January, 2011

POLICE AND FIREFIGHTERS PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, JANUARY 12, 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
John Herbst, City Auditor
Fred Nesbitt, Director of Media Relations
Kevin Schmid, CapTrust
Steve Schott, CapTrust
Rushant Sanathara, Pimco
Brian Gevry, Boyd Watterson
Tim Hyland, Boyd Watterson
Michael Bee, Boyd Watterson
Steve Malinowski, GTS Advisors
William Humphrey, President, IAFF
Michael Salzano, Vice President, IAFF
Bob Dawson, Friend of Trustee Dennis Hole
Gregg Gurdak, President, Retirees' Association
Jack Cann, Retirees' Association
Jack Chew, Retirees' Association
Frank Colleran, Retirees' Association
Walt Courtney, Retirees' Association
George Farrell, Jr., Retirees' Association
Fuzzy Larkin, Retirees' Association
Bill Paton, Retirees' Association
John Stuber, Retirees' Association
J. Opperlee, 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, January 12, 2011, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Chair Dew called the meeting to order at 12:28 p.m. and roll was called. The Chair thanked the Staff members present for their work in 2010.

Communications to City Commission

Motion made by Vice Chair Rudominer, seconded by Mr. Burnam, to forward the results of the election of the officers and a copy of the letter from the compliance statement that was received. In a voice vote, the motion passed unanimously.

ELECTION OF OFFICERS

Mr. Rudominer nominated Chair Dew to serve again as Chair. Mr. Naugle made a motion, duly seconded, to close the nominations. There being no other nominations for Chair, Chair Dew was named Chair by acclimation. In a voice vote, the motion passed unanimously.

Mr. Fortunato nominated Vice Chair Rudominer to serve again as Vice Chair. Mr. Bayne made a motion, duly seconded, to close nominations. There being no other nominations for Vice Chair, Vice Chair Rudominer was named Vice Chair by acclimation. In a voice vote, the motion passed unanimously.

Vice Chair Rudominer nominated Mr. Fortunato to serve again as Secretary. A motion to close nominations was made and duly seconded. There being no other nominations for Secretary, Secretary Fortunato was named Secretary by acclimation. In a voice vote, the motion passed unanimously.

MINUTES:

Regular Meeting December 8, 2010

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, to waive the minutes as documented.

Chair Dew noted the following corrections to the minutes:
P.3, paragraph 2: remove "to know;"
P.3, paragraph 5: remove "done;"
P.3, paragraph 6: remove "to be known;"
P.3, paragraph 8: change "the Association signed…" to "he signed."

In a voice vote, the motion passed unanimously.

Mr. Cypen noted a correction on the Schedule A Agenda items: this should read "signed compliance statement" rather than "signed the IRS determination letter."

BENEFITS:

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to take the benefits individually. In a voice vote, the motion passed unanimously.

Police Department:
DROP Retiree: Thomas Harrington

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to approve. In a voice vote, the motion passed unanimously.

New Beneficiary: Kathleen Shortle

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to approve. In a voice vote, the motion passed unanimously.

Fire Department:
New Retiree(Termination of DROP): Jeffrey Justinak

Motion made by Mr. Bayne, seconded by Mr. Hole, to deny.

Mr. Bayne explained that the Ordinance states employment must be terminated with the City; Mr. Justinak's employment is not terminated according to his contract. He asked how the Deferred Retirement Option Plan (DROP) could be distributed to an individual who is still employed.

Mr. Cypen said there are two issues. One is continued membership in the plan, which is not applicable, as Mr. Justinak is already retired. The second issue is that an individual has no access to the DROP while still employed.

Chair Dew pointed out that Mr. Justinak's benefits are still earned. Mr. Cypen said these would not be taken away, but could not be disbursed based upon no termination of employment.

He explained that the DROP period is either 60 months or termination of employment, whichever is shorter. Benefits are distributed upon termination of the DROP period.

Mr. Bayne said Mr. Justinak's contract has been approved as of July 28, 2010, and he has remained in the DROP during that time period. He has accrued interest in the DROP and will continue to do so until termination of employment. He said the issue is that an individual who is still employed by the City cannot receive DROP money, according to the Ordinance.

