# February 14, 2018

**POLICE AND FIREFIGHTERS' PENSION BOARD**
**REGULAR BOARD MEETING**
**888 South Andrews Avenue, Suite 202**
**Fort Lauderdale, FL 33316**
**Wednesday, February 14, 2018, 12:30 P.M.**

Communication to the City Commission:

1. Moody's bond rating for the City was Aa1 and specifically mentioned that the City's debt and pension burdens were small.
2. The 2018 first quarter return was 2.89%; the one year return was 13.32% and the five year return was 8.46%.

**Board Members**

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| Ken Rudominer, Chair | P |
| Richard Fortunato, Vice Chair | P |
| Scott Bayne, Secretary | A |
| Jim Naugle, Trustee | P |
| Jeff Cameron, Trustee | A |
| Dennis Hole, Trustee | P |
| Derek Joseph, Trustee | P |
| Lynn Wenguer, Executive Director | P |

**Also Present**

Alexandra Goyes, Deputy Director
Jazmin Elliott, Administrative Aide
Fred Nesbitt, Board Communication Director
Bonni Jensen, Board Attorney
Steve Schott, CAPTRUST
Mark Guariglia, EnTrust
Chris Keenan, EnTrust
Paul DeBold, Retirees Association
Jamie Opperlee, Prototype Inc.

**ROLL CALL/CALL TO ORDER**

The meeting was called 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.

**ENTRUST:**

**Special Opportunities Fund III Distribution Schedule - Chris Keenan**

Mr. Keenan provided an overview of the Special Opportunities Fund strategies and focused on their current investment in the Special Opportunities Fund III, which was transitioning from calling capital to returning capital in 2018.

Mr. Keenan explained that their goal was to deliver return to investors that was not dependent on the equity and credit markets. He stated hedge funds represented one of the purest forms of active management. In the challenging environment for hedge funds for that past several years, their strategy had performed very well. The biggest differentiator was that investors were willing to trade some liquidity by investing capital for a longer period of time in favor of better returns.

Mr. Keenan described how they achieved their objectives: they invested in their managers' highest conviction ideas, partnering with other hedge fund managers to invest in companies or assets where there were hard, identifiable catalysts and they knew the manager would be heavily involved in the process, oftentimes in a position to shape, drive and influence outcomes. A common denominator of many of their positions was that they and the managers were the largest or second largest shareholder in a corporation, often occupying seats on the board of directors.

Mr. Keenan drew the Board's attention to page 19, showing their participation in Special Opportunities Fund III with an initial $35 million commitment in February 2015. This strategy had a three-year commitment period, which expired in January 2018 but EnTrust had sent letters to investors that they would be extending the commitment period by 90 days because they were completing work on a specific investment.

Mr. Keenan discussed the performance of equity-related and credit-related investments in Special Opportunities Fund III. He said any funds from exited positions had been reinvested.

Mr. Keenan described scenarios the Board could use going forward in the Special Opportunities Fund IV over five years to maintain their exposure at the same level relative to their current investment, at an additional $30 million, $35 million and $45 million. His recommendation was to make an additional $30 million investment to maintain and not grow their exposure.

Ms. Jensen asked about the $500,000 holdback and Mr. Keenan explained that this 10% "audit holdback" was customary for all investors in this type of strategy. This had been resolved and Mr. Keenan stated the $500,000 wire payment should be received later in the week.

Ms. Wenguer asked about the Peruvian bonds and Mr. Keenan stated this was a legacy position from the Board's investment in the EnTrust Diversified Fund. He reported the Peruvian Tribunal Court had determined this was a valid claim by the republic of Peru and creditors must be paid. EnTrust agreed with Gramercy that the preferred path to resolution was a negotiated settlement with the Peruvian government. At the same time, Gramercy had filed an arbitration claim with the FTA for $1.6 billion. Mr. Keenan said there were discussions and efforts "at every level imaginable" to reach a resolution.

Mr. Keenan stated approximately 8% of investors had decided to hold onto their position in the Peruvian bonds (this included the Board). This represented 90% of the dollars invested. The remaining investors had sold their bonds to new buyers in 2017. For the investors remaining in the Diversified Fund, EnTrust had agreed to reduce the management fee to 50 basis points and to defer taking it until they got their money back. In the interim, the Board could decide to sell their exposure at any time. Ms. Wenguer confirmed they had $1.4 million still in this fund. Ms. Jensen asked if the assets were also subject to expenses and Mr. Keenan stated there was also Gramercy's fee and expenses and he agreed to provide a breakdown.

