June, 2011

POLICE AND FIREFIGHTERS PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, JUNE 8, 2011, 12:30 P.M.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Richard Fortunato, Secretary
Mark Burnam, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Administrator

Absent
J. Scott Bayne, Trustee

Also Present
Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Doug Wood, Director of Finance
Gloria LeClaire, Controller
Gregg Gurdak, President, Retirees' Association
Linda Soloman-Duffey, Secretary, Retirees' Association
Fred Nesbittt, Director of Media Relations
Jack Cann, Retirees' Association
George Farrell, Jr., Retirees' Association
Fuzzy Larkin, Retirees' Association
Jack Chew, Retirees' Association
Rick Schulze, Retirees' Association
Walter Courtney, Retirees' Association
John Stuber, Retirees' Association
Bill Paton, Retirees' Association
Jim Ingersoll, Retirees' Association
Kevin Schmidt, CapTrust
Steve Schott, CapTrust
Christopher Walker, HarbourVest
Nathan Bishop, HarbourVest
Jeffrey Muehlethaler, Pimco
Rushant Sanathara, Pimco
Barbara Hartmann, 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, June 8, 2011, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to City Commission

The Board has accepted the 2011 Annual Actuarial Report. They plan to hire Pimco as a new manager in alternative investments. The administrator's contract has been renewed from 2011-2014.

Chair Dew called the meeting to order at 12:30 p.m. and roll was called. He welcomed Finance Director Doug Wood to the meeting.

MINUTES: Regular Meeting

Motion made by Mr. Hole, seconded by Mr. Fortunato, to waive the reading of the May 4, 2011 minutes.

Vice Chair Rudominer noted the following correction on p.10: Chair Dew owns shares in a Pimco mutual fund rather than Pimco stock. Mr. Cypen noted that this information was not required; however, it was also noted that Mr. Fortunato, Mr. Hole, and Mr. Burnam also own shares in this fund.

In a voice vote, the motion passed unanimously.

BENEFITS:

Police Department:
DROP Retiree: Mark Shotwell

Vesting: Eileen P. Reyes

New Beneficiary: Dianne Bartold

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

BILLS:

Agincourt:	$43,502.24
Artio Global Investors:	$58,576.06
Lee Munder:	$53,720.33
Prudential:	$39,734.80
Rhumbline:	$ 6,219.00
State Street Global Investors:	$ 4,959.63
Lynda Flynn:	$ 1,332.94

Motion made by Mr. Fortunato, seconded by Mr. Naugle, to accept the bills.

Ms. Wenguer advised that Ms. Flynn had attended the Pension Conference as an *ex officio* member of the Board, and had attended all pension discussions at the Conference.

Chair Dew asked if the taxes could be refigured. Ms. Wenguer noted that the expense was over a year old.

In a voice vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Mr. Gurdak asked if the Board had spoken to actuary Randall Stanley. Ms. Wenguer replied that Mr. Stanley has the paperwork and has almost completed the necessary calculations. She estimated that these should be available by the following week.

Mr. Gurdak asked what is the percentage of payroll FRS requires from City' for special risk. Mr. Cypen said this was probably 25%.

Mr. Stuber asked a question regarding receiving Board information through the mail. Chair Dew explained that he and Ms. Wenguer had discussed ways to decrease the Board's costs, and had determined that outside of special requests, copies would no longer be sent through the mail, other than to City Hall administration and the Retirees' Association through Mr. Gurdak. They would instead be sent electronically. Chair Dew stated copies could be sent through the mail per request. Mr. Stuber asked that documents be sent to him through the mail.

Ms. Wenguer noted that many members of the Retirees' Association attend each Board meeting, and asked that they let her know if they could not attend so information could be sent to these individuals. She added that the sign-in sheet allows members to include their email addresses so a full agenda package can be sent to them; this would allow them to see what will occur at the Board meetings.

Mr. Stuber suggested an actuary could be retained by the Association to study all the changes to the Plan to determine how they affect retirees. Chair Dew asked if the concerns were specific to the cost of living adjustment (COLA), which would probably require interpretation from an attorney. It was proposed that the Board could retain an actuary to study how changes affect existing retirees. Mr. Cypen said retirees are not affected.

Ms. Soloman-Duffey said after the last Board meeting, the feeling by some members of the Association was that the Board questioned the actuary's response on certain questions, such as the difference in plan assets between the actuarial report and the audit report. Chair Dew said there would be further review of the Annual Actuarial Report, as some errors had been found. Ms. Soloman-Duffey said the members had wondered if this might result in the Board's bringing in another actuary, as they had not seemed to have a good feeling about Mr. Stanley's report at the May meeting. She asked how the Board felt about the audit and actuary arriving at two separate figures.