Mr. Cypen noted that the amount of time Mr. Justinak has been in the DROP is also a factor. Ms. Wenguer confirmed he has been in the program for 2.5 years.

Mr. Cypen said the nature of an individual's employment with the City is not part of the issue. A person may be classified as an independent contractor rather than an employee because of tax issues. For DROP purposes, he stated that Mr. Justinak is employed by the City, and DROP is not intended to be disbursed while an individual is still an employee. He confirmed that it is his legal opinion that Mr. Justinak is not eligible to receive DROP monies at this time, and will remain in the DROP unless 60 months expire or employment is severed.

Vice Chair Rudominer asked if an individual could be re-hired the next day after terminating employment. Mr. Cypen said this could probably done if an individual has received all his money from the program.

Mr. Bayne said he had raised the issue because the Ordinance clearly states the terms under which DROP can be accessed: 60 months of DROP participation, completion of 27 years of service, death of an individual during the DROP, or termination of employment with the City. He noted that Mr. Justinak has served 22 years with the City.

Ms. Wenguer confirmed that she did not receive notice of termination of Mr. Justinak's employment with the City. He has signed the board's paperwork to resign and receive benefits, but this has not yet been processed.

Chair Dew asked if it was Mr. Cypen's legal opinion that the Board cannot authorize payment of DROP benefits to Mr. Justinak. Mr. Cypen said based upon the facts as presented, the Board cannot authorize benefits. He added that the item could be deferred in case there is new information the applicant might want to present.

Motion made by Mr. Naugle, seconded by Mr. Fortunato, to table the item until a time certain, which would be the next meeting in February. In a roll call vote, the motion passed 6-1 (Mr. Hole dissenting).

New Retiree (Termination of DROP): Kenneth See

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, to approve. In a voice vote, the motion passed unanimously.

DROP Retiree: Walter Schrub

Motion made by Mr. Fortunato, seconded by Mr. Bayne, to approve. In a voice vote, the motion passed unanimously.

Vesting: Eric Pologruto

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to approve. In a voice vote, the motion passed unanimously.

New Beneficiary: Karen Morton

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to approve. In a voice vote, the motion passed unanimously.

Survivor Death: Adelaide Alessi

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to approve. In a voice vote, the motion passed unanimously.

BILLS:

Asset Consulting Group	$10,625.00
Marcum Rachlin	$ 750.00
Holland & Knight	$ 600.00

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

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Mr. Gurdak requested an update on the Retirees' Association's relationship with attorney Alan Eichenbaum. Chair Dew said he had received Association approval to call Mr. Eichenbaum, and he had explained that they were in the process of putting together an educational presentation for the City Commission and requested Mr. Eichenbaum's assistance with the remarriage clause. They prepared a spreadsheet to be part of the Association's presentation package. Once this has been reviewed, a copy will be provided to Mr. Eichenbaum, at which point he and Chair Dew will discuss the next course of action.

Mr. Gurdak asked if the Board will discuss the letter to Randall Stanley regarding calculation of benefits for Frank Colleran and others similarly situated. Ms. Wenguer said Mr. Stanley has stated that the Board is looking for is 3 3/8 plus the bonus exceeding the cap. The cost would be from $2000 to $2500 to do the work on the calculation. Mr. Stanley had also reiterated that this is only an estimate and he could not guarantee these figures.

Chair Dew asked Mr. Cypen for his legal opinion on the issue. Mr. Cypen replied that the Board had originally decided not to include this benefit, and they are now being asked to include it. If they are going to consider this request, they should have the knowledge of how much it would cost.

Chair Dew recalled that the question was whether or not an individual was eligible for this addition. Mr. Cypen said this was what the Board is deciding. If the Board does nothing, this benefit will not be included for this individual or for others in his situation. Ms. Wenguer clarified that 19 plan members would benefit from this change.

Retiree Frank Colleran, the individual who requested the benefit, said he did not believe the letter from Randall Stanley was accurate, as the scenarios presented did not agree with what he had presented to the Board. He noted that his attorney, Mr. Eichenbaum, has not yet seen the letter. Mr. Cypen suggested that Mr. Colleran show Mr. Eichenbaum the letter and ask him to provide the Board with input on what he felt they should be looking for. It was determined that this would be done and Mr. Eichenbaum would then contact the Board, which would then forward the letter to Randall Stanley. No action was taken at this time.

