February, 2012

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, FEBRUARY 15, 2012, 12:30 P.M.

Present
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
Doug Wood, Director of Finance
Fred Nesbitt, Director of Media Relations
Kirk Buffington, Deputy Director of Finance
Captain Rick Maglione, Fort Lauderdale Police Department
Jack Lokeinsky, Fraternal Order of Police
Steve Malinowski, GTS Advisors
Kevin Schmid, CapTrust
Stephen Schott, CapTrust
Bob Oelke
Officer Phil Girrbach
Amanda Lebofsky, Recording Secretary, Prototype, Inc.

Gregg Gurdak, President, Retirees' Association
Linda Soloman-Duffey, Retirees' Association
George Farrell, Retirees' Association
Fuzzy Larkin, Retirees' Association
Bill Paton, Retirees' Association
Jack Cann, Retirees' Association
Rick Schulze, Retirees' Association
John Stuber, Retirees' Association
Walt Courtney, Retirees' Association
Frank Colleran, Retirees' Association
Jack Chew, Retirees' Association

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 15, 2012, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to the City Commission

None.

Chair Dew called the meeting to order at 12:30 p.m. and roll was called. All present recited the Pledge of Allegiance and observed a moment of silence.

MINUTES Regular Meeting

Motion made by Mr. Bayne, seconded by Mr. Hole, for the waiving of the January 11, 2012 minutes

Ms. Wenguer noted a correction on p.6, paragraph 2: it should be clarified that Mr. Cypen referred to a sentence in Lillian Rosa's document.

In a voice vote, the motion passed unanimously.

NEW MEMBERS

Chair Dew noted that seven new contributing members are listed on p.10 of the handout.

BENEFITS:

Fire Department:

New Retiree:	Stanley J. Giesey
DROP Retiree:	Robert Abate
	Sherry P. Richter
	James K. Tuttle

Police Department:

DROP Retiree:	John Bollinger
	Nina R. Justice
Lump Sum Refund:	David M. McElligott
Survivor Death:	Winifred Glover

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, for the benefits for the Police and Fire [Departments]. In a voice vote, the motion passed unanimously.

Ms. Wenguer noted that Mr. McElligott had been accused of and pled guilty to a crime that would have resulted in the forfeiture of his benefit. He instead requested the refund of his contributions, to which he is entitled, with no interest.

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

BILLS:

Lee Munder	$48,770.86
Agincourt	$46,213.89
Sawgrass	$41,187.00
Artio Global	$32,113.05
Systematic	$29,191.53
Northern Trust	$28,585.47
InTech	$18,957.84
Franklin Templeton	$17,832.07
Boyd Watterson	$14,376.00
Eagle Asset Mgmt.	$17,293.59
Atlanta Capital	$11,101.00
RhumbLine	$6,676.00
Ellen Schaffer	$862.00

Motion made by Mr. Hole, seconded by Mr. Bayne, for the payment of bills as documented. In a voice vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

John Stuber, retiree, requested clarification of a $50,000 SHARE distribution benefit listed on p.11 of the handout. Ms. Wenguer explained that each year since 2007, active duty firefighters receive a portion of 175 monies deposited into a separate SHARE account. She clarified that these monies no longer go into the pension plan. Mr. Stuber asked to know the last amount of money deposited into the pension plan prior to this change in 2007. Chair Dew pointed out that retrieving this information would require additional time and research, and the information could be provided for Mr. Stuber within days. Jack Lokeinsky,, of the FOP asked to speak and was able to address Mr. Stuber's question.

TRANSITION MANAGER ANNUAL REPORT: GTS Steve Malinowski

Steve Malinowski of GTS Advisors provided a handout for the Board members. He explained that their services are designed to accomplish two goals: they oversee and manage any changes to the portfolio to ensure they are done at the lowest possible risk, and see that transaction costs are as low as possible and that best execution require ments are met. They also provide an annual overview of all external managers' brokerage practices.

Mr. Malinowski reported that the analysis for the pension plan is quite positive. From 15 months' worth of trade data, he observed that over 7000 trades were made by 73 brokers. In aggregate, the average cost for each trade on behalf of the external managers was only 25 basis points, which is an outperformance of GTS's industry average by 9.53 basis points, or just over 30%. The total value of secondary trades executed by the plan's managers is over $230 million. He concluded that this is an exceptionally good job.