Chair Dew recalled that Mr. Stanley had explained some of the methodology he had used to arrive at his figures. He added that everything Mr. Stanley did required the approval of the Division of Retirement. He agreed that further clarification and additional information are necessary in some areas of the report.

Mr. Hole noted that the figures in actuarial and audit reports will be different regardless of the actuary, as there are different ways in which they look at valuations. Chair Dew added that he had wanted the Board's questions and concerns on the record for greater clarification and transparency.

Mr. Ingersoll asked if an actuary is hired and there is a change in the Plan as negotiated by the union(s), the actuary must put a number on this change and send the report to the administrator. He requested copies of these reports on the changes to the Plan from 1972 to the present.
Ms. Wenguer asked if the requested information was related only to the COLA, noting that there have been few changes to this calculation. Mr. Ingersoll stated he wanted to see every change to the Plan as calculated by the actuary.

Vice Chair Rudominer said there had been three different changes to the COLA Ordinances, and suggested the Board might ask an attorney to review these and provide a legal interpretation, as the information was very confusing. Mr. Cypen said he could give the interpretation of Plan provisions, and advised that the Plan is not amended until it is amended by Ordinance. He added that he was not aware of any specific issues.

Vice Chair Rudominer said when the COLA Ordinances are reviewed, there are three different calculations, and asked if there was a difference in the calculations for eligibility and payout. He asked if this was covered by Mr. Cypen's contract or would require a Board decision to have him review it. Mr. Cypen said he would review the information, and requested copies of the necessary Ordinances and impact statements.

Mr. Stuber asked if Me Too 1 established that the Ordinance in effect at an individual's time of retirement governed their retirement. Mr. Cypen said once an individual is retired, no Ordinance can have a detrimental effect on his or her existing benefits. Mr. Stuber recalled that smoothing began in 1987, and asked if individuals retiring before smoothing had to comply with it before they received a COLA. Mr. Cypen said they did not.

CAPTRUST:
Monthly Progress Report Steve Schott, Kevin Schmid

Mr. Schmid stated that fixed income changes are complete and have been in place since April. On the domestic equity side, the Franklin Portfolio Advisors contract is complete and that transition is underway through GTS. NorthPointe was officially terminated earlier this month and both Franklin and Eagle Asset Management will manage $10 million. Mr. Schott noted that both these managers accepted the lower fee the Board had wanted.

Small cap exposure will be reduced with the termination of NorthPointe, with the remaining $8.5 million going from NorthPointe to Rhumbline mid cap index. On the real estate side, the $7.5 million contribution approved for American Realty is expected to be called in late June or early July.

Chair Dew advised that some individuals wanted to know what had caused the decrease in American Realty's value and why this was not of greater concern. Mr. Schmid stated that CapTrust feels real estate valuations are at or close to the bottom and are beginning to stabilize, as more transactions have begun to occur. Mr. Schmid concluded that CapTrust is currently more comfortable allocating to core realty due to its stability and income production. With the potential for inflation in the future, real estate is an asset class that tends to perform well in that environment. This had led CapTrust to advise getting into that area at a reasonable valuation to bring the plan closer to its target allocation of 10%.

Vice Chair Rudominer asked if any money had been taken out of small cap, as NorthPointe seemed to have lost 7% in one month. Mr. Schmid said from the beginning of May to the present, they had seen a dramatic reversal in markets, with a great deal of volatility on the small cap side. He recalled that NorthPointe's volatility was one reason the Board had elected to eliminate this manager.

Mr. Schmid reported that the $20 million partial redemption for K2 has a redemption date of June 30, 2011. K2 has 30 days to pay this out, which means the Board will receive these proceeds before the end of July. Two alternative investment presentations are planned for today by Pimco and HarbourVest. Pimco is expected to discuss their asset fund and touch on their commodities program, while HarbourVest is a private equity firm and will give an educational program on that asset class.

Mr. Schott said the benefits of having alternative investments in the portfolio include the non-core-related aspect. While some alternatives are very risky, he advised it is a matter of having an alternative investment strategy. One such strategy involves a program that would give the plan asymmetrical returns during a very tough down market. Should an economic downturn such as in 2008 occur again, some alternatives will perform significantly better, not only losing less but showing positive returns.

