

March, 2011



POLICE AND FIREFIGHTERS PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, MARCH 9, 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
Lynda Flynn, Treasurer
John Herbst, City Auditor
Linda Soloman-Duffey, Secretary, Retirees' Association
Nancy Cone, Treasurer, Retirees' Association
Bob Dawson, Guest
Frank Colleran, Retirees' Association
Bill Paton, Retirees' Association
Fuzzy Larkin, Retirees' Association
Jack Cann, Retirees' Association
Jack Chew, Retirees' Association
Jim Ingersoll, Retirees' Association
John Stuber, Retirees' Association
Rick Schulze, Retirees' Association
Walter Courtney, Retirees' Association
Alan Eichenbaum, Attorney for Mr. Colleran
Fred Nesbitt, Director of Media Relations
Kevin Schmid, CapTrust
Stephen Schott, CapTrust
Tom Totten, The Nyhart Company
Randall Stanley, Stanley, Holcombe & Associates, Inc.
Nicole Mannarino, Marcum LLP
Tammy Goldstrich, Marcum LLP
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, March 9, 2011, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to City Commission

The Board would like to extend their thanks to the Mayor for his informative and factual letter to the public with regard to Fort Lauderdale's retirement system.

The Board has approved the hiring of two new small cap managers, Franklin Portfolio Advisors and Eagle Asset Management, pending approval of contracts.

Chair Dew called the meeting to order at 12:33 p.m.

MINUTES:

Regular Meeting February 9, 2011

Motion made by Vice Chair Rudominer, seconded by Mr. Naugle, to waive the reading of the minutes.

Ms. Wenguer noted a correction on p.13, paragraph 2: remove the sentence beginning “He noted that the ordinance does not match the tax code...”

Mr. Hole noted a correction on p.1, Also Present: John Molena should be corrected to John Molenda.

In a voice vote, the motion passed unanimously.

BENEFITS:

Police Department:

New Retiree: John Kane

Vesting: Robert MocarSKI

Lump Sum Refund: James A. Davis

New Beneficiary: Barbara Rizzitello

Retiree Death: Peter LaValle

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

BILLS:

NorthPointe Capital	\$75,223.60
Agincourt	\$43,208.83
Prudential	\$19,132.08
Stanley, Holcombe & Assoc.	\$10,433.00
Stanley, Holcombe & Assoc.	\$4,962.00
Marcum	\$2,250.00
BNY Mellon	\$1,929.36
Dr. Kevin J. Kessler	\$750.00
Holland & Knight	\$80.88
Stanley, Holcombe & Assoc.	\$851.00

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, for the payments of the bills as documented.

Ms. Wenguer explained that the \$851 bill from Stanley, Holcombe & Associates had been sent to the City by the Board; the City had sent it back to her. The Board had assisted the City with amortization and other information necessary to complete a League of Cities survey.

Mr. Cypen noted that the bill could contain two separate items, one for the Board and one for the City. Ms. Wenguer clarified that the bill states “response to questions regarding the unfunded actual liability [and] response to amortization.” Chair Dew said he felt \$736 of the bill was the responsibility of the Board, but the remaining \$115 was definitely the responsibility of the City.

Mr. Cypen noted that Stanley, Holcombe & Associates does not proceed with work until they have received approval, and asked who hired the actuary for the work. Mr. Stanley said he had not been aware the work was for a League of Cities survey, and he had assumed the work was for the City itself. Ms. Wenguer noted that the City, not

the Board, had received the survey. She said the City had asked to use the actuary, and the Board replied that they could use the actuary's services if they were also responsible for the bill.

Chair Dew asked if a motion was necessary to return the bill to the City. Mr. Cypen advised that because the bill is an Agenda Item, the Board should take no action on it and return it to the City.

Ms. Wenguer said she has also spoken to Artio with regard to the February 2011 bill; they will revise their billing to the Board.

In a voice vote, the motion passed unanimously.

2010 ANNUAL AUDIT:

Marcum LLP Nicole Mannarino, Tammy Goldstrich

Ms. Mannarino distributed copies of the draft Annual Audit report, the 2010 financials, and Marcum LLP's standard letter regarding corporate governance to the Board members. Ms. Wenguer advised that this document was not the same as a document sent to the members via email, as it has been modified since that time and some disclosures have been changed.

Ms. Mannarino noted that p.1 of the report states the independent auditors believe the financial statements to be fairly stated. On p.9, the statement of planned net assets says on December 31, 2010, the plan had net assets held in trust for pension benefits of approximately \$470.3 million. P.10 includes the statement of changes in planned net assets, which ended 2010 with a positive increase of roughly \$53.7 million. Notes on the financials follow these statements.

She concluded that near the end of the document, the report on internal control over financial recording and compliance found no deficiencies in internal control, no material weaknesses, and good checks and balances in place.

Mr. Cypen asked if Marcum had any issues with Staff. Ms. Mannarino said there were no issues at all, as stated in the letter regarding corporate governance.

Chair Dew asked what was different between the first copy provided to Board members and the draft report provided at today's meeting. Ms. Mannarino said these included small changes in the DROP plan rate of return (p.14) and the addition of the date June 2010 on p.11, paragraph 3, which referred to the Board's approval of a change in year end. Ms. Wenguer said the backdrop period had also been clarified at 36 months, and noted that the DROP is clarified as having an extension from five to six or seven years.

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

Chair Dew asked when the Board could expect a final copy of the report. Ms. Mannarino said they would try to have the report finalized before March 15.

The following Items were taken out of order on the Agenda.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

John Stuber, Retiree, requested clarification of a statement in the February 9 minutes, which said the Chair had not felt the timing was appropriate to address a particular issue in his presentation to the City Commission. He asked if Chair Dew had included any information regarding the remarriage issue or cost of living adjustment (COLA) in this presentation. Chair Dew said while he had not included the remarriage topic in his presentation, it had been discussed at the recent Retiree's Association meeting, where the Mayor was present. He said he had not felt it was appropriate to make a presentation because negotiations were ongoing, and his discussions with other City Commissioners had not left him feeling they were receptive to retirement concerns. The Mayor, however, had asked how many people were eligible to come into the plan. The Board sent this information to the Association's

attorney for review, and Chair Dew had given this as part of his presentation to three City Commissioners. He said they had not provided him with any direction on this issue.