Mr. Malinowski noted that one manager, Systematic, underperforms relative to the performance of other managers; he and Mr. Schmid met via conference call with Systematic's head of client relations and head trader. He advised that Systematic incorporates several momentum trades, which means they buy more of a particular stock when it is dropping. It was determined that Systematic's trading style was ultimately consistent with what was expected of them, and GTS will continue to monitor their performance.

Chair Dew thanked Mr. Malinowski for his report.

Informal Non-Service Connected Disability Hearing: Colin Cowderoy

Ms. Wenguer advised that despite multiple attempts to contact Mr. Cowderoy via telephone during the day, she had been unable to reach him. She recalled Mr. Cowderoy had stated earlier that he was unable to attend the meeting, and was comfortable with the discussion proceeding in his absence.

Mr. Cypen asked if Mr. Cowderoy had expected to participate in the hearing via telephone. Ms. Wenguer advised that Mr. Cowderoy's statements suggested he did not have a problem with being unable to participate. He had been informed that the hearing would be held today and that the Board would try to contact him at that time.

Mr. Cypen said without documentation of Mr. Cowderoy's statements, he didn't feel it was a good idea to proceed with the hearing. Chair Dew said Mr. Cowderoy would be sent a certified letter informing him of the date and time at which his hearing would be held, whether or not he was present in person. Mr. Cypen advised that Mr. Cowderoy should also be asked to notify the Board if he could not attend, so the hearing could be scheduled for a time at which he could be there. He would also be asked to inform the Board in writing if he was comfortable not attending the hearing.

Motion made by Mr. Naugle, seconded by Mr. Bayne, to table the disability hearing. In a voice vote, the motion passed unanimously.

QUARTERLY INVESTMENT REPORT: CapTrust Steve Schott, Kevin Schmid

Mr. Schott referred the members to a handout including the one-year results, noting that 2011 was a very volatile year. Treasuries earned a 0% return in the last quarter and only 6 basis points over the last year. Across the fixed income yield curve, yields are at historic lows.

He continued that the intermediate indices are yielding approximately 1.5%, with aggregates yielding 2%. Mr. Schott advised, however, that CapTrust is not suggesting the plan get out of fixed income and go to another asset class, as fixed income is necessary as a source of liquidity and stability when the markets are down. Over time, despite some turbulence and negative returns, the higher yields will be better for the portfolio.

Regarding equities, Mr. Schott observed that the one-year return was 2.11%, with no increase in the value of the stocks; the return was due to the dividend yield. He noted that this was following a third quarter in which the market was down 17% and a fourth quarter that was up nearly 12%.

He advised that a valuation point of view is currently considered to be good for the market, as valuations are attractive despite debt challenges in Europe, performance in emerging markets, and downgrades. Over time, however, valuations have always been more important in times of economic challenges. Mr. Schott stated that 2012 could potentially be a positive year with 8%-10% returns, as the first few weeks of the year alone are up by 7%.

International markets were down 12.4%, with emerging markets down by 20%. The worst international market performance occurred in Japan. Mr. Schott noted that 2011 was a year of great transition, as managers such as Artio and NorthPointe were dropped and asset allocation changes were made. At present, he felt the fund is well-positioned for the future. He concluded that the monthly meetings with the Board appear to have been beneficial in this positioning.

Mr. Schmid observed that 2011 was a transition year for the plan; if some changes had been made at different times of the year, it was possible that overall performance could have been somewhat improved. He cited NorthPointe and Artio remaining in the plan for longer than necessary as examples that may have cost as much as 1% in performance. Most of the changes made to the plan will be reflected in future performance rather than 2011.

One early change was the replacement of index bond investments with two active intermediate duration managers, Boyd Watterson and Atlanta Capital. Mr. Schmid recalled that index bond investments had been believed to be the biggest risk to the plan. Fixed income was also negatively skewed and rates were abnormally low, with risk for negative returns in the bond market. He felt that while this continued in 2011, there is a limit to how long these returns will continue.

He continued that other changes were intended to return the plan to its target allocation in real estate; this asset class has since shown the best performance of any class in the plan in 2011. He noted that the downside is this class can only be reallocated when the managers can call the capital; both relative and absolute performance would have been better if this reallocation had been done right away rather than gradually called down.

