July 11, 2018

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, July 11, 2018, 12:30 P.M.

Communications to the City Commission:
1. The plan's annual report was submitted to the state, accepted and approved

Board Members

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

Also Present

Alexandra Goyes, Deputy Director
Fred Nesbitt, Board Communication Director
Stuart Kaufman, Board Attorney
Linda Logan-Short, Acting Director of Finance
Paul DeBold, Retirees Association President
Jack Chow, Retirees Association
Captain Josh Wells, member
Kevin Schmid, CAPTRUST
Eric Anderson, Angel Oak
Colin McBurnette, Angel Oak
Michael Lucci, Bloomfield Capital
Nicholas Coburn, Bloomfield Capital
Jason Jarjosa, Bloomfield Capital
Jamie Opperlee, Prototype Inc.

ROLL CALL/CALL TO ORDER
The meeting was called to order at 12:30 p.m. Roll was called and a quorum was determined to be present.

PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE
The Pledge of Allegiance was followed by a moment of silence.

MINUTES:

June 13, 2018 Regular Meeting:
Motion made by Mr. Naugle, seconded by Mr. Hole to approve the Board's June 13 2018 regular meeting minutes. In a voice vote, motion passed unanimously.

NEW HIRES:
Chair Rudominer recognized the new hires.

BENEFITS:	**POLICE DEPT.:**	**New Retiree: (Term of DROP)**	Michael G Gregory

		Thomas Ferri Jr
	Vesting:	Doni E Robinson
	Retiree Death:	Allen Weisel
FIRE DEPT.:	**DROP Retiree:**	Dean Ferrerio
		Gregory A. May
	New Beneficiary:	Sandra Hooper

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

BILLS:	**Northern Trust**	$36,555.16
	Foster & Foster	$9,575.00
	Milliman	$5,125.00
	Klausner, Kaufman	$3,000.00

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

Ms. Wenguer had requested a detailed bill from Foster & Foster regarding the $7,500 to perform the 112 compliance and advised the Board to pay everything but that until they received the detail.

Mr. Bayne asked about the charges for recalculating buybacks and Ms. Wenguer explained how they were changed for this. She stated they did not charge members for recalculations because sometimes there was a miscommunication.

Regarding the Klausner bill, Ms. Wenguer explained they were only paying the monthly retainer of $3,000.

COMMENTS FROM THE PUBLIC/ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS
Mr. DeBold reported two members had died in the past month. He stated their attorney, Mr. Cohen, had delivered his documents regarding the COLA and 112.61 statute to Mr. Klausner and it would be discussed at next month's meeting. He agreed to provide copies to Board members.

FIXED INCOME ALTERNATIVES: (under separate cover)
Mr. Schmid recalled the Board seeing presentations in April from four alternative income managers and would hear from two more presenters today. Angel Oak had a variety of private lending strategies and Bloomfield Capital specialized in short-term real estate bridge financing.

Angel Oak Eric Anderson, Colin McBurnette
Mr. Hole stated he had heard of an Angel Oak employee in California, Mr. Mitchell, who ran a brokerage firm and many people were upset with him because he had misrepresented his credentials and the firm. Mr. Anderson later explained that there was a mortgage company that was affiliated with Angel Oak, and stressed that this was a separate company.

Mr. Anderson stated the firm was 10 years old with $10 billion in assets and 75 employees on the asset management side, 25 of whom were investment professionals. The firm had been founded as a hedge fund at the start of the financial crisis in 2007.

Mr. McBurnette said the Strategic Mortgage Income Fund (SMIF) paid monthly distributions to investors, based on income earned each month, in the area of 7-10% net of fees, on an annualized basis.

Mr. McBurnette discussed the team and said their organization was unique because they were organized by product, not by fund. This allowed the portfolio management team to consider all asset classes.

Mr. McBurnette said this fund took advantage of opportunities exiting in credit markets primarily due to regulatory restrictions on banks that resulted in good borrowers being left without access to credit. He explained that new regulations required a sponsor of any securitization to hold 5% of the risk for at least seven years. Mr. McBurnette discussed investment subsectors: Non-Qualified Mortgages; Fix and Flip and Community Bank Sub-debt.
Mr. McBurnette discussed mortgage and credit availability and reported they were writing fewer mortgages now than in 2001. He stated they liked housing because 88 million millennials were about to start buying homes, creating demand for 800,000 homes in the next five years.

