May 9, 2018

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, May 9, 2018, 12:30 P.M.

Communication to the City Commission:

1. The 2nd Quarter Return on Investments was -0.54%; 8.39% for one year and 7.27% for five years.
2. The Board accepted the Quarterly Return to apply to DROP accounts.
3. CAPTRUST, their performance manager, was recognized by Barron's as #5 of the top 50 Institutional Consulting Teams.

Board Members

Ken Rudominer, Chair	P
Richard Fortunato, Vice Chair	P
Scott Bayne, Secretary	P
Jim Naugle, Trustee	A
Jeff Cameron, Trustee	P
Dennis Hole, Trustee	P
Derek Joseph, Trustee	P
Lynn Wenguer, Executive Director	P

Also Present

Alexandra Goyes, Deputy Director
Fred Nesbitt, Board Communication Director
Robert Klausner, Board Attorney
Kevin Schmid, CAPTRUST
Paul DeBold, Retirees Association President
Paul Chettle, District 2 resident
Jamie Opperlee, Prototype Inc.

ROLL CALL/CALL TO ORDER

The meeting was called 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:

April 11, 2018 Regular Meeting:

Motion made by Mr. Hole, seconded by Mr. Joseph to approve the Board's April 11 2018 regular meeting minutes. In a voice vote, motion passed unanimously.

April 11, 2018 Special Meeting

Motion made by Mr. Joseph, seconded by Mr. Hole to approve the Board's April 11 2018 special meeting minutes. In a voice vote, motion passed unanimously.

NEW HIRES:
Chair Rudominer recognized the new hires.

BENEFITS:	**POLICE DEPT:**	**DROP Retiree:**	Joel L Winfrey
			Jose Pinto-Gonzalez
			Hector R Martinez
			Mark R Debord
		New Beneficiary:	Ruth Martucci
			Janna Lewis
	FIRE DEPT:	**DROP Retiree:**	Stephen Rodgers
		Retiree Death:	David Lowe

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

BILLS:	**Intech**	$137,550.95
	Vaughan Nelson	$45,908.65
	Eagle	$42,643.09
	Agincourt	$42,364.19
	Boyd Watterson	$39,318.00
	Sawgrass	$29,247.41
	Foster & Foster	$26,957.00
	Rhumbline	$15,944.00
	Milliman	$ 1,500.00

Ms. Wenguer stated the InTech bill was high because they had changed to a performance-based fee. She explained that originally, the fee had been $146,941.19, which she felt was high. Mr. Schmid had spoken with InTech and they had recomputed the fee to $137,550.95. Mr. Schmid explained that InTech had not charged the fee for the first three quarters, so this amount was to cover that period. Going forward, it would be charged on a quarterly basis. He confirmed that he had already calculated returns in his report subtracting the fee.

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

Ms. Wenguer confirmed that the $2,750 for buyback calculations on page 31 of the Foster and Foster bill had been reimbursed by members.

COMMENTS FROM THE PUBLIC/ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS
Mr. DeBold reported seven retirees had passed away in the past month.

Mr. DeBold said Joey Mazzara, the son of retirees Kim and Mitch Vansant, was discharged from the hospital on April 12 for rehab.

ATTORNEY'S REPORT:
Mr. Klausner had spoken with the Retirees Association attorney regarding his opinion on the COLA, which he would provide prior to the Board's June meeting.

Mr. Klausner had drafted an outline for what the ordinance should look like and members had been provided copies. He said the biggest issue with Chapter 20 was the normal retirement provisions, which extended over 15 pages. He explained that every time a new collective bargaining agreement had been negotiated, "they just stuck it on the end" so there was significant obsolete material. Mr. Klausner's new version would include language guaranteeing that anyone retiring under any prior provision of the plan retained those rights for life and the life of any designated survivor. His version would also include a legislative history section listing all ordinances, in order of adoption, with a one-line explanation of what each one did. This would provide a meaningful historical reference for the plan.

Chair Rudominer noted that the existing ordinance had not included administrative items as Mr. Klausner's draft did and Mr. Klausner explained that the existing ordinance was very vague and he believed it should be more specific.

Mr. Klausner would outline the powers of the Board as: an employer, an investor, an administrator. He would recommend that some form of trustee education be mandatory.