Chair Rudominer recalled that at their previous meeting with Mr. Schmid, the Board had stated their desire to keep the same asset allocation in this asset class and asked Mr. Schmid to create a scenario for maintaining that level as the Special Opportunities Fund III paid out. Mr. Schott agreed with Mr. Keenan's assessment that the market was once again volatile and stated CAPTRUST was always sensitive to liquidity and wanted to be sure they did not over commit to this strategy.

Chair Rudominer noted that if they made a commitment to the Special Opportunities Fund III, the capital they committed did not need to be their current cash, but it would still be a commitment when the call came.

Ms. Wenguer asked if EnTrust would pay them interest on the $500,000 they had held back for over a year. Ms. Jensen stated she needed to examine the documents, but there should be a provision for that. Ms. Wenguer explained that she received a statement every month for the Peruvian bonds but no accounting regarding the holdback funds, so there was no way to know if they were paying interest or charging fees.

Chair Rudominer felt they had more time to decide if they wanted to continue with EnTrust. Mr. Fortunato was concerned that liquidity could become an issue if they invested in alternative fixed income as well as EnTrust and the market dropped significantly.

Mr. Schott said there had been an evolution at EnTrust. When they first started working with them, it had been a good investment management firm, but "some investment manager firms also turn into money marketing firms and it seems…there's a little bit of salesmanship going on…we want to make sure that it's not changed the culture of the firm and the focus on investments from money management to money marketing."

**CAPTRUST:**

**Quarterly Investment Review - Steve Schott**

Mr. Schott provided a market update and pointed out that year to date, the market was up .05% despite all the recent volatility.

In the coming year, Mr. Schott said too much stimulus could lead to higher interest rates, which would lead to stock market volatility. He noted that the 10-year rate was very important to institutional investors and this had increased from 2.25 to 2.85 in the last several weeks -- the largest percentage move in our lifetime.

Mr. Schott reported that as of 12/31/17, the fund had a total of $928 million. He said they were going to recommend an index fund because of the volatility. Ms. Wenguer said they needed cash and Mr. Schott recommended taking three months' worth from the S&P 500 fund now.

Mr. Schott said for the last 12 months, the return was 13.32%, well in excess of their actuarial assumption. But they were currently trailing the index benchmark, with the drags due to alternative investments.

Mr. Schott reviewed individual investments. Sawgrass was behind the benchmark significantly for the year. He had spoken with them recently and they had explained that their strategy was geared more toward reducing losses in downturns, which had proved true in the recent dip. Mr. Schott said Vaughn Nelson had a good two quarters and was behind for the year, but Mr. Schott was not suggesting they pull the plug.

Mr. Schott was very pleased with Agincourt Fixed Income, and explained they wanted to keep the fixed income investments very conservative, investment grade so they would maintain liquidity in a down market.

Mr. Schott explained that the challenges that had led to underperformance were in alternatives. The EnTrust Special Opportunities Fund III, which had been a great performer since inception, had underperformed in the last quarter.

Ms. Jensen wanted to ask Sawgrass for an analysis of what they had done over the volatile period. She said she heard boards everywhere she went discussing what they should do about Sawgrass and some had already moved on.

Mr. Schott explained that the Board had right-sized this manager in the portfolio and since volatility was back, he did not suggest making a change.

Mr. Schott informed Mr. Hole that the list of fixed-income alternatives Mr. Schmid had discussed would be presented to the Board at their March meeting.

<u>Infrastructure Investment</u>

Ms. Jensen reported they had drafted an infrastructure investment RFP based on one that had been used by other public plans. It was clear in the RFP that they were reserving the right not to contract.

Chair Rudominer did not want to be fixated on infrastructure; it should be a fixed income alternative. Ms. Jensen stated a fixed income alternative could bring in global bonds and credit swaps. Calling it a P3 could be too broad as well. Ms. Jensen said they should probably broaden some of the terms, including the valuation criteria. Mr. Schott asked if they should be seeking a Qualified Property Asset Manager (QPAM).

Mr. Schott clarified the difference between an investment manager who would bring ideas to the Board and a consultant or QPAM who would evaluate a project. CAPTRUST had a menu of managers that could bring ideas to the Board.

Mr. Rudominer asked Ms. Jensen to rewrite the RFP for a QPAM and in the meantime, the Board would hear the list of fixed income alternatives Mr. Schmid was compiling.

Mr. Hole had sent a link to Chair Rudominer: FHWA.dot.gov, set up by the head of Virginia's P3 program. The site had lots of valuable information and options the administrator had evaluated. There was also a publication listing P3 projects and information about a company in Miami that specialized in finding these projects.

