GENERAL EMPLOYEES' RETIREMENT FUND
BOARD OF TRUSTEES - REGULAR MEETING MINUTES
TUESDAY – May 16, 2017 - 1:00 P.M.

The Board of Trustees for the General Employees' Retirement Fund convened in a regular session at 1:00 p.m. on this 16th day of May, 2017 at the Tampa Municipal Office Building, 306 E. Jackson Street, 8th Floor, Executive Conference Room, Tampa, Florida 33602.

Support Staff: Natasha Wiederholt, Pension Plan Supervisor and Recording Secretary; Justin Vaske, Assistant City Attorney and Board Attorney; Terrie Williams, Accounting Operations Manager; Rosie Rivera – Accountant; and Derrick Lewinson, Temporary Contractor.

Consultants to Board: Jason Pulos - Asset Consulting Group; Stephen Lambert-Oswald and Bruce Crosswhite – Aon/Hewitt; Luis Santos, Ford & Harrison.

I. ROLL CALL

Mr. Carrera, Chairman, presiding, brought the meeting to order at 1:00 p.m.

Board Members Present Included: Ernest Carrera, Chairman; Stephen Hill, Vice Chairman; Alan Weiner, Trustee; Derwin Bright, Trustee; Karl Craig, Trustee; Steve Kenny, Trustee; Sonya Little, Trustee.

Ms. Wiederholt advised the Board that item 5 from the Staff Report should be removed from the agenda and will be postponed to a later meeting.

II. PUBLIC COMMENTS- Ten (10) Minutes Total – Three (3) Minutes per Speaker

None.

III. APPROVAL OF MINUTES

Ms. Wiederholt requested the Board approve the minutes from the April 18, 2017 meeting.

MOTION: (Weiner/Little) Motion was made by Alan Weiner to approve the minutes from the April 18, 2017 Board meeting. Motion was seconded by Sonya Little. MOTION CARRIED.

IV. Pension Forfeiture

Priscilla Phillips

Luis Santos, Independent Counsel, Ford & Harrison, presented an overview of the forfeiture hearing that was conducted for Priscilla Phillips on January 20, 2017 and reviewed the Administrative Law Judge's Recommended Order dated March 30, 2017. The Board engaged in a discussion of the case and voted to adopt the conclusions of law cited in the Recommended Order.

MOTION: (Hill/Weiner) A motion was made by Stephen Hill to adopt the Administrative Law Judge's Recommended Order for the pension forfeiture of Priscilla Phillips. Motion was seconded by Alan Weiner. MOTION CARRIED.

V. Actuarial Rate of Return Discussion

Ms. Wiederholt updated the Board on current and pending legislation in the Florida State Legislature regarding the actuarial assumed rate of return. She advised the Board that Senate Bill 632 was submitted on February 1, 2017 and was referred to the Governmental Oversight and Accountability; Appropriations Subcommittee on General Government. Effective January 1, 2021, the bill would prohibit the actuarial assumed rate of return of a plan or system from exceeding the long-range return rate. "Long-range return rate" means an actuarial assumed rate of return that is expected to be realized at least 50% of the time over the next 30-year period. Further, the bill would require the long-range return rate to be effective for a 5 year period and reevaluated and reestablished for each subsequent 5-year period thereafter. On May 5, 2017, the bill was indefinitely postponed and withdrawn from consideration and died in Governmental Oversight and Accountability. Ms. Wiederholt directed the Board to an exhibit of simulated portfolio statistics that was prepared by Asset Consulting Group and advised the Board that our projected 30-year median return is 8.22% (50% likelihood) which exceeds our actuarial assumed rate of return of 8.0%.

Ms. Wiederholt and Jason Pulos of Asset Consulting Group then provided an overview of the NASRA Issue Brief: Public Pension Plan Investment Return Assumptions (February 2017). Several excerpts from the article were cited:

"Because investment earnings account for a majority of revenue for a typical pension fund, the accuracy of the return assumption has a major effect on a plan's finances and actuarial funding level. An investment return assumption that is set too low will overstate liabilities and costs, causing current taxpayers to be overcharged and future taxpayers to be undercharged. A rate set too high will understate liabilities, undercharging current taxpayers, at the expense of future taxpayers. An assumption that is significantly wrong in either direction will cause a misallocation of resources and unfairly distribute costs among generations of taxpayers."

