May 3, 2017

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, May 3, 2017, 12:30 P.M.

Communication to the City Commission:

- The Board reviewed the second quarter return on investments: 3.96% for the quarter; 10.05% for one year; 7.59% for five years.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne, Trustee
Jeff Cameron, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Lynn Wenguer, Executive Director

Absent
Richard Fortunato, Trustee

Also Present
Alexandra Goyes, Deputy Director
Jazmin Elliott, Administrative Aide
Fred Nesbitt, Communication Director, Retirees Association
John Herbst, City Auditor
Ash Benzo, City Treasurer
Robert Klausner, Board Attorney
Kevin Schmid, CapTrust
Paul DeBold, Retirees' Association
Jack Chew, Retirees' Association
Derek Joseph, Fort Lauderdale Police Department
Jim Ingersoll, President, Retirees Association
Mike Tucker, FOP
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: April 12, 2017

Chair Dew requested a change to the minutes.

Motion made by Mr. Naugle, seconded by Mr. Rudominer, to approve the minutes of the April 12, 2017 meeting as amended. In a voice vote, the motion passed unanimously.

COMMENTS FROM THE PUBLIC
None.

NEW HIRES
Chair Dew recognized the new hires.

BENEFITS:	**FIRE DEPT.:**	**DROP Retirement:**	**Robert Kisarewich**
		Member Termination:	**Scott Hartnett**
		New Beneficiary:	**Sharyl Pratt**
		Survivor Death:	**Evelyn Loftus**
	POLICE DEPT.:	**DROP Retirement:**	**Brian D. Schaeffer**
		New Beneficiary:	**Peggy Ann Woolsey**
		Retiree Death:	**Constance Kamm**

Ms. Wenguer informed the Board that Brian Schaeffer changed his retirement date and option.

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

BILLS:	**Vaughan Nelson**	$76,844.38
	Eagle Asset	$56,866.41
	Agincourt	$42,174.53
	Boyd Watterson	$38,866.00
	Northern Trust	$33,254.77
	Sawgrass	$25,392.44
	InTech	$18,354.64
	Rhumbline	$13,016.00
	Klausner, Kaufman	$732.25

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

ATTORNEY'S REPORT
Mr. Klausner reported Richard Sicking, Mr. Brutus's attorney, was preparing a stipulation of facts. They would move on to summary judgment to settle.

Mr. Klausner said they had not seen a copy of the federal tax reform bill, so they did not know what could happen regarding tax sheltered contributions.

ENTRUST: (under separate cover)
Special Opportunities IV Gregg Hymowitz, Mark Guariglia, EnTrust
Mr. Hymowitz said the Special Opportunities Fund III was 70% called and the commitment period ran through Jan 2018. They were now seeking investors for Special Opportunities Fund IV.

Mr. Hymowitz described the inception and workings of the Special Opportunities Funds. He stated each manager must identify the event that would create the value and be intimately involved in creating that value. They also negotiated the fees with the underlying managers and tended to pay 0% management fee and a 10% performance only when investors got back all of their money.

Mr. Hymowitz reviewed the Special Opportunities Fund III: there was $1.8 billion in the fund and a total of $6 billion designated to co-investments. It was up 13% net of fees since inception.

Mr. Hymowitz stated it was interesting how these funds performed when global equity markets were negative. Fund I had outperformed by 340 basis points; Fund II by 170 basis points and Fund III by 326 basis points.

Mr. Hymowitz stated the commitment period for Fund III would end in January and they wanted to time it so Fund IV was starting to invest when Fund III ended. He stated the terms of Fund IV would be the same as Fund III.

Chair Dew asked about fees on Fund III and Mr. Hymowitz said in general, fees were 0% management fee and 10% incentive fee and the goal was to reduce the fees over time through negotiation. EnTrust's fees were: 0 on commitment; 125 basis points on investment; there was a hurdle of 7.5% plus the 125 basis points; if they met that 8.75% threshold, they charged a 10% performance fee and another 10% manager's fee on distribution. He pointed out that the 20% fees were only charged when the money was distributed; in a traditional hedge fund, fees began at the time of investment. The returns in Fund III were over 13% net of all fees.

Mr. Rudominer asked Mr. Schmid about using returns from Fund III to invest in Fund IV. Mr. Schmid replied that "in a perfect world, they would line up perfectly…but it's probably not going to work that way, so you're going to build in a little bit of flex."

Mr. Hymowitz explained that there was a "very strong alignment of incentives: the manager doesn't earn his performance fee until he returns the capital to us; we don't earn our performance fee until we return the capital to you." So everyone was incentivized to maximize returns and also get the capital back to the investor.

Ms. Wenguer asked if the fees were negotiable and Mr. Hymowitz stated they were not. He stated this fund allowed institutional investors to have some capital allocated to make dynamic investment decisions when they arose. He recommended the Board ask money managers what they did with their own money and said 60% of his liquid net worth was in the co-investment vehicles.

