

July, 2013

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, JULY 10, 2013, 12:30 P.M.

Present

Ken Rudominer, Acting Chair
Richard Fortunato, Secretary
Scott Bayne, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Lynn Wenguer, Administrator
Steve Cypen, Cypen & Cypen, Board Attorney

Absent

Michael Dew, Chair
Jeff Cameron, Trustee

Also Present

Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Kevin Schmid, CapTrust
Doug Wood, Director of Finance
Lisa Edmondson, Recording Secretary, Prototype, Inc.

Fred Nesbitt, Director of Media Relations
Rich Schulze, Retirees' Association
Paul DeBold, Retirees' Association
Fuzzy Larkin, Retirees' Association
Gregg Gurdak, Retirees' Association
Janie Carreras, Retirees' Association

Communication to City Commission

None.

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, July 10, 2013, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

NOTE: Items were discussed out of order.

PLEDGE OF ALLEGIANCE / MOMENT OF SILENCE

Acting Chair Rudominer 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: June 12, 2013

The Board noted several corrections to the minutes and approval was deferred to the Board's next meeting after corrections were made.

BENEFITS:

Police Department:

New Retiree/Term of DROP:	Michael J. Grassi
DROP Retiree:	Anthony C. Williams
New Beneficiary:	Bertha C. Roberts
	Billie Bailey

Motion made by Mr. Naugle, seconded by Mr. Fortunato, to approve the benefits for the Police Department. In a voice vote, the motion passed unanimously.

BILLS:

CapTrust	\$21,250.00
Milliman	\$8,500.00
Nyhart	\$5,000.00
Ellen Schaffer	\$1,016.00
Foster & Foster	

Ms. Wenguer confirmed for Mr. Bayne that the Foster & Foster bill of \$300.00 for the benefit calculation for a change of beneficiary had been paid by the member.

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

Ms. Wenguer said Chair Dew had discussed their bill with Foster & Foster and been told by Mr. Heinrichs to disregard the bill, but Chair Dew advised that we may want to pay his mileage. Mr. Bayne requested something in writing pursuant to that decision, since a bill had already been received. The Board agreed to reimburse the firm for mileage at the IRS rate and Ms. Wenguer agreed to send an e-mail to Foster & Foster confirming that the Board would not be paying the original bill and requesting a bill for the mileage.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to approve payment of mileage costs to Foster & Foster at the IRS rate. In a voice vote, the motion passed unanimously.

Ms. Wenguer informed Acting Chair Rudominer this should be the last bill from Ellen Schaffer. Mr. Bayne wanted to be certain that Ms. Schaffer was aware that her services to the Board were ended.

Mr. Hole requested that all bills be date stamped in the future and Ms. DeZayas agreed to do this.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Mr. Schulze asked a few questions of Mr. Cypen. Mr. Cypen informed Mr. Schulze that the State Statute the Board referred to regarding the COLA question was 112.61. Mr. Schulze said they were still waiting for an opinion from Mr. Klausner on the COLA question that had been delayed since February. Mr. Cypen informed Mr. Schulze that Chair Dew had met with Mr. Klausner. Ms. Wenguer had written to Mr. Klausner on June 20 but had not heard back yet. Mr. Cypen explained this document is supposed to be "a specific opinion related to people in different stages of...eligibility for retirement as it applies to those subgroups." Ms. Wenguer agreed to follow up with Mr. Klausner and share the information with the Board and the Retirees' Association.

CAPTRUST: Investment Review Kevin Schmid

Mr. Schmid stated it was anticipated that the Federal Reserve would reduce bond purchases in the future and interest rates in the intermediate and long-term range had spiked since mid-May and begun to decline this week. Mr. Schmid had been in contact with both bond managers: Agincourt and Boyd Watterson, who promised at the workshop to be proactive in sharing their outlooks and opinions on the bond market with CapTrust and the Board. Agincourt felt that the yield curve had been artificially lowered after late September 2011 subsequent to the downgrade of US Treasury debt but felt the yield curve was now consistent with their growth expectations for the economy and anticipated no further significant increases in yields. Mr. Schmid therefore did not recommend shortening duration any further at this point.