Mr. Hole asked if changing policy would require a change in the ordinance and Mr. Klausner said the ordinance would provide the Board the power to set/change policy without changes to the ordinance. For instance, the ordinance would indicate the Board would set the education policy and the Board would implement this by rule.

Mr. Klausner asked if the Board wished an entire section called Tier 1 and another section called Tier 2 **or** if the differences in the tiers should be explained only in areas where there were differences.

Ms. Wenguer and Mr. Bayne felt there should be two separate sections for Tier 1 and Tier 2.

Mr. Klausner intended to simplify the language to make it more readable for members as well as trustees. He would also address distribution of marital interests, which was a common problem that was not in the existing ordinance.

Mr. Klausner asked the Board to review the outline and provide input at the June meeting. He would recommend a workshop to review the new ordinance and anticipated it would be ready to present to the City Commission by the end of the summer.

Mr. DeBold asked how the timing of the revision could affect the determination of a COLA for this year. Mr. Klausner said the Board had the ability to offer a COLA; the question was how large a group would be eligible. Mr. Bayne explained that the ordinance revision did not affect the COLA.

CAPTRUST:

Quarterly Investment Review - Kevin Schmid

Mr. Schmid reported equities and bonds were negative last quarter. Even though this had been a negative quarter, riskier investments had performed better.

There had been a negative total return for the plan, down 54 basis points, a little ahead of benchmark.

Chair Rudominer wanted to know the impact of changing to the performance-based fee with InTech. Mr. Schmid recalled they had done this only with InTech because for InTech, it had been the most favorable. He noted the fee was capped at 90 basis points and this would only happen if they outperformed the index by 4.5%.

Mr. Schmid said over the last couple of years, it had been easier for value managers to outperform and harder for active growth managers, but the combination of Aristotle and Sawgrass was still outperforming the S&P 500.

In small and mid-caps, Eagle was up 3% and Vaughan Nelson had preserved value. He recalled that Vaughan Nelson had been hired based on their strong, long-term track record and he felt comfortable they would work their way up again.

In international equities, Dodge and Cox and Lazard combined had been flat, while the benchmark had been 1.5%. For the year, the combination was 2.5% ahead of the index.

In fixed income, returns had been slightly worse than benchmark for the quarter because of the higher corporate bond exposure. Based on current policy, they were invested as low and they could be in bonds.

In real estate, the composite was up 2.3% for the quarter. Alternatives continued to be frustrating: EnTrust Special Opportunities was down 2.7% for the quarter and Lazard Global Infrastructure was down 5.7%. Mr. Schmid noted that Lazard had made the entire negative return back and was positive year-to-date.

Mr. Cameron asked the timeframe for the distributions from the Entrust Special Opportunities Fund and Mr. Schmid said he believed it would take one to two years.

Alternative Lending scenarios

Mr. Schmid referred to the alternative lending folder and reported the managers had sent the documents to Mr. Klausner. Mr. Klausner stated he was still reviewing the documents but said he had commented in writing on USAA and Boyd Watterson. He would have a phone conference with Capital Dynamics the coming week.

Mr. Schmid said CAPTRUST was negotiating with Stone Ridge to start an LP vehicle, which would have significantly lower fees. He said if the Board wished, they could move forward with the mutual fund version and transition to the LP later.

Mr. Schmid had created scenarios for alternative lending. The first was their original idea to take $75 million out of fixed income and distribute it in liquid and illiquid alternative lending structures in government real estate. The second scenario was based on Mr. Hole's suggestion to take more funds from existing real estate managers and increase the amount in the new strategies. The third was anticipating the future when the EnTrust Special Opportunities Fund was over.

Mr. Schmid said the Simulated Historical Performance was based on history (the past) and was a reminder that when money was moved from fixed income to something else, there was more risk and the possibility for significant downside.

Mr. Schmid asked if the Board was interested in hearing from two other alternative lending managers. He said this was an asset class he would not mind diversifying across multiple managers to spread the risk. Chair Rudominer suggested they could wait until CAPTRUST finalized the LP with Stone Ridge. Mr. Schmid stated they could hear from Angel Oak Credit Opportunity Fund, which was similar to Stone Ridge, and Bloomfield Capital, which offered real estate bridge financing. He said these were all alternative lending strategies generating reasonable yields.

Mr. Schmid explained that The Stone Ridge LP would allow them to increase leverage and therefore target returns to the 8% range. An LP was permitted to leverage up to 50% and this was still a reasonable amount of risk.

