

**June, 2012**

POLICE AND FIREFIGHTERS' PENSION BOARD  
REGULAR BOARD MEETING  
WEDNESDAY, JUNE 13, 2012, 12:30 P.M.

Present

Michael Dew, Chair  
Ken Rudominer, Vice Chair  
Richard Fortunato, Secretary  
J. Scott Bayne, Trustee  
Jeff Cameron, Trustee  
Dennis Hole, Trustee  
Jim Naugle, Trustee  
Steve Cypen, Cypen & Cypen, Board Attorney  
Alison Bieler, Cypen & Cypen  
Lynn Wenguer, Administrator

Also Present

Amanda Cintron, Assistant Administrator  
Laurie DeZayas, Pension Secretary  
Kirk Buffington, Deputy Finance Director  
Kevin Schmid, CapTrust  
Stephen Schott, CapTrust  
Gregg Hymowitz, Entrust  
Helen Wong, Entrust  
Kevin Manning, Entrust  
Jack Farland, Entrust  
Dan Ledbetter, Lighthouse Partners  
Paul Schwarz, Lighthouse Partners  
Allison Corbally, SSARIS  
Rob Covino, SSARIS  
Brian Chung, SSARIS  
Alan Eichenbaum, Attorney  
J. Opperee, Recording Secretary, Prototype, Inc.

John Stuber, President, Retirees' Association  
Walt Courtney, Vice President, Retirees' Association  
Fred Nesbitt, Director of Media Relations  
Fuzzy Larkin, Retirees' Association  
George Farrell, Retirees' Association  
Bill Paton, Retirees' Association  
Harry Wood, Retirees' Association  
Jack Cann, Retirees' Association  
Rick Schulze, Retirees' Association  
Linda Soloman-Duffey, Retirees' Association  
Gregg Gurdak, Retirees' Association  
Frank Colleran, Retirees' Association  
Bob Oelke

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 13, 2012, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to City Commission

The Board adopted the recommendations of the actuary based on the 2007-2011 Experience Study. They changed the mortality assumption to the RP2000 mortality table, lowered the interest rate assumption to 7.5%, and lowered the salary scale.

#### Pledge of Allegiance / Moment of Silence

Chair Dew 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: May 23, 2012

Motion made by Mr. Hole, seconded by Vice Chair Rudominer, for the waiving of the reading of the minutes (as corrected).

Mr. Hole noted the following corrections:

P. 22, paragraph 4: change "\$1.2 million" to "\$1.2 billion."

Regarding the rest of p.22, paragraph 4, Mr. Hole clarified that he had stated GTS had informed him they saved the Plan \$40,000 in transition costs. Chair Dew subsequently requested that any information of this nature be shared with the rest of the Board.

In a voice vote, the motion passed unanimously.

#### BENEFITS:

Fire Department:

Vesting: Michael T. Reimer

Police Department:

DROP Retiree: Kimberly S. DiCristofalo  
Carl D. Hannold, Jr.

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, for the acceptance of the benefits for the Fire and Police [Departments]. In a voice vote, the motion passed unanimously.

BILLS: None

#### INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Walt Courtney, Vice President of the Retirees' Association, advised that he and other retirees had visited Director of Finance Doug Wood with regard to a withdrawal of Retiree Association dues. Kirk Buffington, Deputy Director of Finance, explained that a form must be developed authorizing the City to withdraw a certain amount from each retiree's pay. Mr. Wood expects the Retirees' Association to create this form, which must be signed by each individual who wishes to have money withdrawn electronically from his or her check.

Mr. Courtney said the Retirees' Association is working on this document, and asked where it must be sent when complete. Mr. Buffington said it could be sent directly to Mr. Wood or to himself. It would also need to be sent to the appropriate members of the Association. Mr. Courtney advised that the Retirees' Association does not have addresses for all its members.

Mr. Cypen suggested that the Board could send the document to the correct individuals. Mr. Courtney agreed that the form would be sent to Mr. Wood or Mr. Buffington for approval, after which time the Board would send it to the appropriate retirees.

Mr. Bayne recommended that the Retirees' Association reach out to the unions, as they have a standardized sheet for union deductions that could serve as a template for development of the withdrawal document.

John Stuber, President of the Retirees' Association, thanked Mr. Cypen for the COLA history review presented at the May 23, 2012 Board meeting, and advised that he also hoped to hear a history of smoothing as related to the

Plan.

Ms. Bieler explained that the COLA formulas are set in the pension plan. There were two formulas used: the original COLA adopted in 1972 and repealed in 1986, and the second COLA that was put in place by the City Commission in 1986 when the original was repealed. This second COLA was repealed in 2008 because of its sunset provision. She noted that because the two formulas include provisions referring to averages, this may be what some individuals perceive as smoothing; however, she concluded that these were part of the pension plan.