At present, the plan is more diversified in equities, with the addition of mid cap and the removal of underperforming managers. Performance “winners” from 2011 include Sawgrass, which finished up 8.5% in large cap against a benchmark of 2.6%; they have historically underperformed in high-rising markets and overperformed in subsequent periods. InTech also continues to perform solidly.

On the negative side, Systematic performed relatively poorly for large cap. Mr. Schmid noted that the first half of 2011 was very positive for equity markets, but shifted in the third quarter so portfolios not positioned for continued recovery did not perform as well. Over the longer term, their track record in the plan remains ahead of the benchmark, although Mr. Schmid commented that CapTrust was not pleased with the magnitude of the underperformance in 2011.

The other detractor for the plan was K2, which came into the year as 10% of the overall portfolio, although this was reduced by half in the middle of 2011. The current environment remains difficult for long/short equity managers: because the market is trading based on macroeconomic reports, it is difficult to make money through stock selection. Mr. Schmid added that K2 plans to make a presentation later in the week regarding the long/short asset class, its opportunities and challenges, and its outlook.

He concluded that while the return could have been higher in 2011, the plan appears to be well-positioned for the future and the Board has made several decisions and done a great deal of work to achieve this position.

Chair Dew asked if it is possible to determine that some money managers tend to perform better within their asset classes. He explained he felt the Board should be aggressive in this positioning, as the plan’s business model is a tactical approach to asset allocation. He did not feel they had followed this model consistently in the past, which may have contributed to some of the underperformances. He advised that when managers made their presentations to the Board, they may need to put some of the managers on notice that a watch list has been established for underperformance.

Mr. Schott pointed out that if the plan protects itself on the downside, it will be more successful in the end. This can make the difference in the yield between two different managers that may have the same return. Chair Dew stated this was why the Board had changed from 13 to 16 managers: in order to help with risk control. Mr. Schott concluded that the plan should also give the investments time to pay off, as there may be volatility between one quarter and the next.

Regarding fixed income, he noted that Atlanta Capital has just advised that their chief investment officer in this asset class is stepping down. He cautioned that this could be a warning sign, and there may be a recommendation that the plan not stay with this firm under the circumstances.

Vice Chair Rudominer requested clarification of how InTech might be redundant, and asked if other steps would be taken to correct this. Mr. Schmid explained when CapTrust first began working with the Board, InTech appeared to be redundant, as it was one of four large cap managers; however, they have been performing, so there has been no rush to move away from this manager.

Vice Chair Rudominer asked if it would be possible to short the bond trade on the Pimco All-Asset Fund. Mr. Schmid said the plan's version of this Fund does not allow for shorting credit bonds explicitly. He advised that though the risk/return relationship in bonds is negatively skewed at present, there is no real catalyst for very low rates to rebound before 2014. He added that fixed income in the portfolio provides a source of stability and liquidity, while risk is taken in the equities or alternatives markets.

Mr. Burnam asked the CapTrust team if they felt the policy maximums and minimums were still accurate at this time. Mr. Schmid said they were comfortable with these guidelines, although he noted they would review these if the portfolio reached 5% out of balance in any given class.

COMMUNICATION DIRECTOR'S REPORT

Mr. Nesbitt observed that there has not been a great deal of activity across the State regarding pensions. He recalled that he had met with the executive director of the Leroy Collins Institute, which had published an evaluation of pension plans in the State and graded Fort Lauderdale's plan with a C based upon its funding ratio. The executive director had agreed to follow up with Mr. Nesbitt and to learn more about the function of public pension plans.

Now that the fiscal year has ended, Mr. Nesbitt has begun work on the annual report to be published in the newsletter. Once certified data is available, the newsletter will go to publication.

He thanked the Board members and retirees for their good wishes during his recent illness.

ADMINISTRATOR'S REPORT

2012 Pension Budget

Ms. Wenguer advised that the rate of return for the plan must be approved in order to calculate the SHARE plan and DROP benefit. The rate of return is (-.54%), which is net of fees.

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, to accept the stated rate of return of (-.54%). In a voice vote, the motion passed unanimously.