Chair Rudominer said the changes they were considering would increase their risk-adjusted returns.

COMMUNICATION DIRECTOR'S REPORT

Mr. Nesbitt stated they had completed the annual report, which would be mailed to all retirees and emailed to active members. They would also provide hard copies to someone in the Police and Fire Departments to put in active members' mailboxes. The report was also posted on the website.

EXECUTIVE DIRECTOR'S REPORT:

Motion made by Mr. Bayne, seconded by Mr. Hole, to accept the -0.54% quarterly return. In a voice vote, the motion passed unanimously.

Ms. Wenguer stated everyone's DROP and share statements had been updated.

Ms. Wenguer reported Ms. Elliot had resigned unexpectedly. Ms. Wenguer and Ms. Goyes would start seeking a replacement in August.

Milliman Software Changes

Ms. Wenguer had asked for a new quote for the software changes regarding prior service and the cost was $1,500.

Mr. Klausner reported on May 21 at 1:30 there would be a hearing on the Brutus case. He explained the facts were not in dispute: Mr. Brutus had been injured during training and had never been able to be rehabilitated sufficiently to ever complete the Police Academy. Mr. Brutus was seeking the right to a service-connected disability hearing and Mr. Klausner's opinion was that Mr. Brutus was not eligible because he did not meet the definition of a police officer. The question was whether someone disabled during pre-certification training was eligible for service-connected disability. There were no such cases in Florida but there were cases in other jurisdictions and all indicated the applicant was not eligible because he/she was not whatever he/she had been hired to be. Mr. Klausner had requested the present value calculation from the actuary to show that the disability over the course of Mr. Brutus's lifetime could be well over $1 million.

Mr. Klausner stated Mr. Brutus had never completed training and been certified as a police officer and in Mr. Klausner's view, this was required. Mr. Klausner advised Ms. Wenguer that new hires should sign a document agreeing that they were not eligible for any benefit from the plan until they completed the academy and had taken the state exam and been certified. Ms. Wenguer said she liked enrolling employees the first day of employment, but they should be informed that they were not officially in the plan until completion of certification.

Mr. Bayne thought the City should put trainees in the general employees plan until they were certified. Then the City could transfer the money to this plan. Ms. Wenguer explained it had been a nightmare to get the City to do this properly. Mr. Klausner suggested wording for the agreement: "I understand and agree I am enrolled for my convenience, with the understanding that if I don't complete the academy, I'll receive a refund of contributions and receive no benefits in the interim."

Mr. Klausner stated if they lost the Brutus case, the Board would hear Mr. Brutus's disability application.

PENDING ITEMS:

New Business:

Chair Rudominer said the City had issued their investment policy for their retirement fund stating they could invest in a state-run cash fund for state entities. He had researched this and determined the return was pretty good.

Mr. Klausner said this would be a fixed income alternative. Ms. Wenguer said their return for cash was .91%. She agreed to send the information to Mr. Schmid. Mr. Klausner explained this was intended to encourage local governments to park their tax money here while waiting to spend it. Most states allowed municipal pension funds to invest.

Chair Rudominer said NCPERS had published the results of their Public Retirement Systems study and based on the results their plan was doing very well. NCPERS had concluded that keeping the fees low made government plans good for the economy. Mr. Klausner remarked this was why so much of Wall Street funded anti-defined benefits pension associations because this severely cut their profits.

Chair Rudominer said under "Best Business Practices," the NCPERS report mentioned "Expanding Operational Performance Benchmarking." Ms. Wenguer went through the NCPERS list and noted how they complied with the suggestions. Chair Rudominer said he and Ms. Wenguer would be attending NCPERS National Conference and would find out what "Operational Performance Benchmarking" was.

Chair Rudominer stated under "Operational Practices and Oversight" NCPERS mentioned "Use of Formal Risk Management Framework." Mr. Klausner explained this type of benchmarking was more appropriate to a multi-employer plan with significant enterprise risk. It was not necessary for a single-employer plan of this size.

Mr. Schmid stated his team had been recognized as one of the top five Institutional Consulting Teams by Barron's.

Old Business:

Schedule A

None

The Board's next meeting was scheduled for June 13, 2018.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:17 p.m.

FOR YOUR INFORMATION:

KCG Recapture Statement

Recapture Summary/March, 2018

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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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