Mr. Stuber stated that if the plan makes money during a given year and can pay a COLA, additional years are added to the calculation, which “erase[s] that year” and causes the COLA not to be paid. Ms. Bieler advised that Mr. Stuber was thinking of another form of smoothing that is related to evaluation and has no relation to the pension plan’s formula. She reiterated the dates associated with both COLAs, the formulas for which are included in the history, and noted the State law passed in 1994 that states no COLA can be paid without a positive overall experience gain.

Chair Dew requested clarification of who was responsible for the COLA formula change in 1986. Ms. Bieler replied this was an Ordinance change made by the City Commission; the Board is only responsible for administering the Plan.

Vice Chair Rudominer requested clarification that COLA was based on actuarial gains rather than investment gains. Ms. Bieler explained that State law dictates if there is a cumulative loss, no COLA may be paid until the Plan’s overall gains have erased the negative position. Mr. Cypen characterized COLA as gain sharing, stating that it is a share of the excess earnings that would otherwise reduce the City’s contribution.

Mr. Courtney said while he understood the results of market performance, concern had arisen for those individuals who retired when an average of three years was used in the formula. He stated at some point, “the terminology changed to smoothing” to refer to the addition of years, and asked to know the difference between averaging and smoothing. Mr. Cypen advised that there is no difference. Mr. Courtney said those individuals who retired when there was “a three-year average or three-year smoothing” could not be treated the same as those individuals who retired when a five-year average was in place.

Mr. Naugle explained that once someone retires, the law ensures their benefits may not be reduced. After the COLA formula was changed in 1986, an individual brought the idea of smoothing to the City Commission as a means to keep the City’s contribution from varying significantly from one year to the next. This did not mean the formula was changed.

He clarified that the retirees were concerned that smoothing was preventing some individuals from receiving COLA; however, because these individuals were already retired, their benefits may not be reduced. He concluded that with or without smoothing, there could be no COLA at this time.

Ms. Bieler added that COLA is determined year-by-year, which meant it was paid for every eligible year until the change was made by the State legislature stipulating that cumulative losses must be overcome. Mr. Cypen also clarified that while some individuals may have received onetime lump sum payments, others receive annuities, which do not go away.

Rick Schulze, retiree, said his understanding was that it is within the Board’s purview to grant a onetime COLA, which was not related to the issue of COLA recurring year-to-year. Ms. Bieler explained that the actuary had been asked how a COLA could be issued, and had offered the example of an ad hoc COLA; however, this would have to be done by the City Commission, as the Board has no authority over COLA.

Mr. Schulze asked if the Board could ask the City Commission to request an ad hoc COLA. Ms. Bieler replied that the retirees could make this request of the Commission, as it is not the Board’s responsibility. Mr. Schulze recalled that he and another retiree had made this request in the past, but were advised that it was not possible at the time.

Chair Dew said if the other Trustees approved, he would be willing to go to the individual City Commissioners with representatives of the Retirees’ Association to make this proposal. Mr. Cypen observed that in the past, the Board has communicated to the City Commission that in light of the State statute, COLAs will not likely be paid

under the existing formula, although the cost of living continues to increase. They could ask that a recurring flat percentage could be added as a COLA, to be administered by the Board.

Vice Chair Rudominer advised that before anyone makes this request, they should be prepared with actuarial figures, and asked if the Board is authorized to pay the expense for the actuary to compile them. Mr. Cypen said if the actuary was consulted, he would be able to give them an estimate of what the proposed cost-of-living percentage might be in terms of pay.

Chair Dew said he would be willing to accompany the retirees as a representative of the Board if they wished to address this issue with the City Commission. He concluded that the request for an ad hoc COLA would require additional work, and asked the retirees to investigate this further and bring their results back to the Board at the July meeting, with recommendations on what action would be pursued next.

Mr. Stuber stated that some retirees receive a much larger amount per year than others, and asked how this could happen. Chair Dew said it was the result of collective bargaining and was not related to the Board's administration of the Plan. He reiterated that COLA was up to the City Commission rather than the Board, and that the Board was willing to work with the Retirees' Association once a proposal had been thought through more clearly.

Mr. Stuber requested that the Order to Show Cause be discussed next, as both retiree Frank Colleran and attorney Alan Eichenbaum were present.

The following Item was taken out of order on the Agenda.

#### Order to Show Cause – Frank Colleran

Chair Dew stated that he would like Mr. Cypen and Mr. Eichenbaum to advise the Board of the status of this issue. Mr. Cypen said he could not make a recommendation to the Board until he had received additional information from Mr. Eichenbaum. He stated that the Board was at a disadvantage because Mr. Eichenbaum and Mr. Colleran were operating privately and did not have to report any discussions and strategies they might have done.

Chair Dew stated again that he would like to have more information on the subject. Mr. Eichenbaum stated that his "one-word answer, either in this forum or outside...is no." Mr. Cypen said in this case he had no recommendation to make to the Board, and would proceed to the Board's right to defend the case, associated with local counsel if necessary. He requested that a shade meeting be scheduled as soon as possible.

