

**CITY OF FORT LAUDERDALE
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING**
316 NE FOURTH STREET, SUITE 2, FORT LAUDERDALE, FL
Thursday, November 3, 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
Lynn Wenguer, Secretary
Pat Long, Trustee
Mark Burnam, Trustee
Ron Cameron, Trustee
Paul Tanner, Trustee
Kirk Buffington, Ex-Officio

Also Present: Greg Slagle, Retiree
John Herbst, City Auditor
Alan Vordermeier, VMC Realty
David Lee, Dahab Associates
Richelle Hayes & Scott Darling, American Realty Advisors
Nick Schiess, Pension Administrator
Jane Dyar, Pension & Recording Secretary

CALL TO ORDER

Chairman Darmanin was inadvertently detained and the meeting was called to order by Vice-Chairman Stahl. Roll call was taken.

Vice-Chairman Stahl opened the floor for public comment. There was no public comment.

APPROVAL OF MINUTES

Vice-Chairman Stahl asked the Board to review the minutes for the meetings held on September 1, 2016 and October 13, 2016. Mr. Long noted a correction on the minutes for the meeting held on September 1, 2016. **Mr. Long made a motion to approve the**

minutes of the meetings held September 1, 2016 as amended and October 13, 2016. Mr. Burnam seconded the motion. The motion was approved unanimously.

APPROVAL OF CONSENT ITEMS

Vice-Chairman Stahl asked the Board to review the consent items. Mr. Schiess reviewed in detail invoices received from the Bank of New York for custodial fees. **Ms. Wenguer made a motion to approve the disbursements with the exception of the invoice from Bank of New York for custodial services provided in 1Q2016. Mr. Long seconded the motion. The motion passed unanimously.** Mr. Schiess was directed to research the 1Q2016 invoice further and resubmit the invoice and findings at the next meeting.

The Board reviewed the pending benefit approvals. Mr. Schiess provided the Board with detailed information regarding the vested deferred benefits of Mehrdad Fayyaz, who had accrued two different benefits for two separate terms of service. Mr. Dunckel affirmed that Mr. Fayyaz was eligible for the vested deferred benefit. **Mr. Burnam made a motion to approve the remaining consent items as presented. Ms. Wenguer seconded the motion. The motion was approved unanimously.** Mr. Darmanin arrived at the meeting.

BENEFIT REVIEW

RETIREMENT

Name	Date	Service	Type
Vernon Yontz Public Works	11/30/16	26y, 4m, 8d	Normal
Mehrdad Fayyaz	10/01/16	8y, 1m, 28d	Vested Retirement

REFUND OF CONTRIBUTIONS

Name	Date	Service	Type
Jamie Brown Public Works	11/04/16	17y, 5m	Withdrawal of Contributions

POST RETIREMENT DEATH

Name	Date
Franz Kahler	10/11/16

INVESTMENT MANAGER REPORT: AMERICAN REALTY ADVISORS

Richelle Hayes and Scott Darling appeared before the Board to provide a report on the American Core Realty Fund and the American Strategic Value Realty Fund. Ms. Hayes provided an update on the firm, noting no significant organizational changes and assets under management had grown to over \$7.5 billion. Mr. Darling reported that the net of fee return for the Core Realty Fund was 7.96% for the fiscal year and 10.75% annualized over the last five years. The net of fee return for the Strategic Value Realty Fund was 12.53% for the fiscal year and 12.49% annualized over the last five years. Mr. Darling reviewed the investment strategy, investment process, holdings, geographical and sector allocations all in great detail. Mr. Darling discussed market and economic conditions, noting that both funds had produced returns well above expectations but he anticipated more measured returns prospectively.

INVESTMENT CONSULTANT REPORT: DAHAB ASSOCIATES

Mr. Lee provided the Board with a report on the investment portfolio for the fiscal year ending September 30, 2016. He reported that the investment return for the fiscal year was 10.5% net of fees, which ranked in the top 4th percentile of the public fund universe. Mr. Lee reported that the total portfolio performance has been ranked in the top quartile and exceeded the composite index in 26 of the previous 40 quarters. The annualized gross return since March 1994 was 7.6%.

Mr. Lee reviewed the performance of the individual investment products in great. He reviewed market and economic conditions and anticipated continued volatility and measured growth prospectively.

The Board noted that while the equity allocation was slightly high it was being reduced systematically through the funding of alternative investments as capital calls arise and also as a source for funding benefit payments. It was further noted that equities enjoyed the most recent and favorable growth over the other asset classes. Mr. Schiess reported the receipt of the City's annual contribution after the reporting period of which \$9M was distributed to the fixed income allocation.

