February, 2011

POLICE AND FIREFIGHTERS PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, FEBRUARY 9, 2011, 12:30 P.M.

Michael Dew, Chair
Ken Rudominer, Vice Chair
Richard Fortunato, Secretary
J. Scott Bayne, Trustee
Mark Burnam, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Administrator

Also Present
Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Lynda Flynn, Interim Finance Director
John Herbst, City Auditor
Gregg Gurdak, President, Retirees' Association
Frank Colleran, Retirees' Association
George Farrell, Jr., Retirees' Association
Bill Paton, Retirees' Association
Fuzzy Larkin, Retirees' Association
Jack Chew, Retirees' Association
John Stuber, Retirees' Association
Walt Courtney, Retirees' Association
Fred Nesbitt, Director of Media Relations
Kevin Schmid, CapTrust
Matt Brown, CapTrust
William Humphrey, Local 765 President
Robert Smith, Firefighter/Paramedic
Richard Sicking, Attorney
Sandra Smith
John Molenda, Fire Rescue
Bill Findlan, Fire Rescue
Barbara Hartmann, Recording Secretary, Prototype, Inc.

Pursuant to authority of Ordinance C-00-34, Article II, this regular meeting of the Police & Firefighters' Pension Board convened at 12:30 P.M., Wednesday, February 9, 2011, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to City Commission

One contract with new fixed income manager Boyd Watterson has been signed. The plan achieved a 12.48% rate of return, putting its 20-year average over 9%.

Chair Dew called the meeting to order at 12:33 p.m.

MINUTES:

Regular Meeting January 12, 2011

Motion made by Vice Chair Rudominer, seconded by Mr. Bayne, to waive the reading of the minutes of the January 12, 2011 meeting.

Mr. Hole noted the following corrections: P.8, paragraph 1: delete the reference to $1.2 million in assets; P.14, paragraph 1: replace "GTS" with "the Board."

Mr. Bayne noted the following correction: P.4, paragraph 4: clarify that "the necessary paperwork" refers to Board and not City paperwork.

In a voice vote, the motion passed unanimously.

BENEFITS:

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to accept Police and Fire benefits and 2009 175 Share Plan Distribution.

Police Department:
DROP Retiree: Michael Gregory
Vested Retirement: David A. Nicosia
Lump Sum Refund: Norman Arsenault, Jr.
Gustavo Marin Romero
Vanessa Torroella
New Beneficiary: Emily Evans
Survivor Death:Betty Seeley

Fire Department:
New Retiree (Term. Of DROP): Jeffrey A. Justinak
New Beneficiary: Carol F. Whalley

In a voice vote, the motion passed unanimously.

Informal Service-Incurred Disability Hearing: Robert Smith

It was clarified that although Mr. Smith is a Driver/Engineer, he was a Firefighter at the time his injury occurred.

Mr. Cypen explained that this procedure would not be a full hearing, and the Board's information would come from the packet provided to them as well as any presentation that the Applicant would like to make through his attorney, or any statements or arguments presented by the Applicant.

He advised that the following questions must be considered:
Whether the Applicant is totally incapacitated, physically or mentally, from the performance of his duties as a Firefighter;
Whether the Applicant is totally incapacitated, physically or mentally, from the performance of any other duties available through the Fire Department;
Whether the Applicant's incapacity is permanent and consistent with an incident that occurred in the line of duty.

Richard Sicking, representing the Applicant, said Mr. Smith is 48 years old and a 10-year veteran of the Fire Department. On July 22, 2009, he was involved in an accident in a rescue vehicle. Two of the four doctors consulted with regard to the Application said the Applicant's incapacity is total; while one doctor stated it was not total, as the Applicant can perform light duty without lifting more than 15 pounds, Mr. Sicking noted that this description is incompatible with the duties of a Firefighter. The fourth doctor consulted said the Applicant cannot perform the duties of a Firefighter/EMT due to his impairment, but can perform the secondary functions of his job description, which means he feels the impairment is not total from a medical standpoint. Mr. Sicking clarified that the Applicant was on light duty status following his injury and has not worked since November 2010. He pointed out that there is no permanent light duty in the Fire Department.

With regard to the permanence of the injury, he noted that three of the four doctors stated the impairment was permanent. All four doctors agreed that the injury occurred in the line of duty; while they indicated there was a preexisting condition, they said the accident was a substantial aggravating cause of the problem. Mr. Sicking explained that the Applicant had suffered back trouble at an earlier time, but had recovered and gone back to full duty with no difficulty before the accident occurred.

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to approve the service-incurred disability as applied for.

