

March, 2013



POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, MARCH 13, 2013, 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
Allison Bieler, Cypen & Cypen, Board Attorney
Lynn Wenguer, Administrator

Also Present

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

Walter Courtney, President, Retirees' Association
Ann Lindie-MacNeil, Secretary/Treasurer, Retirees' Association
Fred Nesbitt, Director of Media Relations
Bill Paton, Retirees' Association
Fuzzy Larkin, Retirees' Association
Rick Schulze, Retirees' Association
Paul DeBold, Retirees' Association
Al Scott, Retirees' Association
Bob Semrow, Retirees' Association
Bruce MacNeil, Retirees' Association
Juana Carreras, Retirees' Association
Linda Soloman-Duffey, Retirees' Association

Communication to the City Commission

The Board held a successful Investment Workshop at the end of February, which was well attended. Trustees also attended a recent educational seminar held by attorney Robert Klausner.

The Plan's policy regarding buyback of service has been clarified.

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 13, 2013, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

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: February 13, 2013
Investment Workshop, February 28, 2013

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, for the waiving of the [February 13, 2013] minutes as documented. In a voice vote, the motion passed unanimously.

Motion made by Mr. Fortunato, seconded by Mr. Bayne, for the waiving of the reading of the Investment Workshop minutes as documented. In a voice vote, the motion passed unanimously.

BENEFITS:

Police Department:

DROP Retiree: Hugo J. Fontalvo
Gregory Salters
New Beneficiary: Lois Carrie
Ava Robertson
Retiree/Survivor Death: Patricia Treutle

Fire Department:

New Retiree (Term. of DROP): Alfred W. Dow
Jeffrey G. Pereny

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

BILLS:

Agincourt: \$53,836.29
Milliman: \$36,250.00
Marcum: \$5,770.00

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, for the payment of the bills as documented. In a voice vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Walt Courtney, President of the Retirees' Association, introduced newly elected Board members Juana Carreras, Bruce MacNeil, and Ann Lindie-MacNeil.

CAPTRUST: Monthly Investment Review Kevin Schmid

Mr. Schmid recalled that several managers had made presentations at the recent Investment Workshop to highlight their various asset classes. He advised that areas to watch include core to intermediate managers, as the Board may wish to "skew shorter" in the bond portfolio in the future in order to balance yield and protection.

He noted as well that representatives of Sawgrass and Systematic made cases for their effectiveness as active large cap managers. Mr. Schmid advised that the balance between active and indexed in the large cap area will continue to be monitored. He observed that large cap equity managers remain on a shorter leash than other managers regarding underperformance. He also felt the Plan's alternative investment allocation should be further diversified in 2013.

He recalled that issues with Northern Trust's statements, which had negatively affected some of the market values shown on the Plan's December 31, 2012 report, were discussed at the previous month's meeting. He stated that CapTrust will work with Ms. Wenguer and Northern Trust to ensure that the correct carried values are reflected in a revised December 31 statement. Chair Dew noted that the corrected figures will be \$6 million in the Plan's favor.

Chair Dew continued that Board comments are needed with regard to the Investment Workshop, and recalled that some of the managers present had hoped to introduce themselves to all the Trustees at the dinner or the workshop. He emphasized the need for close to 100% participation in this and other workshops, and asked if the members felt there was value in continuing these events.

Mr. Hole stated that he had appreciated the Workshop's value, and recalled that there had been discussion of an insurance product that could be useful to the Plan. He felt workshops of this nature could be even more valuable with increased participation from the City, and added that the recent workshop's format was preferable to that of previous events. Mr. Bayne said he also felt workshops were worthwhile, although he was not certain they should continue to be held at great expense to the money managers.

Mr. Schmid noted that in the past, managers had been grouped together according to their asset classes; a future possibility could be for representatives of different classes to be onstage at the same time for broader discussion and debate.

Chair Dew advised that he, Vice Chair Rudominer, and Mr. Hole had also participated in a conference that included a presentation from World Class Capital Group, an investment real estate firm. Participants familiar with this group had stated their satisfaction with the firm, which reflected high single-digit gains even in negative markets. It is also, however, part of a riskier asset class than core real estate. Chair Dew asked if the Board would like CapTrust to perform due diligence on this firm, as the Plan's existing real estate returns have not been particularly high and the class is not expected to have a good year.