Mr. Schmid concluded that with regard to international investments, Artio remains on watch, and will be asked to present to the Board in the future, with two other international investment managers. He recalled the stopgap asset allocation addendum that was added to the policy; once most of the initial changes to the plan are complete, CapTrust will work with the Board to revise the plan's investment policy statement.

ALTERNATIVE INVESTMENTS:
Pimco – All Asset Fund Rashant Sanathara, Jeff Muehlethaler

Mr. Sanathara distributed a handout to the Board members, and stated he would discuss Pimco's All Asset Fund and provide some background on their Commodity Real Return Fund as well. The All Asset Fund has been Pimco's most popular strategy for the past year.

Mr. Muehlethaler said the All Asset Fund was developed in 2002, based on major market output and Pimco's market analysis. While many portfolios are traditional in nature, heavily stock-oriented with a portion in fixed income, Pimco did not feel the traditional 60/40 allocation would be adequate in the future as the market became more complex. In a traditional 60/40 portfolio, there is much more equity risk than fixed income. Another consideration is that a pension has annual expenses that grow in line with inflation. Pimco felt it was critical that assets and returns grow in line with inflation as well, resulting in a better match between assets and liabilities. The All Asset Fund was developed with these considerations in mind. As of today, the fund manages approximately $23 billion.

The fund is made up of all Pimco's mutual funds, each of which continues to be managed by Pimco. They also work with a team whose members have over 30 years of experience in global asset allocation; this is the only relationship Pimco has with a non-Pimco entity.

The All Asset Fund is intended to grow, in terms of performance, in line with inflation. The primary target for returns is the consumer price index (CPI) plus 5%. They also want to manage the risk and achieve a level of volatility similar to that of a long-term government bond or a 60/40 portfolio. Historically, the volatility of a bond falls between 6% and 10%, compared to the roughly 15% volatility of equities; the fund is intended to fall between the parameters of these two volatilities.

Mr. Muehlethaler said this is achieved by identifying those asset classes that represent undervalued opportunities, in which the fund invests; the fund also avoids those classes that underperform. The All Asset Fund selects from an array of regional and global strategies covering every asset class and type of market capitalization. The result is a full set of opportunities managed by Pimco's investors in the All Asset Fund.

Mr. Sanathara described the investment process as a quantitative, valuation-based approach to asset allocation. The quantitative part of the process includes building a return forecast for each of the asset classes in which the fund can invest, including stocks, commodities, real estate, and bonds. The models used have a general risk-premium analysis, which assesses how well the fund is compensated on a historical basis to take risks, as well as how it is compensated relative to other asset classes. There are also economic and technical factors, such as the stage of the business cycle.

Because not everything in the markets can be assessed by models, there is also a qualitative check established by Pimco and its research affiliates. These groups meet each month to determine what the models may be missing. The model is run on a daily basis, and asset allocation to the fund is extremely active. Mr. Sanathara advised that the strategies focus on low interest rate risk and increasing exposure for shorter parts of the yield curve.

Mr. Cypen asked if Pimco screens for companies that the plan cannot be involved in due to State regulations. Mr. Muehlethaler said the company does not screen for these. Mr. Cypen observed that most states now have similar statutes in place, and pointed out that the Florida regulation prevents business with certain nations based upon their activities. Mr. Sanathara said no nations or regions involved in potential terrorist activities would be part of the fund.

Mr. Cypen advised that there are also corporate names to be screened, such as major oil companies who do business with or have headquarters in these nations. Mr. Sanathara requested a list of the prohibited nations and/or corporations. Mr. Cypen advised these are available on the internet and are updated quarterly. Mr. Sanathara said if there is any exposure in the fund, it is likely to be minimal. Mr. Muehlethaler added that the All Asset Fund has a number of clients in the State of Florida, which led him to believe it was probably not an issue.

Mr. Cypen noted that while a commingled investment is not required to be divested, it should also be avoided. He said the list of prohibited investments includes roughly 37 stocks.

Mr. Sanathara continued that the fund has come in at 9.29% after fees since its inception, and has beaten all the benchmarks, including CPI plus 5%. Calendar year returns show a strong absolute return profile, with 2008 being the only negative year. Thus far in 2011, the fund has a return rate of 5.19% after fees. Against other asset classes, the All Asset Fund has outperformed bonds, Treasury Inflation-Protected Securities (TIPS), and equities for five to seven out of nine years.

