March 9, 2016

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, March 9, 2016, 12:30 p.m.

BOARD'S COMMUNICATION TO THE CITY COMMISSION

Items that may be of interest to the City Commission:

- The Board reviewed and approved the Actuarial Evaluation Report as of October 1, 2015. The report shows the pre-funding ratio of the Fund is 99.5%.
- The Board reviewed and approved the Audited Financial Statement for fiscal year October 1, 2014 through September 30, 2015.

Present

Michael Dew, Chair
Ken Rudominer, Vice Chair
Richard Fortunato, Trustee
Jim Naugle, Trustee
Scott Bayne, Trustee
Jeff Cameron, Trustee
Lynn Wenguer, Executive Director

Absent

Dennis Hole, Trustee

Also Present

Alexandra Goyes, Deputy Director
Robert Klausner, Board Attorney
Kirk Buffington, Finance Director
John Herbst, City Auditor
Kevin Schmid, CapTrust
Steve Schott, CapTrust
Matthew Beck, Dodge & Cox
Michael Futterman, Marcum, LLP
Brad Heinrichs, Foster & Foster
Drew Ballard, Foster &Foster
Jim Ingersoll, President of the Retirees Association
Fred Nesbitt, Retirees Association
Paul DeBold, Retirees Association
Jamie Opperlee, Recording Secretary, Prototype Inc.

ROLL CALL/CALL TO ORDER

Chair Dew called the meeting 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 10, 2016
Motion made by Mr. Naugle, seconded by Mr. Rudominer, to approve the minutes of the February 10, 2016 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM THE PUBLIC
Mr. Klausner said one of his children had been taken ill with food poisoning the previous evening and thanked Chair Dew and Mr. Bayne for their help.

NEW HIRES
Chair Dew recognized the new hires.

BENEFITS:	**FIRE DEPT.:**	**New Retiree:** (Term of Drop)	Walter Schrubb
		Drop Retiree:	Cristofer Askervold
		New Beneficiary:	Kathleen Lawless
		Survivor Death:	Carol Strauss
	POLICE DEPT.:	**Drop Retiree:**	Sean Kelly
		Retiree Death:	Joseph Tetreault

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

BILLS:	**Marcum**	**$4,855.00**
	Klausner, Kaufman	**$750.00**

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

DODGE & COX: Matthew Beck
Performance Review
Mr. Beck distributed a booklet to Board members. He addressed the reasons for the portfolio's underperformance. He stated there had been no changes to the philosophy, process or people running the portfolio. Mr. Beck remarked this had been a poor year for the strategy on an absolute and relative basis. In the first seven weeks of 2016 the performance had still been poor but had improved in the last three weeks.
Mr. Beck said the reasons for underperformance were the divergence in returns between lower and high priced stocks; they invested in the value-oriented stock. They also had a 24% position in emerging markets which were exceedingly poor returners in 2015 after having helped the portfolio in previous years. Four stocks in the portfolio contributed 350 basis points toward the underperformance: Petrobras, HP, Standard Chartered and MTN. Mr. Beck added that currency had been a huge story and had exacerbated the loses as well.

Mr. Beck discussed what they did in response to the bad performance: re-review the portfolio; assess whether their long-term thesis was impaired; determine if the downside performance was outside their anticipations. They had visited the four companies Mr. Beck mentioned earlier and determined their thesis was still in place and added to their positions. He admitted it seemed counter-intuitive to move into things that were doing poorly but their experience taught them that it was in these "pressured, volatile, dislocated times where we usually make our best prospective, value-added decisions." Mr. Beck said the team was extraordinarily excited about the prospects for the asset class.

Chair Dew asked if this was a similar situation to 2008 and if they felt the market had hit bottom. Mr. Beck said it was difficult to know precisely when they had hit bottom but they felt they were much closer to the bottom than the top.

