January, 2015

POLICE AND FIREFIGHTERS' PENSION BOARD

REGULAR BOARD MEETING

888 South Andrews Avenue, Suite 202

Fort Lauderdale, FL 33316

Wednesday, January 14, 2015, 12:30 p.m.

BOARD'S COMMUNICATION TO THE CITY COMMISSION
Items that may be of interest to the City Commission:
Officers were elected for 2015: Michael Dew (Police), Chair; Ken Rudominer (Fire), Vice Chair; Richard Fortunato (Police), Secretary.
The Board added the American Realty Strategic Value Realty Fund, which is part of American Realty Advisors, to the portfolio to enhance real estate return.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne, Trustee
Richard Fortunato, Secretary
Dennis Hole, Trustee
Jim Naugle, Trustee [left at 2:52]
Jeff Cameron, Trustee
Lynn Wenguer, Executive Director
Steve Cypen, Cypen & Cypen, Board Attorney

Also Present
Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Linda Logan-Short, Deputy Director of Finance and CFO
Kevin Schmid, CapTrust
Steve Schott, CapTrust
Jim Ingersoll, President, Retirees' Association
Fred Nesbitt, Communication Director
Paul DeBold, Retirees' Association
Glenn Galt, Captain, Police Department
John Kane, Retirees' Association
W.R. Spodnick, Police Retiree
Lisa Edmondson, Recording Secretary, Prototype Inc.

Note: Items were discussed out of order.

ROLL CALL/CALL TO ORDER
Chair Dew called the meeting to order at 12:31 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.

ELECTION OF OFFICERS
Mr. Hole nominated Mr. Dew for Chair, seconded by Mr. Rudominer. With no other nominations, Mr. Dew was elected by acclamation.

Chair Dew nominated Mr. Rudominer for Vice Chair, seconded by Mr. Hole. With no other nominations, Mr. Rudominer was elected by acclamation.

Mr. Rudominer nominated Mr. Fortunato for Secretary, seconded by Mr. Naugle. With no other nominations, Mr. Fortunato was elected by acclamation.

MINUTES:
Regular Meeting: December 10, 2014

Chair Dew noted a change on page 4.

Motion made by Mr. Hole, seconded by Mr. Cameron, to approve the minutes of the December 10, 2014 meeting as amended. In a voice vote, the motion passed unanimously.

NEW HIRES:
Chair Dew recognized the new hires.

COMMENTS FROM PUBLIC
None.

BENEFITS: FIRE DEPT:
New Retiree: Patrick McGee
DROP Retiree: Raymond J. Cicero

POLICE DEPT:
DROP Retiree: Richard A. Fortunato
New Beneficiary: Mildred F. Sileo

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

Service-Incurred Disability Application: Jason VanChoff

Mr. Cypen reminded the board that this was a continuation of a prior hearing.

The Board heard Mr. VanChoff's case.

Mr. Cypen said the Board could defer the request if they required additional information; grant the request or deny the request, making separate motions addressing all of the three items.

Motion made by Mr. Hole, seconded by Mr. Rudominer, to deny the service-incurred disability application on the grounds that it was not total. In a voice vote, motion passed unanimously.

Motion made by Mr. Hole, seconded by Mr. Bayne, to deny the service-incurred disability application on the grounds that it was not permanent. In a voice vote, motion passed unanimously.

Motion made by Mr. Hole, seconded by Mr. Rudominer, to deny the service-incurred disability application on the grounds that it was not service connected. In a voice vote, motion passed unanimously.

BILLS:
Prudential $71,949.64
Foster & Foster $12,948.00

Dr. Hyde	\$3,600.00
Marcum	\$3,025.00
Holland & Knight	\$50.00

Ms. Wenguer said the Foster and Foster bill included the buyback calculation for herself and other members, as the Board had requested.

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

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:
Mr. Ingersoll had nothing to report.

VALUE ADDED REAL ESTATE: American Realty Jay Butterfield
Mr. Butterfield distributed a pamphlet to Board members. He stated the pension fund's investment in American Realty funds was currently 90% invested in core and 10% in core plus.

Mr. Butterfield discussed the Open End Value Fund, which would enhance their return profile while managing risk. Additional risk leading to additional return could be accomplished through investing in different property types in which core managers were not interested. Mr. Butterfield said the American Strategic Value Realty Fund contained a spectrum of components in markets similar to the core fund, but focused on repositioning, refinancing, renovation and releasing, with the result of deploying rescue capital.

Mr. Butterfield said the fund was created five years ago. The gross fair value was currently \$360 million and they expected it to grow to between \$500 million and \$1 billion. The return objective was 300 to 400 basis points above a core asset. Mr. Butterfield said 41-42% of the fund was fully leased, providing a steady income stream, and 40-50% of the return would be from that income. The return would be approximately 50% with a maximum of 65%.

Mr. Butterfield explained the fund was invested in "broken assets": apartments, retail, industrial and office buildings that could be fixed and sold in three to five years. He provided examples of properties they had identified, acquired, repaired and sold.

