

**CITY OF FORT LAUDERDALE
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING**
316 NE FOURTH STREET, SUITE 2, FORT LAUDERDALE, FL
Thursday, February 2, 2017
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: Jon Stahl, Chairperson
Lynn Wenguer, Vice-Chairperson
Pat Long, Secretary
Mark Burnam, Trustee
Ron Cameron, Trustee
Paul Tanner, Trustee
Jill Prizlee, Trustee
Linda Logan-Short, Ex-Officio Designee

Also Present: Cole Copertino, City Attorney
Paul Bangel, City Attorney
Kurt Wood, DePrince Race & Zollo
John Krom & Chris Niles, UBS
Alan Vordermeier, VMC Realty
Richard Dahab, Dahab Associates
Ash Benzo, City Treasurer
Nick Schiess, Pension Administrator
Jane Dyar, Pension & Recording Secretary

CALL TO ORDER

Vice-Chairman Stahl called the meeting to order and roll call was taken. He then opened the floor for appointment of GERS Board officers; the positions were Board Chairman, Vice-Chairman and Secretary. **Ms. Wenguer made a motion to appoint Jon Stahl as Chairman. Pat Long seconded the motion. The motion was accepted unanimously. Mr. Long made a motion to appoint Lynn Wenguer as Vice Chairperson. Mr. Tanner seconded the motion. The motion was accepted unanimously. Ms. Wenguer made a motion to appoint Pat Long as Secretary. Mr. Tanner seconded the motion. The motion was accepted unanimously.**

The floor was opened for public comment. There was no public comment.

APPROVAL OF MINUTES

Chairman Stahl asked the Board to review the minutes of the meeting held January 5, 2017. **Mr. Tanner made a motion to approve the minutes of the meeting held January 5, 2017. Ms. Wenguer seconded the motion. The motion was approved unanimously.**

APPROVAL OF CONSENT ITEMS

Chairman Stahl asked the Board to review the consent items.

Mr. Long made a motion to approve the consent items as presented. Ms. Wenguer seconded the motion. The consent items were approved unanimously.

BENEFIT REVIEW

RETIREMENT

Name	Date	Service	Type
Willie Daggins Public Works	2/4/17	31y, 8m, 29d	Normal
Nicki Pasiechnik Transportation & Mobility	3/1/17	28y, 10m, 4d	Normal

POST RETIREMENT DEATH

Name	Date
Ralph Gardner	1/1/17

INVESTMENT MANAGER REPORT: DEPRINCE RACE & ZOLLO

Kurt Wood appeared before the Board to provide a report on the domestic large cap value equity portfolio managed by DePrince Race & Zollo. He discussed organizational changes, noting that client service associates Katie Bryne and Brian Casey were no longer with the firm and he anticipated no impact on performance or service. He reported that the net of fee return for the calendar year was 29.1% versus 17.3% for the index. Mr. Wood reviewed the investment strategy and process, sector allocations and holdings all in great detail. He discussed market and economic factors, noting that most active managers had faced headwinds but he anticipated a rotation of market favor back to active management. Mr. Wood was questioned regarding any repositioning of the portfolio in anticipation of market conditions and he responded that the outlook for the consumer discretionary sector was unfavorable and therefore intentionally underweighted in the portfolio. Mr. Wood was then questioned regarding the increase in allocation to real estate. He explained that real estate had recently become a separate sector and was therefore only represented differently within the report. Mr. Wood reviewed the real estate holdings, noting that they were primarily publicly traded Real Estate Investment Trusts.

INVESTMENT CONSULTANT REPORT: DAHAB ASSOCIATES

Mr. Dahab provided the Board with a report on the investment portfolio for the calendar year ending December 31, 2016. He reported that the investment return for the year was 8.7% net of fees, which ranked in the top 7th percentile of the public fund universe.

Mr. Dahab reviewed market and economic conditions. He discussed the impact of the recent presidential election and the sectors likely to be affected. Mr. Dahab anticipated that interest rates would continue to rise, which would negatively affect bond performance.

