March 13, 2019

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, March 13, 2019, 12:30 P.M

Communications to the City Commission:
1. The Board approved a $10 million investment in Bloomfield Capital Income Fund V as part of the alternative investment allocation.

Board Members

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

Also Present
Alexandra Goyes, Deputy Director
Jacqueline Garcia, Administrative Assistant
Fred Nesbitt, Board Communication Director
John Herbst, City Auditor
Ana Klausner Parish, Board Attorney
Paul DeBold, retirees association president
Jack Chew, retirees association
Jared Rudominer
Sam Kirby, CAPTRUST
Kevin Schmid, CAPTRUST
Kyle Campbell, CAPTRUST
Jamie Opperlee, Prototype Inc.

ROLL CALL/CALL TO ORDER

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

PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE

The Pledge of Allegiance was followed by a moment of silence.

MINUTES:
Regular Meeting: February 13, 2019

Motion made by Mr. Naugle, seconded by Mr. Hole to approve the Board's February 13, 2019 meeting minutes. In a voice vote, motion passed unanimously.

NEW HIRES:

Chair Rudominer recognized the new hires.

BENEFITS:	**FIRE DEPT:**	**New Retiree: (Term of DROP)**	Donnie Alexander
			Lori J. Veccia
		DROP Retiree:	Yuri H Grijalva
			David Mata
			Thomas Major
			Michael S. Jones
			Jason Morss
			Ricki Nix
			David A Adams
			Essar O Adejola
			Douglas E. Stanley
			Ryan A Shipman
			Gregory M Schutzer
	POLICE DEPT:	**New Beneficiary:**	Chrystal Green
		Member Termination:	Candace Cabey-Lewis
			Brian B. Raval
		Survivor Death:	Helen Andres

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

BILLS:	**Lazard**	$107,698.59
	Vaughan Nelson	$43,092.28
	Eagle	$41,163.28
	Agincourt	$40,196.79
	Boyd Watterson	$36,166.00
	Sawgrass	$30,256.75
	Intech	$5,490.14
	Klausner & Kaufman	$3,000.00
	Klausner & Kaufman	$2,550.00

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

COMMENTS FROM THE PUBLIC/ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. DeBold had no comments.

REAL ESTATE INCOME/DEBT FUND PRESENTATIONS: (under separate cover)

Mr. Schmid recalled that the Board had shifted assets from traditional fixed income to alternative sources of income, which provided a higher income yield without dramatically altering the risk profile. The Board had agreed at the last meeting to bring in Bloomfield Capital and American Realty to make presentations.

Chair Rudominer and Ms. Wenguer had heard a speech by Janet Yellen, the former Chair of the Federal Reserve, the previous week and she had remarked that going forward, she did not believe a 7.5% return was possible. This confirmed the wisdom of their shift to alternative investments.

Bloomfield Capital Mike Lucci, Jason Jarjosa & Nick Coburn
Bloomfield Capital Income Fund V

Mr. Coburn explained that they made short-term real estate loans, enabling them to continually recycle their capital and keep track of the market.

Mr. Coburn reported this quarter would be their busiest first quarter ever because they were seeing signs of distress in the market, which led to more need for bridge capital.

Mr. Coburn stated they concentrated on smaller, complex, fast-moving transactions where there was less competition. Their average investment was $4.9 million and the average duration was 18.5 months.

Mr. Jarjosa provided a brief history of the company and said they were in their fifth fund. Their net IRRs ranged from 8.5 to 10.5 from all funds. They had launched Fund V last summer and had their first close in November with $60 million, all from existing investors.

Mr. Jarjosa stated they had developed a network of intermediaries and saw 250-300 opportunities per month, from which they selected two, on average.

Mr. Jarjosa explained that there were fewer small banks now, and larger banks were reducing their commercial real estate lending. The market Bloomfield served was not serviced by traditional lenders. Mr. Jarjosa said the interest rate increasing five times in two years was significant upon refinancing when there was not enough equity in the asset; that was an opportunity for Bloomfield to salvage assets and provide capital.

Mr. Jarjosa believed Fund V would be at $100 million soon.