At the Board's request Dahab and Associates provided the trustees with an educational overview of a Global Tactical Asset Allocation strategy. Mr. Tanner suggested the consideration of investing 5% of the portfolio into a global macro asset allocation comprised of exchange traded funds. He explained that the strategy permitted an investment manager the ability to invest into any asset class deemed advantageous and these funds enjoyed very low investment management fees. A question arose regarding overlap of this strategy on the other components of the portfolio and resulting effects on the System's investment policy restrictions. Mr. Lee responded that such a small allocation would likely have only a nominal effect but could be used for comparative purposes. He explained that all-asset strategies have grown in popularity but there still exists significant concerns over finding managers and products with substantial assets or sufficient track records through multiple market cycles. Mr. Lee provided return data on commonly available all-asset products, noting that the composite return of the System's portfolio was superior over the five year period measured. He advised that with an exchange trade fund approach the challenge would be identifying readily available products with a track record.

A lengthy discussion arose regarding the emerging market asset class and allocation. It was noted that while the return for the fiscal year was satisfactory, the long-term performance of the asset class on a risk adjusted basis was lower than other asset classes. Mr. Lee discussed in great detail the market conditions affecting the performance of emerging market equities. He explained that the asset class had been expanding on both a relative, absolute and capitalization basis. While Mr. Lee agreed that this asset class has experienced high volatility and relatively lower returns, he anticipated that it would become a significant component of the investible universe and provide substantial opportunity as it matures.

REAL ESTATE COMMITTEE REPORT

Mr. Long reported that it was unnecessary for the Real Estate Committee to meet. Mr. Vordermeier provided a financial report on the 4800 Building. He reported that the replacement of air conditioning equipment was pending final inspections.

Mr. Long reported that the Engagement Letter for the appraisal of the 4800 Building had been successfully negotiated inclusive the terms requested by the Board at the last meeting. Mr. Schiess reported that the appraisal had commenced.

AUDIT COMMITTEE REPORT

Mr. Stahl reported that it was unnecessary for the Audit Committee to meet. Mr. Buffington reported that the City's fiscal year ended September 30, 2016 and an external audit had commenced. He questioned whether arrangements had been made for the preparation of the newly required GASB 72 disclosure for the System. Mr. Schiess responded that the preparation of the System's audit had already commenced as well and the Audit, Actuarial Valuation and required disclosures were all anticipated to be finalized for presentation to the Board at the February 2, 2017 meeting.

OLD BUSINESS

Mr. Dunckel reported that the status of the pending disability appeal remained unchanged and a pre-trial catalog was still being developed by outside legal counsel for the Board and claimant. A hearing would be scheduled once this pre-requisite information was finalized. It was noted that another potential claimant's application for disability benefits had remained incomplete for many years. The Board expressed desire for closure and discussed issuance of a final notice to this potential claimant that a hearing could not be conducted until their application was complete.

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 affected DROP entrant had withdrawn the question and the matter was therefore closed.

Mr. Dunckel reported that a decision on the use of outside legal counsel was still forthcoming and the City Attorney's Office was involved in a vetting process. Chairman Darmanin noted that the Trustees had already vetted their selection and requested the Board's participation in any additional vetting. The Board requested Chairman Darmanin to correspond with the City Attorney's Office and the City Commission regarding this matter.

Mr. Schiess reviewed a draft proposed policy regarding the periodic review of disability benefits. Mr. Dunckel offered suggested revisions and agreed to collaborate with Mr. Schiess to finalize the proposed policy.

Mr. Schiess reported that a draft proposed policy regarding the periodic review of beneficiary benefits was under development.

As a follow up to the last meeting, Mr. Dunckel was questioned regarding the status of the Lord Abbett group appraisal litigation action against ExamWorks. Mr. Dunckel advised that the System was by default participating in the action and agreed to compose a memorandum on the matter. **Mr. Tanner made the motion to table the item until further notice or any developments occurred. Mr. Burnam seconded the motion. The motion was approved unanimously.**

Mr. Dunckel was questioned regarding the status of the pending agreements with the new investment managers and custodial bank. He responded that the agreement with Sawgrass Asset Management was finalized, which was presented for execution. He reported that the other agreements were still under negotiation.

Chairman Darmanin questioned Mr. Dunckel regarding the status of the review of IRS Section 415 limitations on pension benefits. Mr. Dunckel reported that a meeting had been held with outside counsel Bill Coleman regarding this matter. Mr. Schiess clarified that the original concern was regarding whether the System's Actuary was performing these calculations accurately. He advised that at the meeting Mr. Coleman advised that he had reviewed the calculations but did not express concerns over their accuracy. Mr. Dunckel advised that the matter was still under review by Mr. Coleman.