"Actuarial Standards of Practice 27 also advises that actuarial assumptions be reasonable . . . as being consistent with five specified characteristics; and requires that actuaries consider relevant data, such as current and projected interest rates and rates of inflation; historic and projected returns for individual asset classes; and historic returns of the fund itself. For plans that remain open to new members, actuaries focus chiefly on a long investment horizon, i.e. 20 to 30 years, as this is the length of a typical public pension plan's funding period."

"In the wake of the 2008-09 decline in capital markets, and Great Recession, global interest rates and inflation have remained low by historic standards, due partly to so-called quantitative easing of central banks in many industrialized economies, including the U.S. Now in their eighth year, these low interest rates, along with low rates of projected global economic growth, have led to reductions in projected returns for most asset classes, which, in turn, have resulted in an unprecedented number of reductions in the investment return assumption used by public pension plans. . . Among the 127 plans measured, nearly three-fourths have reduced their investment return assumption since fiscal year 2010, resulting in a decline in the average return assumption from 7.91 percent to 7.52 percent. If projected returns continue to decline, investment return assumptions are likely to also to continue their downward trend."

"One challenging facet of setting the investment return assumption that has emerged more recently is the divergence between expected returns over the near term, i.e., the next five to 10 years, and over the longer term, i.e., 20 to 30 years. A growing number of investment return projections are concluding that near-term returns will be materially lower than both historic norms as well as projected returns over longer timeframes. Because many near-term projections calculated recently are well below the long-term assumption most plans are using, some plans face the difficult choice of either maintaining a return assumption that is higher than near-term expectations, or lowering their return assumption to reflect near-term expectations."

"If near-term rates indeed prove to be lower than historic norms, plans that maintain their long-term return assumption are likely to experience a steady increase in unfunded pension liabilities and corresponding costs. Alternatively, plans that reduce their assumption in the face of diminished near-term projections will experience an immediate increase in unfunded liabilities and required costs. As a rule of thumb, a 25 basis point reduction in the return assumption, such as from 8.0 percent to 7.75 percent, will increase the cost of a plan that has a COLA, by three percent of pay (such as from 10 percent to 13 percent), and a plan that does not have a COLA, by two percent of pay."

Ms. Wiederholt then directed the Board to review the table of Investment Return Assumption by Plan included in the article which illustrates national statistics on the return assumptions used by state, municipal, teachers, police officer and firefighters' retirement systems. The average return assumption amongst these plans is 7.5%. She also directed the Board to review a table of Investment Return Assumptions for Florida Public Pension Plans as well as a table of Investment Return Assumptions for Florida public pension plans with assets that exceed $500M. She advised the Board that the average assumed rate of return is 7.61% for Florida public pension plans with assets that exceed $500M.

Mr. Pulos provided an overview of the Fund's previous and current rates of return as well as the projected 10 year and 30 year rates of return. A discussion ensued about the actuarial rate of return, funded ratio percentage, and fund's net return compared to other public pension funds. Mr. Pulos explained the benefits and disadvantages to lowering the rate of return assumption and the likelihood of achieving the actuarial rate of return assumption over the intermediate 10 year term and long 30 year term.

Ms. Wiederholt introduced Stephen Lambert-Oswald, Aon/Hewitt. Mr. Lambert-Oswald explained the actuarial rate of return analysis process.

MOTION: (Weiner) Motion was made by Alan Weiner, to lower the actuarial rate of return from 8.0% to 7.5%. MOTION WITHDRAWN.

MOTION: (Carrea/Kenny) Motion was made by Board Chairman Ernest Carrera for an actuarial analysis and detailed evaluation of the impact on the accrued liability, unfunded liability, funded ratio and costs if the fund were to reduce the rate of return assumption down to either 7.75% or 7.5% using a tiered step down approach. Motion seconded by Steve Kenny. MOTION CARRIED.

VI. Staff Report

1) Portfolio Performance Review – Q1 2017 – ACG
2) Portfolio Performance Review – April 2017

Jason Pulos with Asset Consulting Group reviewed the quarterly performance report for the period ending March 31, 2017 and the monthly report for the period ending April 30, 2017.

