

February 10, 2016

**POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, February 10, 2016, 12:30 p.m.**

BOARD'S COMMUNICATION TO THE CITY COMMISSION

Items that may be of interest to the City Commission:

- **Return on Investment for the first quarter of the plan year was 2.43%, 1.25% for 1 year and 7.28% for 3 years.**
- **The Board approved a revised Summary Plan Description that reflects changes in the pension plan resulting from the collective bargaining agreements and Board policies.**

Present

Michael Dew, Chair
Ken Rudominer, Vice Chair
Jim Naugle, Trustee
Scott Bayne, Trustee
Dennis Hole, Trustee
Jeff Cameron, Trustee
Lynn Wenguer, Executive Director

Absent

Richard Fortunato, Secretary

Also Present

Alexandra Goyes, Administrative Assistant
Robert Klausner, Board Attorney
Kirk Buffington, Finance Director
John Herbst, City Auditor
Kevin Schmid, CapTrust
Jim Ingersoll, President of the Retirees Association
Fred Nesbitt, Communications Director
Jamie Opplerlee, Recording Secretary, Prototype Inc.

ROLL CALL/CALL TO ORDER

Chair Dew called the meeting to order at 12:30 p.m. Roll was called and a quorum was determined to be present.

PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE

The Pledge of Allegiance was followed by a moment of silence.

MINUTES:

Regular Meeting: January 6, 2016

Motion made by Mr. Hole, seconded by Mr. Naugle, to approve the minutes of the January 6, 2016 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM PUBLIC

None.

NEW HIRES

Chair Dew recognized the new hires.

BENEFITS:	FIRE DEPT.:	New Retiree: (Term of Drop)	Bradley A. Whidden
		Drop Retiree:	David J Carter
		Drop Retiree:	Jo-Ann Lorber
		New Beneficiary:	Evelyn Loftus
		New Beneficiary:	Mary Paton
		New Beneficiary:	Tracy Flanagan
		Retiree Death:	Theodore J. Sylvia
	POLICE DEPT.:	New Retiree:	William DeJesus
		DROP Retiree:	Keith E. Rohloff
		Lump Sum Refund:	Jamal Maxi
		Lump Sum Refund:	Michael Edie
		Survivor Death:	Connie McIntosh

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to approve payment of the benefits as stated. In a voice vote, the motion passed unanimously.

BILLS:

PRISA II	\$89,639.35
Vaughan Nelson	\$67,212.97
Eagle Asset Management	\$48,574.14
Agincourt	\$42,906.80
Northern Trust	\$39,675.05
Boyd Watterson	\$36,023.00
Sawgrass	\$28,634.00
Aristotle	\$25,891.43
CapTrust	\$21,250.00
Intech	\$19,190.45
Rhumblin	\$17,609.00
Systematic	\$10,225.74
Klausner, Kaufman	\$9,958.50
Marcum	\$3,772.00
Holland & Knight	\$325.00

Mr. Hole said they were seeing charges to which they were not accustomed on the Klausner/Kaufman bill. Mr. Klausner explained that he charged for his time, but if a charge was a crossover to Mr. Cypen's bills, he asked Ms. Wenguer to cross it off. He said Ms. Wenguer was assigning Mr. Cypen enough work to fulfill his retainer. Mr. Klausner stated he had been working on items not included in the retainer.

Motion made by Mr. Hole, seconded by Mr. Rudominer, to approve payment of the bills as stated. In a voice vote, the motion passed unanimously.

**INPUT FROM ACTIVE & RETIRED
POLICE OFFICERS & FIREFIGHTERS**

Mr. Ingersoll invited everyone to the annual meeting on February 14.

PRUDENTIAL REAL ESTATE INVESTORS:

Kevin Smith

Fee Revision

Mr. Smith explained they were restructuring fees on all open-end funds and bringing them back to market rate. They were switching to a basic, NAV-based fee with a modest increase. Mr. Smith drew the Board's attention to the evaluation of their fees compared to peers and an evaluation of their actual fees. He noted that the fees had been highest during the downturn.

Mr. Smith said the pension fund had averaged a 110 basis point fee and the new tier would put them at approximately 120 basis points. He confirmed that the contract allowed them to alter the fees, with proper notification. Mr. Klausner said the question was whether what they derived from the investment warranted keeping it.

Mr. Schmid said the new fees appeared to be comparable, especially with the removal of the incentive component. He said they could perform a search and compare fees if the Board wished.

Mr. Smith pointed out that with NAV-based fees, in a market downturn the fees would decrease; the opposite had occurred with the existing fee schedule.

Mr. Rudominer liked that fact that the fees would be less volatile and asked Mr. Schmid how this would affect their fee cap. Mr. Smith had calculated the impact the new fee structure would have had since their time in the account and noted that some years it was up and some years it was down. Mr. Smith stated their anticipated return this year was 9-12%.

