

May, 2015

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, May 13, 2015, 12:30 p.m.

BOARD'S COMMUNICATION TO THE CITY COMMISSION

-Items that may be of interest to the City Commission:

-The Board received the performance report for January-March 2015 and the return for the quarter was 2.92%; the return for the year was 7.19% and the return for the past three years was 9.46%.

-The Board supports a City recommendation to have an actuary perform a review of the Police and Firefighters Retirement System and General Employee Retirement System.

Present

Michael Dew, Chair

Ken Rudominer, Vice Chair

Richard Fortunato, Secretary [arrived 12:37]

Jim Naugle, Trustee

Jeff Cameron, Trustee

Dennis Hole, Trustee

Scott Bayne, Trustee

Lynn Wenguer, Administrator

Steve Cypen, Cypen & Cypen, Board Attorney

Also Present

Amanda Cintron, Assistant Administrator

Laurie DeZayas, Pension Secretary

Linda Logan-Short, Deputy Director/CFO

John Herbst, City Auditor

Kevin Schmid, CapTrust

Paul DeBold, Retirees' Association Vice President

Matt Palmieri, Retirees' Association

Al Scotti, Retirees' Association

Jim Ingersoll, Retirees' Association President

Rick Schulze, Retirees' Association

Fred Nesbitt, Communication Director

Lisa Edmondson, Recording Secretary, Prototype Inc.

Note: Items were discussed out of order.

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.

Chair Dew announced that Ms. DeZayas was retiring soon. The Board thanked Ms. DeZayas for her service.

MINUTES:

Regular Meeting: April 15, 2015

Motion made by Mr. Hole, seconded by Mr. Rudominer, to approve the minutes of the April 15, 2015 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM PUBLIC

None.

NEW HIRE

Chair Dew recognized the new hire.

BENEFITS FIRE DEPARTMENT:

DROP Retiree: Carl J. Maglietta

POLICE DEPARTMENT:

New Retiree: Douglas F. Hartman

(Term of DROP)

DROP Retiree: Jeffrey L. Feldewert

Denis J. Kernodle

New Beneficiary: Martha B. Young

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

BILLS:

Prudential	\$78,108.79
Prudential	\$72,972.77
Agincourt	\$43,004.83
Boyd Watterson	\$43,939.00
Sawgrass Asset Mgmt.	\$28,477.00
Systematic	\$20,091.80
InTech	\$18,803.09
Holland & Knight	\$675.00
Holland & Knight	\$2,675.00
Klausner & Kaufman	\$550.00

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

INPUT FROM ACTIVE & RETIRED

POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll wanted clarity regarding the Board's fiduciary responsibility and Mr. Cypen stated the Board's responsibility was to the plan and its members. Chair Dew confirmed for Mr. Ingersoll that no Board member had received emails or letters from Mr. Klausner regarding the COLA.

CAPTRUST Kevin Schmid

Small Cap Manager Update

Mr. Schmid recalled that the Board had agreed to hire Vaughn Nelson, contingent on their agreeing to charge a fee of 85 basis points. Vaughn Nelson was unable to meet that and had provided a counter offer of either a flat 88 basis point fee (as was offered in other "most favored nations" clauses they had with other clients) or a tiered schedule starting at 1% and reducing to 85 basis points after \$25 million. Mr. Schmid stated the 88 basis point flat fee was more advantageous for the pension fund.

Mr. Rudominer asked if Vaughn Nelson had outperformed other managers by three basis points and Mr. Schmid stated they had. Mr. Schmid thought it was an appropriate time to rebalance the portfolio, adding to fixed income, which carried a lower fee and would offset the difference in fees.

Mr. Hole had been concerned about Vaughn's French parent company, Natixis Global Asset Management, L.P.

Motion made by Mr. Rudominer, seconded by Mr. Naugle to hire Vaughn Nelson, with an 88 basis point fee and to rebalance the portfolio to keep it under the soft cap. In a roll call vote, motion passed 4-3 with Mr. Hole, Mr. Bayne and Chair Dew opposed.