The one year return of the Total Fund as of March 31, 2017 was 12.01%, which was 1.3% above the return of the Policy Index and ranked in the top 28% of the Public Fund Universe.

As of April 30, 2017 the total fund value stood at $691.29 million which was up approximately $7 million from the end of the quarter. Through April 30, 2017 the fund is up 7.58% on a fiscal year to date basis which is 1.5% above the Policy Index for the same period. Over the five year period ending April 30, 2017 the Fund is up 8.54% annualized compared to the policy index of 8.19%.

3) May 2017 Liquidity Needs

Ms. Wiederholt reviewed the May 2017 cash flow projection and rebalancing analysis with the Board and advised that $4 million was needed to fund benefit payments for the month. ACG recommended the liquidation of $4 million from Fisher Investments International Equity strategy to provide liquidity needs for the month. The Board approved the recommendation.

MOTION: (Kenny/Weiner) Motion was made by Steve Kenny to liquidate $4 million from Fisher Investments to provide liquidity needs for May 2017 benefit payments. Motion was seconded by Alan Weiner. MOTION CARRIED.

4) Fidelity Real Estate Growth Fund II Distribution

Ms. Wiederholt gave an overview of the Fidelity Real Estate Growth Fund II (FREG II) distribution. We received a distribution from FREG II on Thursday, May 11, 2017 in the amount of $266,060.40, which our pro rata share will be $2,125.93. This distribution is made up of additional proceeds related to the pervious liquidation of the Doubletree Sawgrass Hotel. This will be the final distribution from the fund.

5) Overpayment – Queen McClary

Ms. Wiederholt made a staff recommendation for the Board to move item 5 to the next Board meeting.

VII. Consent Agenda (Motion)

Ms. Wiederholt advised that the Consent Agenda has been reviewed and the items listed are true, correct, and have been found to be accurate. Justin Vaske has also reviewed all the legal invoices.

Retirement Benefits & Estate Payments:

Longevity Retirements, DROP Applications, Deferred Retirements, DROP to Longevity, Disability Retirements, Survivor Benefits, Estate Payments

Monthly Invoices:

1) City of Tampa Reimbursement – April 2017- $15,665.15

Quarterly Invoices:

1) Aberdeen - #80211 – Q1 2017 - $81,066.92
2) CBRE Clarion - #20170331-146-137-A – Q1 2017 - $31,243.07
3) Clarivest - #126988 – Q1 2017 - $37,327.52
4) Dodge & Cox - #39687 – Q1 2017 - $74,954.02
5) Fisher - #J68988-0001 – Q1 2017 - $117,993.63
6) SSGA - #SSGABA2481416 – Q1 2017 - $8,667.32
7) Taplin, Canida & Habacht – Q1 2017 - $35,300.97
8) Waddell & Reed - #304917 – Q1 2017 - $101,645.30
9) Wellington - #20170331-96246-A - $63,339.75

Auto-Deducted:

1) Brandywine - #20170331-482-4233-A – Q1 2017 - $66,326.41
2) Marathon-London Int'l Fund – April 2017 - $21,273.00
3) UBS – Q1 2017 - $101,970.35

Miscellaneous Invoices:

1) Chameleon Custom Solutions - #112636 - $1,904.02
2) Ford & Harrison - #688112 - $200.00
3) Ford & Harrison - #688113 - $7,193.16
4) Ford & Harrison - #688114 - $1,100.00
5) Shumaker, Loop & Kendrick, LLP - #000627811 - $192.50

MOTION: (Hill/Little) Motion was made by Stephen Hill to approve the Consent Agenda. Motion was seconded by Sonya Little. MOTION CARRIED.

VIII. ADJOURNMENT

There being no further business, Chairman Ernest Carrera adjourned the meeting at 3:00 p.m. and advised the Board that the next meeting would be held on Tuesday, June 20, 2017 at the Fire & Police Pension Fund, 3001 N. Boulevard, Board Meeting Room, Tampa, FL.

BOARD CHAIRMAN – Ernest P. Carrera

Natasha Wiederholt

GE PENSION PLAN SUPERVISOR – Natasha Wiederholt
& RECORDING SECRETARY