Mr. Eichenbaum confirmed that Mr. Cypen would have sufficient time to schedule a shade meeting. Chair Dew asserted that he would like to make a recommendation for outside legal counsel to represent the Board. Mr. Cypen cautioned that no such statements should be made outside the shade meeting with regard to this issue.

Mr. Bayne asked how much notice was required for a shade meeting. Ms. Bieler said only "reasonable notice" is required, as the meeting will only consist of Board members; however, it must be advertised and posted.

Mr. Cypen explained that because the Board is governed by the Sunshine Law, they must operate "in the sunshine" unless there is an exception. One such exception is an executive session or attorney/client session, which is euphemistically referred to as a shade meeting because it is outside the sunshine. This meeting must be requested during a public meeting and notice must be posted; it must be held at "a reasonable time and place." Only Trustees and attorneys may attend.

He continued that a shade meeting must be opened as a public meeting, at which time the purpose of the meeting is announced and the amount of time for the meeting must be estimated. The public meeting is then closed and the court reporter records the shade meeting verbatim. When the meeting is concluded, the court reporter places the transcript in a sealed envelope and delivers it to the clerk or administrator until the litigation is over.

It was determined that the shade meeting would be scheduled for August 8, just prior to the regular Board meeting. Mr. Cypen advised he did not feel the meeting would require a great deal of time. He clarified that a shade meeting must originate from a public meeting.

**MONTHLY INVESTMENT REVIEW:****CapTrust: Steve Schott, Kevin Schmid**

Mr. Schmid stated that today's investment discussion would focus primarily on interviewing replacement managers for K2. This is part of a strategy shift from long/short fund-to-funds, which were represented by K2, to a more diversified multi-strategy hedge fund-of-funds.

He advised that three candidates were identified which seemed to make sense for the Plan. In this asset class, there are three primary issues that most clients focus on: liquidity, transparency, and fees. The candidates presenting to the Board today are Entrust, which is the most aggressive the least liquid, with a 12-month initial lockup; Lighthouse Partners, which is the most expensive firm and offers monthly liquidity, with 85% of their underlying investments in managed separate accounts; and SSARIS, which is the smallest and least expensive of the three, with the most global exposure and lowest volatility.

Chair Dew asked why Pinnacle Natural Resources was not present. Mr. Schmid said while Pinnacle has previously presented to the Trustees, they are not considered to be part of the diversified multi-strategy fund-of-funds mandate. Pinnacle focuses entirely on commodity trading. He noted that if the Board was interested in pursuing this strategy, CapTrust could do a full search and invite candidates to make presentations.

**ALTERNATIVE INVESTMENT PRESENTATIONS:****Entrust: Gregg Hymowitz, Helen Wong, Kevin Manning**

Mr. Hymowitz, founder and managing partner of Entrust Capital, provided the Board members with information books on the company. Entrust was founded in 1997 and is 100% employee-owned. Mr. Hymowitz provided an overview of the performance of various indices, noting that Entrust is made up of 41 underlying managers. Their returns have very little dispersion and have outperformed other indices with much less volatility and 1000 basis points of excess returns. All hedge fund investing is about preservation of capital: in a negative market, Entrust outperformed U.S. equities 89% of the time.

He moved on to transparency, stating that Entrust is the leader in the hedge fund industry with regard to this. A flash report detailing the performance of every manager in the portfolio is sent out 10 days after the month has ended; a conference call with one underlying manager is also done every month. Research calls are also made, sometimes to multiple managers. Mr. Hymowitz stated that the transcripts of every call and every flash report are available on Entrust's website. Security positions are also disclosed, and Entrust also convenes an annual meeting at which every manager makes a presentation.

Mr. Cypen requested clarification of Entrust's investment vehicle. Mr. Hymowitz said most institutional investors invest in their offshore vehicle, which is located in the Cayman Islands.

Mr. Hymowitz continued that the portfolio tail risk fund was developed in March 2011. A tail risk is considered an extremely rare event; however, in reality, it occurs roughly every three years. This portfolio specifically focuses on protection during massive declines. He offered the example of May 2012, when the S&P 500 was down 7% and the tail risk portfolio was up by 16%.

Mr. Hymowitz concluded that investors come to the hedge fund industry in general, and Entrust in particular, because it involves the performance of traditional long-only equity and because of their performance during a time of financial crisis.

Vice Chair Rudominer asked how often the firm changes its allocation by strategy. Mr. Hymowitz said Entrust is dynamic and opportunistic in moving capital to where the best risk/rewards are found. He referred the Board to an example in which they moved funds significantly into credit during 2008, as this would result in Entrust becoming a senior stockholder during credit's reorganization.

Mr. Hole noted that Entrust and its affiliates may make political and charitable contributions, pursuant to requests by potential or existing investors, and asked if any public plan has made such a request. Mr. Hymowitz said they

had not; in addition, this practice is no longer allowed under SEC regulations. They are occasionally asked, however, to sponsor charitable events, which are vetted by a Compliance and Conflicts Committee.