Quarterly Investment Review

Mr. Schmid reported that overall, the quarter had been good for bonds. He said the question of if, when and by how much the Fed would raise interest rates this year was a major factor hanging over the market. He believed the rate would be raised slowly and slightly this year.

Mr. Schmid continued that larger cap equities had experienced an “okay” quarter of just under 1%. Impacts included the declining energy crisis and strength of the dollar. Mid-cap, small-cap and international equities had all done well. Mr. Schmid stated they were paying particular attention to valuation and declining earnings estimates. In the past few years, S&P 500 companies had been running at historically high profit margins and this was unlikely to persist.

Mr. Schmid reported the fund was up 2.9%, ahead of the benchmark for the quarter. InTech was up 2.86% for the quarter and 9.25% for the six-month period. Systematic had a slightly positive return and Sawgrass was a little behind for the quarter. Mr. Schmid discussed the overlap in the manager accounts and Chair Dew wondered why they couldn't just stay with InTech and eliminate the other two large cap managers. Mr. Schmid said this would result in a higher manager concentration and pointed out that over time, one manager would do better than the others and they liked not having to rely on one manager. He agreed it was a way to decrease fees though. Mr. Schmid stated reviewing the InTech numbers was the best way to look at it, and he did not see a great deal of redundancy in the portfolio.

Mr. Schmid said Eagle had struggled this quarter, up only 3.2%, half off the benchmark. He attributed this to losses in biotech, which had been a huge driver last quarter, but noted there was a belief that there was a growing bubble in biotech. The Global Infrastructure Fund had done remarkably well, up 8.25% last quarter and up 12.7% for the year, almost double the benchmark. Chair Dew wondered how the S&P infrastructure index could be so bad at -.80. Mr. Schmid stated there was a heavy energy component in the benchmark, as well as utilities.

Regarding Eagle, Mr. Schmid stated this had been in the portfolio since mid-2011 and the majority of the underperformance had been in 2013 and in this most recent quarter. In 2013, the benchmark was up 43% and Eagle had been 9% behind at 34%. Chair Dew noted that year-to-date, Eagle had underperformed by 5.32% overall and since inception had underperformed by 3.53% since 2011. Mr. Schmid pointed out that those numbers were performance gross of fees and the pension fund's numbers were net of fees.

Mr. Schmid explained that in 2013, the benchmark had done very well due to very strong performance of biotech and other stocks that Eagle did not hold, but he noted Eagle had done very well at 34%, even though this was 9% behind the benchmark. Year-over-year over the last decade, Eagle had outperformed the benchmark 7 out of ten years on a net-of-fees basis. He said the question was how likely Eagle was to perform going forward. They still had a long-term track record of success that was being weighed down by one year of relatively bad performance. Chair Dew reviewed Eagle's record since being part of the pension fund, and said they would need some serious gains to make up a \$1.5 million loss. Mr. Schmid said he could show the Board alternative managers who had better returns over this three-year period, but the question was how they would perform going forward. He did not believe they would see another year when the benchmark would be up 40%; he felt performance would be more volatile going forward and he still believed in Eagle's process. Chair Dew asked when Mr. Schmid would worry about Eagle and Mr. Schmid replied, “If we had a period of benchmark weakness where they underperformed, they'd be out.”

COMMUNICATION DIRECTOR'S REPORT

Fred Nesbitt Mr. Nesbitt informed everyone that the annual report had been mailed out and responses were coming in for the membership satisfaction survey.

Mr. Nesbitt said the Finance Committee had recommended the City hire an actuary to study the General Employee and Police and Fire retirement systems; GFOA guidelines stated that this should be done every five years.

EXECUTIVE DIRECTOR'S REPORT

Fort Lauderdale Retirees Association Letter dated Feb. 18, 2015

Ms. Wenguer reported Mr. Klausner agreed to have something for the next meeting.