Mr. Dahab reviewed the performance of the individual investment products in great detail. He expressed concerns over the underperformance of the Lord Abbett small cap domestic equity portfolio and noted that a significant turnover had occurred in holdings. A lengthy discussion ensued and it was noted that the turnover was likely attributable to prior poor performance. Mr. Copertino expressed concerns over the manager's handling of the ExamWorks litigation, which would be addressed further under the attorney report. A lengthy discussion ensued and the Board requested Mr. Dahab to conduct a manager search. Mr. Schiess provided an update on the manager's reimbursement to the System for the unnecessary and additional custodial fees incurred as a result of directed brokerage. He reported confirmation through the custodial records that the proposed reimbursement was for all the trades that occurred during the period, not just the trades that resulted in a net cost to the System. Mr. Schiess explained that Lord Abbett had requested a release and the Board reviewed the proposed release. Mr. Bangel discussed issues within the release that required modification before it was acceptable. **Ms. Wenguer made a motion to approve the settlement offer upon successful negotiation of a release by legal counsel and authorize the Chairman to review and execute the release between meetings. Mr. Long seconded the motion. The motion was approved unanimously.**

Mr. Dahab discussed Lord Abbett's request for an extension on the new reporting requirements within the recently revised Investment Policy Statement. He explained that manager expressed concerns over divulging its overall holdings of any one company considering that confidential trade information. Mr. Dahab further explained that the manager requested an extension of the reporting requirements to coincide with required routine Securities & Exchange Commission filings. Mr. Dahab expressed that he did not have any objection to the request. A discussion arose regarding the implementation of the extension and it was determined that the best protocol would be to first modify the Investment Policy Statement to provide for permissible exceptions on a case-by-case basis. Mr. Copertino agreed to draft a proposed revised Investment Policy Statement and separately an Addendum for the extension requested by Lord Abbett for consideration at the next meeting.

Mr. Dahab provided and reviewed an analysis on the emerging market asset class. He discussed country allocation of the index and their geographical, political and market influences. Mr. Dahab discussed the attributes of the asset class, noting that it had experienced periods of extremely high performance and inclusion does increase the diversification of the overall portfolio. He then discussed the disadvantages of the asset class, noting that performance had been very volatile. Mr. Dahab concluded that investment in the asset class was warranted and was pragmatic for long-term investors. He added that the valuations of holdings within this asset class were generally considered low therefore making it an attractive investment. A lengthy discussion ensued and Mr. Tanner expressed that the long-term performance of the asset class on a risk adjusted basis was lower than other asset classes and ultimately resulted in very little value added. He recommended lowering the allocation from the current 12% target allocation. Mr. Dahab expressed concerns about lowering the allocation excessively and a lengthy discussion ensued regarding an optimal target allocation to the emerging market asset class. It was also noted that there was current consideration of lowering the investment return assumption and perhaps risk of the overall investment portfolio resulting in an impact on the overall asset allocation. Mr. Dahab agreed to prepare an analysis of reducing the allocation to the emerging market asset class.

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, noting that an inspection of the roof was required at an expense of \$700. Mr. Vordermeier discussed the timeliness of the lease payments by the tenants.

AUDIT COMMITTEE REPORT

Mr. Stahl reported that it was unnecessary for the Audit Committee to meet. Mr. Schiess provided a progress report on the annual audit and actuarial valuation, noting that the target date for their presentation to the Board is tentatively scheduled for March 2, 2017 with a special audit committee meeting beforehand tentatively scheduled for February 27, 2017.

OLD BUSINESS

Mr. Copertino provided an update on the status of the pending disability application and the pending appeal. He reported recent contact with the claimants' respective legal counsel and anticipated being able to schedule both matters for consideration by the Board within the next ninety days. A discussion arose regarding protocol and meeting dates. Mr. Schiess suggested scheduling separate special meetings immediately following the regular Board meetings. The Board requested Mr. Copertino to attempt scheduling the special meetings coincident with the regular Board meeting dates.

Mr. Schiess provided an update on the draft Beneficiary Payment Policy, noting that many questions had arisen regarding survivorship benefits that were being reviewed by outside legal counsel Lewis Longman & Walker. Mr. Copertino reported that the review had recently been completed and the analysis would be provided.

As a follow up to the last meeting, Mr. Bangel reported that his research had determined that an Ordinance had not been adopted implementing the new DROP interest crediting provisions within the Federation of Public Employees' Collective Bargaining Agreement ratified on December 10, 2015. Mr. Copertino advised that the Ordinance took precedent over collective bargaining agreements and the City Manager and City Commission would be responsible for initiating and adopting a new Ordinance.