CAPTRUST:

Kevin Schmid

Investment Policy Statement (under separate cover)

Mr. Schmid stated this involved U.S. companies that merged with companies outside the U.S. for tax advantages. He said the pension fund had some prohibitions on some foreign securities and Mr. Klausner had advised that they should more clearly define this in the Investment Policy Statement (IPS).

Mr. Klausner explained that Chubb Insurance was now owned by Ace, a Swiss company and Medtronic had moved their corporate headquarters to Ireland. He stated the question was if the stock traded in dollars, which it did. As such, it was no different from an ADR. Mr. Schmid explained that the IPS language currently defined a foreign security as one issued by a corporation not organized under the laws of the U.S. government, regardless of whether it was traded on the U.S. stock exchange or it was traded in U.S. dollars. Mr. Schmid proposed changing this definition to a security traded on a foreign exchange that was not regulated by the SEC and/or traded in a currency other than U.S. dollars.

Mr. Klausner explained that 175 and 185 defined a foreign security as a corporation organized under a government other than the U.S., an American state or territory. But this could be altered by local ordinance, so they had the ability to own such a security. He remarked that this was a reality of the global market today. Mr. Klausner felt that the laws of incorporation were less relevant than the fact that the company was subject to SEC regulation. With material assets in the U.S. they were also subject to liability under the Private Securities Litigation Reform Act. Mr. Klausner felt they were free to alter the definition and they should make a policy decision whether to own companies that moved elsewhere.

Chair Dew asked if the Division of Retirement would accept this and Mr. Klausner said they were permitted to own 25% in international equities per statute and they were still below that. Anything that was part of a fund, as long as the fund was incorporated and issued shares in the U.S., was considered domestic. Mr. Klausner agreed to determine if this was acceptable to the Division of Retirement.

The Board tabled discussion of this item to their next meeting, pending Mr. Klausner's inquiry with the Division of Retirement.

Quarterly Investment Review:

Mr. Schmid reported the first quarter of the plan year had been good, with the S&P 500 up 7%, mid and small caps up 3.5% and internationals up from 3.2 % to 4.7%. Since then, January had started off

sharply negative but the month ended on a strong rally, which had dissipated in February. Markets were concerned about the growth decline in China and the market had begun to trade in correlation with the price of oil, which had declined. The market was also awaiting a decision on another interest rate increase from the FED. Mr. Schmid stated they did not see any abnormal volatility.

Mr. Schmid reported the fund was up 2.4% for the quarter while the policy index was up 3.7%. Two managers had a dramatic negative effect: Dodge and Cox, up 83 basis points versus 4.7% for their benchmark. The primary issue was exposure to emerging markets, which now made up approximately 25% of their portfolio. Mr. Schmid stated he did not like managers that underperformed in negative environments and Dodge and Cox were a significant outlier when compared to managers they had compared in 2013.

He stated they had a history of performing poorly in negative environments and bouncing back strong in positive environments so he did not feel this was the time to move away from them but he wanted to bring them to an upcoming meeting to present to the Board. After they rebounded, the Board could discuss making a change.

Mr. Schmid informed the Board that American Stable Value Fund had two dispositions and would be sending some capital back. This indicated they were having trouble finding desirable properties.

Mr. Hole said a speaker from Evanston Capital at the FPPTA conference discussed paying managers passive fees for underperformance and active fees when they produced. Mr. Schmid had reviewed Evanston's presentation and said only Intech's fees reflected this model. They proposed a 10 basis point base fee, plus participation, with a cap of 90 basis points. Chair Dew asked Mr. Schmid to see if it would be worth it to make an aggressive approach to managers regarding this. Mr. Schmid said all equity managers had some clients using some form of performance based fees and they were all willing to negotiate. There was a concern that this would provide incentive to take additional risk. Mr. Schmid said over the long term, their managers outperformed the benchmarks which meant they would end up paying higher fees than those resulting from a straight base fee. They could also pay higher fees in periods when the plans experienced lower absolute returns.

Entrust Management Change

Mr. Schmid said the second poor performer for the quarter was EnTrust, which was down 2.5% for the quarter in a modestly positive environment for hedge funds as a whole. He reminded the Board that they had already pulled \$11.5 million from EnTrust. Mr. Schmid stated EnTrust had entered into a transaction with Permal, which was wholly owned by Legg Mason. When the deal closed, Gregg Hymowitz would own 35% and Legg Mason would own 65%. Mr. Schmid hoped the transaction would get equity in the hands of the remaining members of the investment team and these talks were ongoing. Mr. Schmid also hoped this transaction would benefit the special opportunities co-investment vehicle.

COMMUNICATION DIRECTOR'S REPORT

Fred Nesbitt

Mr. Nesbitt thanked Ms. Wenguer, Chair Dew and Vice-Chair Rudominer for their presentation on disability benefits on behalf of the FPPTA conference.