In a roll call vote, the motion carried 5-2 (Vice Chair Rudominer and Mr. Naugle dissenting).

BILLS:

Artio Global Investors:	$60,693.41
Lee Munder:	$49,134.03
Sawgrass Asset Mgmt.:	$41,893.00
Systematic Financial Mgmt.:	$35,525.70
Northern Trust Co.:	$26,276.27
InTech:	$22,652.37
RhumbLine:	$5776.00
Cornel J. Lupu, MD:	$1800.00
Ellen Schaffer:	$784.00
Ellen Schaffer:	$525.00

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, for the payment of bills.

Chair Dew noted that the expense for Artio Global Investors is listed at both $60,693.41 and $59,774.25, and asked which amount was to be paid. Ms. Wenguer said she believed it is $59,774.25, and explained that the same problem occurred the previous quarter, which resulted in a balance due. She said she had written to Artio and paid the negotiated 8.85% on the first $20 million; Artio had accepted the check but had not responded, and now the account showed a balance due. She said she believed the amount was being rounded up, and stated she would contact Artio again to advise they were not using the appropriate method of computation. She agreed with Chair Dew that a written response would be requested of Artio.

It was determined that the $60,693.41 expense from Artio would be excluded from the motion.

In a voice vote, the motion passed as corrected.

The following Item was taken out of order on the Agenda.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Mr. Gurdak stated he had received a letter from Mr. Colleran's attorney, Alan Eichenbaum, which was addressed to the Board. Ms. Wenguer explained that this letter was received after the agenda was printed, and it had been emailed to the members.

Mr. Cypen said the issue has grown more confusing, and said Mr. Eichenbaum should advise the Board of the calculation he would like the actuary to make, as he had disagreed with the calculations they had used.

Mr. Hole said the Board had made a decision on the issue some years ago, and he felt they should move on and allow Mr. Eichenbaum to take whatever action he felt was appropriate.

Mr. Colleran noted that Mr. Eichenbaum had included the calculation on the final page of his letter. Mr. Cypen clarified that Mr. Eichenbaum had informed the Board that the information they provided to the actuary in order to make the calculation was incorrect.

Vice Chair Rudominer said he agreed with Mr. Hole that the issue had become too confusing. He felt the issue would eventually go to litigation, and that the Board was doing Mr. Colleran a disservice by continuing discussions of it. Mr. Cypen confirmed that Mr. Eichenbaum had indicated he would file suit against the Board on behalf of Mr. Colleran.

Mr. Colleran asked if Mr. Eichenbaum had advised the Board that their previous action on this issue was illegal. Mr. Cypen explained that Mr. Eichenbaum had cited a statement made by the Board on an earlier brief, but he did not agree with the conclusion Mr. Eichenbaum had drawn with regard to this statement. He concluded that he did not feel they should continue to spend money requesting further calculations from the actuary if Mr. Eichenbaum did not believe these calculations were properly done.

Chair Dew asked if a motion was in order on this issue. Mr. Cypen said no action would be necessary, as the Board had made a previous decision on the issue.

Chair Dew said while he did not feel the timing was appropriate to present the survivor remarriage request, if the Retirees Association wished, he would include this information with the rest of his overall presentation to the City Commission. Mr. Gurdak said the issue would be discussed further at the next meeting of the Association.

Mr. Gurdak said the next meeting of the Retirees' Association would be held on February 20, 2011.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt said he has been working with the Florida Public Pension Trustees Association (FPPTA) to develop a paper, using Fort Lauderdale as a model, called "Understanding Our Plan's Unfunded Liability." This paper will be emailed to the Board once it is complete. Its purpose is to explain what an unfunded liability is, how it occurs, how it is paid, and why it is not as great a concern as it appears to be when portrayed in the media.

Mr. Nesbitt continued that at the FPPTA meeting, he also met with the primary organizers of its Retiree Association, which is now operational and has roughly 150 members. Annual dues are $9.99, which includes a $10,000 accidental death policy. A mortgage option for all FPPTA members is under consideration. In the summer of 2011, they plan to hold a Retiree Conference, which will take one and a half days and will be in conjunction with the annual FPPTA meeting.

Mr. Cypen added that he recently published two supplements to his newsletter, both of which link to documents that debunk myths regarding pensions, budgets, and bonding. These two supplements address the scare tactic related to pension plans and unfunded liabilities.

Mr. Cypen said the situation is cyclical, and noted that public plans have $1.2 trillion is set aside to pay benefits. Assumption rates have been met over the last 25-30 years, and he did not feel it was time to panic over these costs. He cautioned that the issue should be dealt with rationally.