Mr. Schmid stated Boyd Watterson was managing duration more proactively. They had been short on duration through April and as rates went up they had been progressively lengthening. Boyd Watterson believed rates were in the trading range now and recent bond yield highs had been a severe overreaction. Mr. Schmid stated they were actively managing their interest rate risk on the portfolio.

Mr. Schmid reported year-to-date, intermediate bonds were down 1.7% and core bonds were down just under 3%.

Acting Chair Rudominer referred to this month's Asset Allocation and Ms. Wenguer explained that the increase to the fixed income funds was due to rebalancing: \$5 million to Agincourt and \$12 million Boyd Watterson.

Mr. Schmid explained that the largest single allocation, PIMCO All Asset Fund, had suffered a negative quarter and was down 3.4% for the year. He said the US equity market had done very well for the past year. The Japanese equity market had done very well for the first four months of the year but had been very volatile since. Virtually everything else in terms of risk assets had been flat to negative for the past quarter. PIMCO's one allocation call had been to state that the US stock market was expensive. They were underweight in exposure to the US stock market and were therefore "light on the only thing that's really been working in any positive way so far this year."

Pursuant to the Board's direction at the last meeting, Mr. Schmid was moving forward with the infrastructure analysis and had spoken with UBS and IFM regarding their products. Chair Dew had also spoken with J.P. Morgan. Lazard had informed Mr. Schmid that their publicly traded product would be closing to new assets, but because the Board had expressed preliminary interest, they would hold capacity for the plan if the Board decided to invest there.

Mr. Schmid had gathered the proxy voting policies for all US equity managers in the fund as requested by the Board.

Mr. Schmid informed the Board he would send the commission recapture reports from Convergx and Knight to GTS to get a sense of how much the Board had made on commission recapture. So far through May, they had earned \$4,600 in commission recapture on a \$700 million plan. Mr. Schmid said they had also discussed having a conversation with Eagle about commission recapture. Their manager had indicated that commission recapture did not impact their process.

Mr. Hole asked about K2 and Ms. Wenguer reported that their year plan ended on June 30 and K2 was awaiting their audited statement before they would release the funds.

Acting Chair Rudominer said the initial report from GTS indicated they could not tell if using recapture was positive or negative for the Board. Acting Chair Rudominer stated further investigation could reveal that it was costing them money in the prices they were paying. Mr. Schmid stated for most managers, best practice would be to step out the transactions but not all managers did this.

Regarding proxy voting, Acting Chair Rudominer said the Board had a policy that had been provided to the managers. The managers had reported their proxy rules and he noted that even though they used different rules, they all tried to follow the ICS public proxy voting policy. Mr. Cypen stated, "The policy is and should be to maximize the value of your shares... to do those things which will most enhance value." Voting responsibility was given to the managers because they were making the decisions about buying and selling.

Acting Chair Rudominer felt that the Board might be lacking follow-up to ensure the managers were voting on the Board's behalf. Mr. Cypen said this should be part of the software: the ability for managers to flag anything that was not according to the policy and to explain why. Mr. Schmid reported that Lee Munder had phoned Ms. Wenguer to inform her how they were voting on a proxy, but this was an exception rather than the rule. Acting Chair Rudominer said Chair Dew was investigating how the Board could be notified of proxy votes. He stated a lot of managers farmed out their proxy voting and he was certain the service created relevant reports.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt stated they had finished the annual report and this would be mailed and emailed to retirees, who would be given the option of only receiving electronic copies in the future. He thanked the Board for their input. Ms. Wenguer anticipated the report would be mailed the following Monday.

ADMINISTRATOR'S REPORT:

IRS Code 415 Limits

Ms. Wenguer informed the Board that she had contacted their actuary, attorney and tax attorney because there was confusion regarding the type of plan they had relating to IRS Code 415 limits. She stated the current software calculated the 415 limits; the only question was how the DROP would work with the limits. Mr. Cypen explained

that it depended on how money was treated in the DROP. Their plan was different because it had features of both fixed and variable. They had asked Bob Friedman from Holland and Knight to provide an opinion. Mr. Bayne asked if there were previous issues they should investigate and Mr. Cypen stated the tax attorney would make that determination. Ms. Wenguer said they needed to authorize Mr. Friedman to go ahead with the study. Mr. Cypen indicated the study was above the scope of Mr. Friedman's contract so he would be paid by the hour.