Mr. Coburn said all of their returns over the years had been without any fund leverage. This provided safety for investors. He discussed the recent rise in online lending and explained that this type of lending was less focused on credit underwriting and the investments than about their business plan for pushing money through the business to grow enterprise value. Bloomfield's performance was based on the real estate, not on building an online presence. He added that in commercial real estate, there was no way to automate lending as there was for residential; real estate required rigorous due diligence.

Chair Rudominer asked about the fees and Mr. Jarjosa explained the fund had a 7.5% preferred return to the investor, with a 1.5% management fee, a 1% servicing fee and an 80/20 split above the preferred return. The goal was to net 9% to 11% to the investor. For Fund V, the commitment was for 24 months. After 24 months, investors could choose to stay in the fund or provide an opt-out notice. Mr. Jarjosa said short durations allowed them to reevaluate and keep the portfolio in the best risk-adjust place.

Mr. Schmid asked what percentage of properties they considered non-performing. Mr. Jarjosa explained that the loans were custom structured with many covenants that could put the loan in default. At any point in time, 5%-15% of the portfolio could be considered non-performing, which could mean they had tripped to default or the loan matured and new capital had not been identified. He stated they were constantly monitoring the borrowers' financials and budgets they had set out.

American Realty Advisors: Jay Butterfield, Martha Shelley
ARA Real Estate Debt Fund

Mr. Butterfield said it was getting harder to achieve the returns they were seeking without additional risk. In funding construction and development contracts, ARA had identified a niche in which they could achieve attractive, risk-adjusted returns.
Mr. Butterfield said due to changes in regulation after the financial crisis, it was getting more and more difficult for banks and traditional lenders to do construction lending. Non-bank lenders had tried to fill the gap but they either did not have construction oversight experience or were constrained by how much risk they could take on.

Mr. Butterfield remarked on the strong demand for development in office, industrial, multi-family and retail, and noted that industrial development was more technology-driven. Overall, supplies were below the historical average.

Ms. Shelley discussed the strategy for the ARA Real Estate Debt Fund: A closed-end fund that would seek to provide favorable income returns with considerable downside protections by investing in senior loans, mezzanine debt and preferred equity position in real properties that were institutional grade in major US markets. Key benefits included equity cushions of 25% to 35% of cost in the first loss position; floating interest rates on most loans; no leverage used at the fund level. Ms. Shelley said they had a target of unleveraged returns to investors of 7% - 9% net after fees.

Ms. Shelley described the types of investments the ARA Real Estate Debt Fund would focus on: senior loans providing 65% to 75 % of the total project costs, secured by first mortgage liens. The borrowers' equity would be invested first. The loans were typically structured as non-recourse to the borrowers; the primary source of repayment for the loan was the collateral property.

Ms. Shelley stated mezzanine debt and preferred equity investments allowed them to realize more advantageous terms. They were still protected by the same 25% to 35% equity cushion, but would have significantly higher returns because of their subordinated position in the capital stack. Interest rates ranges from 9.5 % to 11.5%.

Mr. Schmid asked if ARA was the sole lender and Ms. Shelly stated that was the intent when they were the senior lender, but they would not be the sole investor for the mezzanine loans.

Ms. Shelley stated they would invest in four projects with strong tenant appeal for the ARA Real Estate Debt Fund. The borrowers would be carefully screened and the investments would be subjected to the same due diligence they practiced on their equity investments. This incorporated research, asset management, investments, portfolio management and ARA's senior executives through the investment committee. Ms. Shelley said their real estate investment management team had the experience to identify and resolve issues that may come up with the loan or the property. If needed, they could step in and complete the project in order to protect the capital.

Ms. Shelley described the experience of the portfolio management team and recent opportunities they thought would be attractive to the fund.

Mr. Butterfield stated they were moving toward their first close in the fund. ARA was committing its own money in this fund, up to 5% of the total equity. The target return was 7% to 9%, distributed quarterly.

Chair Rudominer asked why they had gone into debt funds. Mr. Butterfield stated they had become interested in 2017 when returns on equity real estate had decreased but investors still wanted to hit the 7.5% actuarial assumption.

Mr. Schmid asked how an accelerated downturn in real estate would affect this strategy, since it was based on new construction. Mr. Butterfield explained that while there were cycles in the market, there was always construction and there was a demand for the types of assets they were funding.