Mr. Klausner felt the problems at Petrobras had more to do with the scandal. Mr. Beck stated they still had a 1% position in Petrobras in the portfolio. He said they felt better about the company after they had cleaned house and replaced management. Also, the Brazilian government was no longer controlling the price Petrobras could charge for petroleum and natural gas products. Mr. Beck remarked that they were still concerned because Brail was experiencing "stagflation," and their currency was severely devalued.

Mr. Beck reported they had closed the product to new investors in January 2015. He stated Gregory Serrurier would be retiring from the portfolio management team in the Spring.

Mr. Schmid said looking at the history of Dodge & Cox, they had underperformed the benchmark in three of the last 15 years and tended to bounce back strong. He stated they were looking at last year as an anomaly and if they did not bounce back, they would act to address it. He reiterated what Mr. Beck had said: all the reasons the Board had hired Dodge& Cox two years ago were still intact and they would give them some time to work their way back.

FOSTER & FOSTER: (under separate cover) Brad Heinrichs, Drew Ballard
2015 Actuarial Valuation

Mr. Heinrichs explained that the report developed the City's funding requirements for fiscal year 10/1/16 through 9/30/17. He recalled that since the last valuation, there had been benefits changes and they had performed an experience study. The Board had subsequently made changes to the assumptions and the asset valuation method regarding smoothing investment performance. Mr. Heinrichs had advised them that the old method no longer met actuarial standards of practice and could have put State monies at risk.

Mr. Heinrichs described the difference in the actuarial and market value of assets due to the change in the smoothing technique. This resulted in the actuarial value of assets to increase from $754 million to $760 million and a decline in the City's funding requirements of approximately $500,000. The 2015 investment performance had grossly undershot their benchmark. If they had not made the smoothing change, they would be calculating City funding requirements based on $782 million of assets. Instead, they were calculating based on the market value of assets: $745 million. City pension costs would have been approximately $13.7million, but by recognizing all of the underperformance, it was $17.3 million, a $3.6 million increase from the prior year.

Mr. Heinrichs explained they could revise the 2014 report and make all of the assumption changes retroactive and smooth in the underperformance over the next five years. Chair Dew asked what would happen if they did that and the portfolio underperformed again. Mr. Heinrichs said they would have $40 million in deferred losses over the next four years and if the underperformance continued, that loss would be added on. Mr. Heinrichs recommended the Board maintain their original decision and go with the result. He cautioned that the City might suggest reducing benefits because of the increase in their contribution.

Mr. Buffington noted that this was a 25-30% increase in the City's contribution. Mr. Heinrichs suggested the Board defer discussion until the next meeting after the City considered the ramifications. Mr. Buffington stated the City was in the process of preparing budgets so if they needed to identify additional funding, now was the time to do it. Mr. Heinrichs explained if they made the changes retroactive, the GASB 67 and 68 accounting statements would need to be revised. Mr. Herbst stated the CAFR reports were being sent out "today" so revising was not an option. He said the prudent course of action was for the Board to stick with their previous decision.

Mr. Heinrichs continued with the report. He noted the funded ratio was still over 90%. They were 99.5% funded based on benefits earned to this point, which he called a terrific metric. The large increase in the City's funding requirements was the result of the change in assumptions and the method change on the payment of unfunded liability. There was approximately a $5 million net actuarial loss, and they created a 20-year amortization, turning it into a $390,000 payment. Mr. Heinrichs stated the loss did not get them closer to a COLA.

Mr. Heinrichs said this was the first year that GASB 68 [instead of GASB 67] was applicable. This was a dramatic change; the City used to record a liability for pension equal to the cumulative difference between what the actuary said was required versus what they contributed. So if the City contributed exactly what the actuary indicated, the pension liability on the books would be zero. With the change, the City had to record the unfunded liability on its books. This could turn a municipality's financials upside down and make it appear that a pension plan had bankrupted it. This had nothing to do with the performance of the fund or actions the Board had taken. Chair Dew reiterated that the funding ratio was 99.5%.