Mr. Hole asked regarding the City's responsibility for the benefit preservation rule or the excess benefit plan. Mr. Cypen explained there was a City ordinance ensuring that if someone was prevented by 415 from getting full pension, the City would pay it from the General Fund and the City would save it in the pension plan. Mr. Bayne said this was incorporated under GERS's plan. Mr. Bayne wanted to know if there was a way to show the net effect on the plan when money was paid out by the City. Mr. Cypen said there was a way to see this actuarially, but he was unsure if it would actually show up in accounting. He felt it would show up in operations, "and wouldn't show up as a plus or minus, it would just be a number" under amounts paid. Ms. Wenguer confirmed for Mr. Hole at the actuary calculated this.

Prior GERS Service

Ms. Wenguer had compiled a list and sent it over to General Employees to cross-check monies that had and had not been distributed. General Employees had indicated the list would be returned as soon as possible, hopefully by the end of the following week.

Revised Office Timeline

Ms. Wenguer distributed a draft of the changes. She explained that the plan year ended on September 30 but the Share and DROP programs ended on December 31. Ordinances needed to be amended to change two documents currently indicating the plan year end was December 31. Mr. Wood said senior administration supported the ordinance change and he advised Ms. Wenguer to contact Assistant City Attorney Bob Dunckel, who could identify the specific ordinances. Mr. Bayne said the Board had agreed to change the plan year at the bequest of the City. Mr. Wood recalled that they had contemplated changing a couple of years ago and he had helped change the Board member's minds because it would have cost the City \$500,000 at the time. Since the City had done the prepayment, that cost had gone away.

Mr. Bayne was concerned about when the ordinances could be amended and noted that the Commission would be on break in August, but Mr. Cypen explained that the ordinances did not need to be changed prior to September 30.

Mr. Bayne felt that holding the workshop/seminar in December would make the venue more expensive. Ms. Wenguer said February was still expensive, and they did not pay for it anyway. She indicated the date was up to the Board.

Ms. Wenguer said there were three people whose beneficiaries did not receive benefits they were promised because of the 401(a) limits. She wanted to send generic letters asking to meet to explain the options rather than outlining all of the options in the letters. Ms. Wenguer explained that if one had a non-spouse beneficiary who was "approximately more than 30 years younger than you" the benefit was not allowable under the IRS code. Staff had determined there were only three people in the DROP affected, so they had not begun collecting their benefit. Mr. Cypen explained that this pertained to people who had not chosen a spouse as beneficiary of joint and survivor benefit and whose beneficiaries had 30+ years (younger) age differential from the employee. In these three cases, the beneficiary, formula or option must be changed. Ms. Wenguer hoped to hear from the three individuals by August 1. If she had not heard back from each of them by then, she would send a certified letter. Mr. Bayne pointed out that many people were on vacation in the summer. Mr. Cypen said this was time sensitive because benefit had been calculated as of July 9 and the amount received going forward would need to be adjusted. Ms. Wenguer stated the changes would be brought back to the Board.

PENDING ITEMS:

New Business

None.

Old Business

Schedule A

No discussion.

Other Items

Mr. Hole wanted to discuss the employee handbook when Chair Dew returned.

Mr. Hole recalled discussing the funding policy months ago and hoped they would re-address it soon. He wanted to establish a policy, and said there were templates from other municipalities for which Mr. Cypen, the actuary, and consultant needed to provide input. Mr. Hole said this was like an investment policy and covered how decisions were made. Mr. Schmid said the policy was “mostly actuarial driven” and he would be glad to revisit it. Mr. Hole said a lot of it came from what they had in their plan already; they would just plug in their numbers.

Ms. Wenguer stated the new software would be rolled out in July. She said the email issue had been fixed. Ms. Cintron reported they would be sending out one more email update to 40 individuals, which would be done this week. If this went smoothly, the new software would be rolled out to everyone.

FOR YOUR INFORMATION

BNY Convergix: Recapture Summary / May, 2013

Knight: Recapture Summary / May 2013

Acting Chair Rudominer asked Mr. Schmid if “Enhanced Information Technologies” in the Knight report referred to InTech. Mr. Schmid believed so.

There being no further business to come before the Board at this time, the meeting was adjourned at 1:34 p.m.

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