

**CITY OF FORT LAUDERDALE
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
316 NE FOURTH STREET, SUITE 2, FORT LAUDERDALE, FLORIDA
Wednesday, May 3, 2017
2:51 PM**

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, Chairman
Lynn Wenguer, Secretary
Paul Tanner, Trustee
Jill Prizlee, Trustee

Absent: Mark Burnam, Trustee
Ron Cameron, Trustee
Pat Long, Trustee
Kirk Buffington, Ex-Officio

Also Present: John Herbst, City Auditor
Richard Dahab, Dahab Associates
Paul Bangel, City Attorney's Office
Aaron Read & Todd Bailey, Kayne Anderson Rudnick Asset Management
Mark Giovanniello & Chuck Barrett, Copeland Capital Management
Chris Sessing & Rob Knowles, AMI Asset Management
Nick Schiess, Pension Administrator
Jane Dyar, Pension & Recording Secretary

CALL TO ORDER

Chairman Stahl called the meeting to order and roll call was taken.

PUBLIC COMMENT

There was no public comment.

INVESTMENT MANAGER INTERVIEWS

KAYNE ANDERSON RUDNICK ASSET MANAGEMENT

Aaron Read and Todd Bailey appeared before the Board on behalf of Kayne Anderson Rudnick Asset Management to provide a presentation on the firm's domestic small cap growth equity investment management services. Mr. Read discussed the firm's qualifications and experience, noting that the firm managed over \$9 billion in assets. Mr. Read 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. Mr. Bailey advised that their investment philosophy was long term investing into the holdings of financially superior and competitively advantaged businesses. He reviewed the risk measurement indices and long-term performance, noting significant outperformance of the market net of fees and their peers for all time periods with considerably less risk and volatility. Mr. Bailey was questioned regarding the use of the growth index as a comparative benchmark versus their core style. He explained the intricacies of determining an appropriate benchmark, noting that the growth index was more appropriate given their investment strategy.

COPELAND CAPITAL MANAGEMENT

Mark Giovanniello and Chuck Barrett appeared before the Board on behalf of Copeland Capital Management to provide a presentation on the firm's domestic small cap growth equity investment management services. Mr. Barrett discussed the firm's qualifications, experience and portfolio management team led by Mr. Giovanniello. Mr. Giovanniello reviewed the 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 advised that their investment philosophy concentrated on dividend growth investing and risk aversion. Mr. Tanner questioned the advantages of active management over a passive dividend growth strategy. Mr. Giovanniello explained that passive dividend growth strategies are heavily concentrated within the financial section with holdings very correlated to interest rates and are therefore essentially behave most like a high yield bond strategies with little upside capture along with excessive sector risk.

AMI ASSET MANAGEMENT

Chris Sessing and portfolio manager Rob Knowles appeared before the Board on behalf of AMI Asset Management to provide a presentation on the firm's domestic small cap growth equity investment management services. Mr. Sessing discussed the firm's qualifications and experience. Mr. Knowles 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 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. Mr. Knowles was questioned regarding and explained the basis for their recent underperformance of the benchmark.

Mr. Dahab reviewed 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, which were to replace the \$31M allocation currently managed by Lord Abbett & Company. Mr. Tanner noted that the Board had previously decided to trim the emerging market allocation and expressed favor for increasing the small cap allocation to \$40M with the balance raised from the emerging market allocation. A discussion then ensued regarding active versus passive management for a small cap mandate. It was noted that active managers have great opportunity to develop a distinct competitive advantage over their peers and passive management especially within the small cap market. It was then noted that Kayne Anderson Rudnick Management and Copeland Capital Management have high active share strategies that were very different than the market. Furthermore their favorable downside market protection, other risk measurement indices and historical performance demonstrate their ability to outperform the broader market on a net of fee basis with considerably less risk and volatility. A discussion then ensued regarding the advantages of passive investment management including low management fees and increased favor and perception among investors and the public. A subsequent discussion arose regarding the advantages of utilizing both active and passive strategies most notably enhanced diversification. A very lengthy discussion then ensued regarding the selection of prospective managers and index funds along with their respective allocations. **Mr. Tanner made a motion to engage Kayne Anderson Rudnick Management to manage a \$15M portfolio, Copeland Capital Management to manage a \$15M portfolio both subject to fee negotiation by the Chairman and a \$10M allocation to a Russell 2000 index fund all upon the successful negotiation of the respective agreements by legal counsel and authorize execution by the Chairman. Ms. Wenguer seconded the motion. The motion passed unanimously.**

ADJOURNMENT

The meeting adjourned at 4:41 PM.