Mr. Naugle recalled that the Board had previously discussed hiring a company for $2,500 per month to advise them about a project they were considering financing for the City. He noted the City had extremely good credit and could not imagine it paying 8% to construct a building when it could borrow at less than 4%.

Chair Rudominer suggested they wait until they heard from Mr. Schmid and perhaps they would go through with the infrastructure RFP.

Chair Rudominer suggested the Board hear the presentation the City Manager and City Auditor had given the Fixed Income Committee. Ms. Wenguer recalled the City Manager and City Auditor had projects in which they were eager to have the Board co-invest. Mr. Hole was certain that infrastructure projects were picking up, but he did not know if the returns would be there. Mr. Naugle recalled that more than half of the CRA projects the City funded had failed and the capital was lost.

Chair Rudominer stated they were officially dissolving the Fixed Income Committee; all future discussion and decisions would be with the full Board.

**MINUTES:**

Ms. Wenguer had distributed an edited version of the Fixed Income Committee minutes.

Ms. Wenguer had corrected an error regarding the amount of James Jaggers's monthly benefit in the backup material: it was $4,742, not $44,000.

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| **Regular Meeting:** | **December 13, 2017** |
| **Regular Meeting:** | **January 3, 2018** |
| **Fixed Income Committee:** | **December 4, 2017** |
| **Investment Workshop:** | **December 12, 2017** |

**Motion** made by Mr. Naugle, seconded by Mr. Fortunato to approve the above listed minutes as amended. In a voice vote, motion passed unanimously.

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| **BENEFITS:** | **POLICE DEPT.:** | **New Retiree:** | Vincent Schrider |
| | | **New Retiree: (Term of DROP)** | John Bollinger |
| | | **DROP Retiree:** | Michael Tucker |
| | | | Robert Smiley |
| | | **Member Termination:** | Jean Ramos-Gomez |
| | | | Dimitri Jacques |
| | | | Renier Colina |
| | | **Retiree Death:** | David A. Perry |

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| | **Survivor Death:** | Joan Grady |
| **FIRE DEPT.:** | **Vested Retirement:** | Yancey T Jones |
| | **New Beneficiary:** | Betty J King |

**Motion** made by Mr. Fortunato, seconded by Mr. Joseph, to approve payment of the benefits as documented. In a voice vote, the motion passed unanimously.

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| **BILLS:** | **Vaughan Nelson** | $45,919.09 |
| | **Agincourt Capital** | $42,663.65 |
| | **Eagle Asset Management** | $41,300.75 |
| | **Boyd Watterson** | $39,726.00 |
| | **Sawgrass Asset Management** | $29,220.88 |
| | **Aristotle** | $29,026.66 |
| | **Rhumbline** | $16,181.00 |
| | **Marcum** | $9,242.00 |
| | **Marcum** | $7,799.00 |
| | **Intech** | $5,553.88 |
| | **Klausner, Kaufman** | $3,000.00 |

Mr. Hole asked for clarification regarding the Klausner, Kaufman bill and Ms. Jensen recalled there had been a dual office holding question about Mr. Bayne for which the Board had requested an opinion.

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

**COMMENTS FROM THE PUBLIC/ ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS**
Mr. DeBold reported there had been one member death in January: Police Captain Tom Randall. Retired firefighter Kim Van Sant's son had been involved in a motorcycle accident and the family had set up a Go Fund Me page.

Mr. DeBold stated their annual meeting would be on February 18 at the POA Hall on Peters Road. Lunch would begin at noon and the meeting would begin at 1 p.m. Mr. DeBold explained that they had just changed secretaries and invitations had been sent late or not at all. He said all Board members were invited.

Mr. DeBold stated Jim Ingersoll intended to retire as president of the Retirees Association.

Mr. DeBold reported "It did not go well" when Mr. Ingersoll went before the City Commission regarding the COLA request. The Commission had taken no action regarding the request.

Ms. Wenguer said the City had issued erroneous 1099s and Mr. DeBold informed the Board that they had already alerted members to this.

**ATTORNEY'S REPORT**
Ms. Jensen reported that Mr. Brutus's attorney had filed a motion for summary judgement and they were preparing a response.

**COMMUNICATION DIRECTOR'S REPORT:**
Mr. Nesbitt reported that Moody's bond rating for the City specifically mentioned debt and pensions, saying that overall the debt and pension burdens were small, in line with the rating assigned. The bond rating was AA1.

Mr. Nesbitt stated at FPPTA two years ago he had participated in a morning news show discussing Palm Beach's decision to abolish their Fire and Police defined benefit plan and transition to a defined contribution plan. This had proven to be disastrous for Palm Beach because many employees left and they had been unable to recruit and retain them. The National Institute of Retirement Security had just issued a case study about Palm Beach and Mr. Nesbitt agreed to send a copy to Board members.