He concluded that most clients' risk is tied up in equities, with volatility inherent in 80%-90% of the entire portfolio. The fund captures significant upsides in a manner similar to that of the equity market; however, when the equity market is down, the fund has less of a downward performance, and offers a very attractive risk/return profile, with the benefits of greater diversification as well as a hedge against inflation. The All Asset Fund is the most-invested fund at Pimco.

Chair Dew requested an overview of the fees. Mr. Sanathara said the fee is 86.5 basis points; this is the only required fee, and is the lowest fee paid by any institutional investor in the All Asset Fund. He added that the fee is not negotiable. Mr. Cypen asked if this meant the plan would receive a "most favored client" clause rather than a contract, which would state the fees would not be reduced for any other client without likewise reducing them for the plan. Mr. Muehlethaler said the language would be included in the fund's prospectus.

Mr. Cypen asked if Pimco made any concessions to larger investors. Mr. Muehlethaler said there were no such concessions.

Mr. Sanathara advised that information on commodities was also included in the documentation. He characterized this as another way to have a hedge against inflation. Pimco seeks to gain exposure to a broad commodity index of 19 different futures contracts; the index is also one of the funds that make up the All Asset Fund. These exposures are backed with Treasury inflation-protected securities, which are explicitly tied to the CPI. The strategy results in a double inflation hedge: there is a hedge from commodities as well as one from the underlying TIPS. Pimco also adds an active element by managing those securities.

Another aspect of active management is looking to add structural opportunities in the commodities markets. Pimco seeks those opportunities that recur on a structural basis. This strategy has resulted in 12.77% gains on an annualized basis since its inception, relative to a benchmark of 8.43%. This represents 434 basis points' worth of outperformance.

Mr. Hole asked how commodities differ from Commodities Plus or the Real Return Asset. Mr. Sanathara said Commodity Real Return consists of commodities backed by TIPS; Commodities Plus is commodities index exposure backed by short-term fixed income. The Real Return Asset is a longer-dated TIPS index.

Mr. Cypen commented that Pimco has been purchased by Allianz. Mr. Muehlethaler said the purchase took place in 2000, with the arrangement that Pimco would be autonomous in terms of its management and investment processes.

Mr. Schott observed that it was interesting to see Pimco's current perspective on defensive versus aggressive funds. Mr. Muehlethaler said Pimco regularly starts with one house view, so each portfolio will reflect views that are broadly expressed by the entire firm. The firm has concluded they are not excited about the growth potential of the developed world, as there is a good deal of concern about sovereign risk. Due to this, they do not wish to participate in the U.S. Treasury market, and own zero government-issued securities in fixed income accounts. They feel it is favorable to hold cash instead, as well as some emerging markets and parts of the corporate market where Pimco feels they can capture a healthy spread to Treasuries without credit risks or longer-term structural issues.

Mr. Cypen asked where Pimco invests cash. Mr. Muehlethaler replied the majority of cash is held in three-month instruments such as Eurodollar futures, or daily trade of cash via exchange instruments. This is because Pimco's longer view, extending through the first half of 2012, is that the Fed will stay on hold in terms of their overnight rate until unemployment decreases dramatically.

The Board thanked the Pimco representatives for their presentation.

HarbourVest – Private Equity Nate Bishop, Chris Walker

Mr. Walker and Mr. Bishop provided the Board members with a handout. Mr. Bishop gave an overview of the firm, stating that HarbourVest was formed in 1982 and has raised and committed over $30 billion to the asset class since that time. The firm is independent and is owned by its managing directors. It is located in Boston, with outside offices in Tokyo, Hong Kong, London, and South America.

HarbourVest focuses only on private equity through three areas: primary partnerships, purchasing assets on the secondary market, and investing directly in operating companies. They have strong risk controls in place and are registered with the SEC as an investment advisor.

Mr. Walker explained that private equity is a multi-billion dollar asset class that provides superior returns by investing in private companies. It has been adopted by institutional investors since the 1970s. They invest in existing companies, and investors get returns from value creation by companies that are either acquired or go public.

There are four areas within private equity:
Venture capital, which can be an idea by an entrepreneur or a business that is not yet profitable; Buyouts, which apply to established businesses that have been profitable but need capital in order to grow; Mezzanine, which involves a small ownership in a company; Distressed debt, in which managers buy debt securities of struggling companies, which they hope to sell for a profit when the company turns around.