With regard to the COLA, Chair Dew said this was not mentioned in the presentation, as it had sunsetted three to four years ago and the Commission did not wish to discuss it at this point. He said if Mr. Eichenbaum put together a presentation on this topic, he would disseminate that information to the City Commission. He added that the Association's President should be an active participant in putting this information together, as it is more of an issue for the Retirees' Association to spearhead rather than the Board.

Mr. Stuber asked what Chair Dew's presentation had included. Chair Dew said he had addressed the remarriage issue, as well as an update on pension reform, how the plan was doing, the Memorandum of Understanding, and unfunded vs. underfunded liabilities. Mr. Cypen said the Mayor had written a letter to the *Miami Herald* and the *Fort Lauderdale Sun-Sentinel* addressing some of the issues covered in the presentation.

Alan Eichenbaum re: Additional Benefits

Mr. Eichenbaum stated he represented Retiree Frank Colleran and the Retirees' Association. He said the initial step behind his most recent letter occurred in February 2009, and was subsequent to the calculations resulting from the Me Too II litigation. His letter in 2009 took issue with the fact that there should have been no cap on the number of years that counted toward the benefits and received bonuses for people who went out under the window existing in 1994. Therefore the figures calculated by the actuary in 2009 were not correct for these individuals.

He noted that at the February 9, 2011 meeting, Mr. Cypen had stated there was nothing that needed to be done by the Board. Mr. Eichenbaum said he had reviewed all the Board's minutes between February 2009 and the current meeting, and had not seen any motions passed with respect to Mr. Colleran's claim that his benefits should be increased. He therefore felt Mr. Cypen was incorrect.

Mr. Eichenbaum said two issues were raised by Mr. Cypen. The first one was a cap of 100% that had to be dealt with. Ms. Wenguer was instructed to review the plan to determine whether or not there was a 100% cap; no such cap was determined to be applicable to Mr. Colleran or other retirees in similar situations. The second issue was Mr. Cypen's position that the granting of the additional benefits was subject to the Board's discretion. Mr. Eichenbaum sent Mr. Cypen a letter that included an excerpt from the brief filed on behalf of the Board when the City took the position that the Board had abused its discretion on this issue. He read the following excerpt:

"The City also argues that the benefit is contingent. The City Code language regarding additional benefits clearly states that it shall be made applicable. If there is a 'contingent factor,' which we do not concede. It is only whether or not benefits for active employees are increased by the City. Pension Ordinance changes either occur as a result of unilateral City action or as a result of collective bargaining. Once the City has in fact changed the benefits, the additional benefits provision requires its application to retirees."

He asserted that this statement was exactly contrary to Mr. Cypen's statement that the Board had discretion: once the City increased the benefits, there was no discretion, but it was automatically applicable. Mr. Eichenbaum said he did not understand why the two issues that have been raised as impediments have been totally dismissed and the Board has made no motion to either deny or accept Mr. Colleran's claim. He requested that the Board make a motion on this issue and provide some reason why it has not already been done. If this reason was that Mr. Cypen believed it is within the Board's discretion, he asked that this be put on the record.

Mr. Cypen said Mr. Eichenbaum had derailed the process that the Board was going through on this issue, which was to have Stanley, Holcombe & Associates determine the cost of the request. He said Mr. Eichenbaum had argued Mr. Stanley of this firm was not making the correct calculations. The Board had then asked Mr. Eichenbaum to provide the calculation formula for Mr. Stanley to use as a basis, so the Board could determine, based upon cost and other criteria, whether or not to grant the benefit.

Mr. Eichenbaum said he had supplied this formula as early as 2009, and had subsequently supplied it again in another letter. He pointed out that he had never agreed with Mr. Cypen that an actuarial study needed to be done, as he had taken Mr. Cypen at his word that once the increase is approved by the City, the benefits provision

requires that it be applied to retirees. He had not agreed that it had to be actuarially determined, and said Mr. Cypen had made the issue extremely confusing.

Mr. Cypen said the Board had asked Mr. Stanley to make the actuarial calculation for Mr. Eichenbaum; when Mr. Eichenbaum saw this calculation, he had said it was not the correct calculation. Mr. Eichenbaum said this was the same calculation made in 2009. Mr. Cypen said the calculation was not specifically for Mr. Colleran, but was also for other people similarly situated. Mr. Eichenbaum said he felt the issue had gone astray when somewhere along the line, the actuary made a determination not to count all the years for Mr. Colleran and the others, even though when they went out in 1994 there was no cap on his 30 years. He said the actuary had made the decision to cut out the bonuses, which was not an actuary's decision to make but was instead a legal question that should have been decided by Mr. Cypen and the Board.

Mr. Cypen said the Board had taken no action on the issue. Mr. Eichenbaum said his client had asked the Board in 2009 to apply benefits with regard to the issue; if they chose to deny the claim, he asked again that they give a reason for doing so. He recalled that Mr. Cypen had said the Board took no action because they had already ruled on the request. Mr. Cypen said the Board had made a distribution based upon actuarial studies prepared by Mr. Stanley.

Mr. Eichenbaum asked if no motion was going to be made. Mr. Cypen said the Board had not made a motion at the February 9, 2011 meeting, because no action was required if they did not intend to grant the claim. He said he believed the cost of the benefit was one of the major criteria the Board used when deciding whether or not to grant the claim. He continued that there was a difference between "contingent" and "discretion," and he had never stated it was not a discretionary issue. He reiterated that the Board had asked Mr. Eichenbaum to provide them with the formula he would accept rather than having Mr. Stanley make the calculation and Mr. Eichenbaum disagree with it. Mr. Eichenbaum said he had done this several times, and had at one point brought a chart with the exact formula written on it.

Mr. Eichenbaum read a section of the February 9, 2011 minutes that stated Mr. Cypen advised the Board no action would be necessary because they had made a previous decision on the issue. He argued that no such decision had been made since his letter of February 2009. Mr. Cypen agreed, stating that the decision was made prior to February 2009. He said the decision was to pay Mr. Colleran what he has received, as this is the correct amount. Mr. Eichenbaum said there was no decision made regarding the formula, and this decision was made by the actuary. Mr. Cypen said the decision was approved by the Board. Mr. Eichenbaum said he did not believe this was the case.