Mr. Schmid advised that the projections for 2013 in real estate could be part of an attempt to manage expectations. He explained that core real estate is experiencing difficulty in making transactions and therefore in calling up money for this class. While the core real estate income base has stabilized, this does not mean there will be large income gains. He pointed out that there may be greater opportunities for gains in a more opportunistic real estate asset class, although there would also be greater risk. Mr. Schmid concluded that he would be willing to conduct due diligence for the Board, although CapTrust's recommendations were still more likely to focus on core real estate.

Vice Chair Rudominer asked if the Plan's liquidity position was more solid following the addition of funds from the pension obligation bond. These funds would also allow the Plan to be invested in more non-liquid assets. Mr. Schmid said the Plan's liquidity position is positive, as core real estate is somewhat liquid. Both core and investment real estate have good liquidity under normal markets, although liquidity declines during negative markets if asset values fall significantly.

Chair Dew asked if Mr. Schmid could provide an educational presentation on infrastructure at an upcoming meeting. Mr. Schmid confirmed this. Mr. Hole requested that the equal weighted index and emerging markets also be revisited at a future meeting. Mr. Schmid agreed that these could be revisited as well, noting that the performance of the equal weighted index is primarily driven by its high mid cap exposure; because the Plan already has a dedicated mid cap, equal weighting had not been considered at length in the past.

Mr. Hole also asked if an opinion had been sought from GTS regarding soft-dollar and directed brokerage. Mr. Schmid said while he had not discussed this with GTS, he would follow up on the request.

Mr. Schmid continued that at present, the Plan does not have any dedicated exposure to emerging market fixed income, although there is some indirect exposure to these markets through the Pimco All Asset Fund. He advised that this area would be considered an alternative investment, as it carries a higher risk than the rest of the fixed income asset class. Pimco already has substantial weighting in emerging market fixed income. Mr. Schmid said it was preferable to have this exposure through a fund such as Pimco, as its exposure to this asset class is not set in stone and can be tactically increased or decreased.

Mr. Wood commented that his staff has also been in contact with Northern Trust regarding missed and untimely postings. Mr. Schmid observed that he was not aware of other CapTrust clients experiencing these issues with Northern Trust, and suggested that the problems could be indicative of a deeper issue with the specific contact team with which the Plan works.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt advised that a press release has been sent out regarding the Plan's third consecutive year as winner of the Public Pension Coordinating Council (PPCC) Award. Letters have also been sent to the Mayor and City Commission.

Chair Dew added that when all figures have been finalized regarding the pension obligation bond, a letter will be sent to the City Commission advising them of the disposition of these funds.

ADMINISTRATOR'S REPORT:

Service Provider Evaluation Cypen & Cypen

Chair Dew stated that he had received and reviewed the Board evaluations and communicated their results to Mr. Cypen. The evaluations were very consistent, noting that Mr. Cypen is regularly present at Board meetings and has broad historical knowledge of events affecting the Board. One area of concern that was cited was timeliness, and procedures have been added to ensure that this issue is addressed in the future, with updates provided to the Board in a timely manner.

Investment Workshop

Ms. Wenguer requested input from the Board regarding the one-day format of this year's workshop. Chair Dew replied that he preferred this format. Mr. Hole proposed asking the managers that had attended the workshop for their feedback as well. Chair Dew advised that most managers had expressed a preference for the Board's workshops as opposed to similar events they had attended elsewhere.

Boyd Watterson

Mr. Schmid stated that Boyd Watterson had sent a letter to the Board relating to the fact that they have recently "bought themselves back" from a majority shareholder. He characterized this as a positive step, and concluded that CapTrust has advised most clients to provide the consent requested in the letter.

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

Eagle Asset Management

Mr. Cypen recalled that there had been some agreement among Board members with the lesser calculation cited by Eagle during the previous month's discussion. This amount was approximately \$174,000 plus interest. He pointed out, however, that he would not recommend approval of other aspects of Eagle's offer. These aspects included the general release of "everything [Eagle has] done," as he recommended a special release related to this incident only. Another aspect he would not approve was indemnification of Eagle from any claims filed by former members of the Plan's system. Mr. Cypen concluded that in the event the Plan's relationship with Eagle was terminated before the end of Eagle's payments, the Plan should be paid back in cash. Thus far, he has not been able to reach an agreement with Eagle regarding these three items.

Mr. Cypen recommended that the Board wait until the figures are calculated for the first quarter, and then send a letter to Eagle stating what amount is still owed to the Plan and whether it will be assessed against future payments.