Mr. Walker continued that private equity is part of the alternative asset class because it hopes to achieve outsize returns. Private equity also offers diversification; while it is slightly riskier than other assets, diversifying in the top managers mitigates some of this risk and can generate solid returns.

He advised that concerns about investing in private equity include becoming comfortable with illiquidity: investors may not buy into a fund and immediately sell, as private equity is more difficult to sell in the market. In order to get out of this asset class, only certain people may be approached to sell private equity. It is also a blind pool investment, meaning the plan would not be investing into existing companies.

Another concern is transparency. Mr. Walker advised that many private equity firms are extremely competitive, as they are trying to discover new and disruptive assets, companies, or technologies. However, to investors within the private equity asset class, there is a great deal of transparency that cannot be found through the public market.

Mr. Cypen asked if another aspect of illiquidity was lockup. Mr. Walker confirmed this, stating that when someone commits to the fund, there is a 10-year committed partnership in which the investment capital is tied up. Once this capital is legally committed, it is very difficult to trade out. While an asset can be sold, it must be done through a process rather than simply advising a broker to sell. It also rarely trades at net asset value. In a lockup, assets can be sold to a third party but not back to the fund manager.

Mr. Cypen asked about unrelated business taxable income (UBTI). Mr. Walker said HarbourVest has structured around this; traditionally some of the assets in which the firm invests have generated UBTI. Mr. Bishop said typically a feeder fund is set up offshore to invest directly; the asset class, including HarbourVest, has gotten around feeder funds without leveraging.

Chair Dew asked if private equity can always work around feeder funds or if there are cases in which plans are subject to UBTI. Mr. Bishop said if an investor is sensitive to UBTI, they can invest in a Cayman vehicle to avoid this tax. Mr. Walker added that every manager has a side-by-side Cayman fund to avoid UBTI.

Mr. Walker moved on to discuss a company life cycle, noting that most companies which are now public began as private entities at one time. Companies that need to grow quickly but lack the necessary capital are viewed by banks as potentially too risky for a loan; this is where an entrepreneur would turn to private equity. As the idea or product is developed, the company begins to generate revenue, although it is not yet profitable. The mezzanine and distressed debt categories have high expectations on returns, but also have high risk. This is because when a manager invests in some of the early stages of a company or idea, not all these companies or ideas will pan out and be profitable.

Private equity works best in developed countries, as the right system must be in place for it to be successful. There must also be the right regulatory and exit environment in order for private equity strategies to work. Mr. Walker advised that the U.S. leads the world in this category, followed by Europe and Asia. He referred the members to a list of companies that were backed by venture capital at some point, including Apple, Microsoft, Google, and Skype. Venture capital invests heavily in information technology, health care, and some consumer-related companies.

Mr. Walker stated the typical structure of private equity is a 10-year limited partnership. This is because private equity is investing in companies, and it can take some time for them to create value and ultimately exit into the public market. HarbourVest's managers are compensated through a management fee, which covers expenses; it is also an incentive-based asset class for the general partners. In the case of a profitable investment, the investor would get back their original investment plus 80% of the gain, while the remaining 20% would be kept by the general partners. This provides the partners with an incentive to work harder and create more value.

Chair Dew asked if the compensation is in addition to the annual fees. Mr. Walker said this depended on where the plan would be investing: each venture fund has 2%-2.5% per year, with 1.5%-2% for buyout funds. The managers will continue to try to invest the management fee.

Mr. Walker stated that when a commitment is made and legal documents are signed, the manager is on tap for the capital to be drawn down. The managers do not call all the capital to be invested at a single time, as it would not be productive to call the capital when there is no investment to be made. Over a period of years, distribution begins when a company becomes profitable and is acquired or goes public.

Mr. Cypen asked if the fee structure meant managers might not give their best efforts if fees were not incentivized. Mr. Walker noted that there is currently more leverage outside the top tier of managers, which means fees have come down somewhat. He concluded that investors look at the private equity class on a net basis: if it is providing the necessary returns, it is worth being in that class. He added if an investor did not believe a manager deserved a premium carry, they would not commit to that fund.

Mr. Bishop explained that HarbourVest believes in diversification, and invests in fund-to-funds that in turn invest in 20 to 25 managers. They also believe in time diversification. Each type of private equity, from venture capital to buyouts, has the opportunity to outperform the other types over different time periods. HarbourVest recommends that investors accessing private equity for the first time should invest in a diversified way between asset classes: for example, 30% to venture capital, 65% to buyout, and 15% to credit.