Mr. Eichenbaum said the formula is very simple, and stated that the people who went out in 1994 had no maximum on the amount of years that could be used in the formula. He said the formula is the number of years the individuals had, multiplied by 3 and 3/8, plus the bonus they got for going out in 1994. Mr. Cypen said the Board does not apply both these pieces of the formula within the same calculation.

Mr. Eichenbaum asked Mr. Cypen if he was aware there was a window in which no cap applied. He said the Board should say that the formula is wrong, the cap is 100%, or the application is discretionary, so his client would know where he stood. Mr. Cypen said the Board exercised its authority when it made the distribution, which included Mr. Colleran's formula, and there was no objection to this distribution. Mr. Eichenbaum disagreed, stating that Mr. Colleran had raised the issue as soon as he had received his benefits in 2009.

Mr. Cypen said he would stand by his recommendation that the Board should learn the cost of the benefit to Mr. Colleran and others similarly situated. He concluded that it was his understanding that Mr. Eichenbaum had had an issue with what the Board was asking Mr. Stanley to do, and had therefore asked Mr. Stanley not to proceed with further calculations.

Mr. Eichenbaum said his only issue was the formula Mr. Stanley was using, which capped the years of the people who went out in 1994 and discounted their bonuses. He felt his position was very clear that there was no cap on their years and they received a bonus, both of which were part of the deal made in 1994. He stated these individuals who went out early were the only people this additional benefit applied to, and they felt it was now being taken away. Mr. Cypen said this benefit was not being taken away, but was not being applied. Mr. Eichenbaum said this amounted to the same thing.

Vice Chair Rudominer noted that this issue had begun before he became a Board member, but he recalled there had been discussion of whether or not a benefit over 100% could be granted. He added that the Board had been close to making a decision for Mr. Colleran at one point, and then the discussion had expanded to include others; they had planned to ask Mr. Stanley to find out the total cost for all individuals similarly situated, but this had not been done. He said they were afraid to grant the benefit for Mr. Colleran when an unknown number of others were affected. Mr. Cypen said the calculation for Mr. Colleran's benefit needed to be done, and then what he received should be compared to what he wanted; then the same should be done for all those similarly situated. Mr. Eichenbaum said he wanted Mr. Stanley to use the formula he had advocated since 2009.

Vice Chair Rudominer said he thought they were waiting to hear what the ultimate cost would be for Mr. Colleran and others. Mr. Cypen said before Ms. Wenguer had contacted Mr. Stanley to request this calculation be made, he had asked that the formula be shown to Mr. Eichenbaum to ensure he agreed with its use. He recalled that Mr. Eichenbaum had then told Ms. Wenguer it was not the calculation he had asked for. Mr. Eichenbaum said this was because he had seen the formula was not the one he had advocated since 2009. He said he had stated the correct formula in his response to this letter, as well as orally at today's meeting.

Mr. Cypen referred to Mr. Eichenbaum's letter dated February 3, 2011, and read the calculation stated within that letter. Mr. Eichenbaum said this was correct.

Chair Dew said he recalled at the February 9 meeting, Mr. Naugle had asked if it was Mr. Cypen's legal opinion that Mr. Colleran was entitled to the benefit, and Mr. Cypen had said no. Mr. Cypen said this meant Mr. Colleran was not absolutely entitled to compel the Board to grant this benefit. He said he felt the Board should find out what the total cost of granting the benefit should be before they made a decision.

Mr. Burnam asked if they were all in agreement with the formula Mr. Eichenbaum had advocated. Mr. Eichenbaum said it was his position that this was the correct formula. Mr. Cypen said if the formula that was originally applied to Mr. Colleran was compared with the formula as stated by Mr. Eichenbaum, they would know what cost was involved in the issue. Mr. Burnam said they should apply the proposed formula, do a study to determine the cost, and then make a decision.

Mr. Naugle added that it would be helpful to know what the cost would be over the next 25 years before granting an additional benefit. Vice Chair Rudominer recalled they also needed to find out how many individuals are affected in addition to Mr. Colleran. Ms. Wenguer said she believed it had been determined there were 19 such individuals.

It was noted that all the components necessary to make the calculation, including a list of people affected and the correct formula, seemed to be present at this time, and the Board should proceed from this point.

Motion made by Vice Chair Rudominer, seconded by Mr. Burnam, to ask Randall Stanley to do a study to determine the cost of modifying benefits to Frank Colleran and others similarly situated from the formula they are presently receiving to a formula which is: years of service times 3.38 multiplier, plus 2%, plus 7%.

Walter Courtney, Retiree, asked if the cost differential should be taken into consideration if it is determined that the benefit is owed to an individual or individuals. Mr. Cypen said he believed cost does make a difference, because the Board has not previously granted this benefit. He noted that he and Mr. Eichenbaum have a professional disagreement on this issue.

Mr. Burnam asked whether or not there is clarity on whether the cap is to be included. Mr. Cypen said the 30 years is clear, but it is not clear as to whether or not the bonus is applicable to those in Mr. Colleran's situation. Mr. Burnam asked if the results of the study will show the difference in benefits. Mr. Cypen said they should

Mr. Hole asked if Mr. Stanley could add anything to the issue, such as the origin of the formula he had previously used. Mr. Stanley said he was not prepared to discuss the issue at this time.

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

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt said a generalized paper on the issue of unfunded liabilities has been developed for the Florida Public Pension Trustees Association (FPPTA).

ADMINISTRATOR'S REPORT:

Software RFP

Ms. Wenguer advised that a copy of the software RFP has been given to the Board members for review. She noted that it is extensive, and asked that any questions be sent to her office, as they would like to submit the RFP.

Mr. Cypen said his only concern was that the RFP was so detailed it might result in a single-source response. Vice Chair Rudominer said he saw some truth to this, and added while affordability might not be an issue, he felt the RFP could be amended to make it more universal. Mr. Cypen said there is no City Charter provision that the Board must use the RFP process, although this process is clearly the best practice.