Chair Dew asked to know Entrust's five-year peer universe ranking among public plans. Mr. Hymowitz said he was not familiar with this. He noted that few fund-to-funds report their performance to databases of this nature, although Entrust reports to 14 public databases. He was not aware of whether or not Entrust has ever been placed on a watch list for underperformance, although he pointed out that they do not typically lose clients.

Chair Dew asked if Entrust has or has had any litigation issues. Mr. Hymowitz asserted they have not, and added that they are routinely audited and have undergone four SEC audits.

Lighthouse Partners: Dan Ledbetter, Paul Schwarz

Dan Ledbetter, representing Lighthouse Partners, provided the Board with a handout on the firm. He introduced Paul Schwarz, Managing Director on the firm's investment side. Lighthouse is a Florida-based firm that has been investing since 1996; they are the biggest hedge fund investor in the southeast, managing just over \$6 billion for clients.

Mr. Ledbetter stated that the diversified fund, a conservative multi-strategy fund-to-funds, is Lighthouse's flagship vehicle. They provide month-end liquidity with 90 days' notice. He also pointed out that there is technically no lockup on the liquidity; although there is a 2% redemption fee within the first 12 months, Mr. Ledbetter stated he did not recall ever charging this fee to a client. While there is no performance fee associated with the diversified fund, they charge 1.5% for managing the assets. He noted that this fund is typically used as a risk management tool.

Mr. Cypen asked if Lighthouse uses objective criteria to determine when the 2% redemption fee is waived, or if it is done on a case-by-case basis. Mr. Ledbetter said this is decided by the general partnership. He reiterated that he did not recall this fee having been charged, although it remains in the contract.

Mr. Ledbetter stated that Lighthouse is known in the industry for building a significant platform of managed accounts. Rather than investing in a manager's fund, they establish an account and allow the manager to manage its own assets. This is intended to address some of the risks inherent in hedge funds. Lighthouse actually owns its assets, which means they do not have to worry about a manager gating or suspending these funds.

Mr. Cypen asked to know the legal nature of the vehicle in which the Plan would be investing. Mr. Ledbetter said it is a Cayman Island exempt company. He added that Lighthouse does not feel that they have legal exposure, although there was an instance of exposure in 1996 when the firm assumed control of an account.

Mr. Schwarz moved on to state that the original objective of Lighthouse's portfolio was to generate equity-like returns with bond-like risk. Allocations are made in the United States, Europe, Asia, and emerging markets, with a respective breakdown of 65%, 20%, 10%, and less than 5%. He called the Board's attention to Lighthouse's three-year return of just over 8%, as well as the low exposure to major changes in the stock and bond markets.

Mr. Schwarz stated that during the 20 worst months for bonds in the past decade, Lighthouse has actually made money during 13 of these, with a cumulative outperformance of 32%. In the 20 worst months for the equity markets, their strategy has been to make money or break even, which has occurred 50% of the time, with a cumulative outperformance of 66%.

He continued that Lighthouse thinks of transparency differently from many firms: rather than communicating limited transparency to investors on a monthly basis, they communicate top-down holdings on a daily basis. He concluded that extensive risk reports are generated on a quarterly basis as well, which help Lighthouse do a good job in sharing what they do with their clients.

Mr. Hole asked if Lighthouse has ever needed to revoke a manager's authority. Mr. Schwarz said this has occurred twice. Mr. Hole asked if these investments were liquidated in a timely fashion. Mr. Schwarz confirmed this.

Mr. Hole noted that the firm's disclaimer states while underlying managers may not impose lockups, gates, or similar restrictions, Lighthouse retains the right to impose these restrictions on all investors. Mr. Ledbetter said this statement was built into the firm's documents in case of an extraordinary environment, such as 2008.

Mr. Cypen commented that the Board would be unlikely to agree with this policy. Chair Dew agreed that this could be a disqualifying factor for the Plan. Mr. Ledbetter said this policy would be open to discussion, and observed that if they adopted the policy of implementing gates in this manner, it would irreparably harm their business.

Vice Chair Rudominer referred to a report from April 2012, asking if it showed the most current portfolio composition. Mr. Ledbetter confirmed this, and advised that additional reporting was available if the Board wished.

Chair Dew asked if any Florida public pension funds have invested in the firm. Mr. Ledbetter said there are currently none, as they have only recently engaged with the FPPTA. They manage public pension funds for other states. Chair Dew explained that the Board is seeking reference checks for Lighthouse, and expressed concern with the firm's level of transparency. Mr. Ledbetter advised that this information could be provided, although it is not a standard part of the presentation.