Mr. McBurnette explained that the fund owned assets and contributed them into periodic securitizations, term financing. They sold loans into a trust, which issued bonds. They owned the subordinate bonds, which provided a yield in the low teens. He stated they operated under the "originator" model, in which the originator and issuer were affiliates. This gave them tighter controls over credit.

Regarding community bank sub-debt, Mr. McBurnette said quantitative easing was designed to drive money back to U.S. consumers but had ultimately driven it back to corporations' balance sheets. Most community banks now focused on local commercial mortgages.

Mr. Hole asked what would happen if the government relaxed banking laws and Mr. McBurnette said if all regulations were rolled back, banks would take these loans but he did not see that happening. If regulations lightened and other lenders were brought in this would be helpful. He thought Fannie Mae and Freddie Mac reform could go in many directions, but their goal was to finance a portion of the U.S., not all of it.

Mr. Schmid asked about default rates and Mr. McBurnette stated defaults had been incredibly low. Their cumulative losses had been a fraction of 1%.

Mr. McBurnette explained that from June 2015 to February 2016, they had seen a string of very bad economic data such as decreasing oil prices, leading to fear of a commodity-lead default cycle. There was also recessionary manufacturing data and negative GDP, indicting a recession was coming and this had negatively affected their asset classes. Mr. McBurnette advised that they would have down quarters but they had never had a down year.

Mr. McBurnette informed the Board that the 8.3% cash yield reflected what had been distributed to investors over the past 12 months. He explained they took fees and expenses out of gross income.

Chair Rudominer asked how the fund performed in a rising interest rate environment and Mr. McBurnette replied it performed quite well: their April, May and June numbers were up approximately 1.8% more. He noted they did not have duration sensitive assets. If an asset exhibited interest rate sensitivity, they would hedge the risk away.

Mr. Kaufman asked if Angel Oak currently had any public fund clients and Mr. Anderson said they had none in this strategy but had them in other strategies, such as private credit. They were just starting to bring this to institutional investors.

Mr. Anderson stated this fund was paying 8-9% monthly with a relatively narrow band of volatility. He explained that the easiest way to understand this was that half of this fund was in home mortgages for non-standard employees. The other half was for those with bad credit scores despite having money in the bank. They basically lent at 7% and borrowed at 3%. He stressed that these were very credit-worthy borrowers and because Angel Oak owned the mortgage company, they knew who they were lending money to and how much money they had. They also invested in old, legacy bonds at community and regional banks, which the government had made impossible to fail.

Mr. Anderson advised that if the Board invested at least $5 million, they would reduce their fee to 1% plus a 10% incentive. The money would not be locked up for seven years; it was a one-year lock with quarterly liquidity.

Mr. Kaufman asked if there was a gate to prevent a rush and Mr. McBurnette explained there was a gate mechanism, but they had never gated a strategy they managed. Their longest settlement time was 30 days. What they owned was built around cash flowing assets with a clear understanding of the collateral. They had a very robust risk management department that monitored liquidity ratios. This was built to handle liquidation in 90 days

Mr. Kaufman asked if they would be willing to enter into a side letter, including Angel Oak accepting fiduciary responsibility for this fund. Mr. Anderson agreed.

Mr. Kaufman said they must also agree that if they entered into litigation, they must agree to go to court in Broward County. Mr. Anderson asked Mr. Kaufman to provide these questions to Mr. McBurnette and they would reply.

Chair Rudominer asked where financial turmoil was now. Mr. McBurnette felt this was a unique environment in which equity markets could drop because rates were rising. He did not feel there was any enormous structural issue. He admitted to losing sleep about geopolitics and a country "deporting deflation to all of us." He was also concerned about the amount of debt on corporate balance sheets across the U.S. Mr. McBurnette believed the millennial housing block would weather the housing market through the next crisis and he anticipated it would outperform through that period.