INVESTMENT REVIEW:
CapTrust Kevin Schmid, Steve Schott

Mr. Schott explained that CapTrust had brought information on fixed income managers for the Board's review. These managers would complement Agincourt, one of the Board's current managers. The 16-year bull market in bonds is now turning around, and they would like to ensure their managers have the tools to mitigate the downside of this change. Mr. Schmid said two out of three managers would attend today's meeting, and the third would join via telephone.

He advised that they were seeking a replacement for the two passive funds currently in place, which are BNY Mellon and SSGA. Their focus is on a manager with intermediate duration in order to bring down interest rate risk, as well as to actively manage this risk within that intermediate space. Three candidates were identified and were put through the firm's due diligence process. All three are on CapTrust's recommended list of fixed income managers.

The first of these managers, Pimco, is a mutual fund, and is the largest fixed income manager in the world. Mr. Schmid said he had advised Ms. Wenguer that because this is a mutual fund, one minor adjustment would be required to a clause in the investment policy statement. This adjustment would limit access to international securities. The current policy statement has a maximum of 10% international securities, while the fund's guidelines allow it to invest up to 30%. The second manager, Atlanta Capital, and the third, Boyd Watterson, would both be separate accounts.

Mr. Cypen asked if the guideline for Pimco refers to more than 10% of the investment in that specific account. Mr. Schmid confirmed this. Mr. Cypen pointed out that this account is roughly 10% of the entire portfolio, which means even if 100% of it was invested in foreign securities, it would not exceed 10% of the entire investment. Mr. Schmid said the clause currently states that no more than 10% of that fixed income manager could be invested in international securities.

Mr. Schmid said all three prospective managers would use duration management as a primary tool. He said Atlanta Capital was the most conservative of the three candidates: they focus on very high credit-quality securities, and have been at 80% of the benchmark duration for approximately one year. He characterized this manager as very defensive. Their performance over the past year has lagged behind the benchmark of the other two managers for this reason; however, considering the fears the Board may have regarding the bond market, they may also be the best-positioned manager at this time. Boyd Watterson would be in the middle of the spectrum, and Pimco is the most aggressive of the three manager candidates.

He referred the Board to a book describing CapTrust's process of evaluating and selecting managers, including performance comparison, trailing returns comparison, and risk in both positive and negative markets. Mr. Schmid pointed out that the search is focused on how they expect managers to perform in a negative environment. They will also eventually be entering a rising interest rate environment, which will be a negative total return environment for bonds. He advised that in a positive market, Atlanta Capital does not perform as well; Pimco does exceptionally well in a positive market, but generally declines in a negative market. Boyd Watterson participates fully on the upside but manages to protect 30-40% on the downside.

Mr. Schott added that the intermediate side is an area that CapTrust feels makes a lot of sense for the fund, as this space makes up 85% of the return of the core space with half the volatility and risk. He explained that this is the risk-adjusted return they are trying to implement into the program. In terms of managers, they prefer to find managers that have extra return; however, in the fixed income world, the primary goal is to ensure that bonds act like bonds when they are needed to, with no surprises, as bonds make up the anchor of the portfolio.

FIXED INCOME MANAGER INTERVIEWS:
Pimco - Rushart Sanathara

Mr. Sanathara advised that he would discuss Pimco's intermediate moderate duration strategy, and said they sought to be a new normal type of environment, in which there is lower growth for longer periods of time in countries like the United States. He stated that Pimco was founded in 1971 as a specialty fixed income manager, with current assets under management at $1.2 trillion. There is a great deal of consistency among the investment professionals employed by Pimco, with 19 years' average experience. This stability allows the firm to consistently show excess returns with benchmark-like risks.

Roughly $525 billion in assets under management by Pimco are in fixed income intermediate-related assets, with $30 billion in the moderate duration strategy the Board is considering. They manage assets across every sector of the fixed-income marketplace, including the credit and global markets. Mr. Sanathara said they begin with a long-term investment orientation in order to determine the three- to five-year long-term trends that will have a great influence on capital markets and interest rates.

Pimco also has a strong focus on risk management at all levels of the firm. They have over 30 proprietary analytic systems in place in order to manage risk. This provides a layer of checks and balances for the firm, which are then filtered into the risk management committee and on to the fund portfolio. The goal is to avoid surprises and mitigate downside risks.