Mr. Nesbitt said municipalities that had discontinued their defined benefits plans were having trouble recruiting and retaining Police and Firefighters now that the economy was moving upward.

EXECUTIVE DIRECTOR'S REPORT

Legal Contract

Mr. Cypen is paid a retainer by the Board and if Mr. Klausner does work covered by the retainer, it was covered but if it was outside the retainer, he billed for it.

Chair Dew agreed to meet with Mr. Cypen and report back at the Board's next meeting. Mr. Klausner agreed to consider ways to improve time efficiencies to keep the price lower.

In-Service Distributions

Ms. Wenguer said the revised 1099Rs had been sent to Mr. Friedman but he had made no progress. She stated she had sent them to him twice and he claimed he could not find them in his email. Mr.

Klausner advised Ms. Wenguer to FedEx the documents to Mr. Friedman.

Interest on Member Contributions

Mr. Klausner recommended inviting the Assistant City Attorney to the Board's next meeting and then the Board would make a decision. He added that they should have a financial services agreement with the City, which would include a means to resolve disputes such as this.

Mr. Klausner's opinion was that "you can't take away what's already been earned; you can only move forward." He continued that 447-309 stated that when collective bargaining required an ordinance change, the changes did not become effective until the ordinance was passed. Mr. Buffington agreed to speak with Mr. Dunckel.

Summary Plan Description (under separate cover)

The Board reviewed the proposed changes and agreed to the following:

1. No ranks should be listed
2. On page 4, the Police Union contract extends to September 30, 2017.
3. Add language regarding prior GERS service
4. Restate the caveat regarding employment from Chapter 6, page 12 in Chapter 10.

Ms. Wenguer informed the Board that she would wait for the final audited financial statements to include them.

Motion made by Mr. Rudominer, seconded by Mr. Hole to accept the aforementioned amendments. In a voice vote, motion passed unanimously.

Request Transfer of GERS Service Credit

Ms. Wenguer said there was a new Police officer with nine years of previous GERS service and the Board had a policy of allowing members who transferred to receive credit for GERS service. Ms. Wenguer feared that someone with 20 years in GERS would become a firefighter or police officer and the pension plan would be responsible for the benefit. Mr. Klausner confirmed that the plan did not get the actuarial value of the GERS plan, they only received a transfer of the employee's contribution; the Police and Fire plan picked up actuarial liability net of employee contribution. Since this was by policy, not ordinance, the Board could change this provision at will.

Motion made by Mr. Hole, seconded by Mr. Rudominer, to amend the current policy regarding transfer of credited service from the General Employee Retirement System Plan to the Police and Fire Pension Plan so that no further service will be credited after December 31, 2016. In a voice vote, motion passed 5-1 with Mr. Bayne opposed.

Mr. Klausner advised the Board to include the motion language in the Summary Plan Description.

2015 Form 1099R

Discussed earlier.

Klausner Client Conference

Ms. Wenguer said a couple of members wanted to stay at the hotel but this must be approved by the Board. Mr. Klausner suggested calling his office because their block was almost full and they would help.

Motion made by Mr. Rudominer, seconded by Mr. Cameron, to approve members staying overnight for the Klausner client conference for a maximum of two nights. In a voice vote, motion passed unanimously.

Assistant Administrator

Ms. Wenguer stated she had advertised twice for the position, there had been 85 responses and three had been interviewed, including Ms. Goyes. Ms. Goyes had been the most qualified person by far; no one else had any pension experience. Chair Dew said Ms. Goyes demonstrated knowledge of plans in general and of this plan in particular. He proposed hiring Ms. Goyes at \$65,000 and re-advertising her position with some additional responsibilities.

Mr. Hole wanted to expand advertising. Chair Dew stated after working on this for six months, Mr. Goyes was by far the best.

Mr. Klausner suggested they advertise on the NASRA website, which would cost nothing. Mr. Hole also wanted to advertise in Pension and Investments.

Ms. Wenguer remarked on how difficult it was to find someone interested in this position.

Mr. Rudominer recalled they had discussed the Assistant Administrator taking over as Administrator in the future. Ms. Wenguer was unsure Ms. Goyes would be able to do that, but pointed out that once the second person was hired, there would be two candidates.

After conferring with the other Board members, Chair Dew stated the Board would hire Ms. Goyes as Assistant Administrator at \$65,000 per year as of February 29, 2016 and Ms. Wenguer would advertise for the administrative assistant position.

PENDING ITEMS

New Business

None

Old Business

Schedule A

No discussion.

There being no further business to come before the Board at this time, the meeting was adjourned at 3:03 p.m.

FOR YOUR INFORMATION:

KCG Recapture Statement

December 31, 2015

Secretary

Chairman

Any written public comments made 48 hours prior to the meeting regarding items discussed during the proceedings have been attached hereto.

[Minutes prepared by J. Opperlee, Prototype, Inc.]

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