

November 18, 2016



**POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Tuesday, November 18, 2016, 12:30 P.M.**

Present

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

Also Present

Alexandra Goyes, Deputy Director
Jazmin Elliott, Administrative Aide
Stuart Kaufman, Board Attorney
Kevin Schmid, CapTrust
Steve Schott, CapTrust
John Herbst, City Auditor
Laura Garcia, Finance Department
Paul DeBold, VP Retirees' Association
Jim Ingersoll, President, Retirees' Association
Fred Nesbitt, Communication Director
Richard Sicking, attorney
Ash Benzo, Interim Treasurer
Jamie Opperee, 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: October 11, 2016

Motion made by Mr. Naugle, seconded by Mr. Bayne, to approve the minutes of the October 11, 2016 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 Retiree:	Michael P Spalding
		New Beneficiary:	Carol DePauw
		Retiree Death:	Michael Kenney

	Survivor Death:	Ellen Tinsley
2014/2015	Share Plan Distributions	
POLICE DEPT:	DROP Retiree:	Franklin M Foulks
	New Retiree: (Term of DROP)	Rosalind Wilson
	Transfer of Contributions:	Trevor Persaud

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

BILLS:	Vaughan Nelson	\$68,717.97
	Eagle Asset Management	\$51,292.14
	Agincourt	\$42,483.57
	Boyd Watterson	\$37,507.00
	Sawgrass Asset Management	\$26,880.55
	Aristotle	\$25,536.80
	InTech	\$17,914.22
	Rhumblin	\$17,851.00
	Klausner & Kaufman	\$4,800.00
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	Marcum	\$657.00

Ms. Wenguer stated Klausner and Kaufman agreed to remove the \$3,204.25 from the October 31 bill because the item related to plan design, not disability. Therefore, it should have been included in the monthly retainer. She had also indicated that they would not pay copying charges on either bill. Each bill was adjusted to \$4,800.00.

By acclamation, the Board agreed to approve payment of the bills as adjusted.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll reported three retirees and one survivor had passed away recently. He said they were still struggling to get a COLA or supplemental payment.

CAPTRUST

Kevin Schmid, Steve Schott, CapTrust

Quarterly Investment Review

Mr. Schott drew the Board's attention to the Capital Market Review and reported fixed income and yield had been a big driver in domestic markets. He noted the difference in interest rates and yields in the past 35 years and said fixed income returns had become more and more difficult to obtain. Mr. Schott said people were purchasing fixed income bonds for total returns and equities for yield. Mr. Schott stated after the election the market had declined 7% and then rebounded 10%. Bond yields had reverted to their January 2016 yields.

Mr. Schott said the futures suggested there would be an interest rate increase in December and he anticipated successive increases. Since the election, there had been over a trillion dollars in bond losses and a \$1.3 trillion increase in equity returns.

Mr. Schott explained that per blended benchmarks, over 10 years, an aggressive portfolio with 70% in equities and 30% in fixed income had a return of 5.15%; a conservative portfolio returned 5.25%.

Mr. Schmid announced they had ended the year up 8.1%, beating the actuarial assumed rate of return of 7.5%. In equities, Aristotle had been consistently positive to benchmarks and was up 5% this last quarter compared to a 3.45% benchmark. InTech added long-term value to the portfolio and was up 90

basis points compared to benchmarks over 10 years but had lagged all year and were now almost 4% behind year-to-date. Sawgrass was flat for the last quarter while the benchmark was up 4.5%. Eagle was up 5.5% for the quarter but the benchmark was up 9.2%. Vaughn Nelson had consistently struggled since it was added to the portfolio a year ago but was still a top quartile manager over a 5-7-10 year period. Dodge and Cox started off strong but struggled mightily in 2015 and were fighting back up. Since the quarter's end, they had been up 1.5% in a negative environment for internationals. Lazard was a strong long-term performer for the plan but was up only 2.2% versus 6.6% for the benchmark for the quarter.

In bonds, Mr. Schmid reported Agincourt had added value over the year and Boyd Watterson was slightly behind their benchmark. The real estate composite was up 9.5%. The Core Realty Fund was up 8% for the year, a bit behind the benchmark.

In alternatives, the Entrust Special Opportunities III Fund was still not on target but was up 13.55% for the year and 3.35% for the quarter. Lazard Global Infrastructure had been great in 2015 but the increase of energy prices had hurt them in 2016.