Boyd Watterson - Brian Gevry, Tim Hyland, Michael Bee

Mr. Gevry stated the firm was begun over 80 years ago and manages over $8 billion in assets, 90% of which are fixed income. They have a strong presence in south Florida. They focus on intermediate duration management and set risk controls to ensure SSGA they do not drift too far from the benchmark.

The tactical components used by Boyd Watterson are how the sectors of the industries may deviate from history, given current circumstances including economic and political changes. Mr. Gevry noted that some of these changes can either create an opportunity for investors or encourage them to get out of that sector. On the banking side, there is still significant concern about credit while the banks are improving their credit profile. He concluded that the firm believes the end of the credit improvement cycle is approaching, as quality credit has mostly recovered and many of the mis-pricings of the past two years are no longer present.

Mr. Gevry advised that Boyd Watterson will only employ the strategies that are allowed by the Board's guidelines. They use a proprietary IT system that allows for a high degree of distinction between portfolios so they are managed appropriately. Mr. Bee characterized this as a built-in compliance system for all portfolios.

Mr. Gevry noted that this management of the risk/reward relationship allowed them to avoid poor performance in 2007-08. Prior to the economic crisis of 2008, they had reduced exposure to credits such as Countrywide and Washington Mutual, as these were not seen to represent any reward.

Mr. Gevry noted that some clients only allow them to invest in securities with a rating of A or better; the Board's standard is BBB or better, which will allow for a mix of components and roughly a 50 basis point advantage over the composite. It was clarified that there is no limit on the amount of BBB stocks in the portfolio, but the overall rating must average to A or higher.

Chair Dew asked if fees are 20 basis points. Mr. Hyland said this is their standard fee; however, the Board's account would be offered a fee of 17 basis points.

The Board took a five-minute recess before presentations were resumed.

Atlanta Capital - Jim Womack, Greg Coleman, Brad Buie

The representatives of Atlanta Capital gave their presentation via teleconference.

Mr. Coleman said Atlanta Capital invests in both stocks and bonds, and does not invest in emerging markets or other high-risk entities. Their focus is as much on risk as it is on return. The company is owned by Eaton Vance, which is a mutual fund company based in Boston. Over 75% of its fixed income business comes from state and local governments, and they handle several pension funds.

He advised that Atlanta Capital prefers to own bonds that are backed by thousands or borrowers rather than those backed by a single borrower. This is one reason they prefer mortgage- and asset-backed securities. He continued that cash flow stability is also important, as the owner of a mortgage that backs a bond may refinance his loan. They purchase bonds that are considered protections, which are likely to be paid back at a very stable rate and the homeowner is not likely to refinance that loan. Other bonds are avoided because the firm cannot identify the kinds of loans that back these securities.

Mr. Womack said Atlanta Capital does not purchase corporate bonds rated BBB, as these become junk bonds if they are downgraded. This makes the pool of potential buyers shrink substantially.

Mr. Cypen noted that according to p.8 of the presentation, returns are not net of fees. Mr. Coleman confirmed this.

In addition, because interest rates are so low, corporations and other entities are able to issue bonds at all-time low coupons. Typically, when an entity issues a great deal of debt, it returns this money to its shareholders. While this is positive for stock prices, it is negative for bond holders. Mr. Womack pointed out that treasury notes usually have the lowest coupon of any bonds. Atlanta Capital is trying to protect portfolios by managing them defensively with a shorter-than-benchmark duration, as well as keeping the portfolios' credit quality very high.

Chair Dew asked the team to describe their fees. Mr. Coleman said their fee is 20 basis points on the first $25 million, with 15 basis points thereafter. Chair Dew also asked about liquidity. Mr. Womack said they have clients that have requested that as much as 50% of the portfolio be liquid; from a liquidity standpoint, bonds trade very cleanly and are very liquid due to their high-quality nature. On a month-to-month basis, they also often provide most of the cash flows to the pension plans they deal with, as it can be more efficient for a fixed income manager to manage these cash flows than other asset class managers.

The call with the representatives from Atlanta Capital was ended at this time.