Chair Dew continued that the Board had received a list of clients' gains and losses, and asked if the firm had any past or current concerns related to litigation. Mr. Schwarz said they are presently in litigation related to their ownership of several securities. Chair Dew explained he was concerned with any litigation that might result in losses, thereby jeopardizing the Plan's money. Mr. Ledbetter said he was unaware of any litigation of this nature; there were cases that could have a potential impact on basis points, but the SEC has not visited the firm in three years.

Chair Dew asked what was published by Lighthouse, again expressing concern with their level of transparency. Mr. Ledbetter said they could provide the list of clients, as previously noted. Chair Dew asked if the daily performance and watch list would be available in case the Board or CapTrust wished to monitor what was occurring. Mr. Ledbetter said their publishing could be customized if the Board wished to see additional information. He noted that they primarily publish sector exposure and positions so clients could understand the fund's liquidity.

SSARIS: Brian Chung, Allison Corbally, Rob Covino

Allison Corbally, relationship manager with State Street Global Advisors, distributed information books on the firm. She introduced Rob Covino and Brian Chung of SSARIS.

She advised that in the fund-to-funds market, an affiliation with a large bank such as State Street gives clients more comfort. SSARIS focuses only on fund-to-funds and alternative funds management. Their association with State Street is primarily from a compliance and risk standpoint. SSARIS has never had a lockdown of its funds, and takes a convergent/divergent approach to portfolio management. Their interest in the divergent side helps the firm to excel in down markets.

Mr. Covino defined the firm's convergent/divergent investment philosophy as allowing the firm to participate as much as possible on the market's upside while remembering that they are subject to risk and taking steps to protect capital. After 2008, when most of SSARIS's peer group lost 20%-30%, they lost 0.15%.

Mr. Chung provided a brief overview of hedge funds, stating that they are an investment vehicle that tries to make money as consistently as possible by placing what amounts to a series of high-probability bets. Their returns, rather than assuming the typical bell curve, are skewed, resulting in more positive than negative figures.

He continued that because the premise of hedge funds is to take advantage of normal market behavior, they lose money during a distressed environment, like 2008. SSARIS tries to negate this behavior by finding strategies that work well in an irrational environment. Divergent strategies do this by taking advantage of a product's momentum, and succeed when the more typical convergent strategy has ceased to work.

Mr. Chung advised that this strategy is the reason SSARIS has outpaced the average fund-to-funds by 50% over the last five years. He noted that during the 15 worst months for the S&P 500 since SSARIS launched in 2002, their most diversified product, Multi-Manager Absolute Returns (MMAR), was down by a cumulative 2.5% against the typical 30%-40% for most hedge funds. The same practice applies to bond markets as well: in a predictable market, convergent exposure is better, but 20% of the firm's exposure is in divergent strategies to protect against a negative market. The result is average to better-than-average returns in a rational period and better returns during a difficult period.

Mr. Covino stated that SSARIS takes a macro view, moving toward divergent strategies in a troubled market and convergent strategies during times of stability. He asserted that the firm will protect capital in almost every environment in a cost-effective way. Their policy is also to negotiate fees whenever possible; their management fee is 1%, there are no hidden costs, and they do not retain a percentage of profits. He concluded that there is nothing in the portfolio that the Board may not see.

Mr. Cypen asked to know the nature of the legal vehicle in which the Plan would be invested. Mr. Covino said it is a U.S. Delaware LLC, so the Plan's money remains onshore, although a Cayman Islands "blocker" is used.

Mr. Hole commented that SSARIS's book showed a 15% allocation in long/short, as well as 19% in managed futures, both of which have small performance. Mr. Chung said the firm's credit book is very light at present because they take the view that credit is a poor risk. Mr. Covino added that the MMAR's most divergent exposure is in managed futures, including currency, commodity, and S&P futures and other liquid exchange-traded products; there are no off-exchange derivatives.

Mr. Hole noted some funds that had been involved with regulatory issues, asking if SSARIS had had any involvement or exposure. Mr. Covino said they had not. Mr. Hole noted in particular an incident in which SSGA was fined by the state of Massachusetts. Ms. Corbally explained this was the result of a settlement related to a 2007 sub-prime issue.

Chair Dew asked if State Street would be affected by any future litigation resulting from Dodd/Frank. Mr. Chung said the local rule associated with Dodd/Frank limits the amount of proprietary trading that an institution can make with client assets; this does not affect SSARIS. The pending Moody downgrade would also not affect SSARIS, as they do not borrow from State Street.

Chair Dew requested greater detail on the firm's transparency, asking if information was published. Mr. Covino said this is published in the RFP that SSARIS answered for CapTrust. The firm offers full transparency on the managers in which they are invested. They hold perfect transparency on the 30% of the portfolio that they run as separately managed accounts, and full transparency "at some level." Full transparency with managers serves as a way to verify exposure.

Mr. Covino continued that each quarter, SSARIS will publish a manager list, including allocations, to each of the managers. Some performance comment on each style will be included.

Mr. Cypen commented that this does not include 70% of the underlying portfolio. Mr. Chung said the firm is contractually prohibited from listing all the positions taken by their underlying managers, although they have the ability to see them at will.