Chair Dew had examined the stock overlap sheet and Sawgrass, Eagle and Aristotle had such overlap he wondered if it was still worth it to have them. Mr. Schmid explained that InTech was the most redundant in overlap but had added value over the benchmark this year. Mr. Schmid stated the exposure did not hurt the plan.

Mr. Hole asked if they were satisfied with 25% in fixed income and Mr. Schott recognized fixed income would not generate a lot of return but the option was to add risk, which he did not advise at this time.

Mr. Schmid referred to the Asset Allocation and noted that the hedge fund exposure had underperformed and hurt them compared to a 70-30 equities/fixed income split. He believed the hedge funds would prove their worth after a full market cycle. Mr. Schmid said they were consistently at 25% in fixed income and they did not want more than that.

Mr. Schmid said page 7 of the report explained their asset allocation philosophy, which was geared toward lower volatility over a long-term time horizon. The portfolio was designed to mitigate the probability of large losses while meeting the actuarial return assumption.

Mr. Schott stated in the last five years, their return was not as good as other pension plans but they had beaten actuarial assumption, which was the intent. The standard deviation rank (one measure of risk) showed they were more conservative than 87% of pension portfolios. If the market turned around, they should be more protected than most funds were.

Chair Dew had asked Mr. Schmid to look at their policy index because they had not beaten it. He appreciated being risk averse, but not being close to their policy was concerning to him. Mr. Schott stated the asset allocation had been right but the managers had not beaten the marks. Mr. Schmid argued that the big difference was the alternatives piece and he believed that over a full cycle, they would beat the policy index.

Mr. Rudominer did not recall the Board ever memorializing a policy of shifting the alternative investment allocation focus from risk control to a more balanced strategy allowing for potential return enhancement. Based on their actions, this was true though. He was concerned they had moved this way because of EnTrust's poor performance, not because of a policy change. Mr. Schmid felt the move had been due to a combination of the two.

Mr. Rudominer recalled that they had discussed the possibility of lowering the actuarial rate of return and wondered why they would not alter the asset allocation if they did. Mr. Schmid stated lowering it by .25% would not warrant a change but lowering it by 1.5% would. He did not feel it would be prudent to add equity risk to the portfolio.

Mr. Kaufman requested a comparison of public funds for one year and a scorecard/compliance checklist for managers they could use for comparison. Mr. Schmid agreed to provide the one-year comparison

and explained that managers were expected to beat their benchmarks but the timeframe was left open-ended to prevent forcing them into making a decision they did not want to make. Mr. Schott agreed to provide copies of compliance checklists for the Board to review. Mr. Schmid informed Mr. Herbst that the policy index reflected the asset allocation policy and he agreed to provide a total plan attribution to compare allocation differential and manager performance.

Mr. Ingersoll said they wanted the most bang for their buck and felt that they should move more money into active management. He noted that 25% of the fees were paid to Lazard and Lazard had lost \$4 million last month. Mr. Schmid explained that since 2010, Lazard had added \$3.6 million compared to the benchmark.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt reminded everyone that photos would be taken at the Board's December meeting.

EXECUTIVE DIRECTOR'S REPORT:

Plan Membership

Mr. Wenguer reminded everyone of the member who had been injured in training, whom they had discussed last month. The Officers' attorney, Richard Sicking, General Counsel for the Florida Professional Firefighters, was present to address the Board. Mr. Sicking explained that State law trumped local law. He read from the State Statute that defined an officer as one "who is certified or required to be certified as a law enforcement officer..." and pointed out that the word "or" covered the officer, who had yet to be certified. Mr. Sicking listed other requirements for a law enforcement officer, which included passing the pre-employment physical. He stated if the officer passed the pre-employment physical, the heart lung bill was in effect from day one, as was the in line of duty disability. Finally, Mr. Sicking said the statute required a payroll contribution to the pension plan from day one.

Mr. Kaufman read more of the code provision and noted that someone still in the academy could not fulfill the additional requirements and the Division of Retirement would take the position that one who was never certified could not get creditable service in the pension fund as a member.

Mr. Ingersoll asked why the officer had paid into the plan if he was not a member. Chair Dew said they had made the decision a while ago to ensure accuracy.

Northern Trust - Revised Agreement

Ms. Wenguer reported she had contacted Northern Trust and looked at what other plans were paying for custodial services. Northern Trust had agreed to reduce the fee from 2 basis points to 1.6.

Mr. Rudominer wondered why they were paying a custodial fee on indexed funds. Mr. Schott said they may or may not pay less if the indexed funds were priced separately. He agreed to calculate the difference in fees.