Mr. Bishop said institutional investors can access private equity through three different scenarios: In-house operation, in which a staff and analysts are hired to focus on reviewing private equity managers and making decisions; the operations team would fund the capital calls to managers over time. A separate account relationship, in which a manager is hired to focus on those areas of private equity in which an investor is interested. An investment in fund-of-funds, or 20 to 25 different managers who build up a diversified program over three to four years.

Mr. Bishop advised that the in-house option is typically taken by institutional investors who are investing over $25 million per year into the asset class. The investor would have control over the staff and the timing of capital calls, so they could determine the pace of investment. Concerns include access to top tier managers, the majority of which are oversubscribed and difficult to get into.

For the separate account relationship, the investor would benefit because the Board would have to spend less time reviewing every fund. They would also be able to create a customized program targeted to their needs. Concerns include the need to make multiple investment decisions rather than outsourcing this responsibility; in addition, the account manager is making commitments on the investor's behalf, but the investor would be the limited partner signing the subscription documents, and could be responsible for legal work.

Mr. Bishop concluded that the fund-of-funds model would mean investment in a portfolio that would then invest in multiple underlying managers and could also make secondary investments. This consists of purchasing existing limited partnerships that are more mature than the primary, which would help mitigate the effect of paying early fees. This model involves a single investment decision that is then outsourced to a manager. Concerns include less control due to outsourcing; there is also a fee for the work that is done, and illiquidity that ties up capital for over 10 years.

Mr. Cypen asked why a 1% cost was included on the comparison. Mr. Walker said this was the fund-of-funds fee. He added that HarbourVest's fee is 85 basis points, which is less than 1%.

He advised that a fund-of-funds manager performs due diligence when selecting managers, including when they renew an already existing relationship. There are varying levels of transparency involved in selecting a fund-of-funds manager, and he recommended that the Board request a sample report and learn how quickly information would be available to them.

Mr. Cypen commented that general managers seemed to receive the incentive fee on an investment even if it did not perform. Mr. Walker said asset testing must occur as part of the legal agreements: the general managers would have to reach certain parameters in order to take any money out of the fund. There is now a general partner clawback included in each agreement. He clarified that the general partner and the manager are the same entity.

Chair Dew thanked the HarbourVest representatives for their presentation.

Mr. Schmid observed that the two presentations are at opposite ends of the spectrum in the alternative asset class. He reiterated that Pimco's fees are 86.5 basis points, while HarbourVest's fees are 85 basis points as well as the fees of the underlying manager, which range from 1.5%-2.5%, plus incentive fees. He advised that the three main obstacles to investment in alternative assets are liquidity, transparency, and fees. He added that HarbourVest had done a good job in presenting both the advantages and disadvantages of private equity.

Mr. Cypen commented that there are also "high-water marks" on the incentive fees: if a fund loses money one year and makes a profit of up to 20% the next, the managers do not get paid on that profit.

Chair Dew asked what the CapTrust team would recommend. Mr. Schmid said for the potential $20 million, they would recommend a 5% allocation to Pimco's All Asset Fund, which would account for most of the $20 million. While private equity remained an alternative, the Board could also consider other alternative options. Mr. Schmid noted that while private equity is a good asset class from a risk/return standpoint, the Board would have to be comfortable with all aspects of it, such as fees, illiquidity, the time commitment, and other considerations.

Mr. Schott said he felt comfortable with the Pimco fund as an entry into the alternative market: they have a highly diversified portfolio. Over time, the alternative asset allocation could be diversified further, such as into private equity or other programs. Mr. Schmid noted that the private equity presentation was for educational purposes today, but pointed out that due to the obstacles in this asset class, the Board might never reach a comfort level there.

Chair Dew asked the Board members for their feedback on the recommendation of Pimco.

Mr. Naugle asked about commodities. Mr. Schmid said this asset class is included in the All Asset Fund; he said commodities have a low correlation with stocks and bonds, but are fairly volatile. He suggested if the Board was interested, they could take a small piece of the 5% and invest in commodities.

Mr. Schott said CapTrust likes the noncorrelative aspects of commodities, as well as the fact that the fund includes tactical exposure to commodities. The plan currently has no such exposure. Mr. Schott advised they could dedicate a 1%-1.5% allocation to commodities, but the reality is because it is already embedded in the fund, there would be no reason to make this allocation. The managers of the All Asset Fund may allocate more to commodities if they feel it is appropriate.