Chair Dew asked if SSARIS has any public pension plans invested in them. Mr. Covino said there are approximately six such plans. Chair Dew asked why they were not disclosed in the firm's information. Mr. Covino said two of these plans are U.S.-based: one was included on the reference list provided to the Board, while the other has committed but is not yet funded. The other four public funds are non-U.S. based, and it is company policy to contact them before listing their names.

Vice Chair Rudominer asked if more funds would be added if the firm reached its \$6 billion cap. Mr. Chung said they would remain at roughly 55 funds, as they deliberately restrict their size in order to maintain flexibility and make more money for their clients.



At the conclusion of the alternative investment presentations, Mr. Hole suggested that some of the questions regularly asked by CapTrust might be compiled into a checklist and provided to the Trustees.

Vice Chair Rudominer asked how the strategies presented differ from the Pimco All-Asset Fund. Mr. Schmid said Pimco is a daily liquid mutual fund with liquidity features; in addition, Pimco primarily invests in long-only investments, so they are not hedging, and maintain the ability to move across several asset exposures. Pimco's fee is roughly 87-88 basis points, while the hedge funds' fee structure is significantly higher, with management fees by the presenters ranging from 1%-1.5%. He continued that the funds in which Pimco invests are generally single-strategy, including equities, fixed income, commodities, and real estate.

Mr. Hole asked if the Plan would come close to its non-U.S. maximum by investing in SSARIS. Mr. Schmid said they would not, as the cap for this is 25%; he also pointed out that an alternative investor would replace K2. He noted that SSARIS has the most international exposure at roughly 50%. With regard to managed futures, he noted that SSARIS primarily invests in this as part of their divergent strategy during down markets. It was noted that managed futures are also highly volatile and non-correlative.

Mr. Hole commented that although SSARIS was not affected by a recent issue with SSGA, State Street-related companies seem to regularly be in the news with regard to lending issues and other effects.

Chair Dew asked Mr. Schmid for his opinion on the presenters. Mr. Schmid pointed out that Entrust sets the bar very high for transparency: if this is what the Board is seeking, Entrust is the only company offering that level of transparency. It is also the largest of the funds that presented, and have been the most high-risk and least liquid of the three, with a one-year initial lockup. Lighthouse Partners is the most liquid, with the majority of their assets in separately managed accounts, and offer the most operational protection. SSARIS stands out for being the least expensive, with the 1% management fee, and their convergent/divergent strategy, which serves them particularly well in a negative environment.

Chair Dew asked which of the three the CapTrust representatives would best fit the Plan and its overall policies. Mr. Schmid said Entrust has the greatest potential to drive returns, but SSARIS has a successful capital preservation strategy. He advised that judging by how the portfolio has been built, he felt that as the presenters styles compare to one another the Board could afford to take the risk offered by Entrust; however, if they are not comfortable with this level of risk, SSARIS offers a less risky option.

Mr. Fortunato commented that he liked both Entrust and SSARIS; however, if the Board wanted something similar to what is offered by Pinnacle Natural Resources, SSARIS would be somewhat redundant. Mr. Schmid agreed that Pinnacle would cover a lot of the same exposure.

Mr. Hole asked if the presenting firms could be convinced to lower their fees. Mr. Schmid said whoever is selected would be asked for any side letters that they have negotiated in the past and request similar treatment, so the Board could receive the same fee concessions they may have granted in the past. Mr. Schott cautioned that while they have had some success negotiating fee reductions in the past, hedge fund managers are less likely to negotiate.

Mr. Bayne said he was impressed with Entrust's level of transparency. Chair Dew agreed, noting that this had been a concern with hedge fund managers. He noted that the other presenters had seemed somewhat uncomfortable discussing transparency. Mr. Schmid explained that transparency is not standard procedure in this asset class.

He continued that Entrust's tiered fee schedule starts at 140 basis points on the first \$10 million invested, and may decrease to 130 with larger investments.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, for Entrust.

Mr. Hole asked if performance fees or high-water marks were associated with Entrust. Mr. Schmid said there are class shares with performance fees, although these are not recommended for the Plan. He added that all returns presented today were net of fees.

Mr. Bayne asked how long the hiring process would be for a new manager. Mr. Schmid said once the redemption request has been submitted for K2, it would be effective June 30, which would mean the Board redeemed its

money no earlier than September 30. He added that when a full redemption is made from hedge funds, managers tend to hold back a percentage until they have completed that year's audit. With regard to a new contract with Entrust, he recalled that the process of contract negotiation may be simple or lengthy; he estimated that negotiations with Entrust could take up the entire three-month window.

Mr. Bayne asked if the issue could be tabled until the July meeting, which would give CapTrust time to negotiate fees with Entrust. Ms. Wenguer added that Entrust could be asked to send a pro forma contract to Mr. Cypen and Ms. Bieler.

Mr. Bayne and Mr. Fortunato withdrew their motion and second.