Motion made by Mr. Rudominer, seconded by Mr. Bayne to approve the fee reduction. In a voice vote, motion passed unanimously.

Actuary Contract

Ms. Wenguer said Mr. Heinrichs had initially indicated he wanted to continue with the current fee structure, which included a 5% increase per year but had agreed to keep the fee at the current rate for the next three years. He also charged \$7,500 for the new state-required compliance. Mr. Kaufman advised the Board to pay hourly for the State-required compliance and see if it exceeded \$7,500.

Motion made by Mr. Bayne, seconded by Mr. Naugle, to approve the contract, maintaining the current rate and paying an hourly rate for the State-required compliance. In a voice vote, motion passed unanimously.

Disability Medical Professionals

Ms. Wenguer recalled that the Board had already discussed a member who had applied for disability and wished to visit doctors outside the tri-county area. She explained he was not currently at Maximum Medical Improvement because he had not been treated for his illness.

Chair Dew had been contacted by the member, who informed him that he could not travel distances, and he had problems taking medications for the travel phobia.

Chair Dew noted the Board had been pretty adamant about keeping everyone in the tri-county area but they had the ability to consider each case on its own.

Mr. Kaufman pointed out that the disability doctor would conclude the member had not reached Maximum Medical Improvement since he is not being treated and therefore, the Board could not make a determination about disability. He suggested the member be sent a letter informing him that if he refused treatment, his claim would not be considered. The member could go forward with his claim without treatment, but Mr. Kaufman was certain it would not be favorably evaluated.

Mr. Kaufman agreed to send the member a letter indicating he must be at Maximum Medical Improvement before being considered for disability. The member should enter into a course of treatment as set forth by Dr. Goldschmidt in his prior report.

Trustee Elections - Fire/Police Trustees Unopposed

Ms. Wenguer announced that Mr. Fortunato and Mr. Rudominer had been reelected without opposition.

7th Member Seat

Ms. Wenguer said they would vote at the next meeting. Mr. Ingersoll and Mr. Hole were running.

December Meeting Time Change

Ms. Wenguer stated the joint meeting with the City Commission was scheduled for noon on December 14, conflicting with the Board's meeting time. She recommended changing the meeting time. The Board agreed to meet at 10:30 a.m.

2017 Proposed Board Meeting Dates

Ms. Wenguer distributed a list of meeting dates for Board members to review.

The Board agreed to move the time of the June 14 meeting to 10:00 a.m.

Investment Consultant Contract

Ms. Wenguer explained the contract with CapTrust was year-to-year. She distributed an evaluation form for members to complete. Board members agreed to complete the evaluations and discuss it next month.

PENDING ITEMS:

New Business:

Mr. Hole referred to the information sheet that Ms. Wenguer had distributed and invited the Board's input for editing.

Mr. Hole said there had been an article in The Voice recently that included a funding policy he had created in 2011. Ms. Wenguer confirmed that they were pursuing a funding policy.

Ms. Wenguer informed the Board that they had received \$15 million from the City last month.

Ms. Wenguer stated Mr. Klausner had sent a trustee training handout that some boards required. If the Board wished they could institute training for new trustees. Mr. Rudominer suggested they pursue this in January, along with a funding policy.

Ms. Garcia reported the City had filed the in-service distribution voluntary correction form with the IRS. She introduced Ash Benzo, City Treasurer, to the Board.

Mr. Kaufman reported FRS had just adopted a new mortality table and Mr. Heinrichs may want to see it because Mr. Kaufman thought it would be more favorable for all pension funds in Florida.

Mr. Hole announced he had brought a binder back from the Division of Retirement seminar that Board members could review.

Mr. Herbst explained that the joint meeting on December 14 would be with all four of the trusts for which the City was responsible: The two pensions, the cemetery trust and the OPEB trust. They would discuss investment strategy and assumed rates of return for the pension plans. Mr. Herbst said the Commission would appreciate participation from everyone, including the investment consultants. Ms. Wenguer had already provided Mr. Herbst with information about the impact of changing the assumed rate of return.

Old Business:**Schedule A**

None

FOR YOUR INFORMATION:**City of Fort Lauderdale
Recapture Statement**2016 Employer Contribution
Recapture Summary/September, 2016**KCG**

There being no further business to come before the Board at this time, the meeting was adjourned at 2:40 p.m.

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

[Minutes prepared by J. Opperlee, Prototype, Inc.]

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