Mr. Butterfield stated after three years, and if the fund provided a net Internal Rate of Return (IRR) over 10%, they would earn 20% and the fund would keep 80% of any return over 10%. Half of that incentive payment was subject to claw-back to cover any return less than 10% over the next three years. Mr. Ingersoll asked how often this happened and Mr. Butterfield replied approximately 60% of the time.

Mr. Cypen asked if it would be fairer to wait to pay the IRR instead of exercising the claw back and Mr. Butterfield said this would entail a six-year "clip" instead of three years. He said the current process was industry standard.
Mr. Schott asked the implication of Employee Retiree Income Security Act (ERISA) v. non-ERISA funds. Mr. Butterfield explained that most corporate clients were governed by ERISA but public pension funds were not. The Core Fund was set up as an ERISA plan asset fund, but it was very difficult to have an ERISA plan asset in a value-added fund due to "prohibited transaction" issues, such as conflicts of interest.

Mr. Butterfield stated there were currently 30 investors in this fund including the State of Oklahoma Teachers' Fund, the Lakeland, Florida Police Pension Fund, the City of Pompano Beach Florida and Fort Lauderdale General Employees Fund.

Prudential Real Estate Investors Kevin Smith, Noah Levy, Steve Blazejewski
Mr. Smith distributed a pamphlet to Board members. He stated this was a closed-end fund that comprised senior housing space. Most clients in this fund were public pension funds. Mr. Smith anticipated they would achieve the \$600 million cap and start investing very soon.

Mr. Levy stated they focused on the residential privately-paid sector of support services that did not require licensing or provide health care. Mr. Levy said this form of real estate carried a higher return and was less likely to track the economic cycle because it was driven by demographics. He provided data showing that senior housing, compared to other forms of real estate, had performed better during the financial downturn.

Mr. Blazejewski said in his professional life, he had concentrated on senior housing. He explained they focused on operators and then the market when selecting housing and they sought to create a balanced portfolio. Mr. Blazejewski stated the SHIP 3 Fund, which they were liquidating now, had performed very well compared to other investment classes.

Mr. Blazejewski stated they were 80% committed in this fund and anticipated being fully deployed by the end of the first quarter in 2015. There were already 29 properties in the SHIP 4 Fund and they would total 31 or 32. The occupancy was currently 86% but this included several new developments. Mr. Blazejewski explained that a significant part of returns were from income.

Mr. Blazejewski described the SHIP 5 fund makeup: the target size was $500-600 million and would have a similar makeup of independent living, assisted living and memory care as the previous funds and they would seek properties in areas with a dense, wealthier population. The overall IRR target was 10-14% and it was likely the Prudential Retirement Account and the Prudential General Account's investment would be up to 10% of the fund. The leverage target cap was 65%.

Mr. Levy stated Prudential did not get paid until the client received a 10% return. Mr. Smith said this was a very safe, steady, defensive investment, even in a downturn.
Chair Dew asked the turnover time and Mr. Levy stated approximately six years. He described the fee structure and life cycle and how these were different in open and closed-end funds.

Mr. Levy stated 28% of the 10-14% return would come from income versus appreciation. Mr. Schott asked who the buyers usually were when the assets were liquidated and Mr. Blazejewski said they sold to other equity funds and operating companies. Mr. Levy explained that people resided longer in senior housing that in other multi-family apartments. Mr. Blazejewski said the operators were contracted to run the buildings and were often co-owners. Mr. Levy stated this was an upper-middle income market for people with wealth and/or long term care insurance.

Mr. Cypen asked if they had any properties in Dade, Broward or Palm Beach counties and Mr. Levy stated they worked with operator Allegro in Northern Florida, and Arbor on the west coast of Florida. Mr. Levy stated they had experienced no delinquencies.

Mr. Levy explained the minimum commitment was $10 million, but they had waived that in the past.

Mr. Schmid said both Prudential and American Realty had similar returns and fee structures. American was very diversified while Prudential was very concentrated in one area of the real estate market. American Realty was an open-ended fund and Prudential was a closed-end fund. Mr. Schmid recommended American Realty because of its diversification and because it was more like other real estate investments in which the pension fund had already invested.

Mr. Hole asked how they would fund the investment and Mr. Schmid suggested using the 2.5% of the ghost allocation to PIMCO, approximately $20 million. This would shift the real estate investment from 90% core and 10% value added to 75% core and 25% value added. Chair Dew had read that returns were better for longer duration fixed income and questioned keeping 25% in fixed income allocation. He suggested they could shift some of that into the value added real estate.

Mr. Schott said they considered fixed income as a source of liquidity and low risk and they did not feel 25% was inappropriate. He noted that risk on longer term was almost twice that of the intermediate.

Mr. Naugle said he preferred the diversification of American Realty; he felt senior housing was "one of the things the Marxists may socialize now."

Mr. Naugle left the meeting at 2:52.

Mr. Bayne recalled that they usually asked if fees were negotiable but Mr. Cypen said the fees were usually not negotiable in a commingled fund. Mr. Bayne felt they should investigate other value added real estate investments. Chair Dew felt they had a better chance of getting a reduced fee structure from American Realty because had had a previous relationship. Mr. Schott offered to bring other opportunities to the Board if they wished.