Mr. Klausner explained that the GASB disclosure rules concerned the City's credit-worthiness as a borrower when it issued debt. The fiscal condition of the retirement plan determined the City's contribution rate. Funding and disclosure were completely disconnected by the GASB rules but they were so complex they were easily manipulated. He agreed this was still one of the best funded retirement systems in the country and it was the best in Florida.

Motion made by Mr. Rudominer, seconded by Mr. Fortunato to accept the Actuarial Valuation Report dated October 1, 2015. In a roll call vote, motion passed 6-0.

MARCUM LLP: (under separate cover) Michael Futterman

2014/15 Audited Financial Statements

Mr. Futterman reviewed the statement and remarked this was a "clean" or "unmodified" opinion, the only kind they would want to be associated with. He explained the difference in the GASB 68 reporting requirements regarding net pension liability.

Mr. Rudominer asked about manager fees and Mr. Futterman stated this was anything related to investments, including the consultant and custodian. Ms. Wenguer reminded Mr. Rudominer that some of their returns were net of fees.

Mr. Bayne noted a $2 million increase in covered payroll and Mr. Heinrichs explained that this was *all* payroll, not just pensionable payroll. Mr. Futterman stated this included overtime and other things that the pensionable payroll did not. There was a chance this would be changed to pensionable payroll only because of the amount of opposition to this. Mr. Bayne requested that an explanation be included with the report.

Motion made by Mr. Rudominer, seconded by Mr. Fortunato to accept the 2014/2015 Audited Financial Statements conditioned upon the addition of a footnote explaining the difference between payroll for GASB reporting requirements and pensionable payroll. In a roll call vote, motion passed 6-0.

Chair Dew said their 7.5% actuarial assumed rate of return was often a matter of debate. The audit listed a long-term rate of return of just under 5%. Over the fund's 25-year history, it had averaged 8.72%. Mr. Heinrichs said this was not an apples-to-apples comparison. The audit figure was pre-inflation. With inflation taken into consideration it was 7.61%, which was in line with their assumption.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll said the changes the Board had approved to the assumptions and the asset valuation method regarding smoothing investment performance would be a great deal for the City.

CAPTRUST: Kevin Schmid, Steve Schott

Investment Policy Statement (under separate cover)

Monthly Investment Review

Mr. Schmid said they had a slight positive return for the fiscal year. There had been a nice rebound recently and they were on a positive track.

Regarding Dodge & Cox, Mr. Schmid said their performance last year was out of character with anything in their past.

Mr. Schmid recalled he had provided some language for the Investment Policy Statement at the last meeting that had been tabled pending input from the State Retirement Board. Mr. Klausner stated if a company was located outside of the country, the State Retirement Board would treat it as a foreign stock. He reminded the Board that the fund could still own up to 25% in foreign investments and the fund with Dodge & Cox was a fund, so this was all considered domestic. He suggested including language in the Investment Policy Statement that "If we have direct ownership of the company and it's incorporated in a foreign country, it's going to fall under the 25% limitation on foreign. If we own shares in a collective trust organized under the laws of the United States or U.S. territory, those shares are treated as domestic."

Mr. Schmid said they needed to raise a small amount of cash for upcoming capital calls and he would work with Ms. Wenguer to raise the cash by the end of the month. Ms. Wenguer stated $2.4 million for the capital calls was needed by March 15.

Mr. Schmid recalled the Board had discussed evaluating the viability of performance based fees for active managers. He had spoken with all of the active managers and he would review their comments and bring an alternative proposal back to the Board, hopefully in April. He said the advantages to a performance-based fee was that they would get what they paid for but the disadvantage was that over the long run, their managers outperformed benchmarks so would probably pay slightly higher fees.