Chair Dew added that there is a significant difference between plans, and pointed out that the City's plan is quite conservative and does not reflect the issues that concern many legislators. He said the principles of the City's plan are significantly different from those of other cities' plans, and do not reflect the fluctuation seen in other pension plans. It is a fair and equitable distribution, and the City is not harmed by the plan, nor are employees taking advantage of loopholes.

Mr. Nesbitt noted that many members of the media are not aware there are significant differences between local plans and that of the Florida Retirement System in terms of contributions, as all City employees contribute to the City's plan. Chair Dew added that the City does not have an automatic cost-of-living adjustment (COLA) associated with its plan.

QUARTERLY INVESTMENT REVIEW:
CapTrust Kevin Schmid, Matt Brown

Mr. Schmid referred the Board members to the 4th Quarter Report supplied by Asset Consulting Group. He noted that the 4th quarter was positive for equities across the board, with large and small caps performing in the 15-16% range and small cap in the 26% range according to the S&P 500. He concluded that 2010 was a strong year all around for domestic equity markets, with international equity markets lagging slightly behind in the first half of the year.

He said there were early signs of rising rates in the fixed income market at the end of the year, which translated to negative returns in the bond market. He recalled that the Board had decided to allocate to Boyd Watterson and Atlanta Capital at the previous month's meeting in order to focus on duration management, as these managers are a key factor in mitigating interest rate risk and negative returns in the bond market in the future.

The real estate market is recovering from its low rates more slowly; Mr. Schmid noted this is more of an appraisal-based market rather than public transaction. He stated there are opportunities to profit from the real estate market, and pointed out that the Plan's allocation is 3% underweight in this market. CapTrust has discussed entry into lower-leveraged real estate managers, such as American Realty, which is one of the safer managers in this market.

Mr. Schmid moved on to plan results, noting that the plan began 2010 with $417.5 million and added $50.6 million in investment gains, ending with a market value of $471.4 million. Most of this investment gain came in capital appreciation, with a lesser amount coming from income gain on the portfolio.

The portfolio ended with a strong absolute return of 12.4%, slightly below the median for public funds and the policy index but ahead of any actuarial assumptions for the year. Mr. Schmid advised that the policy index is the most accurate comparison of how the plan is performing versus its asset allocation.

On the large cap value side, Systematic had a very strong year and 4th quarter in particular, up 13.4% and ranked in the top 3% of its peer group. In large cap core, he recalled that Intech had been identified as a potential redundancy in the portfolio; their returns have not distinguished themselves from the index manager. He advised that the strategic plan to reduce exposure to large cap and gain exposure in mid cap could focus on pulling funds from Intech.

In large cap growth, Sawgrass did not have a strong quarter or a strong year, finishing the quarter almost 4% behind the benchmark. Their general profile is lower-risk to the benchmark, and they often outperform the benchmark during down markets, but only give roughly 76% of the upside in up markets. CapTrust recently met with Sawgrass for an update on their portfolio; Mr. Schmid said CapTrust is not ready to make a recommendation on this manager at this time.

Chair Dew asked if Sawgrass is on a watch list. Mr. Schmid said CapTrust has not yet taken this step, although he suspected they may be added to a watch list in the future. He advised that managers such as Sawgrass show more conservative growth than managers who have more aggressive growth strategies.

In small cap, Mr. Schmid recalled that NorthPointe had been discussed at previous meetings, and reported that they had a very strong 4th quarter, outperforming their benchmark by approximately 10%. However, CapTrust has met with NorthPointe once again in recent weeks; he stated that their continuing organizational issues have led CapTrust to recommend termination. He advised that they could bring NorthPointe representatives in to address the Board, or could bring three prospective managers to replace NorthPointe.

Mr. Schmid said another of CapTrust's recommendations is to diversify their alternatives: currently 10% of the plan is targeted for K2, but they would advise lowering this to 5%. On the international side, Artio continues to struggle. This manager is also on a watch list. Thornburg has performed above the median across the board.

On the bond side, Agincourt has done well and is in line with the benchmark for the 4th quarter. Mr. Schmid advised that Prudential is having a capital raise and opening their fund to new money and existing investors; however, he felt the plan should instead focus on the American Realty Fund, which is lower-risk.

Regarding rebalancing, Mr. Schmid said the plan is currently approaching its total equity maximum and is over its large cap maximum, so it would make sense to take 2.5% of the portfolio out of large cap. He said the majority of this could go to real estate, but explained that there are entry queues into this market, so the money could not go to work right away. He suggested that the 2.5% from large cap could be put into cash, with a portion earmarked to go into real estate as the entry queue opens up.