Mr. Naugle said the reason a defined contribution pension did not work in Police and Fire was because most cities had a defined benefit plan, so those with a defined contribution plan could not compete. For general employees, there were similar jobs in the private sector, which did not offer a defined benefit pension.

Mr. Nesbitt said the City could have three new Commissioners in March who may not be knowledgeable about pensions so he had updated the presentation to show them. His own new district Commissioner, Heather Moraitis, had already expressed concern to him about "this COLA they just got." He had an appointment to speak to her about this.

**EXECUTIVE DIRECTOR'S REPORT:**

Ms. Wenguer confirmed she had just celebrated her 25$^{th}$ anniversary with the pension fund.

Office Lease

Ms. Wenguer said the landlord had reduced the notification requirement to four months before leaving. Ms. Jensen added that they would pay just a $2,000 penalty to terminate the lease early.

**Motion** made by Mr. Naugle, seconded by Mr. Fortunato to approve lease option three. In a voice vote, motion passed unanimously.

Budget

Ms. Wenguer had updated the budget to include the $50,000 maximum Mr. Klausner estimated it could cost to rewrite the ordinance.

Mr. Hole asked about the iPads and Ms. Wenguer informed the Board that they would be purchased in June. She had attended a seminar regarding electronic meetings. The Board agreed they would need training.

**Motion** made by Mr. Fortunato, seconded by Mr. Hole, to adopt the updated budget dated 2/14/2018. In a voice vote, motion passed unanimously.

Levi & Korsinsky, LLC

Ms. Jensen said this was a follow-up to their December meeting when Levi & Korsinsky was retained to perform additional securities monitoring services. She explained that there was a provision in Florida that every contract entered into by a governmental entity must include language regarding the Florida public records statutes and this was incorporated in an addendum.

**Motion** made by Mr. Hole, seconded by Mr. Fortunato to authorize Chair Rudominer to execute the contract with Levi & Korsinsky to perform portfolio monitoring. In a voice vote, motion passed unanimously.

Interim Operating Agreement

Ms. Wenguer said this was to inform people about the provisions of the new collective bargaining agreement.

Ms. Jensen said there had been concern about making changes for people who were retired and Mr. Klausner designed an election for a member to opt out of contributing to the DROP, so he/she could not remain for the additional period of time. Ms. Wenguer stated it used to be that when someone was in the DROP, there was no pension contribution but this had been changed so that members in the DROP would contribute 1.75% while in the DROP. Mr. Klausner had advised Ms. Wenguer to only notify people about the opt out form, as they would automatically be opted in. This had made Ms. Wenguer concerned. She felt it should not be automatic; members should opt in, not opt out.

Chair Rudominer asked Ms. Jensen's advice on whether this should be opt-in or opt-out. Ms. Jensen said changes to people in the DROP plan was a grey area because they were not retirees; they were active employees who were subject to the collective bargaining agreement. Mr. Klausner wanted this to be automatic, with a member needing to opt out.

Chair Rudominer said making this opt-out protected the Pension Board so he wanted to accept counsel's advice and keep it that way.

**Motion** made by Mr. Fortunato, seconded by Mr. Hole to adopt the policy. In a voice vote, motion passed unanimously.

Fire Prior Service Policy
Ms. Wenguer had written the policy. She explained that firefighters could purchase up to five years' worth of prior military or firefighter service and the policy would help clarify the criteria. She said they were in the process of gathering information now and whether or not an employee qualified for prior service would come before the Board.

Ms. Wenguer explained the process for a firefighter with prior service: the firefighter submitted a $200 check for the actuary to determine the full cost of purchasing the benefit, for which the member was responsible.

Ms. Jensen stated most funds had the member enter into a signed contract to agree to purchase the time.

**PENDING ITEMS:**

**New Business:**

None.

**Old Business:**

Schedule A
None.

Mr. Hole recalled Chair Rudominer had asked Mr. Klausner to create a "COLA for Dummies" and Ms. Jensen stated he was still working on it.

Mr. Hole asked about the website update and Ms. Wenguer said this was on hold for now.

The Board's next meeting was scheduled for March 14, 2018.

There being no further business to come before the Board at this time, the meeting was adjourned at 3:34 p.m.

**FOR YOUR INFORMATION:**

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| American Realty | Fourth Qtr. Distribution |
| KCG Recapture Statement | Recapture Summary/December, 2017 |

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Secretary Chairman

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

Close Window