Chair Dew suggested that Ms. Wenguer reach out to Kirk Buffington at the Department of Procurement Services and ask if he could assign someone to offer guidance in preparing the RFP. Ms. Wenguer said the RFP had been sent to Information Technology for their review. They had also sent her a list of their security requirements and other details, which are incorporated into Appendix A of the RFP.

Vice Chair Rudominer pointed out Mr. Buffington ensures that RFPs meet the City's legal requirements, which did not apply to the Board. Chair Dew explained that he hoped Mr. Buffington could address the Board's concerns about the RFP and perhaps offer suggestions or further input to ensure that it is not limited to a single source.

Mr. Cypen stated again that his concern is the RFP may be asking for more than is needed., Vice Chair Rudominer asked if the Board can approve the RFP pending further review by Procurement Services to ensure that it is released by the April 1 deadline. Mr. Cypen said this direction could be made.

DROP Distributions Tax Implications

Ms. Wenguer recalled at the February meeting, there had been some questions regarding the applicability of the DROP distribution: although there is no access for partial payments, there is a requirement that individuals take this money out by age 59 ½. This issue has since been clarified: Mr. Cypen explained that the question was whether or not it was possible to take partial distribution, and the law has been changed to allow this to be done as many times as an individual wants with no restrictions.

He noted that another question was raised: whether or not the imposition of the 20% holdback is in compliance with the actual Ordinance, which does not provide for this holdback. He said it seemed that this issue could be addressed by the Memorandum of Understanding (MOU). He said he was comfortable that this 20% holdback can be imposed in order to protect the fund, but there must be a process in place to give people warning that they must withdraw their money by age 59 ½.

MONTHLY INVESTMENT REVIEW:

CapTrust Kevin Schmid, Steve Schott

Mr. Cypen left the meeting at 1:33 p.m.

Mr. Schmid noted that all Board members should have copies of the search report book that had been sent to them. He recalled that CapTrust has a research committee that looks at various managers and brings them forward if they make sense for new clients.

Mr. Schott added that NorthPointe had contacted him to ask if they could make a final presentation to the Board. Chair Dew said he had also been contacted by this manager and had deferred the decision to CapTrust. Mr. Schmid recalled that while there had been recent improvement in NorthPointe's performance, the organizational concerns remained, including changes in risk controls. He had concluded that the research committee had recommended the

Board hear presentations from three new prospective managers: Riverbridge Partners, Eagle Asset Management, and Franklin Portfolio Advisors. All three managers have strong performance histories.

He noted that Riverbridge has the lowest risk of the three prospective managers, while Franklin Portfolio Advisors has the highest. In general, Riverbridge has slightly better market performance over the longer term and strives to protect on the downside, while Eagle and Franklin perform better in up markets but also offer some protections.

Mr. Schmid said all three prospective managers are true growth managers: Riverbridge is 100% employee-owned, while Eagle is wholly owned by Raymond James and Franklin is a division of Franklin Templeton.

SMALL CAP GROWTH MANAGER INTERVIEWS:

Franklin Portfolio ADV Frank Felicelli, Avinash Salwalekar, Michael Wasz

Chair Dew asked if there were any differences in the documentation provided at today's meeting and the documentation submitted earlier. Mr. Wasz confirmed that there were no material differences. He said the team would provide a brief overview of the organization, discuss the small cap management team and its process, and conclude with their performance.

He stated that Franklin Templeton, which owns Franklin Portfolio Advisors, is one of the largest publicly traded investment management companies in the nation. They manage over \$600 billion in assets. Mr. Wasz characterized the small cap growth team as a boutique within this large organization.

Mr. Wasz introduced Mr. Salwalekar, who would be the lead portfolio manager for the plan, and Mr. Felicelli, chief investment officer and CEO.

Mr. Felicelli said his responsibility is not the day-to-day management of accounts, but the oversight of their strategy, particularly on the risk management side. The team monitors each client's portfolio on a weekly basis to ensure compliance with the firm's quality statements.

Mr. Salwalekar referred the Board to p.8, which describes Franklin's investment process. At the core of their investment philosophy is their long investment horizon, which means they will hold a position for three to five years. He noted that small cap is a very volatile area, and a company that misses its goals is often punished severely; however, if Franklin has done its research and understands why a particular company may have missed its numbers, they have the opportunity to step in and purchase stock.

Franklin looks for any specific advantage that a small company may have, such as technology, service, or benefiting from a particular trend. Another advantage they look for is a strong balance sheet, which is important because a company with a great deal of debt is restricted in what it can do with its cash. This makes it more difficult for them to invest in research and development.

Mr. Salwalekar continued that another important component is relative evaluations. Franklin spends a lot of time on discounted cash flows. He explained that because they are basically buying businesses, they must understand the value of a business today, which is done by discounting its ability to earn in the future and taking this discount back to what the value is today.

Chair Dew asked if this process takes precedence over the prices and earnings ratio. Mr. Salwalekar said in some cases it does, as prices and earnings refer to what is currently happening. Discounted cash flows, by contrast, show a value for the business and factor the economic cycle into this calculation. Franklin looks at these cash flows over a 10-year period, which includes different up and down cycles.

Chair Dew asked if this meant Franklin looks primarily at companies that have at least a 10-year track record for small cap. Mr. Salwalekar said they look 10 years into the future to gain perspective, and then discount this back to get today's value. He reiterated that discounted cash flows provide a good understanding of what a particular business is worth.

The last consideration is quality of management. Mr. Salwalekar said he spends a great deal of time with management teams to determine a company's advantages. Chair Dew asked if Franklin has a set of criteria they consult to compare companies with one another. Mr. Salwalekar said it is possible to have a standardized category within a particular industry, but what he looks for is a certain set of elements within every management team, such as a track record of being shareholder-friendly, which is necessary in any industry.

He added that if Franklin is not comfortable with a management team, they typically do not invest in the company, as he would rather not own that company's stock than purchase it at a risk.

Mr. Salwalekar characterized Franklin as a "bottom up shop," which means they research specific companies and invest in them if they seem attractive. This can affect the sector allocation of the portfolio: for example, he noted that Franklin is significantly overweight in technology hardware compared to the benchmark because they are finding more ideas in this sector. He added that they also do not make calls on where commodities may go, but look for companies that fit Franklin's criteria.