Chair Rudominer remarked this was much different from the previous presentations they had seen. Mr. Schmid recalled that Stone Ridge's private lending was across a variety of strategies; this was more a securitized residential strategy, which carried different risks. The nice thing was that it only had a one-year lock with quarterly liquidity with 90 days' notice after that. He noted it met their income and liquidity desires. Mr. Schmid had calculated they had $35 million to put to work in the direct real estate strategy, and they would have $80 million for an alternative strategy once they got the money back from EnTrust. He advised them to split the $80 million across three vehicles.

Bloomfield Capital Michael Lucci, Nicholas Coburn

Mr. Coburn stated they were a small firm and they attracted institutional investors seeking a high yield investment that was safe and provided consistent returns. He reported they considered approximately 3,000 requests per year and executed fewer than 30; they were highly selective and looked for opportunities that would provide a great risk-adjusted return. He added they had had 30 institutional investors over the years.

Mr. Coburn explained that most things in which they invested were too small for larger funds to invest in, reducing competition and resulting in higher returns. Most of their investments were fast moving and complex as well. Most of what they did was originated by them to someone in need of capital.

Mr. Lucci described the management team, which they felt was as good as any wall street shop focused on this space. They had absorbed a due diligence team last year, headed by Renee Lewis, who had run due diligence shops for 30 years for some of the largest blue chip Wall Street investors.

Mr. Lucci described their fund history: Fund I provided small balance loans at high yields and continues today. It had returned almost $8 million in profits on a $10 million investment over ten years. Fund II had eight or nine investors and $60 million, which had been invested three times over and had distributed over 9% since its inception. Fund III had raised $100 million, and had 28 institutional investors. This fund had generated 10.9% since inception.

Mr. Lucci provided an overview of the kinds of investments they made and where they made them. He stated they were diversified in terms of geography and asset class. He said part of their risk mitigation strategy was in making small loans. He explained the other component of risk mitigation was the short-term duration, averaging just under 18 months.

Mr. Lucci described one of their transactions in a medical office building in Toms River, New Jersey. Due to a change in the partnership, they had needed to refinance within a month and wait out the shift in the partnership structure before getting another traditional loan. Bloomfield had invested $6 million and felt the building would be worth at least $10 million. The loan had been written for 12 months but was paid off in eight. Mr. Lucci added that all eight physicians had signed as personal guarantors.

Mr. Lucci described another instance when they had purchased a pool of judgements from a bank. They had bought the judgments for a few cents on the dollar and recovered all of their capital by having just a few loans paid off. They had ultimately generated 2.5 times their investment.

Mr. Kaufman asked how they selected the law firm they partnered with and Mr. Lucci explained that they worked with Weltman, Weinberg & Reis Co., LPA, which only did collections work. They provided a cut of what was collected on a contingency basis.
Mr. Coburn said their new fund: Bloomfield Capital Income Fund V would continue to concentrate on smaller credit needs. He stated they had been in this space for ten years and were known as the go-to source for these types of transactions. He added that they never used leverage because they believed in pure returns without additional risk.

Mr. Coburn stated many of their employees had interests in their funds so they were incentivized to really care about the investments. He said their asset management drove their success.

Regarding the terms, Mr. Coburn pointed out that Fund V was a departure from their previous structure. This fund was more investor friendly in terms of fees and lock-up time. Instead of a four to five-year investment period, Fund V had a 24-month commitment. After that, if they wished to opt out, the capital was put in a wind-down. Alternatively, the capital could roll into the next investment. The fees for this fund had been reduced from 2% to 1.5% for investments over $10 million and 1.75% for investments under $10 million.

Mr. Kaufman asked about Fund IV and Mr. Coburn explained that this was a bifurcation of their taxable and non-taxable investors and this had been very complex to manage.

Mr. Coburn said they had no target for Fund V except their opportunity set. They already had $40 million in soft commitments from prior municipal pension fund investors. Many were Fund II investors who were rolling into this fund. He anticipated there would be between $50 and $100 million in the first series.

Mr. Kaufman asked about side letter provisions with pension fund investors. Mr. Lucci stated they had side letters with the City of Miramar's pension fund through Mr. Kaufman's law firm.