Vice Chair Rudominer asked if there was an estimate for when American Realty's queue would open up. Mr. Schmid said they take money pro rata on a quarterly basis. Vice Chair Rudominer asked if there is any other way to gain exposure in the real estate market. Mr. Schmid said they could put money into Reets, although he would not recommend this, as these would be equities and would behave more like equities than like real estate. He concluded that he would be comfortable putting the 2.5% into cash while it is lined up to go into real estate.

Mr. Burnam noted that while NorthPointe's short-term record was not good, he would not advise firing this manager due to their long-term performance. He stated that pensions often underperform because they are chasing performance.

Mr. Schmid said most of CapTrust's evaluation of managers is qualitative rather than quantitative, and recalled that Atlanta Capital, which was hired by the Board in January, had terrible two-year figures because of their defensive position and high quality. He said the Board did not hire them because of their past performance, but because of their potential performance, and said managers should be hired based on this process rather than based on their figures.

Mr. Burnam noted that Sawgrass's defensive stance served them well in negative markets, and said he felt the same is true for NorthPointe.

Chair Dew said the 2.5% could be moved into cash, and asked for CapTrust's recommendation on replacing NorthPointe and reallocating mid cap to rebalance. Mr. Schmid advised that 7.5% of the plan is earmarked to go into mid cap, and felt Rhumbline's mid cap index was a good way to do this in the near term while other concerns and priorities are addressed. He did not recommend bringing in managers to interview for mid cap, but proposed that the Board should see potential candidates to replace NorthPointe. He reiterated that CapTrust recommends termination of this manager, although he said in fairness, they could give NorthPointe the opportunity to make their case before they are terminated.

Vice Chair Rudominer why a small cap manager would need to be replaced with another small cap manager if money is being moved to mid cap. Mr. Schmid said the plan should keep both disciplines, as there is growth value in small cap. Mr. Burnam asked if money would be moved from small cap to mid cap before the small cap managers are changed. Mr. Schmid said it made sense to do this all at once, and explained that he would bring a schedule to the March meeting to show where the money would come from.

The Board arrived at a consensus that NorthPointe would be terminated and three potential new managers would make presentations at the March meeting. They would reallocate the 2.5% of large cap into cash and make a determination on restructuring the equity side as well. Chair Dew asked Mr. Schmid to bring a document detailing the strategies he would like to implement for the fund. Mr. Schmid agreed to do this.

Chair Dew stated he would like to discuss the letter from NorthPointe. He explained that while NorthPointe was meeting with CapTrust, he met with two NorthPointe representatives, who reiterated their commitment to the Plan. They said they would waive the previous agreement on performance-based fees and would go back to the basic base fees. Chair Dew said his understanding was that these fees would be $30,230.04, versus the total performance-based fee of $75,223.60. Mr. Schmid said NorthPointe originally had a base fee of 86 basis points, then transitioned to 43 basis points plus a performance-based fee. He understood the offer to mean NorthPointe would take what they would have earned from the performance-based fee and revert back to the original 86 basis points.

It was noted that the letter provided to the Board by NorthPointe was not clear on the details of this offer. Mr. Schmid said the offer to waive the performance-based fee was a means of enticing the Board to retain them.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to accept the bill as is and pay it. In a voice vote, the motion passed unanimously.

Mr. Hole noted that the Board had previously met with a representative whose product was similar to Boyd Watterson. He noted that this product had not been listed as a prospective manager, and asked what the process would be to notify CapTrust to perform due diligence on a manager. Mr. Schmid said the members could email him via Ms. Wenguer's office to let him know if they would like CapTrust to consider a specific manager.

ADMINISTRATOR'S REPORT:
Total DROP Distribution Proposed Guidelines

Ms. Wenguer said she is working on the Deferred Retirement Option Plan (DROP) distribution, including people who have terminated the DROP. She noted that it does not appear that the Memoranda of Understanding (MOUs) will be signed any time soon, as union negotiations are ongoing. She explained that the Board should have a plan in place once these are approved so individuals who leave their money in the DROP will know what they are signing up for.

She provided copies of a presentation on how the DROP should be administered. The presentation includes a way for the DROP to be taken care of when the MOUs are signed, including calculations of employment.

Chair Dew said the Board should be properly prepared, as the DROP is part of the local ordinance agreements and the collective bargaining for both the Police and Fire Departments. The presentation also addresses concerns such as how to ensure the plan is protected.

Ms. Wenguer added that the plan specifies interest will only apply once per year at the planned year end. There would be no monthly, quarterly, or other interest determination. Money would be distributed once per year, with a 20% holdback.