Vice Chair Rudominer said the plan has a \$29 million mandate, and asked how many of Franklin's clients are close to this size. Mr. Felicelli said the city of Jacksonville has roughly \$60 million. Vice Chair Rudominer asked how Franklin's market cap portfolio performed against the benchmark. Mr. Wasz said p.23 includes this information, noting that weighted average market cap growth is at \$1.2 billion.

Mr. Wasz concluded that Franklin Portfolio Advisors is very proud of its performance, which has been very consistent over the years. He reiterated that small cap is a more volatile asset class, and they take many risk control measures to minimize the overall risk profile.

Chair Dew asked what the fees would be. Mr. Wasz said the standard fee schedule appears on p.18 and starts at 90 basis points on the first \$10 million. Because of their long-term relationship with Mr. Schott's CapTrust team, Franklin can discount this to a flat 75 basis points, which represents over a 15% discount.

The Board thanked the Franklin team for their presentation.

Eagle Asset Management Eric Mintz, Nancy Clark

Ms. Clark noted that Eagle Asset Management has been a supporter of the FPPTA for 10-15 years. The firm is headquartered in St. Petersburg, Florida, and has \$18 billion under management. Most of their investment strategies are based in St. Petersburg as well. Eagle has six teams at the firm, three of which specialize in small- and mid cap investments. Eagle Asset Management is owned by Raymond James Financial and only trades on a best execution basis with their parent company.

The company's culture is very conservative, and the business is run conservatively as well. She referred the Board to p.3 of Eagle's handout, which provides a list of representative clients who granted permission to use their names. Ms. Clark noted that the city of Hollywood's Police Department is a small cap client, and there are other accounts in the cities of Miami, Miramar, and with the Fort Lauderdale GE Board.

Eagle's objective as a firm is to beat the benchmark with less risk. She emphasized the importance of lessening risk due to the volatility of the small cap market. They have focused on providing their clients with consistent performance, which is critical for pension assets. Ms. Clark called the Board's attention to pp.4-5, which shows the track record for Eagle's institutional product: 49 out of 49 five-year rolling periods show out-performance. She said they have managed to add value even through crises such as the dotcom meltdown and the Euro crisis, which is a tribute to both the people and the processes that Eagle has in place.

Ms. Clark pointed out that many performance managers take both intended and unintended bets on investment managers. What Eagle tries to do is maximize the reward for its active bets, including stock selection and sector allocation. She said their low tracking error against the benchmark is important, because a small cap growth manager should always be mindful of the benchmark.

She described Eagle's team, which includes an investor with 25 years' experience in small cap who is committed to the business. She introduced Mr. Mintz, who was promoted to co-portfolio manager at the end of 2010.

Mr. Mintz called the members' attention to slide 8, which includes what makes Eagle different from other small cap investment managers. Their culture is very unique, as their only focus is generating money for their clients by outperforming the benchmark.

Mr. Mintz continued that in selecting stocks, Eagle focuses closely on companies that are seeing accelerating earnings growth. They are trying to find companies that may be experiencing 20% earnings growth in 2011, but will increase to 30% in 2012. Eagle also focuses on insider buying. Mr. Mintz said it is easy to be misled when talking to management teams; the firm closely scrutinizes what these people are doing with their own money, which has been a tremendous source of opportunities for them.

Eagle also focuses intensely on the risk management side, as small cap is incredibly punitive to companies who miss their earnings. If a stock begins to perform poorly, they want to ensure they have all the information from the marketplace that could be affecting the stock. They also do not make any large sector bets: in practice, the most aggressive bet Eagle would make would be five percentage points.

He concluded that these key points contribute to the consistency of Eagle's performance on both a risk adjusted basis and a relative basis.

Chair Dew asked if Eagle's philosophy is qualitative or quantitative. Mr. Mintz said it is a mixture of both and comes back to accelerated earnings growth and personal contacts with businesses.

Mr. Mintz said slide 10 shows what Eagle looks for in stocks, such as finding ideas where accelerated earnings growth is occurring. They run a screen each week of the Russell 2000 growth, which is their investment universe, and sort this screen by forecasting to the client's growth rate. They also run screens on insider buying on a real-time basis. By staying in touch with members of management teams, Eagle can learn what they are seeing in their own industries, including bottlenecks and break points.

Another approach is a holistic view of the industries by listening to what large cap companies can tell them. Eagle kicks off every earnings season with a large cap company to learn what they have to say about different geographies, product lines, and strengths and weaknesses. This is another way Eagle can make sure the portfolios are positioned accordingly.

On the risk management side, if a name gets to be over 5% of the portfolio, Eagle will automatically trim them back. He reiterated that sector overweights try to stay in line with the benchmark. All alphas in the portfolio are generated from stock selection rather than allocation.

Mr. Mintz continued that Eagle's sell discipline is the most challenging part of their job, as it is difficult to know when to sell a stock. The central philosophy is to let winners run, even if their prices begin to look egregious, and stay on top of underperformers to know what is going on and eliminate losses as quickly as possible.

Chair Dew asked how much influence the current Middle East situation has on Eagle's decisions regarding the energy sector. Mr. Mintz said he did not have any proprietary insights into this area, but the company must remain aware of what is going on in the oil market. It is a challenge to ensure the company is making the right bets with regard to this area.

Mr. Mintz continued with regard to market cap, stating the maximum Eagle will go at the time of purchase is \$1.5 billion. Turnover is 58%, which is low for the peer group, as they prefer to hold stocks over a longer period of time.

Chair Dew asked to hear Eagle's fees. Ms. Clark said she was not aware of the size of the plan's mandate, and could not give a quote unless this information was shared; however, she said they were willing to discount the fee schedule that is included in the back of their book. She asserted that Eagle never wants to lose business for fees.

Mr. Schmid said the plan's current mandate is \$29 million. Ms. Clark proposed that the fee come in between 87 and 90 basis points; they could take 90 basis points on the first \$15 million and drop to 85 basis points on the next

\$5 million. She added that they could negotiate further, but would need to see the plan's investment policy statement first. Mr. Schmid said there was nothing in the IPS that should be overly restrictive.