Chair Rudominer asked about risk and Mr. Lucci reported they had yet to lose money on a transaction. He acknowledged this was inevitable but they tried to ensure that risk was mitigated. Mr. Coburn said fraud was a risk but they had a lot of protections in place to prevent that. Renee Lewis had created best practices for some of the largest companies in the country. When they brought her into Bloomfield a year ago, they had incorporated additional policies. He stated they had experienced a fraud in the past but had fully recovered, including their profits.

Mr. Schmid said he had run the numbers and if they wanted to invest 15% in fixed income, there was $74 million available now and another $35 million would come back from EnTrust over the next six to 18 months. Right now, they had a combined real estate plus alternative target of 25%. He would increase that target to 35%, split between real estate and alternatives and reduce their fixed income target down accordingly.

Mr. Schmid stated he would be comfortable with a $34 million additional allocation to real estate, leaving $40 million available now for alternatives. Capital Dynamics was having their first close at the end of July, so they would need to commit today. The threshold for their fee discount was $25 million. Capital Dynamics anticipated calling15-25% of capital commitment this summer. If they wanted to put all $40 million to work in Stone Ridge, they could use it as a "housing station" and take advantage of the quarterly liquidity to fund things along the way. Angel Oak and Bloomfield could be postponed and discussed as EnTrust money became available. He pointed out that regarding Bloomfield, they would not want to be more than 10% of the entire fund, and if they fund was only $50 million, it may not be worth it.

Regarding real estate, Mr. Schmid said he was comfortable with a six-to nine month window and a mixture of federal and state real estate options, but preferred the Boyd Waterson federal option because it was a more diversified portfolio than USAA. Chair Rudominer asked if there would be any downside to having so many managers and Mr. Schmid advised he would like to streamline as much as possible, so if the Board wanted to go with one manager for real estate, he would be comfortable with that. For alternative credit, he wanted to split the allocation between Stone Ridge and Capital Dynamics. Mr. Schmid said currently, Stone Ridge was a mutual fund structure and they were considering converting all CAPTRUST assets with Stone Ridge into a collective trust structure which would have a much lower fee.

Mr. Hole did not like the alternative options. He felt it was speculative with a significant degree of risk. He did not have the confidence in real estate that Angel Oak had. He was impressed by USAA and Boyd Watterson. He had no objection to Capital Dynamics.

Mr. Naugle liked the Bloomfield presentation.

Mr. Joseph said he liked Capital Dynamics and was unsure about USAA.

Mr. Schmid explained that Capital Dynamics' fee was 1.25%. If they met the first closing date and invested at least $25 million, they would receive two 10% discounts, reducing the fee to 1%.

Mr. Naugle asked what other pension funds were doing and Mr. Kaufman replied perhaps 10% of the entire portfolio was in real estate and none was lower than 20% in fixed income.

Mr. Bayne liked Capital Dynamics and Bloomfield. Mr. Kaufman remarked that Bloomfield had done their homework. Mr. Schmid noted that Bloomfield was small enough that the representatives making the presentation were probably involved in side letter negotiations

Mr. Bayne did not want their investment to exceed 10% of a fund but they could consider going in down the road if the fund became large enough. He liked Capital Dynamics. He was not convinced real estate was wise for them now and would rather see them invest in another area.

Chair Rudominer suggested tabling the real estate discussion now. He pointed out the only actionable thing they could move on now was Capital Dynamics. Mr. Schmid agreed and said he could adjust the investment policy statement later.

Mr. Schmid stated Mr. Klausner had already fully negotiated with Capital Dynamics so that should be easy to execute.

Motion made by Mr. Bayne, seconded by Mr. Hole to invest $25 million in Capital Dynamics. In a roll call vote, motion passed 5-0.

Ms. Wenguer asked where the money should be taken from if there was a capital call and Mr. Schmid suggested taking it from fixed income.

CAPTRUST: Kevin Schmid

Monthly Investment Review

Mr. Schmid reported a member of Invesco had left recently and they would hire a replacement. He remarked that all investments had been made so there were no new investment decisions being made and he was comfortable the team was in place to take that fund to completion.