With regard to the proposed budget, Ms. Wenguer noted that there has been no real activity reflected since its adoption on November 12, 2011. The only change since this time is that actuarial services have gone from $50,000 to $65,000 in order to include the cost of the experience study. The software upgrade cost was also lowered from the previously approved $275,000 to $200,000.

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, for the acceptance of the 2012 budget. In a voice vote, the motion passed unanimously.

Disability Retiree Philip Girrbach

Mr. Cypen explained that Mr. Girrbach was requesting that the Board apply a section of the Ordinance that was repealed prior to his retirement. Some individuals had experienced taxes being taken out on their disability payments, and the City had been convinced to change this policy. He advised that although Mr. Girrbach would like this change to apply in his case, the Board does not have the authority to make this decision.

Mr. Girrbach stated that he was requesting to be grandfathered into the section of the Ordinance regarding disability retirement. He stated that the onset of his illness occurred at roughly the same time the Ordinance was changed. He stated that he was requesting the Board apply flexibility in his case.

Mr. Cypen explained that the Board does not have the authority to act except according to the Ordinance; however, Mr. Girrbach could make his request of the City to amend the Ordinance and make it retroactive to the date he needed. He noted that the amended Ordinance was not intended to be detrimental to anyone's benefits.

May Board Meeting Date

Ms. Wenguer advised that this meeting is currently scheduled for May 9, 2012; however, this date requires rescheduling, as some members will be attending a conference and a quorum would not be present.

It was determined that the May meeting date would be changed to May 23, 2012.

Pension Software RFP

Ms. Wenguer reported that this contract has gone through several drafts to ensure that all the plan's needs are clearly spelled out. She has spoken to the provider's managing director as well as their attorney, and several issues have been clarified to her satisfaction. She estimated that the work on this contract would be complete by the end of the week.

Mr. Cypen advised that the content of the contract is being clearly stated and safeguards are being put in place. Chair Dew asked if the Board would have any recourse if the provider does not deliver on the contract's promises. Ms. Wenguer pointed out that the provider will be paid in installments according to progress. She emphasized that the product is very good and the provider wants to have a presence in Florida. She stated if the contract is not complete by the end of the week, it was not likely it would ever be executed.

Vice Chair Rudominer added that the only alternative open to the Board would be to go back to the RFP process. He recommended providing additional time, such as until the March 2012 Board meeting.

Investment Seminar

The investment seminar will be held on February 16, 2012, beginning at 12 p.m. Lunch will be served prior to the managers' presentations. The meeting is open to the public. The seminar continues on Friday, February 17, with breakfast at 8 a.m. Most managers will be in attendance, and a speaker is scheduled for Friday.

Mr. Bayne advised he would not be able to attend on Friday, February 17.

PENDING ITEMS
New Business

Chair Dew noted that the Board has previously discussed a change in the disability pension forms to be filled out by doctors, and asked Mr. Fortunato to work with Ms. Wenguer and Mr. Cypen to come up with an updated form. Mr. Fortunato agreed to this.

Ms. Wenguer noted there are some discrepancies in the year-end dates associated with disability payments. She asserted that this would be corrected once the new pension software is in place.

Chair Dew requested an update from Mr. Wood with regard to the potential outsourcing of payroll for the City. Mr. Wood said the Budget Advisory Board had not been pleased with the early efforts to outsource payroll, so a second task force has been created to formulate a new RFP. The Budget Advisory Board has suggested that some costs could be minimized by using an automated time system on a City-wide basis.

Chair Dew asked for more information on the pension obligation bond. Mr. Wood said this is still a possibility, although some time has been lost on this issue. Market rates remain favorable for this bond. He stated that the amount for this bond has not yet been determined, although a figure of $200 million has been discussed.

Mr. Bayne asked what the estimated time period would be for the pension obligation bond to become reality once the process begins. Mr. Wood estimated it would be 90-120 days before any action would be taken.

Mr. Wood asked if the actuary required any additional information to begin the audit. Ms. Wenguer said the actuary has the necessary information, but the auditor needs the plan’s trial balance from the City.

Old Business

Walt Courtney, retiree, asked if any new work has been done to research the smoothing issue. Chair Dew advised that Mr. Cypen is working on this project, and its completion is expected by May 2012. He explained that this is a lengthy project and a strong legal opinion is required.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:11 p.m.

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