Ms. Clark asked if there were any unusual responsibilities in client servicing, or anything unusual or overly time-consuming about the account as compared to a typical portfolio. Mr. Schmid said the only potential unusual responsibility was that on an annual basis, CapTrust conferences with their managers. Ms. Clark said this would not be an issue. She estimated that a final price point could be 90 basis points on the first \$10 million and 85 basis points on the next \$10 million.

Ms. Wenguer noted that Eagle's documentation states that fees are not transaction costs, and asked if this meant there was an additional charge for transactions. Ms. Clark said there was no additional charge; as most stocks are traded on NASDAQ, the price is included in the trade. Eagle has existing accounts with the plan's custodian, which is Northern Trust.

Vice Chair Rudominer asked to know the market cap on the portfolio vs. the benchmark. Mr. Mintz noted it is currently 1.4 against a benchmark of 1.2.

The Board thanked the Eagle Asset Management team for their presentation. They then took a brief recess from 2:45 to 2:50 p.m.

Riverbridge Partners Mark Thompson, Emily Solvedt

Ms. Solvedt stated that Riverbridge Partners was founded in 1987 and is 100% employee owned. Their mission is about the application of a timeless investment process. They are all cap, and feel they are investing in businesses rather than in the stock market, and the value of a business has a direct correlation to its earning power.

Part of Riverbridge's philosophy is getting to know these businesses. Mr. Thompson said this is done through personal visits to management teams, which helps them to understand the system and learn who is doing what practice differently. Riverbridge believes real earnings power is built by a business with a legitimate process that is self-financed and has a good outcome; their job is to identify these businesses and pay the right price for them.

Mr. Thompson continued that each of the members of a team can purchase a 1.5% position in a portfolio with neither the vote nor the consensus of the other four members. The members are trained to be decision makers who will take responsibility for the choices they make. When a stock is purchased, a devil's advocate is also assigned to it with the intent of providing constructive criticism. This is another reason the team does not require consensus.

He advised that Riverbridge has low portfolio turnover of roughly 25% per year; they find businesses that they will carry for multiple-year periods in order to capture their intrinsic value growth. They sell when the businesses are maturing and demand is rising. Mr. Thompson concluded that there is good risk reward, lower volatility in the market, and higher returns as a result of this approach.

Vice Chair Rudominer asked if the investment teams listed in Riverbridge's documentation are the investment teams for all their portfolios. Mr. Thompson confirmed this. He explained that part of his role as Chief Investment Officer is "portfolio architect," which means he has the discretion to make decisions in each of the six portfolios. In the small cap portfolio, Riverbridge typically owns 50 positions.

Chair Dew asked if Riverbridge employs a quantitative or qualitative strategy. Mr. Thompson said they are much more qualitative, as they must judge whether or not people are trustworthy with the capital they have and earn their strategic positions by practicing correctly.

Vice Chair Rudominer asked if the same company will appear in two portfolios. Ms. Solvedt said many of the companies in the small cap portfolio will also be held in the mid- or large cap portfolios.

Chair Dew requested information on Riverbridge's fees. Ms. Solvedt said their normal fee is 1%; however, they have pre-negotiated fees with CapTrust and said the fee would be 90 basis points. Chair Dew asked if this fee is negotiable. Mr. Thompson said it would be negotiable with larger size, which would mean over \$50 million.

Mr. Burnam referred to p.6-2 of the Riverbridge document, noting that in 2004-05, the portfolio was up roughly 5%, while the index was up 14%; the next year, while the index was in single digits, Riverbridge was up 13%. He asked what had occurred in these two years. Mr. Thompson characterized 2004-05 as a tug-of-war between whether or not the economy would recover. Riverbridge's portfolio had a substantial advantage in the early part of this cycle, as its businesses are self-financed and did not have to access the capital markets; then risk became more acceptable to the markets and cyclical businesses began to outperform quality organizations. He added that their businesses tend to be sold less often, and their value has to be shown over a longer business cycle, such as five to ten years. He noted that Riverbridge outperforms in most five- and ten-year periods.

Chair Dew asked how Riverbridge had performed in 2010. Ms. Solvedt said they returned 29.41%.

The Board thanked the Riverbridge Partners team for their presentation. Mr. Thompson and Ms. Solvedt left the meeting at this time.

Chair Dew asked Mr. Schmid and Mr. Schott for their comments and impressions about the three prospective managers. Mr. Schott said he was pleased with all three managers, and has clients who benefit from all three. He felt small cap is a very volatile asset class, so risk controls are very important; however, where people make alpha is in their bottom-up stock selection. He said all three managers have demonstrated that they do this well.

Mr. Schmid agreed with this assessment. He said they had rated Franklin Portfolio Advisors third among the three companies, as there is no clear line of succession at this firm if Mr. Salwalekar departed. They have the lowest fee quote, however, and cater to lower account size. He advised that 75 basis points for a small cap manager is as low as it may be possible to get. While their performance record over the past three years is up over 11% and 2% over the benchmark, he noted that this is difficult to sustain, and from a timing perspective, this gave him pause.

Mr. Schott said he was concerned that there has been such success by Franklin, as most managers will have suffered some difficulty by now. He stated, however, that many CapTrust clients are happy with this manager and have benefited from their long-term results.

Mr. Schmid said if the Board wished, they could split the open position between managers. Mr. Schott noted that due to the volatility of the small cap market, there could be some value to splitting managers in this asset class. Mr. Schmid said if the \$20 million mandate was split, the two managers would have \$10 million apiece. He noted that while splitting remains a possibility, it was not the team's intention in coming before the Board today. Mr. Burnam explained he had raised this possibility because there were dramatic differences between the performances of Franklin Portfolio Advisors and Eagle Asset Group within the same years.

Mr. Schmid continued that he felt Eagle had clearly articulated all the steps they would take and how they had achieved their success. They are located in Florida and are active in the FPPTA, and their performance record has been the most consistent of the three, particularly against the benchmark in rolling five-year periods.