With regard to the amount owed by Eagle, Mr. Schmid advised that Eagle had provided a detailed spreadsheet showing securities purchased once the Plan's funds were invested and the price at which these securities would have been purchased if the funds had been invested on time. He pointed out that he did not have sufficient information to determine whether these figures were accurate, but felt there was no reason to doubt Eagle's methodology.

Mr. Cypen asked if Mr. Schmid assumed Eagle was using the most accurate methodology available for the calculation. Mr. Schmid replied that Eagle's methodology seemed reasonable, and pointed out that there was no way to determine exactly how they would have invested the funds. CapTrust's initial calculation had been performed based on the indexed value, while Eagle had used a security-by-security method showing the costs of purchases. He concluded that he was not aware of a better methodology for the calculation.

Ms. Wenguer noted that the final calculation was \$177,768.04 before interest. Mr. Schmid clarified that 7.5% interest was used to arrive at this figure. Ms. Wenguer observed that by March 31, the Plan will have used up roughly three-quarters' worth of the amount owed by Eagle.

Vice Chair Rudominer asked if the Plan would revert to paying Eagle's investment fees during the next quarter when the amount owed has been used up. Ms. Wenguer confirmed this.

Mr. Bayne recalled that during the Board's discussion of what action to take at the January meeting, he had been in favor of taking the money owed back from Eagle and investing it rather than paying no fees. This would have allowed a return to be generated by the money.

Mr. Schmid said he had spoken with Clay Lindsay of Eagle Asset Management, the Plan's service representative, to request an update on this issue prior to today's meeting. He advised that Eagle appeared to be under the impression that the proposed agreement, described earlier by Mr. Cypen, was being presented to the Board for approval. Mr. Cypen reiterated that he had informed Eagle he would not recommend approval of the proffered agreement, but would bring it before the Board as a formality.

Mr. Naugle suggested that the Board send Eagle a letter once the March bill has been received, stating that they plan to deduct the amount.

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, that as of receiving the March 31 bill, that [the Board] will instruct their attorney to send a letter stating that [the Board] will deduct the appropriate amounts, moving forward, for the fees of services [Eagle Asset Management] provided, plus the interest. In a voice vote, the motion passed unanimously.

Dwight Isaac

Ms. Wenguer explained that Mr. Isaac, a Police Officer, was suspended from 2010 to 2013 and was then reinstated. However, there are two issues: the Board allows him up to three years in which he may buy back his service, and Mr. Isaac had opted to take a refund of his contribution to the Plan in 2012 rather than leave it in the Plan while fighting his termination. The amount of the refund was approximately \$14,000.

She advised that based on the Board's policy, Mr. Isaac was allowed to buy back his service during the period of 2010-2013. When taking a refund, however, this amount may be paid back during the same actuarial year, along with the accrued interest. Ms. Wenguer noted that Mr. Isaac was both terminated and reinstated in 2013. The actuarial report from 2012 has not yet been calculated.

Mr. Cypen stated that the actuary could look at the rolls and see that Mr. Isaac was not an employee in 2012. Ms. Wenguer pointed out that because he was reinstated, no separation of service was reflected in 2012.

Ms. Wenguer noted that the Board members were provided with copies of Mr. Isaac's agreement, which states that all pension-related issues would be decided by the Board. She added that Mr. Cypen and Ms. Bieler had advised that Mr. Isaac must pay back his prior service and termination within three years.

Ms. Bieler explained that there were multiple issues: Mr. Isaac must pay back the entire contribution that was refunded to him, which had included interest. This amount to be paid back will include additional interest, based on the assumed rate of return, in order to prevent any loss to the Plan. Mr. Isaac must also pay back the money from the time he was suspended, and will have a period of time equal to the length of his suspension in which to make this payment. The assumed rate of return will apply to this payment, based upon the length of time it takes for Mr. Isaac to pay this money back.

Ms. Bieler stated that two separate sections of the pension plan apply in this case: the original refund plus interest must be paid back to the Plan with interest, which resulted in a total amount owed of \$14,198.93. Mr. Isaac must be given at least 90 days in which to make this payment. In addition, while Mr. Isaac was suspended, there was a period in which he was unpaid and no contributions were taken out. Another section of the Plan states that when an individual is suspended, he must still make his contributions. According to policy adopted in June 2012, if no contribution is made for a period of time and an individual is later reinstated, that person is allowed "as much time

as [they] were out” to pay this contribution. The result is that Mr. Isaac is allowed at least 90 days to pay back his refund and the same amount of time he was suspended to pay his contribution, which has not yet been calculated.