CAPTRUST: (under separate cover)

Quarterly Investment Review Kevin Schmid

Mr. Rudominer wondered if the needed to invest in Fund IV if they wanted to keep some capital in the same asset class as Fund III, or should they wait until Fund V. Chair Dew asked Mr. Schmid if they would remain within their allocation of 4.3% if they invested in Fund IV. Mr. Schmid thought they could calculate how to time the investment to recycle the Fund III investment into Fund IV. He did not recommend committing any more than $35 million to Fund IV.

Mr. Schmid drew the Board's attention to the Quarterly Performance Report and pointed out that bond short term rates had increased slightly but mid and long-term rates were the same or had declined slightly. Equities had continued the post-election rally until March, when they had flattened. The past year had seen a strong equity market.

Mr. Schmid referred to the Fund Return on page 18 and said the total return was up 3.96% net of fees for the quarter and just under 5.5% for the year. In equities, there had been mixed performance in large caps for the quarter and in international, Dodge and Cox was 2% ahead of the benchmark and Lazard was 1.5% behind. Fixed incomes had benchmark-like performance for the quarter. Real estate continued to be a good contributor. In alternative investments, Mr. Schmid reported they had received $7.9 million of the $9 million from the Diversified Fund. He estimated the private equity returns would be more than 3.96%. Lazard Global Infrastructure was up 10.5% for the quarter and 13.5% for the first half of the plan year.

Mr. Schmid compared absolute returns and said their 5.5% return for the past three years was slightly above median; their 7.6% return for the past five years was at median. On a risk adjusted basis, the plan had performed as they intended it to.

Chair Dew had asked Mr. Schmid about a study comparing index and active investing and whether they should reevaluate their position. Mr. Schmid explained that the portfolio had been set up so that 2/3 of the large-cap equities were indexed; all mid-cap equities were indexed and the domestic small/mid-caps were all active. This aligned with historical data going back 20 years. He noted that the big gains they had experienced in actively managed small-caps since 2008 had narrowed and the question was if this was cyclical or a representation that something had structurally changed in the markets that eroded the ability of small cap active managers to outperform. Mr. Schmid stated Rhumbline had a small cap index product available that was an option. He felt it made sense in the long term to have some of the small cap in indexed but the other question was whether this was the right time to do so or if they should wait for a market downturn. Chair Dew asked Mr. Schmid to make a recommendation at their next meeting regarding indexed small caps.

Mr. Schmid said the Lazard mutual fund in which they were invested had an expense ratio of 82 basis points and could have 1-15% in emerging markets. Lazard had proposed a collective trust that would allow them to change the emerging market exposure to up to 35%. It also had an expense ratio of 78 basis points. There was no compelling reason to move but Mr. Schmid favored the additional flexibility. Chair Dew asked about contractual issues and Mr. Schmid said they would need a legal review of the trust language to determine if it presented the problem with indemnification language they had previously experienced. He agreed to provide the documents to Mr. Klausner to review.

Mr. Ingersoll noted that seven funds had beaten their policy index and asked if they could find out what those funds were invested in. Mr. Schmid said he would look into this.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll reported three members had died in the past 30 days. He said they would appreciate anything the Board could do to help retirees get a supplemental payment.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt announced that the annual report was being edited and the Board would be able to review it before it was sent out. He thanked Ms. Logan-Short for her presentation on pension plans to the Budget Advisory Board.

EXECUTIVE DIRECTOR'S REPORT:

Assumed Rate of Return

Chair Dew said City Manager Feldman had advised him that the City Commission would not be available until October to discuss the assumed rate of return. Mr. Feldman was aware of the Board's discussion with Mr. Heinrichs regarding options and stated he was in favor of funding it first. He had also requested they postpone reducing the assumed rate until fiscal year 2019 due to the change in mortality tables mandated by the State.

Trustee Training Program

Ms. Wenguer distributed a draft and said she had added language indicating trainees could attend two Florida conferences, as approved by the Board. She asked about the language that stated they would like trainees to attend all Board meetings, but would require them to attend 50%. Mr. Klausner suggested adding the language: "unless unable to be released from active duty."

Mr. Rudominer asked about specifying that a trainee must be an active Police officer, firefighter or member of the retirement system and Mr. Klausner explained that State law required this, but agreed the word "active" should be added.

Travel Policy

Mr. Hole asked if they should consider the budget required for trainees to attend conferences. Mr. Rudominer suggested creating a list of approved conferences for trainees and a separate budget. Ms. Wenguer and Chair Dew agreed to work on this for the Board to review.

PENDING ITEMS:

New Business:

None.

Old Business:

Ms. Wenguer said she had received the updated report from Mr. Heinrichs and it had been posted to the website.

Regarding the affidavits they had sent to retirees, Ms. Wenguer stated many retirees had been very unhappy but she had explained that it was for the safety of the plan.

Mr. Klausner stated he was working on the funding policy with Mr. Heinrichs and they would have it for the next meeting.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:31 p.m.

FOR YOUR INFORMATION:

KCG Recapture Statement

Recapture Summary/March 2017

______________________	______________________
Secretary	Chairman

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

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