Mr. Cypen asked if the fund's international exposure is limited by its prospectus. Mr. Schott said he did not believe there was a specific limitation on international exposure. Mr. Cypen explained his concern was for the restrictions by Statute on some foreign investments. He noted that even if the All Asset Fund had 100% international exposure, it would still come to no more than 5% for the plan.

Mr. Fortunato asked if there was any conflict between high yield exposure and the Board's policy. Mr. Cypen said if the exposure directly violates the plan's criteria, the guidelines could be changed. Mr. Schmid said the guidelines have a minimum overall credit quality rating as well as a maximum investment limit on anything rated below BBB.

Vice Chair Rudominer observed that the funds which would be allocated to Pimco will be coming from K2 by the end of July, and any motion made by the Board would be to allocate money they did not yet have. Chair Dew advised when the money becomes available, the vehicle in which to invest it would already be in place. The Board could also begin contract negotiations in advance of the money's availability.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, to allocate $20 million to the Pimco All Asset Fund upon delivery of the money and prior acceptance by acceptable contract and amendment of guidelines if necessary.

In a voice vote, the motion passed unanimously.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt said he is working on the Annual Report Newsletter, with the goal of completing it in June and getting it into the mail in early July. Chair Dew asked if he would like to review the points of the presentation that will be made to the City Commission. Mr. Nesbitt said his intent was to highlight several very positive factors that had happened to the plan during the last year, in order to show the Commission the work the Board has done and how the plan is progressing. The result was a list of 16 bullet points on these highlights. He advised that this is still currently in draft form.

There is also a summary of SB-1128 and its potential impact on the plan, which would show the City Commission that the effect of this legislation would be minimal. This sheet would be provided to the Commission in advance of the presentation.

Chair Dew explained the presentation had originally been scheduled for the previous day, but has been postponed until the July 6 Conference Agenda meeting. He noted that this will provide more time to make additional corrections and clarifications to the Annual Actuarial Report so it may be submitted to the Commission at the same time.

He noted that the actual cost of the plan is 24.7%; the remainder pays for the unfunded liability. This could be clarified to the City Commission so they have a clearer understanding of the true cost of the plan. He stated that he would like to highlight the fact that the pension fund is not part of an increase in costs to the City. According to the actuary, the cost of the plan will increase by $419,000 as of September 30, 2012.

Mr. Wood agreed if there was any impact to the City by the plan, it was insignificant. Mr. Nesbitt recalled that the Finance Department had projected three different scenarios: a 10%, 15%, or 17% increase in pension contributions. It appeared that between the Police and Firefighters Pension Fund and the General Employees, the actual increase will be roughly $1.5 to $1.7 million.

Mr. Wood said he had made the adjustment that the contribution for next year decreased to 49%; it was helpful to be able to state that the contribution had been reduced, although he noted there was still a long way to go.

ADMINISTRATOR'S REPORT:

2011 Annual Actuarial Report Final Report

Ms. Wenguer advised that pages 5 and 13 of the copies given to Board members still need to be replaced.

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

Mr. Naugle left the meeting at 2:45 p.m.

Summary Plan Description

Ms. Wenguer noted this had been sent to Board members, and asked that they review it when possible, as they hope to print the document by the end of June. She asked that the members advise her of any additional comments.

Pension Software RFP

The RFP has gone out for new pension software. There was a great deal of interest from prospective bidders. Ms. Wenguer asked if the Board would like to establish a committee to review the RFPs.

Chair Dew said he felt it would be a good idea to appoint a couple of people to such a committee, so it could advise the Board on how to make a recommendation regarding the software. Vice Chair Rudominer offered to be part of the committee.

Upgrade & Assignment Pay

Ms. Wenguer said this issue has been resolved, and contributions will be taken up on the assignment pay.

Mr. Cypen said while he agreed with the conclusions made by the Assistant City Attorney, he did not agree with the idea that it is optional to take out contributions. He did not feel the conclusion was clear, and asserted that there is no option and members must make the contribution.

Ms. Wenguer advised that the contributions will not be taken out retroactively, as it was not cost-effective to recover this money. Mr. Cypen stated the City must recognize that this cost accrues to them because they are not collecting it.

Ms. LeClaire said at one point the City had looked at more than two years to see what the lost contributions totaled; this came to roughly $14,000.

Mr. Cypen explained his concern was because he did not want it to seem that the Board had failed to exercise its fiduciary responsibility to collect money. If the City has determined it does not make good economic sense to collect this money, and understands it will be responsible, there was no issue.

Agenda Distribution

Ms. Wenguer noted this had previously been discussed.