She explained that at the beginning of every plan year, the Board would determine 20% of an individual's account balance. For example, up to $240,000 can be distributed from a balance of $300,000. If the MOUs are signed, individuals can take distributions up to this amount during the year. She clarified that this applies to individuals who have terminated their employment but chose to leave their money in the plan. The requirement to leave 20% in the plan until the following year is to ensure that the individual is not overpaid. If someone requests their money during the year, they can also be paid the pro rata interest for the time the individual was in the plan. On September 30, the Board will determine the return, apply it, and release the appropriate amount to the individual.

She noted that although the ordinance states interest will be applied, this is actually not interest but is rate of return. This is being changed in forthcoming documentation.

Mr. Naugle asked if the fund decreases by 30% during the time an individual was allowed to take out 80%, the individual would be owed 10%. Ms. Wenguer confirmed this, and added that the individual would have the option of refunding money to the Plan immediately or having it taken out of his or her retirement check on a pro rata basis. This would prevent the plan from being in danger. Chair Dew added that there are different payment methods a person can use, which are stated in the proposed documentation.

Mr. Bayne asked if someone leaves their money in the plan until they are forced to remove it at age 59 ½, the 20% must still be withheld. Mr. Cypen said this would be a problem at age 70 1/2, for example, but is not a tax issue at age 59 ½.

Mr. Cypen said the intention was to prevent a person from leaving his or her money in the plan indefinitely. Mr. Bayne asked if it would violate the spirit of the ordinance to hold 20% of this money for up to 364 days as opposed to letting all the money go at the risk of the plan losing money if the market goes down.

Mr. Bayne said he agreed with the holdback, but explained that his concern was because the Board is tasked with administering the plan as required by the ordinance. Mr. Cypen suggested the documentation could note that all sums of money must be distributed by the time a person is 59 ½ , and advise individuals to plan accordingly due to the holdback. Chair Dew asked Ms. Wenguer to request a legal opinion on this issue. He concluded that the documentation would be slightly revised once a legal opinion has been obtained.

Ms. Wenguer continued that she had seen a software presentation by PensionGold the previous week. She stated it was very informative, although the company has not yet provided any cost estimates. She explained that the program can be customized to include the information each City would want; however, she was advised not to customize too much due to the cost associated with the necessary upgrades.

Chair Dew added that the software could allow the plan to have more uniformity with the City, as the Board's and the City's fiscal years are now the same. If the software could also be beneficial to the general employees, its cost might be divided.

Mr. Hole asked if there is an update on the SPD revision status. Ms. Wenguer said a revision is planned for June 2011. Mr. Hole also asked if the Board was able to negotiate Atlanta Capital's fee to match Boyd Watterson's fee of 17 basis points. Ms. Wenguer said this had been done.

Chair Dew moved on to the upcoming educational presentation for City Commissioners and other City officials. He said the City's actuary had met with City Auditor Herbst, Chair Dew, Ms. Wenguer, and Mr. Nesbitt. They had discussed unfunded liabilities and reached a better understanding of the challenges that lie ahead for the Board. He concluded that it was a very informational meeting. He planned to meet again with Mr. Herbst and the Acting City Manager later on during the week, and would meet with the City Commissioners the following week. He noted that the members have been given copies of the information packet that accompanies the presentation. The packet provides an overview of the plan, including the pension reforms that have been put in place and the results of these reforms. The presentation also includes information on the remarriage issue. He concluded that the goal is to keep the City Commissioners informed of where the Board is with its specific plan.

Ms. Wenguer noted that the packet should reflect two changes: asset value will be updated to the current asset value as of December 31, 2010, and it was also determined that the DROP program saved the City approximately $500,000. The packet will be available on the website with this updated information.

Chair Dew advised he did not want to discuss the DROP with the City Commission due to the legal concerns raised during the previous discussion. He said he would defer this issue until they have a legal opinion.

Mr. Herbst said he had spoken with the City's Deputy Director of Finance, who is in the process of putting together a five-year financial forecast for the City. He had asked if they were taking into consideration the additional requirements for funding. Mr. Herbst was advised the Deputy Director is aware of this requirement and would be incorporating it into the forecast.

COMMUNICATION TO THE CITY COMMISSION:

One contract with new fixed income manager Boyd Watterson has been signed. The plan achieved a 12.48% rate of return, giving its 20-year average of over 9%.

PENDING ITEMS:
Old Business

None.

New Business

Mr. Bayne said he had been notified that individuals will no longer be given time off from the City to attend educational seminars. Chair Dew said he would speak with Chief Justinak with regard to this change and find out if different arrangements can be made.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:25 p.m.

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