Mr. Schmid confirmed that they would seek fee concessions from Entrust if possible, and would request a standard contract for review. He cautioned, however, that any such concessions were likely to be minor.

Ms. Bieler asked if CapTrust was aware of any instances in which a side letter was needed from Entrust. Mr. Schmid said he was not aware of any situations in which a side letter was requested.

An explanation of why some funds are established in the Cayman Islands was sought. Ms. Bieler explained that this is done to create a blocking fund: if an entity invests with a particular firm domestically, there is a possibility that, under the Internal Revenue Code, the fund could be subject to unrelated business transactions that would not be part of normal business; this would make it taxable, whether or not the investor is a tax-exempt entity. To avoid this, firms establish offshore feeder funds, so entities invest in the fund, which in turn makes an investment.

Mr. Schmid said he had spoken with Ms. Wenguer regarding the need to raise an additional \$7.5 million in cash on a pro rata basis from Agincourt. He recalled that whenever the Plan comes close to a target allocation, CapTrust recommended taking funds from fixed income. Chair Dew advised that because this is a common occurrence, CapTrust may continue to keep Ms. Wenguer informed of any such needs, as the Board did not want to delay necessary action.

The following Item was taken out of order on the Agenda.

#### ADMINISTRATOR'S REPORT: Contribution Arrears Payment

Chair Dew observed that the letter included in the Board's information packet requires further discussion. Ms. Bieler reviewed the letter with the Board members, noting that it refers to Section 20-130(a). The recommended policy states that an individual returning to active employment with the City after completion of leave, suspension, or military service will be given a length of time equal to their absence to remit the required contribution to the plan, provided that the total must be received prior to that individual's normal or early retirement eligibility date.

She continued that this also means if an individual returned to active employment after (for example) a six-month leave of absence, but determines after one month of work that s/he would like to retire, that individual must pay back the entirety of the contribution before leaving.

If an individual does not return to active employment and has 10 or more years of service, he or she has 30 days to remit their money in the plan, and the total must be received prior to the member's normal early retirement eligibility date. Ms. Bieler noted that if an individual is vested and wishes to receive a deferred vested benefit, they must remit payment prior to their retirement date.

Mr. Cypen pointed out that individuals are required to "buy this time back;" if they do not, they will not receive credit for that time.

Ms. Wenguer asked if disability must be addressed separately if an individual has not been granted disability yet: for example, if they went out for a year before their disability was granted. It was noted that the document does not specifically refer to disability, but instead mentions "a granted leave of absence by the City." Ms. Wenguer said she would add language regarding the granting of disability to the section specifying that money should be remitted

before an individual's early retirement date. Mr. Cypen suggested that this language refer to the "normal, early retirement or disability eligibility date."

Ms. Bieler continued that if an individual does not return to active status and is not vested, his or her member contributions will be returned within a reasonable time. She noted that another provision of the Plan is cited in the document, stating that no credited service for any purposes shall be allowed for any period of time if an individual does not make the required contributions.

Motion made by Mr. Naugle, seconded by Vice Chair Rudominer, for approval [with the changes].

Mr. Fortunato requested further clarification of the document's language. Ms. Bieler explained that the intent is to show an individual on leave of absence is still required to make the employee contribution.

Mr. Bayne pointed out that it would be difficult to make a payment as a percentage of pay if an individual is suspended, as s/he would not be paid at that time. Ms. Bieler said the contribution would be a percentage of their most recent paycheck. Mr. Bayne pointed out that Firefighters' checks vary based upon assignments. Ms. Bieler said the percentage would be determined by the employee's base pay.

In a voice vote, the motion passed 6-1 (Mr. Bayne dissenting).

It was confirmed that a revised copy of the document would be provided to the members at the July meeting.

#### 2007-2011 REVISED ACTUARIAL EXPERIENCE STUDY:

Ms. Wenguer noted that p.28 of the Experience Study has been revised. Chair Dew recalled that this was a correction of the calculation of the City's contribution. At the May meeting, the Board had also discussed updating the mortality table, but had elected to defer a decision until they had received some input from the City.

Chair Dew continued that the previous week, he and Ms. Wenguer had met with Director of Finance Doug Wood, as well as the Assistant City Manager, to discuss this issue. He stated that the Board's representatives were given the impression that the City Manager would be inclined to lower the interest to 7.5%. Mr. Buffington confirmed that Mr. Wood had also communicated this inclination to him.

Mr. Hole recalled that the Board had also discussed lowering the pay increase by 25 basis points. These changes have been made and are included in the calculations of the Revised Actuarial Experience Study.

Ms. Wenguer recalled that the Board had asked the actuary what the City's position would be if the changes were implemented in October 2012, or if they waited until the new calendar year. Chair Dew said his impression was that the changes should be implemented in October, as it would be more expensive to wait.

