended by the Board. Chairman Darmanin noted that the Board had already conducted interviews and selected one of the highest regarded firms specializing in governmental defined benefit pension plans. He requested that the Board be permitted to interview any additional firms under consideration. Mr. Darmanin reminded the Board and Mr. Copertino that the request for use of outside counsel was submitted to the City Attorney's office on June 7, 2016.

The Board reviewed the Code of Conduct created by the National Conference of Employee Benefit Plans, which had been previously considered by the Board and pending approval by legal counsel. Mr. Schiess reviewed information regarding the Code and explained that it was a voluntary ethical framework of conduct for all service providers. Mr. Copertino advised that no legal impediment existed to proceeding with adoption of the Code. A discussion arose regarding implementation. Concerns were expressed that non-compliance should not necessitate the termination of well performing investment managers. Mr. Schiess explained that the adherence to the Code was strictly voluntary and does not necessitate termination for non-compliance. **Mr. Long made a motion to adopt the NCPERS Code of Conduct and request participation by the System's service providers. Mr. Stahl seconded the motion. A vote was called and motion approved with 5 ayes and 1 nay.**

Mr. Schiess reported that he was collaborating with the City Attorney's office in the development of policy and procedures for disability hearings and periodic review of disability and survivorship benefit recipients.

The Board resumed consideration of the application of maximum DROP participation limitations to Members promoted to an eligible class after their normal or service retirement dates. It was noted that the Board had deferred the matter at the last meeting to permit research into past practice. Mr. Schiess reported that all DROP participants with entry dates after their normal or service retirement dates had intentionally entered the DROP late on their own volition and not because of promotion into an eligible class.

Concerns were expressed regarding legality, consistency, providing exceptions in general and overall fairness to other DROP participants. Ms. Wenguer reported that she had discussed the matter with legal counsel for the Police & Fire Pension System who had volunteered to be available for consultation on the matter. After a lengthy discussion, Chairman Darmanin suggested that legal counsel consult with Robert Klausner on this matter, and the Board agreed.

Mr. Copertino discussed scheduling a closed meeting for the consideration of strategy in the securities litigation case against Green Mountain Coffee with outside counsel at Kessler Topaz. **Mr. Burnam made a motion to schedule a special meeting immediately after the regular Board meeting on October 6, 2016. Ms. Wenguer seconded the motion. The motion was approved unanimously.** Mr. Copertino advised that conducting a closed meeting specifically for addressing strategy in legal actions was permissible under Florida Sunshine Law and agreed to develop guidelines for conducting the meeting.

NEW BUSINESS

Mr. Copertino reported that investment manager Lord Abbett had requested the Board's participation in a group appraisal litigation action against the one of the holdings within the portfolio, ExamWorks. Mr. Dahab reviewed the full background of the case, noting that Lord Abbett considered the stock undervalued in a buyout by a private equity firm and had initiated an action on behalf of all their clients with legal representation by Grant & Eisenhofer. He reported that Lord Abbett's analysts advised that the potential return of the claim should be sufficient to offset any potential losses from not being in the market. Most of Lord Abbett's clients have affirmed participation in case with only two opting out. Mr. Dahab recommended, based upon discussions with Lord Abbett, to proceed with participation in the case. Mr. Copertino explained that the Board had the option to opt out or participate in the case by the deadline of today. If no action was taken, then Lord Abbett would proceed including the System in the case but without formal legal representation. The System has the option to retain Grant & Eisenhofer at a later date. Mr. Copertino expressed concerns over the entire process. He explained that Lord Abbett has retained legal representation in this matter without the System's consent. Furthermore, the deadline for making any decision for representation and determining a course of action was severely limited. A question arose regarding whether Lord Abbett had the authority to include the System in the action without consent and whether their engagement of Grant & Eisenhofer on behalf of the System was even permissible under their Agreement with the Board. A question also arose regarding whether participation in the action required subsequent ratification by City. While Mr. Copertino urged the Board to take action on this matter, the Trustees noted that information necessary to make a decision was insufficient. **Mr. Tanner made a motion to table the discussion on any action, for lack of sufficient information, until the next Board meeting. Mr. Long seconded the motion. Further discussion ensued and the motion passed unanimously.**

Mr. Schiess provided a report on optional devices and costs for use as electronic devices by the Trustees for conducting the business on behalf of the Board. He discussed the practical application of the devices, file transfer system, Sunshine Law considerations, product selection, warrants, usage and other factors important to the implementation of electronic devices. He reported that research into pricing, including through the City, yielded that the

favorable pricing was attainable at Best Buy. The Trustees were polled and the Board consensus was obtained on the selection of equipment. **Ms. Wenguer made a motion to authorize the purchase of eight electronic devices for a cost not to exceed \$11K.** Mr. Schiess then discussed the advantages of utilizing video conferencing equipment in the conference room and questioned whether all the equipment should be purchased together. **Ms. Wenguer amended the motion to authorize the purchase of eight electronic devices and video conferencing equipment at a cost not to exceed \$12K.** **Mr. Stahl seconded the motion. The motion passed unanimously.** Mr. Schiess agreed to create a policy for the electronic devices for consideration at the next meeting.

MONTHLY FUND ASSET MIX

Mr. Schiess reviewed the monthly fund asset mix and cash raised to fund obligations for benefit payments and pending capital calls. He noted that the allocation to domestic large cap value was slightly high, which Mr. Dahab explained was attributable to the exceptional growth in the market value of the portfolio managed by DePrince Race and Zollo. Mr. Dahab recommended raising any necessary funds from the portfolio managed by DePrince Race and Zollo and the Board agreed by consensus.

PLEASURE OF THE BOARD

Mr. Tanner requested the consideration of a discussion on a pilot program for an outsourced CIO model for management of up to three percent of the investment portfolio. He explained that the model consisted of engaging a consultant that creates and manages an all asset portfolio comprised primarily of exchange traded funds. Mr. Tanner noted that the strategy has become increasingly popular and had the advantage of broad diversification with very low investment management fees. He suggested entertaining an educational presentation on the strategy from Chris Niles of UBS Financial Services. A question arose whether the educational presentation and provider search should be conducted by the System's Investment Consultant instead. While Mr. Dahab offered to prepare a report on all asset investment products already in existence, he and Mr. Copertino both agreed that a potential conflict of interest was apparent regarding the CIO model. A lengthy discussion ensued regarding conducting proper process. Mr. Copertino suggested the deferral of the matter in order to provide him with the opportunity to conduct discussions with the interested parties and determine proper process.

A discussion arose regarding the investment return assumption and probability of attaining the current 7.5% assumed rate of return over the next ten years given current market and economic conditions. The Board noted that revising the assumption financially impacts the City and therefore deferred the matter until the next meeting in order to allow input from the City.

BOARD COMMUNICATION TO THE CITY COMMISSION

Mr. Copertino advised that City Council was reviewing the budget in the event that the Board had any pending communications.

ADJOURNMENT

Ms. Wenguer made a motion to adjourn. Mr. Tanner seconded the motion. The meeting adjourned at 3:15 p.m.