Mr. Schiess reported that outside legal counsel Lewis Longman & Walker had successfully negotiated an Agreement with newly engaged investment manager Loomis Sayles & Company.

As a follow up to previous meetings, the Board discussed the assumed rate of investment return. It was noted that this would likely be a topic of discussion at the next investment workshop with the City Commission.

NEW BUSINESS

The Board reviewed a report of an independent actuarial audit performed by Cavanaugh Macdonald, noting that there were not any material discrepancies or deficiencies identified. Mr. Schiess advised that the report had been provided to the System's actuarial firm Gabriel Roeder Smith, who was expected to provide comment on the report at the next meeting scheduled for March 2, 2017.

ATTORNEY REPORT

Mr. Copertino discussed a request received from the Plan Administrator to issue demand letters to the family for collection of overpayments to deceased retirees. Mr. Schiess explained the infrequent occurrences. He further explained that his understanding of past practice was for the pension office to send an initial request for reimbursement of pension overpayments and if unsuccessful then for the City Attorney's office to send a demand letter. The Board by consensus affirmed the procedure.

Mr. Copertino discussed the current appraisal litigation class action by Lord Abbett against ExamWorks. He discussed a proposal from ExamWorks to enter into a settlement agreement for \$35.05 per share price plus interest to date; however, the firm reserved the right to recover back the interest if the final court settlement determined a lower share price. A lengthy discussion ensued and **Mr. Tanner made a motion to not enter the proposed settlement agreement and thus remain a member of the class action. Mr. Long seconded the motion. The motion was accepted unanimously.**

Mr. Copertino discussed the payment procedure for outside legal counsel Lewis Longman & Walker. Ms. Wenguer requested that fee estimates be provided in advance of services performed.

Mr. Bangel reviewed the terms and conditions of the leases with tenants of the 4800 Building. A discussion arose regarding payment due dates and late charges and the Board

requested Mr. Schiess to correspond with Mr. Vordermeier regarding enforcement of the lease payment provisions.

ADMINISTRATOR'S REPORT

Mr. Schiess provided a financial report including account and benefit payment reconciliations, fulfilled and pending capital calls and the funding status of the alternative investments.

Mr. Schiess reported that the initial notice was mailed on January 20, 2017 to all disability recipients regarding their annual disability recertification.

Mr. Schiess provided information on upcoming Sunshine Law training by the Clerk's Office.

Mr. Schiess reported that the Court had not appointed the System as lead plaintiff in the securities litigation action against the Allstate Insurance Company. He explained that the Court had appointed another investor with a greater financial loss, which legal counsel previously advised was a distinct possibility as the case progressed.

Mr. Schiess reported that the Annual Benefit Statements (aka Blue Sheets) were prepared and distributed.

Mr. Schiess advised that the VMC Realty and portfolio monitoring firm reports are available for review.

Mr. Schiess provided an update on the transition of custodial banks, noting that formal termination notice was provided to the custodian BNY Mellon and the target date for the transition was February 28, 2017. A discussion arose regarding trading within the separately managed accounts. **Ms. Wenguer made a motion to direct the managers of the separately managed investment accounts to cease trading three business days before transition unless an emergency or extraordinary event occurs. Mr. Long seconded the motion. The motion was approved unanimously.**

MONTHLY FUND ASSET MIX

Mr. Schiess reviewed the asset allocation as of January 31, 2017, noting that approximately \$3.7M must be raised to meet benefit payment obligations and upcoming capital calls. It was noted that the allocation to domestic large cap value equities was slightly overweight attributable to significant investment returns; however, it was being systematically reduced as a source for funding monthly benefit payments and capital calls for alternative investments. Mr. Dahab noted that the Garcia Hamilton & Associates equity account would be liquidated coincident to the funding of the new separately managed equity account for the recently engaged manager Loomis Sayles and Company. He ultimately recommended raising cash from the equity portfolio managed by Garcia Hamilton & Associates and the Board agreed by consensus.

PLEASURE OF THE BOARD

Mr. Cameron requested the contact information for members of the Board.

BOARD COMMUNICATION TO THE CITY COMMISSION

Ms. Wenguer requested that City Commission be provided the 4Q2016 Investment Consultant Report.

ADJOURNMENT

Mr. Long made a motion to adjourn. Ms. Wenguer seconded the motion. The motion was accepted unanimously. The meeting adjourned at 4:19 PM