Mr. Schott and Mr. Schmid stated they had made further determinations on which of the three managers would be best for the Board's fixed income allocation. Vice Chair Rudominer advised them to keep in mind the differences between the three candidates and existing fixed income manager Agincourt, and how the managers would fit together.

Mr. Schott said the intent was to take the two managers from the index part of the portfolio and make them more active with the intermediate part. They are also discussing the possibility of shortening the duration and shortening the liability consideration. He advised that Agincourt tends to focus on sector and issue selection, as do Atlanta Capital and Boyd Watterson. He said Pimco has more similarity to Agincourt than the other two candidates, which is in part due to its size.

Mr. Schmid added that because Agincourt's focus is less on duration, CapTrust had looked for a manager that does more in duration management to serve as a complement to Agincourt. He said Atlanta Capital has an extremely defensive posture with respect to risk and return, and has the lowest risk of the three candidates. He noted that this bias toward higher quality does leave the possibility of excess return on the table in a negative environment.

Vice Chair Rudominer recalled that Atlanta Capital had said they would customize the Association's portfolio to its needs. Mr. Cypen pointed out that this would not include buying BBB-rated bonds in any case, even though the Board's policy statement allows them to do so.

Mr. Schmid continued that Pimco is a large player in the fixed income market and brings a great many resources to bear on the portfolios. He said a moderate duration portfolio may not be the best way to use Pimco. The Board is seeking to move from a passive to an active strategy, which is primarily focused on risk reduction and protection in a negative environment. While Pimco has this capability, they also take the greatest risks of the three prospective managers. He noted that this could be a mismatch for the Board, although since they will be taking on two new managers, Pimco could be paired with one of the other two candidates as part of a risk reduction strategy.

He continued that Boyd Watterson has a duration management focus, and moves very gradually. He characterized them as being between the other two managers with regard to risk.

Another issue is that Pimco is a mutual fund and is very liquid; however, they are the least transparent of the three candidates in terms of their ability to enforce the investment policy statement. They will also use items such as preferred stocks and emerging market debt, which neither Atlanta Capital nor Boyd Watterson will use. Mr. Schmid advised that the Board would have less ability to tell Pimco what they can or cannot do within the mutual fund structure, and noted that the fee of 46 basis points is considerably higher than the 20 and 17 basis point fees cited by Atlanta Capital and Boyd Watterson respectively.

Mr. Schott added that while he likes Pimco, he is less enthusiastic about them with a fee of 46 basis points as compared to the other firms' fees. He encouraged that the portfolio should have diversification among its fixed income managers, and said duration is the biggest tool of a fixed income manager. He concluded that without the fee, Pimco would be his first choice; he pointed out, however, that 46 basis points is a large part of the yield of the portfolio.

With regard to Atlanta Capital, he noted that their performance is the least of the three candidates; however, he agreed that there was large movement in lower quality bonds, in which Atlanta Capital had not participated. Mr. Schott said this manager would also have the highest quality bonds, and stated that fixed income should be the anchor of the portfolio.

He noted that Pimco's size is both a pro and a con: the portfolio would have good resources, but it would be more difficult to implement smaller bonds. Both Boyd Watterson and Atlanta Capital can do this, with slightly more duration management from Boyd Watterson. Mr. Schott advised that they plan to adjust the benchmark with Agincourt, and will bring information from these discussions to the next couple of meetings.

Mr. Burnam asked how the portfolio's $130 million in fixed income would be positioned between the three prospective managers as well as Agincourt. Mr. Schmid said he would want a duration manager, a sector and issue selection manager, and a macro manager. He concluded that he would select Agincourt, Pimco, and Boyd Watterson in this case.

Vice Chair Rudominer said the presentation had been about getting greater performance yield from fixed income, and asked if it would be counterproductive to invest funds in a manager that does not use the Board's investment policy, such as Atlanta Capital.

Mr. Schott said he would make Pimco the third choice in Mr. Schmid's scenario rather than Boyd Watterson, as he felt their all-asset fund would be a better fit. He explained that they would be expected to take greater risks and to include things that might not happen in the fixed income world.

Mr. Bayne asked if it would be possible to ask Pimco to reduce their fees. Mr. Schmid said this would require a separate account, and given Pimco's size, getting a separate account with them would require a size of close to $100 million.