Mr. Schmid had met with representatives of Las Olas Capital and reported they were not fund raising now. He said they did promote local investment but were not in the risk profile the Board was seeking.

Mr. Schmid would provide the quarterly report in August and remarked that equity markets had done reasonably well but international markets and fixed income were flat to negative. It had been a good month for infrastructure. He anticipated a positive return for the quarter but they would be behind pace for the year.

COMMUNICATION DIRECTOR'S REPORT

Mr. Nesbitt had nothing to report.

ATTORNEY'S REPORT:

Mr. Kaufman reported there was no update on the Brutus matter.

Mr. Kaufman recalled a question last month about holding a Board meeting in another city, specifically, in Orlando during the FTTPA conference. He said at 200 miles away, there would be no reasonable access for the public to attend the meeting.

Mr. Kaufman stated they had provided a legal memo regarding a Port St. Lucie Sunshine Law case wherein the city attorney had discussed firing the city manager with all of the councilmembers and shared their options with other council members. The trail court had ruled in favor of the city but the appellate court had indicated this may be a Sunshine violation.

Mr. Kaufman reported Mr. Klausner's July 9 webinar had been postponed to July 23.

EXECUTIVE DIRECTOR'S REPORT:

Education Committee **-** Discussion

Chair Rudominer said they had examined their education policy and deemed it to be satisfactory. They felt they could improve formal record keeping of expenses and Ms. Wenguer was working on a form.

Chair Rudominer stated they should have a method of confirming attendance at an educational event. The confirmation could be accomplished by signing a statement or providing a short report to the rest of the Board. Mr. Kaufman said most other boards did not have members report back. He said most prepaid the per diem for attendees.

Mr. Hole said they wanted policies for trustees and staff. Mr. Kaufman suggested staff could be subject to the same policy as trustees. Ms. Wenguer agreed to research how other boards were addressing it.

Actuarial Impact Statement **-** Report dated July 2, 2018

Ms. Wenguer said Foster and Foster had completed the statement for the ordinance change, which had passed on first reading at the previous evening's City Commission meeting. She said the report was positive: the City would contribute less.

Administrative Assistant **-** Update

Ms. Wenguer informed the Board they would begin interviews in two weeks.

Ms. Wenguer reported the annual state report had been approved and they should get the money in August.

Ms. Wenguer said a firefighter had claimed that his prior service buyback calculation was a lot more than other members' and Ms. Wenguer had asked the actuary to explain the calculations. The actuary had provided the calculation formula without any of the actual figures. Chair Rudominer pointed out that it was not clear why this would be the case. The member was spending $120,000 to buy back his time and the difference was in the $20,000 range. The question was who would pay to audit his results.

Mr. Hole suggested asking the actuary to explain how the numbers were arrived at in a way that would explain it for the Board and the member. Ms. Wenguer had asked Mr. Ballard how much a chart explaining this would cost and he indicated it would be well over $1,000. She said the actuaries were now asking for current rates of pay and she felt this may indicate they knew the pay they had used was not correct.

Mr. Bayne said he had discussed this chart at length with Mr. Heinrichs but he indicated that a chart would still not be exact.

Mr. Rudominer asked the Board's obligation and Mr. Kaufman indicated they must provide a calculation certified by their actuary; they were not obligated to get confirmation from another actuary. Ms. Wenguer stated this would always be a moving target and service members assumed it would be approved but it was sometimes denied.

Mr. Bayne suggested they could extend the six-month deadline if there was some contention that the calculation was incorrect. Chair Rudominer suggested they take this on a case-by-case basis and a member could come before the Board to request an extension.

Ms. Wenguer said they would perform a study, take it on a case-by-case basis and see what happened with the next person.

PENDING ITEMS:

New Business:

Old Business:

Schedule A
None

There being no further business to come before the Board at this time, the meeting was adjourned at 3:54 p.m.

FOR YOUR INFORMATION:

2017 Annual State Report	Approval Memorandum
KCG Recapture Statement	Recapture Summary/May, 2018

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Secretary Chairman

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

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