NEW BUSINESS

A discussion arose regarding the System's assumed rate of investment return. It was noted that a joint meeting between the Police & Firefighter's System, General Employees' Retirement System and the City Commission to discuss this matter was scheduled for December 14, 2016. It was further noted that the return assumption had recently been reduced from 7.75% to 7.5% over several yearly increments. A discussion ensued regarding market conditions, economic outlook and the expected rate of return prospectively. It was generally agreed that a lower rate would likely be more attainable and appropriate. It was also noted that many other retirement systems had already lowered their assumption rates. A very lengthy discussion ensued regarding an appropriate replacement investment return assumption rate and also lowering it on a gradual basis in yearly increments. It was noted that an actuarial cost study had already been prepared and previously considered regarding the impact of lowering the return assumption. A discussion ensued regarding updating the previous actuarial cost study for lowering of the assumption from 7.5% to 7.0% over yearly increments. **Ms. Wenguer made a motion to authorize the System's Actuary to prepare two separate cost studies reducing the investment return assumption from 7.5% to 7.0% over four and five years both updated with the 2015 fiscal year valuation data. Mr. Cameron seconded the motion. The motion was approved unanimously.**

Chairman Darmanin suspended the meeting at 3:45 PM for a special closed door meeting to discuss litigation strategy in the Green Mountain Coffee Roasters securities litigation action. The meeting resumed at 4:12 PM.

ADMINISTRATOR'S REPORT

Mr. Schiess presented the Board with an Electronic Device Policy for review and approval. A revision was noted. **Ms. Wenguer made a motion to approve the Electronic Device Policy as amended. Mr. Long seconded the motion. The motion was approved unanimously.** Mr. Schiess reported that the equipment previously acquired was unsatisfactory and had been returned for a full refund. He recommended alternative equipment at a slightly lower cost. **Ms. Wenguer made the motion to approve the revised selection of equipment. Mr. Stahl seconded the motion. The motion was approved unanimously.** Mr. Schiess requested approval for additional office equipment to enhance productivity. **Ms. Wenguer made a motion to approve the procurement of a laptop computer for the pension office. Mr. Long seconded the motion. The motion was approved unanimously.**

Mr. Schiess discussed the findings of research into video conferencing including and equipment and cost, noting that the project should be completed within the budget previously approved by the Board.

Mr. Schiess reported that the individual bonding of the pension administrator was unnecessary according to the Risk Management Department because all City and affiliated agency employees are already insured under a group policy for \$1M.

Mr. Schiess provided the Board with an update on the Trustee election, noting that it was on schedule and should be finalized by December 1, 2016.

Mr. Schiess reported developing a process to identify new retirees that might possibly be affected by IRS Section 415 limitations.

Mr. Schiess discussed a procedural change regarding attainment and payment of accommodations for educational conferences utilizing the office purchasing card.

Mr. Schiess provided an update on the securities litigation action against Salix Pharmaceuticals. He reported the fulfillment of a recent records production and the scheduling of a deposition for November 11, 2016 requested by defense counsel.

The Board discussed correspondence to and from Dr. Bill Goetz in response to his request for a presentation to the Board on index investment funds and historical reports on the System's investment composite index performance.

Mr. Schiess reported that a cost of living raise was approved for the confidential classification of City employees and requested approval of the same increase for Ms. Dyar. **Mr. Tanner made a motion to approve a 0.5% cost of living raise for Ms. Dyar. Mr. Cameron seconded the motion. The motion was approved unanimously.**

As a follow up to the last meeting, Mr. Schiess reported that the invoice from Gabriel Roeder Smith for services in conjunction with the independent actuarial audit would be presented to the City for payment since the this audit was commissioned by the City not the Board.

Mr. Schiess presented the tentative meeting dates for 2017 for review by the Board.

ATTORNEY'S REPORT

Mr. Dunckel reviewed a request from the Plan Administrator to review the matter of Trevor Persaud's reinstatement as a general employee of the City. Mr. Schiess explained that Mr. Persaud, in his pursuit of becoming a police officer, had transferred out of the System into to the Police & Fire Retirement Pension System. Afterwards, he had returned to his former position in a civilian capacity as a Police Service Aide. Mr. Dunckel led a discussion regarding whether Mr. Persaud was allowed to be reinstated into the System for the accrual of future service and also whether interest should be payable on pension contributions transferred back into the System. Mr. Schiess was directed to conduct additional research into the facts and circumstances of Mr. Persaud's reinstatement to be considered at the next meeting.

MONTHLY FUND ASSET MIX

Mr. Schiess reviewed the asset allocation mix and recommended raising cash to meet benefit payment obligations from the large cap growth allocation. After further discussion, the Board directed Mr. Schiess to raise any necessary cash from the portfolio managed by Deprince Race & Zollo.

PLEASURE OF THE BOARD

Chairman Darmanin asked if there was anything to share. Neither the public nor the Board members offered any items for discussion.

BOARD COMMUNICATION TO THE CITY COMMISSION

Chairman Darmanin asked if there was anything to share with the City Commission. Neither the public nor the Board members offered any items for discussion.

ADJOURNMENT

Ms. Wenguer made a motion to adjourn. Mr. Stahl seconded the motion. The meeting adjourned at 5:21 PM.