Chair Dew asked if the investment would use funds from the core, which would include Agincourt, or from the entire portfolio. Mr. Schmid said the idea would be to take money from passive funds, such as BNY Mellon and SSGA, which total roughly $50 million, and leave money in these passive funds in case liquidity is needed.

Chair Dew clarified that the two new managers would replace BNY Mellon and SSGA. Mr. Schott said this was true, and they would make a recommendation that the portfolio should have three managers with three different styles. With this in mind, his choices would be Agincourt, Boyd Watterson, and Atlanta Capital.

Chair Dew asked how funds would be allocated among the three managers. Mr. Schott said they would divide the $50 million equally between them, in thirds.

Mr. Burnam commented that Atlanta Capital seemed like an index. Mr. Schmid explained that this was because the past two years, in which high-risk assets and bonds had performed well, had made them look bad. He said they are very well positioned for fixed income in a negative environment, but noted if the negative environment never occurs, the Board would leave potential returns on the table by selecting Atlanta Capital.

He continued that CapTrust has previously advised the Board to increase its exposure to alternative markets, including diversifying this exposure from the 10% invested in K2. He said Pimco's all-asset approach can give exposure to all of that manager's funds, which he felt made sense and could add return without risking safety and security.

Mr. Schmid said the only downside of dividing funds equally among three managers would be how complex the Board wants to be in terms of its managers. He said if 33% is placed under each manager, the portfolio can become overweighted to the duration management side, with the exception of Agincourt, which is duration-neutral. He advised that one positive aspect of having two different duration managers is diversification in that timing.

With regard to K2, Mr. Schmid explained that the Board's funds were recovered from K2; the next opportunity to redeem these funds would be June 30, with 91 days' notice.

Ms. Wenguer asked if it might be better to diversify among the duration managers rather than selecting two intermediate duration managers. Mr. Schmid said in general, they are seeking to tactically reduce duration across the board, due to the potential for a low-yield environment, rising rates, and negative return in the bond market.

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, that they invest in Boyd Watterson and Atlanta Capital, taking the money 50/50 from the two passive funds, and revisit funding at more from Agincourt, subject to appropriate agreements.

Mr. Bayne asked if it would be possible to negotiate Atlanta Capital's fee. Mr. Schmid said they could be asked to match Boyd Watterson's fee.

Mr. Hole requested that any forthcoming reports or presentations be net of fees. Mr. Cypen noted that CapTrust's reports are net of fees, and the individual managers could be asked to submit reports net of fees as well.

In a voice vote, the motion passed unanimously.

Chair Dew thanked Mr. Schott and Mr. Schmid for bringing the managers' presentations to the Board, as well as making recommendations and providing guidance after the presentations.

He requested input from Mr. Malinowski of GTS Advisors regarding the transition to new managers. Mr. Malinowski said from a brokerage transaction cost perspective, moving the portfolio from passive to active is a low-cost event. From a transition management standpoint, he suggested the Board consider allowing GTS to begin organizing and communicating a timeline for implementation once contracts have been signed.

Mr. Schmid said he felt GTS would be particularly helpful when money is moved from Agincourt to the two new managers. Mr. Malinowski added that GTS has had some success in the past with moving cash from one manager to another on behalf of a fund; he advised that they could ask BNY Mellon and SSGA to accommodate the fund, and to give an in-kind transfer, which could significantly reduce potential costs and exposure to the fund. He strongly suggested that the Board empower GTS to have this conversation on their behalf.

Mr. Cypen asked what the board might do if the prospective managers do not move on their fees; for example, would they still hire Atlanta Capital if they did not reduce their fee from 20 basis points. Chair Dew said the managers will be hired at their stated fees if better fees cannot be negotiated.

Motion made by Mr. Hole, seconded by Vice Chair Rudominer, that GTS has been appointed transition manager to implement this rebalance on behalf of the fund upon contract completion, and according to the existing agreement between GTS and the Board. In a voice vote, the motion passed unanimously.

Mr. Schott said markets are currently moving back up, and the fund has slightly over $465 million as of January 11, 2011. He said if the markets continue to move, some rebalancing may be required. Mr. Schmid added that the fund has reached the maximum on large cap, as the City's contribution money has been added to this index. He suggested as payments are necessary in the next month, the Board should take this entirely from large cap.