Motion made by Mr. Fortunato, seconded by Mr. Hole, to allocate $20 million to the American Realty Strategic Value Realty Fund at the quoted fees or better. In a roll call vote, motion passed 5-1 with Mr. Bayne opposed.

CAPTRUST:
Monthly Investment Review Kevin Schmid, Steve Schott
Mr. Schott reported one of their analysts expressed a wish to move to Orlando but this "did not make sense for both parties" and the analyst was leaving the firm. Mr. Schmid said they had received many resumes and their goal was to grow and maintain a good research team.

Boyd Watterson Discussion
Limited Duration Mid-Grade Fund
Mr. Schmid distributed a pamphlet describing the fund and said Boyd Watterson suggested starting with 10% of the portfolio in the fund. Mr. Schmid stated Boyd Watterson focused on BB and B rated bonds where defaults rates had been "reasonably benign." He stated this was not something they typically recommended in a portfolio. Mr. Schmid explained these were more closely correlated to the S&P 500 than to the bond index. Their preference was to "let the bonds be bonds" not to increase risk in the bond portfolio. The Board decided against the fund.

Mr. Schmid informed the Board that Boyd Watterson had done business with a broker/dealer who was not properly registered in the state of Ohio and corporate had to forfeit the fees gained on those transactions. They had received restitution from the broker and were passing it along to clients. Ms. Wenguer stated the pension fund had received approximately $3,800.

COMMUNICATION DIRECTOR'S REPORT: Fred Nesbitt
Mr. Nesbitt distributed a copy of a new format he wished to use for the minutes.

Mr. Nesbitt wanted to send the City Commission a copy of an essay by Michael Spencer titled "Are Public Pension Plans Affordable? Returns Versus Volatility" that had been compiled by the FPPTA into a book of essays. The essay argued that defined benefit plans were affordable and that some volatility could be controlled by the pension board through their investments. Mr. Rudominer suggested the letter accompanying the essay include a definition of the FPPTA and the fact that the plan sponsor paid 100% of the ARC.

Mr. Nesbitt reported they had updated the Power Point, adding 2013 contributions; 2014 yearly plan return; a summary of changes to the pension plan per the Police pension reforms; Pension Board investment return versus the POB interest; the current retirement formula; the formula for Police officers hired after a 4/1/14; a comparison of the old and new formula; changing overtime to make it consistent and updating the mission statement. The Board discussed the overtime calculations and decided to revert to the original slide.

EXECUTIVE DIRECTOR'S REPORT
In-Service Distribution Ordinance Discussion
Mr. Cypen said he had reviewed and approved the second draft of the ordinance. Ms. Logan-Short said the draft was confidential and should be removed from Board's public documents. Chair Dew said Mr. Cypen and the actuary were supposed to review the ordinance but the Board would not vote on it. Ms. Logan-Short stated this was still a working draft until the FOP approved it.

Prior GERS Service Discussion
Ms. Wenguer provided a list of people affected but cautioned it might not be complete. Ms. Wenguer stated the Board needed to discuss how the affected people would buy back their contributions, and at what interest rate. Chair Dew said they must be consistent with what had been done in the past so the interest should be 7.5%, back to the date of refund. Ms. Wenguer would send the list to Mr. Heinrichs and he would inform them what the members owed. She remarked that two members wanted to go into the DROP. They also needed a guideline for the date by which the money must be repaid.

June, November Meeting Date Changes Discussion

The Board needed to change its April, June and November meeting dates. The following dates were agreed upon: 4/15 and 6/3. The Board agreed to decide about November at a later date.

Policy Index Change Discussion

Ms. Wenguer said they need not discuss this, since they had decided against lower grade bonds.

Sawgrass contract addendum Discussion

Mr. Cypen said Sawgrass had requested a reduction of the fidelity bond. He questioned why the Board would want to reduce this. The Board decided against it.

415 Limit

Mr. Cypen reported the IRS had provided a ruling that answered some of their questions.

Experience Study

Ms. Wenguer recalled the Board had requested an experience study from Foster and Foster but Nyhart wanted $2,000 to supply Foster and Foster the information. Mr. Cypen wondered what the $2,000 was for, and thought ethics dictated that they were obligated to provide the documentation with no out-of-pocket. He advised Ms. Wenguer to get a list of the information they needed from Mr. Heinrichs and ask Nyhart directly.

Equities List

Ms. Wenguer said Mr. Ingersoll had requested a list of the pension fund's equities. Chair Dew was concerned about this, and felt all the information Mr. Ingersoll needed was on the website. Mr. Schott agreed to request this from the account custodian.

Board Accomplishments Draft

Chair Dew had created a list of achievements to gauge the Board's performance.

PENDING ITEMS:
New Business:
None.

Old Business:
None.

FOR YOUR INFORMATION:

Boyd Watterson	Letter dated December 5, 2014
ConvergEx	Recapture Summary/Nov., 2014
Knight	Recapture Summary/Nov., 2014

There being no further business to come before the Board at this time, the meeting was adjourned at 3:44 p.m.

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