Chair Dew asked Mr. Schmid to go back a few years and back-test the viability of performance based fees on their managers. Chair Dew had attended a presentation at the recent educational summit regarding explicit and inexplicit fees. He had provided this information to Mr. Schmid and requested his opinion.

Mr. Schott had reviewed the last year's return for various asset classes and applied this to theoretical portfolios with varying allocations. He pointed out that in a very tough cycle, this portfolio had provided a positive return.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt reported Board members might want new photos taken for the annual report, which he was still working on.

EXECUTIVE DIRECTOR'S REPORT:

Legal Contract

Mr. Klausner reported Chair Dew had spoken with Mr. Cypen and he would bring something to the Board's next meeting.

Interest on Member Contributions

Ms. Wenguer said Mr. Buffington was supposed to talk to Mr. Dunckel about this. Chair Dew wanted to move forward, since the Board had their legal opinion. Ms. Wenguer had asked the City to pay the interest but the City had refused. Mr. Klausner advised Ms. Wenguer to send the money to the City from the custodial account and tell them to write the checks. Mr. Buffington said he had not been able to speak to Mr. Dunckel about this but promised to try to resolve it.

In-Service Distributions

Mr. Buffington reported Ms. Logan-Short had sent a couple of questions to Mr. Friedman. Ms. Wenguer had seen Mr. Friedman's responses to Ms. Logan-Short's questions. She agreed to confirm this with Mr. Logan-Short.

PENDING ITEMS: NEW BUSINESS:

Mr. Buffington explained that the stipend paid to retirees until they were eligible for Medicare had been deemed by the IRS to be taxable. Mr. Herbst stated anything under a cafeteria 125 plan was considered a non-taxable benefit; a benefit outside such a plan was taxable. He clarified that the stipend was under the ordinance, it was not a retirement benefit.

Ms. Wenguer said the City had sent letters regarding this change without telling her first and Mr. Buffington agreed it should not have happened that way.

Mr. Klausner explained that if retirees received a check that could be used for something other than health care should be taxed. Ms. Wenguer said the only way not to be taxed was if a retiree took the City's health insurance. Chair Dew asked what would happen if the check were made out to the retiree's health insurance company. Mr. Ingersoll stated the City's cost for health insurance for a family was $29,000 per year and he received the $400 stipend. He pointed out that the union contract called for a $400 stipend but this would be reduced by the tax.

Mr. Klausner agreed to investigate and report back to the Board.

At 2:40 Mr. Fortunato left the meeting.

Plan Return @ December 31, 2015

Ms. Wenguer informed the Board that they needed to make a motion to accept the rate of return so it could be applied to the DROP and share money.

Motion made by Mr. Bayne, seconded by Mr. Rudominer to accept the plan return of 2.43% for the quarter. In a voice vote, motion passed unanimously.

Chair Dew asked Mr. Klausner about IRS retirement age regulations. Mr. Klausner had emailed a document to Ms. Wenguer. Mr. Klausner explained that the IRS had been considering changes to the in-service distribution/normal retirement age rule since 2007. They had been convinced that private sector rules did not apply to public sector benefits because so many public employee benefits did not stipulate age. The IRS had determined that if one left service in the year one turned 50, he/she would be eligible for an in-service distribution. One would also be eligible if he/she was 55 and 10 or 20 and out. The rule was not final yet but the IRS indicated it should be relied on and would be making it applicable to employees hired after January 1, 2017.

Mr. Klausner said there had also been a change to DROP distributions to make it clear that the DROP was a portion of a defined benefit plan and therefore subject to the same rules as the defined benefits.

Chair Dew complimented Mr. Klausner on the recent seminar he had hosted.

OLD BUSINESS: Schedule A

FOR YOUR INFORMATION:

Holland & Knight	**Normal Retirement Age Regulation**
KCG Recapture Statement	**Recapture Summary/Jan., 2016**

There being no further business to come before the Board at this time, the meeting was adjourned at 2:49 p.m.

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