Mr. Hole suggested that CapTrust be asked to provide a workup of the probability of the Plan's reaching 7.5%. Mr. Schmid said the differences between 7.5% and 7.75% were calculated, and on any given year, the difference between the two was less than 1%. Over a five- to ten-year period, the difference would be 2%-3%, remaining relatively negligible.

Motion made by Vice Chair Rudominer, seconded by Mr. Naugle, to adopt the recommendations of the study and go with the numbers in column E.

Chair Dew stated that he still felt 7.75% was a reasonable rate of return, and expressed concern with the increase in the City's cost. He concluded that he had concerns with gauging the future based upon past experience.

In a voice vote, the motion passed 5-2 (Chair Dew and Mr. Naugle dissenting).

#### 2012 ACTUARIAL REPORT:

Ms. Wenguer said the actuary was waiting until the Board came to a decision regarding the Experience Study to finalize this report. The changes provided at the May meeting will be incorporated into this report, and it will be

presented to the Board in July.

Chair Dew said he would request that the Actuarial Report be completed in time for the Board's workshop with the City, which is scheduled for Friday, June 29. He asserted that it is imperative that the report be available at that time.

He continued that the City Commission has placed a workshop on City pensions on its agenda from 11 a.m.-2 p.m. He will meet with the City Manager on Wednesday, June 20, to get a better idea of what the agenda will include, such as the Actuarial Report. Chair Dew stated he would like to ask the Board if they concurred with his recommendation to revisit some of the topics raised in March 2010 to which the City Commission had not been receptive, including the survivor remarriage proposal. The Trustees will work to calculate how many individuals would be eligible for this benefit. In addition, he recalled that the Mayor had not been in favor of four-year terms for Trustees; now that the City Commission is considering a change in its term length, however, he felt they might be more receptive to the Board's terms.

Chair Dew asked if the Board would like to suggest any other topics to address during the workshop. He noted that the language in the Ordinance regarding the change in the assumption should be included in the discussion. Ms. Wenguer explained that the Ordinance describes actuarial equivalents based on a 1983 table; counsel's recommendation was that the actuarial equivalent should be based on the table currently in use.

Chair Dew asked Mr. Stuber if he would like the Board to raise the issue of a one-time COLA as previously discussed, although he cautioned that he would not recommend this without further information being presented. He encouraged Mr. Stuber to consider this and reach out to the Board with his decision. He asked that issues such as the COLA discussion be brought to the Board's attention prior to the meeting so they can digest any necessary information and make informed decisions.

Mr. Courtney asked to meet with Chair Dew at a later time to discuss this issue further.

#### COMMUNICATION DIRECTOR'S REPORT:

None.

#### ADMINISTRATOR'S REPORT:

##### Administrator's Annual Review

Ms. Wenguer advised that she had sent this review to the Board members for their comments. Chair Dew asked that any members who have not yet provided their comments forward these to Ms. Wenguer's office by the next meeting.

#### PENDING ITEMS:

##### New Business

Mr. Buffington advised that the City would like to move toward direct deposit for everyone who receives a City check, including retirees. It is hoped that this could be accomplished by October 2012. Chair Dew requested a memo on this subject, which could be distributed to the Retirees' Association so they could notify their members.

Mr. Buffington noted that at present, roughly 80% of City check recipients are currently on direct deposit. He added that he did not have this figure broken down for retirees versus active City employees. Access would be available online in lieu of sending a check stub. Ms. Wenguer advised that many retirees do not have online access and could not check this information.

Linda Soloman-Duffey, retiree, stated there have been negative issues with direct deposit, such as a tendency for payments not posting on time if the 1<sup>st</sup> is a holiday or weekend. She asked if this issue is still recurring, pointing out that this is particularly difficult for individuals who have automatic deductions taken from their accounts. Mr. Buffington said he was not aware of this problem, and would take this issue back to payroll.

## Old Business

Mr. Hole asked if a revised copy of the audit was available. Ms. Wenguer said pdf copies would be sent prior to the July meeting.

Mr. Bayne asked if there had been a response to a communication regarding time off for a conference for himself and Vice Chair Rudominer. It was noted that no such response has been provided as yet. He requested that Chair Dew look further into this to ensure this time off for the upcoming conference was available. Chair Dew agreed to look further into this.

Mr. Courtney requested that Old/New Business be moved to an earlier part of the meeting, prior to any presentations. He explained that the retirees leave the meeting and go to an Executive Board meeting. Chair Dew noted that some new business arises from issues presented earlier during the meeting, which would make this difficult. He noted that Input from Active and Retired Police Officers and Firefighters was moved to an earlier place on the agenda.

## FOR YOUR INFORMATION:

### GFOA Best Practices

It was noted that this document is not yet complete, and is expected by the next meeting.

### Communications to the City Commission

It was determined that the adoption of the actuary's recommendations on the mortality table, the interest rate, and the salary scale would be communicated to the Commission.

There being no further business to come before the Board at this time, the meeting was adjourned at 3:55 p.m.

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