Interest on Employee Contributions Discussion

Ms. Wenguer stated the contract the Police Officers signed indicated “we will no longer pay [interest] on contributions after December 2013.” They had been paying interest on contributions made prior to December 2013 but the City interpreted that all interest payments should stop as of December 2013, even on contributions prior to December 2013. Ms. Logan-Short said Assistant City Attorney Dunckel was looking into it to determine “what was meant.” Mr. Cypen said this was the Board’s decision to make and stated, “You don’t look at intent unless it’s ambiguous...It says what it says; intent is not significant.” He said, “You can’t stop it going retroactively effective, you can only stop it going forward.”

Ms. Logan-Short came back to this issue later in the meeting. Ms. Wenguer said this was derived from an ordinance and Ms. Logan-Short was uncertain the Board was the interpreter of the City’s ordinance. Mr. Herbst explained Mr. Dunckel was tasked with taking provisions agreed to in collective bargaining and drafting the changes to City ordinances that governed the plan’s operation. Ms. Logan-Short wanted something in writing from the Board explaining their interpretation. Mr. Herbst felt Mr. Dunckel might not have clarified that “benefits earned and benefits prospective, that there’s a dividing line.” Mr. Bayne asked what would prevail when there was a discrepancy between the collective bargaining agreement and the ordinance. Mr. Herbst said the collective bargaining agreement would prevail, and Mr. Bayne suggested examining the collective bargaining agreement to determine if there was a discrepancy. Chair Dew asked Mr. Cypen to consult with Mr. Dunckel and report to the Board at their next meeting.

Prior GERS Service for Vested and Retired Members Update

Ms. Wenguer said they needed to know a time limit to provide to the affected people that are in the DROP or have already retired. Mr. Cypen explained that usually, the limit was related to how much time a person needed to buy back. Ms. Wenguer said everyone needed to sign off regarding what they wanted to do before they would be paid the higher amount. Chair Dew suggested the people involved be provided the same amount of time they needed to make up to pay it back, but they would not be paid the higher benefit until the entire amount was paid back. Mr. Cypen and Ms. Wenguer would draft the letter and the Board would review it before it was sent out.

IRS Determination Ordinance Change Update

Mr. Cypen informed the Board that the City’s expert was looking at this now and Mr. Cypen was cautiously optimistic.

In-Service Distributions Update

Ms. Logan-Short stated this was under collective bargaining now. Mr. Cypen said they needed to determine who was involved and what steps might need to be taken. Ms. Wenguer said the list was complete and Mr. Cypen agreed to examine it and report to the Board.

Administrative Assistant Discussion

Ms. Wenguer said they would post the job description to FPPTA and Monster and she had sent memos to local administrators as well. Mr. Herbst said the City had an eligibility list of good candidates.

Affiliated Agencies Prior Service Discussion

Ms. Wenguer stated the City Manager had recommended General Employees conduct a study to determine if an ordinance needed to be written. Mr. Klausner said this was not a new benefit; it was in the ordinance already and he had agreed to put this in writing.

September, November Meeting Dates Discussion Ms. Wenguer said there were conflicts in July, September and November. The Board decided on July 15 and will revisit November.

Request for Information Procedures Discussion

Ms. Wenguer suggested all requests for public records be made in writing so there would be no miscommunication.

PENDING ITEMS

New Business

None.

Old Business

Schedule A

No discussion.

Experience Study

Ms. Wenguer said she had received an email from Mr. Heinrichs indicating the information had been sent from Nyhart. Ms. Wenguer agreed to call Mr. Heinrichs to confirm the report would be complete within 60 days of receiving the information.

Communications to the City Commission

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The Board supports a City recommendation to have an actuary perform a review of the Police and Firefighters Retirement System and General Employee Retirement System.

FOR YOUR INFORMATION:

Stephen Cypen, Esq.
Knight

Memorandum dated March 23, 2015
Recapture Summary/Feb., 2015

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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