Regarding next steps from the asset allocation recommendation, he recalled that three primary issues remain: Restructuring of domestic equity in terms of replacing NorthPointe and adding mid-cap exposure; Bringing in other international managers to compete with Artio; Begin looking at potential alternatives, so when the K2 money is available in June, the Board will know where it should go.

He advised that seeking other international managers would be the lowest of these priorities, and domestic equity should be the focus of discussion at the next two upcoming meetings.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbit said he had sent out two news releases, one of which noted that four Trustees were returned to the Board and the second reporting that the plan had won the Pension Plan Coordination Council award.

He noted that updated numbers from December 31, 2010 are needed to show how many active members and retirees are part of the plan. He noted that individuals in the DROP program are counted as retirees. The report also includes a correction, noting that in 2011 employees will see a 2% reduction in their Social Security, bringing it from 6.2% to 4.2%. The employer will continue to pay 6.2%. Medicare is not affected by this change.

Mr. Nesbit advised that he had attended a Power Forum meeting the previous week, which was held to discuss pensions in Broward County and Fort Lauderdale. The argument made at the Forum was that public sector pension plans are under-funded, unsustainable, and are bankrupting cities.

Chair Dew, who had also attended the meeting, recalled that another statement made at the Forum was that corruption is uncontrollable. He had spoken up to state that the Fort Lauderdale pension plan is handled very transparently and has been recognized nationally by the Pension Plan Coordination Council. The plan is very conservative and there is corporate governance. He had made himself available to answer questions following the Forum. Mr. Nesbit added that the Forum had implied that the issues of corruption that had affected private sector plans also affected public sector plans, which is not true.

Chair Dew continued that there had been a meeting regarding the educational presentation that is being put together for the City Commission. They will follow up on January 21 to continue putting this presentation together.

ADMINISTRATOR’S REPORT:

Actuary Estimate - Me Too Revision

This item was previously discussed.

Total DROP Distribution - Discussion

Ms. Wenguer advised that there are people in the plan who have terminated DROP and have left their money in it; some of these individuals have now requested that money. It is the Board’s responsibility to determine the administrative fee, which will be subtracted from the total and pro-rated for the portion of the year that an individual’s money was in the plan. She said the fee has been estimated at 50 basis points, which she described as a very fair rate to cover administrative costs. She recommended that this fee be adopted for any DROP distribution.

Motion made by Vice Chair Rudominer, seconded by Mr. Bayne, to set the administrative and investment fee at 50 basis points. In a voice vote, the motion passed unanimously.

Chair Dew asked Ms. Wenguer to find out where the Fire Department’s Memorandum of Understanding stands with regard to the upcoming presentation to the City Commission. Ms. Wenguer agreed to do this.

She continued that at present, an individual can only take a total distribution; however, the Ordinance states that until the interest for the year has been determined, an individual must use the prior year’s interest. She asked if this means it is to be adjusted with the current year’s interest. Mr. Cypen clarified that if an individual does not terminate on December 31, the interest will be based upon the previous year’s calculation.

2011 Budget - Final

Ms. Wenguer distributed copies of the final budget for the Board members’ review.

Annual Audit - Update

She advised that the auditors have contacted her and she has sent out confirmations. The auditors are expected by the end of January, although she noted that the City’s audit could slow this process, as the Board uses a good deal of their information.

PENDING ITEMS:

New Business

Chair Dew asked Mr. Cypen to comment on the IRS compliance statement. Mr. Cypen said this has been received and goes automatically to the determination section for review. There is an extension for people who are in Cycle E.

Mr. Hole recalled that the Board had sent its consultant a survey entitled General Pension Investment Consultant Evaluation Input Form. They had returned the survey with feedback. He suggested this be done with the Board's new consultant for reasons of consistency. The Board agreed this should be done.

Old Business

With regard to new software, Ms. Cintron stated she had called references and contacted three companies before the holidays. Pension Gold has reached out to the Board and has asked to schedule a February 3 meeting to demonstrate their software.

Communications to the City Commission

Motion made by Vice Chair Rudominer, seconded by Mr. Burnam, to forward the results of the election of the officers and a copy of the letter from the compliance statement that was received.

There being no further business to come before the Board at this time, the meeting was adjourned at 3:50 p.m.

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