He concluded that there are aspects he liked about Riverbridge Partners, including that they are 100% employee-owned and have teams with members of equal standing. From a performance standpoint, they have tended to excel more during down markets than in up markets due to protections on the downside. He noted that while all three managers have a tendency to protect on the downside, Riverbridge is the most protective of the three.

He concluded that if they ranked the three managers, Eagle would be the strongest. If the Board opted for one choice, they would recommend Eagle as a single manager; if the mandate was split they were likely to recommend both Eagle and Franklin, as these two managers would match well together.

Mr. Hole asked how much influence is exerted over Eagle by Raymond James. Mr. Schmid characterized them as an active parent; however, there was no need for concern that trades would be directed through Raymond James if the Board opted for Eagle. Chair Dew said he saw this ownership as a positive, as Raymond James could offer more resources.

Vice Chair Rudominer asked if the Board would still receive a fee of 75 basis points with Franklin if they only had a half mandate. Mr. Schott said he felt this might be possible but would not urge the Board to count on this possibility.

Chair Dew asked if the Board really wanted to consider splitting the mandate. Mr. Schmid recalled Eagle's tiered fee structure, which would be affected by splitting the mandate as well. Chair Dew said he was not certain the gains would outweigh the cost if the mandate was split. Ms. Wenguer recalled that Eagle's representatives had said they would not lose an account because of fees, and said it might be proposed that they match Franklin's offer of 75 basis points.

Chair Dew asked the CapTrust team if they could negotiate and find out if better fees might be available from Eagle, as anything better they could offer would be of significant interest to the plan. Mr. Schmid agreed there could be success with this strategy.

Mr. Burnam said in the small cap asset class, the variation between returns can be so great this could be a reason for splitting the mandate. He said he felt the two best options for this strategy were Franklin and Eagle, as there was the least correlation between their two approaches. Mr. Schmid agreed that there could be smoother returns in the small cap asset class if the mandate was split. He said this would be best if the two managers were available for the same price.

Chair Dew said he preferred Eagle, as they are consistent and in the middle of the road, with relatively unwavering profits. He asked for further discussion from the Board members.

Vice Chair Rudominer said he was not sold on splitting the mandate, although the lack of correlation between managers raised a good point. He noted that if Mr. Salwalekar left Franklin, the Board could always opt out of this manager.

Mr. Burnam said if splitting the mandate was cost-neutral, he would prefer to go with Eagle and Franklin. He noted that small cap is more expensive than large cap. He pointed out, however, that Eagle seemed more likely to match Franklin's 75 basis points if they were given the entire mandate.

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, to split 50/50 between Franklin and Eagle and negotiate for 75 basis points or as close to it as possible.

Chair Dew asked for the Board's preferences if Eagle did not agree to meet Franklin's fees. Mr. Burnam recalled that Eagle's fee had been 90 basis points for the first \$10 million and 85 basis points for the next \$10 million. Mr. Schmid pointed out that a split mandate between Franklin and Eagle would still cost less than Eagle's current offer.

Chair Dew asked how a split would fall under policy guidelines, or if the Board would be required to increase the allocation. Mr. Schmid noted that they are currently in the process of lowering the small cap allocation; \$10 million apiece would be a much more difficult split to achieve. He cautioned that it is possible the Board would not get the fee concession they were seeking from Eagle if the mandate was split.

In a voice vote, the motion passed unanimously.

Vice Chair Rudominer asked how the money currently managed by NorthPointe could be protected. Mr. Schott said the CapTrust team would act swiftly to leave this manager before others could do the same. Chair Dew asked if GTS would remain involved as the transition manager. Mr. Schott confirmed this.

Mr. Fortunato noted that two of the presenting managers had provided the Board with prospectuses including disclaimers and tables, and asked if this information could be requested from all managers appearing before the Board in the future. Mr. Schmid said this could be done. Mr. Fortunato asked if the materials could also include numbers net of fees as well as gross figures. Mr. Schmid said one manager had raised the issue that fees are always negotiable, which could make it difficult to determine what fees to include in the paperwork. Ms. Wenguer asked that the CapTrust team include quoted fees as part of their own presentation so the Board would have an estimated figure.

Chair Dew advised that the contract with Atlanta Capital has recently been signed, and stated that the two-month time frame was too long. He asked that any issues that might arise be brought to his attention so he could try to be of assistance.

Mr. Hole asked if the Board needed to make a decision on K2 at this time. Mr. Schmid referred the Board to the progress report, noting that they have recently received an update on fixed income. They had recommended American Realty at the time the City made its contribution to the plan in November 2010, that assets had been earmarked for this manager. He asked if the Board planned to stick with the \$7 million that was originally recommended, noting that this had taken the allocation halfway back to its target; he now recommended adjusting this to \$7.5 million.

Mr. Schmid noted the alternative investments, which included K2. CapTrust's recommendation had been to take K2 back from 10% to 5% of the portfolio and work on diversifying the plan's alternative investment exposure. The deadline for submitting a redemption request for K2 will come at the end of March, and he recommended that \$20 million be redeemed from this manager, with the goal of getting these proceeds back by June 30.

The final priority was to address international equity. Mr. Schmid noted that Artio Global Investors remains on the watch list, and will eventually be brought in with two other managers to make a presentation to the Board. He continued that Sawgrass began the year slightly ahead of their benchmark; they had struggled during positive periods in 2010. In 2011, they are beginning to see better results in their portfolios during both positive and negative periods.

Mr. Hole asked about small-mid capitalizations (smids). Mr. Schmid distributed a schedule including information on these, noting that the first set of targets shown on the schedule are current targets in the investment policy statement; the second schedule shows what CapTrust had proposed as potential long-term targets at their December 2010 presentation. He recalled that they had advised the Board to ultimately reduce exposure to domestic equities from 35% to 30% over the long term.

He noted that the current market has the plan at over 40% in domestic equities, and cautioned against removing 10% of this allocation all at once. He suggested adding mid cap to the portfolio and rebalancing more out of domestic equity, noting that this would remove some of the day-to-day volatility from the portfolio, which is more than 5.5% overweight in domestic equities. This would be executed at the same time as the changes in small cap growth. Ultimately they would recommend that 7.5% go into mid cap, although 5%, or \$23.5 million, would be a comfortable start. This would be achieved through a passive portfolio managed by Rhumblin.