Ms. Bieler concluded that because the Board has discretion in this case, they could advise Mr. Isaac of the amount of time he will have to pay all the money back. It was noted that the amount owed for the time Mr. Isaac was out without pay and made no contribution was roughly \$9000. Ms. Wenguer noted that this total amount could be divided by the total time Mr. Isaac did not make a contribution; if this was, for example, 18 months, the total \$23,000 amount could be divided by that time. It may also be paid back in full if that is his preference.

Motion made by Mr. Fortunato, seconded by Mr. Naugle, to amend the [two] policies to make it one policy. In a voice vote, the motion passed unanimously.

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, to apply this new policy to [Dwight Isaac] for the number of months he wasn't paid. In a voice vote, the motion passed unanimously.

Computer Upgrade

Ms. Wenguer advised that the City had attempted to determine the issue with the office computers, but had not been able to solve the problem. Their conclusion was that the computers are over five years old, which may contribute to the ongoing issues. The City has recommended that all computers be upgraded to a faster processor.

Chair Dew stated that he had instructed Ms. Wenguer to enter the City's queue for purchasing new computers, as it would be possible to cancel at a later time if desired. The cost of new computers would include setup from the City's IT Department. If they are not purchased through the City, the computers would not be covered by City support services in the event of a problem. She added that the City has assured her that internet service would not improve significantly without new computers.

Ms. Bieler asked if it would be more sensible to have a system separate from the City. Ms. Wenguer explained that this would be a concern due to security services, and could create additional delays.

Employee Handbook

Chair Dew thanked Ms. Wenguer, Ms. Cintron, and Ms. Bieler for their work on the handbook, which he stated was “a good start.” As he and other Board members had comments and suggestions, he advised the members to email these to Ms. Wenguer.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to table.

Chair Dew requested clarification of the motion. Mr. Bayne explained that his intent was to table the Employee Handbook and return to it at a later date.

In a voice vote, the motion passed 5-2 (Vice Chair Rudominer and Mr. Hole dissenting).

Ms. Wenguer said she would prepare a draft reflecting the comments and suggestions.

New Business

Ms. Wenguer requested direction for the Board's next service provider evaluation, stating that she had believed the Board would conduct one such evaluation each year. It was confirmed that this would be the schedule for evaluations.

Mr. Hole reported that he and other Trustees had recently attended a local educational seminar held by attorney Robert Klausner. It was noted that invitations to the seminar had not been sent to the Board as a whole, but to specific members. Ms. Wenguer said she would advise Mr. Klausner's office to send invitations to the entire Board in the future.

Old Business

Ms. Wenguer advised that the office is now live with the Milliman software and is using it for calculations. Auditors are also present, and the CapTrust statement will be revised once the audit is complete, as it will provide more accurate numbers. She estimated that the asset value will be available by March 22.

The transition to Foster & Foster as actuary is underway, and the office is working to provide them with the necessary information. Mr. Bayne commented that a representative of Foster & Foster had informed him that the firm is still waiting on additional information, and cannot provide services in some areas because this information is not available. Ms. Wenguer explained that Foster & Foster had been provided with information from the City that proved to be incorrect; they were advised not to use this data, and it has been withdrawn. She is now seeking this information "in an alternative way."

Mr. Wood said the original information provided through the IT Department had been dated at the end of January 2013. He had seen Ms. Wenguer's response, which indicated the information was incorrect, earlier in March. Ms. Wenguer said she had notified Foster & Foster that the data was incorrect in early February.

Mr. Wood suggested a meeting with the IT director, as the IT Department appears to be the source of the problem. Ms. Wenguer explained that payroll information had been missing, which made it difficult to determine each individual's contribution to the Plan. It was decided that she, Mr. Wood, and Chair Dew would invite with the IT director to the office to discuss the issue.

The Board determined that their communication to the City Commission would be that the Investment Workshop was successfully held; Trustees had attended Mr. Klausner's educational seminar; and the Plan's buyback policy had been clarified.

Chair Dew advised that he planned to meet with the newest City Commissioner in the near future. The PowerPoint presentation on the Plan would be updated with the most current figures prior to this meeting.

There being no further business to come before the Board at this time, the meeting was adjourned at 1:53 p.m.

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