Mr. Butterfield summarized that the ARA Real Estate Debt Fund was attractive because it was focused, had lower fees than most debt funds and no additional fees. He reminded the Board that they were not using leverage at the fund level in order to increase capacity.

Mr. Schmid pointed out there was a big difference between Bloomfield and ARA's strategies. Bloomfield was focused on very short-term, high interest rate financing and ARA was focused on new projects with five-year terms. Bloomfield's structure was a rolling 24-month lockup and ARA was a seven year lockup plus three one-year extensions. ARA did have a more favorable fee structure but a lower net target return. Mr. Schmid pointed out that ARA had not done a debt fund before.

Mr. Schmid informed the Board he would be comfortable putting up to $10 million in Bloomfield Capital. The limiting factor was that the fund was anticipated to be $100 million and Mr. Schmid did not want their investment to be more than 10% of that total.

Mr. Hole wondered why ARA would invest in mezzanine lending and Mr. Schmid felt it helped boost returns, but this increased risk.

Motion made by Mr. Bayne, seconded by Mr. Joseph to take $10 million from fixed income and invest it with Bloomfield Capital Income Fund V, subject to approval by the Board's attorney. In a roll call vote, motion passed unanimously.

ATTORNEY'S REPORT: Robert Klausner

Ms. Parish reported Coast Guard service counted toward prior service.

Catastrophic Disability

Regarding the catastrophic disability case, Ms. Parish said it was not necessary to have Dr. Lupu conduct an IME; the member could provide a report from his own doctor indicating his current status and stating that whatever improvement he may have, it would not be enough for him to provide useful service.

Motion made by Mr. Bayne, seconded by Mr. Joseph, to accept the attorney's recommendation for all catastrophic disability cases: to have a member's doctor provide a report indicating his/her current status and stating that whatever improvement he/she may have, it would not be enough for him/her to provide useful service. In a voice vote, motion passed unanimously.

Regarding Anthony Scott's disability claim, Ms. Parish said Mr. Scott's attorney anticipated he would be ready for a hearing in June.

Ms. Parish said members had inquired about whether disability was tax exempt. She stated if a service-incurred disability was calculated based on a fixed percentage of pay, it was tax exempt. She believed non-service disability was not tax exempt.

Ms. Parish reported the conference would be in June and American Realty was a sponsor. The venue would be The W Hotel in Fort Lauderdale.

Ms. Wenguer said a member's wife had inquired if the member could collect his pension, stating he had recovered from a disability for which he had been granted a disability claim. Mr. Wenguer said this was a non-service disability and the member had never been paid because he had made more money in another job. Ms. Wenguer would discuss this with Mr. Klausner.

Mr. Herbst confirmed that service-related disability was not taxable because it was considered a form of worker's compensation.

CAPTRUST: Kevin Schmid
Monthly Investment Review

Chair Rudominer wanted CAPTRUST to conduct a stress test on their asset allocation, based on belief that interest rates would stay low. Mr. Kirby explained that the best predictor of total return on fixed income was the current yield and this was statistically very strong with now.

Mr. Hole asked if companies were keeping money on the sidelines or spending it and Mr. Kirby stated they had seen significant capital investment last year, but he felt that uncertainty about growth and trade policy was causing some CFOs to delay making big investment decisions.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt had nothing to report.

EXECUTIVE DIRECTOR'S REPORT:

December 31, 2018 Plan Return Approval

Motion made by Mr. Bayne, seconded by Mr. Fortunato to approve the December 31, 2018 quarterly plan return of negative 7.4%. In a voice vote, motion passed unanimously.

Ms. Wenguer informed the Board that they were still working with the City regarding getting the contribution rates right. The payroll system had missed people, mostly for retroactive pay.

Mr. Bayne reported there were ongoing payroll issues; he said he heard a complaint every pay period.

Ms. Wenguer informed Mr. Herbst that they had the information and ability to calculate the retroactive pay. Mr. Herbst agreed to speak with Ms. Wenguer after the meeting so he could bring an informed question back to staff.

Ms. Wenguer said the auditor had comments about this and she needed better information from the City to respond. She said the amount was immaterial and the comment from the auditor was just a management comment.

PENDING ITEMS:

New Business:

Old Business:

Schedule A

There being no further business to come before the Board at this time, the meeting was adjourned at 2:48 p.m.

Secretary Chairman

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

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