He concluded that there was no recommendation to move funds to smids, but to move them to mid cap instead, although this could ultimately migrate to smid cap. The interim actions would establish a mid cap core, funded by money taken from large cap and a reduction in the mandate of small cap growth. They would also rebalance 2.5% from domestic equities. CapTrust recommended that 7.5 million of this go to American Realty and 3.5 million to Thornburg, which would bring them back to their target balance. No money would be directed to international equities as long as Artio remains on watch.

He concluded that the remaining \$2 million would be recommended to go into cash, depending upon the plan's needs. Large cap would be slightly reduced across the board.

Chair Dew asked if the Board needed to make a motion to proceed with these changes, particularly with the 7.5% that would go into American Realty. Mr. Hole suggested that they could simply approve the recommended rebalancing.

Ms. Wenguer recalled that Rhumblin had previously been a mid cap index manager, but they had taken all the money out of this manager. Chair Dew asked if it might be necessary to defer this change until they could consult Mr. Cypen about its legality, although he recognized the position the Board is in with respect to K2 with the March 31 deadline. Mr. Schmid said they could defer establishment of mid cap, although he would still recommend taking a minimum 2.5% from domestic equity for rebalancing. Vice Chair Rudominer said he felt CapTrust could proceed with everything they had proposed except for the change to Rhumblin.

Mr. Schmid said his intent had been to carry out all the proposed changes to the investment policy and then update the investment policy statement when they were complete, as opposed to making incremental changes to this statement.

Mr. Hole suggested checking the recommendation against existing guidelines. Mr. Schmid said there is currently no mid cap, although there is nothing to exclude it.

Mr. Hole asked if the Board should move to make these policy changes today. Chair Dew said if they did this it would need to be contingent upon approval by Mr. Cypen as legal advisor, although he did want to address K2 due to the deadline. He asked if the Board could address rebalancing today, and then meet with Mr. Cypen next month to further discuss other steps.

Mr. Schmid advised that mid cap could wait, and suggested that they could prorate the reductions coming from large cap and take only \$13 million of the eventual reduction of \$26 million from domestic equity. This would accomplish the rebalancing feature.

He said the first step would be the partial redemption of \$20 million from K2; step two would be approving \$7.5 million to go to American Realty; step three would be approving a \$13 million reduction in domestic equity; and step four would be taking a portion of this \$13 million, \$7.5 million of which is already earmarked for American Realty, and using \$3.5 million of this to bring Thornburg back into balance.

Ms. Wenguer asked if the Board is ready to move forward with the proposed investment seminar, noting that the changes in managers could be cause for concern. Mr. Schmid said the only manager that may be replaced in the imminent future is Artio, but felt this could be postponed. It was noted that the seminar would be held in June 2011.

PENDING ITEMS:

NEW BUSINESS

Chair Dew noted that the Board had planned for a members' survey to be sent out every two years, and asked Ms. Wenguer to bring this back to the Trustees at the next scheduled meeting.

Mr. Stanley explained that his company is in the process of merger discussions with the Nyhart Company, which is a very large actuarial consultant firm based in Indianapolis. Tom Totten, its actuary and president, was present at today's meeting to introduce himself to the Board and answer any questions they might have. Mr. Stanley said he would continue to be part of the operation for an indefinite period of time, possibly three years; it was his intent to ensure a seamless transition. He would continue to be the Director of Operations for Nyhart in the southeastern U.S. and have management responsibility of the Atlanta office. He introduced Tom Totten of the Nyhart Company, who offered to answer questions at this time.

Chair Dew requested clarification of the timeline of the Nyhart Company's transitional stage. Mr. Stanley said there is not yet a signed agreement between the two firms, but he estimated the deal would be closed by March 31, at which time he would request that the Board allow a contract with Nyhart to replace the existing contract with Stanley, Holcombe & Associates. Chair Dew said this would need to first be discussed with Mr. Cypen in his capacity as legal advisor.

Mr. Hole asked if the fee structure would change if Stanley, Holcombe became part of a larger company; in addition, he asked Mr. Totten what services his company would provide, such as a software program, that might make for a better relationship between Nyhart and the Board. He also asked to know the percentage and size of any public plans for which Nyhart currently acted as actuary.

Mr. Totten replied that fees would continue to be handled by Mr. Stanley, who would have full authority in that area; he expected that there would not be changes to any existing fees. He said Nyhart has been in existence for roughly 65 years. They are now employee-owned, with approximately 300 public sector clients. He estimated they had 50% private and 50% public actuarial clients. Most public sector clients are in the retiree health care sector, particularly in Florida. Nyhart has not done a great deal of pension work. Their largest public sector clients include police plans from the state of Indiana and some pension work from the northeast and midwest.

From a staffing/technology perspective, one attraction of merging with Stanley, Holcombe was that Mr. Stanley brought some very strong gain/loss analysis talent to the deal, while Nyhart is stronger in forecasting. He felt they

would be likely to look at pension plans five years into the future rather than only one year.

Mr. Hole recalled that the Board had responded to recent changes in GASB, and asked if Nyhart became similarly involved. Mr. Totten said they elicit opinions on GASB, such as on long-term rates of return, and said Nyhart is somewhat heavily involved in the actuarial community.

Chair Dew noted that a letter had been sent from the FPPTA conference in St. Augustine, stating that some members of the Fort Lauderdale delegation did not sign in and out on the Wednesday of the conference. He explained that this has been addressed via a letter.

He asked if a determination had been made with regard to the Retirement Seminar. Ms. Wenguer said no date has been set at this time. Chair Dew asked that this be considered, as he had received inquiries on the event.

He noted that he would not be present on May 11, which was the scheduled Board meeting date, and advised that the date could be changed or Vice Chair Rudominer could chair the meeting. The Board determined that they would need to check Mr. Cypen's availability before selecting an alternate date.

The Board determined that they would thank the Mayor for taking an active role by writing a very informative and factual letter to the public about the Fort Lauderdale retirement system. Chair Dew added that the Board has also approved the hiring of two new small cap managers, pending approval of the contracts.

OLD BUSINESS

None.

There being no further business to come before the Board, the meeting was adjourned at 4:17 p.m.

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