City Contribution

She stated that she had asked the actuary what it would cost to do a study to determine what effect it would have to make periodic contributions rather than one single contribution. The cost of the study was estimated to be $2000-$3000. Ultimately it was determined that she and others could make this determination without involving an actuary.

Mr. Wood said the issue was that the cost of paying two years at one time would be $60 million. He explained if it is changed and the payment that regularly comes in October is moved up to an earlier date, there is still next October's payment to make. This would exacerbate his existing cash flow issue. He advised that most of the contribution comes from the General Fund, and he could not drain that fund of its cash. He advised that once the new City Manager is on board, it may be possible to work out a solution.

Mr. Wood continued that the City has put an RFP on the market to outsource payroll, including pension checks. He noted that he will still need most of the employees to continue time-gathering and maintaining the information within the Department. He stated he did not see that more than minimal labor savings would result from the RFP.

Ms. Wenguer said because of this, the software vendors have been advised any decision regarding new software would be kept on hold until the payroll change has been resolved. This is because they do not want to integrate the new system with the old payroll system when a change might be required.

She concluded that Mr. Naugle had spoken with the Board's landlord regarding possible future rent reductions. She distributed a handout to the Board.

Administrator's Contract

Chair Dew said he had received most of the evaluations from the other trustees, and they are very consistent. He attached a copy of the goals discussed in 2010, all of which have been met.

He continued that Ms. Wenguer's contract is up for renewal, and pointed out changes to the document. The new contract is for three years. He noted the addition of a new provision and a section regarding prior General Employees Retirement service. Ms. Wenguer explained this section to the Board, noting that individuals are allowed to purchase service time but there was previously no explanation of how this can be done.

Mr. Cypen said the Board was not "in the loop" to learn the appropriate vehicle for buying back service. Ms. Wenguer noted that this was why the issue has lingered, and the Board can find out how this can be done.

Mr. Wood recommended that this issue be resolved before the new City Manager takes office. Chair Dew suggested contacting the City Attorney's Office for advice. Mr. Cypen said an Assistant City Attorney has advised him there is a specific reason this process is not being done.

Chair Dew asserted that the Board needs a response in writing on this issue. He stated that he wanted to contact the City Attorney's Office once more for clarification in writing.

Vice Chair Rudominer asked if this issue could be separated from the contract. Chair Dew said it is part of the contract. Mr. Cypen and some Board members did not agree.

Ms. Wenguer offered to bring all necessary documentation to the Board so they can see it. Chair Dew asked if she would like renewal of the contract to be deferred. Ms. Wenguer said she did not wish to hold up the renewal.

The Board briefly discussed the changes to the contract for clarification.

Motion made by Mr. Hole, seconded by Vice Chair Rudominer, to accept the revised contract with the dates of July 1, 2011 to June 30, 2014. In a voice vote, the motion passed unanimously.

Ms. Wenguer thanked the Board, and Chair Dew in particular, for their continued support, and her Staff for all their hard work.

PENDING ITEMS:
New Business

Mr. Hole requested an update on the Employee Survey. Ms. Wenguer said this was complete, but it had been decided that it would not be mailed over the summer, as it might miss some recipients. It will instead be sent in September.

Vice Chair Rudominer noted the Board had received a letter from a law firm stating there was a material loss, and asked if they needed to take further action. Mr. Cypen said a claim must be filed to recoup these funds. Ms. Wenguer advised that Northern Trust handles this responsibility; should they fail to file, a claim is filed from the office.

Mr. Hole reported that he, Mr. Fortunato, and Vice Chair Rudominer had attended a seminar held by the State Division of Retirement. He said the seminar was very informative.

Mr. Cypen recommended that the Board's acceptance of the 2011 Annual Actuarial Report be included in communications to the City Commission. Other communications were the Board's intent to hire Pimco as an alternative investment manager and the renewal of the Administrator's Contract from 2011-2014.

Old Business

Mr. Wood advised that Ms. LeClaire would work with the Board *ex officio* in his absence. Chair Dew said if the Board could have some assurance that Ms. LeClaire would be present for some time, they would train her in the FPPTA system. He requested that Mr. Wood give some consideration to making the Board meetings a regular appointment to cut down on the necessity of additional training or retraining. Mr. Wood said as long as Ms. LeClaire is a City employee, he would ask that the Board consider her to be acting in his stead when possible.

There being no further business to come before the Board at this time, the meeting was adjourned at 3:20 p.m.

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