October 18, 2017

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, October 18, 2017, 12:30 P.M.

The Board voted to lower the assumed rate of return from 7.5% to 7.4% for fiscal year 2019.
The Board voted to: beginning in fiscal year 2020, the assumed rate of return will be reduced by a minimum of five basis points each year until it reached 7.0%.
The Board agreed to commit from $75 million to $100 million from their fixed income asset allocation for infrastructure investment.

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

<u>Also Present</u>
Alexandra Goyes, Deputy Director
Jazmin Elliott, Administrative Aide
Fred Nesbitt, Board Communication Director
Bob Simac
Jack Chew, Retirees Association
Linda Logan-Short, Deputy Director/CFO
Robert Klausner, Board Attorney
Kevin Schmid, CAPTRUST
Paul DeBold, Retirees Association
Jim Ingersoll, President, Retirees Association
Derek Joseph, Police Dept.
Brad Heinrichs, Foster & Foster
Jamie Opperlee, Recording Secretary, Prototype Inc.

ROLL CALL/CALL TO ORDER
Chair Dew called the meeting to order at 12:32 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: August 9, 2017
Motion made by Mr. Bayne, seconded by Mr. Hole, to approve the minutes of the August 9, 2017 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM THE PUBLIC
None.

NEW HIRES

Chair Dew recognized the new hires.

BENEFITS:	**POLICE DEPT.:**	**New Retiree: (Term of DROP)**	**James Hancock**
			John Rendo
	FIRE DEPT.:	**Lump Sum Request:**	**Victor Freire**
		Survivor Death:	**Marilyn Peterson**

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

BILLS:	**Vaughan Nelson**	$43,094.95
	Rhumbline	$15,001.00
	Northern Trust	$34,723.68
	Milliman	$5,000.00
	Klausner, Kaufman	$3,000.00
	Klausner, Kaufman	$3,000.00
	Holland & Knight	$100.00

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

FOSTER & FOSTER: Brad Heinrichs

Actuarial Assumed Rate of Return

Mr. Heinrichs had performed the projections the Board requested regarding lowering the assumed rate of return. He explained that the assumed rate of return should try to anticipate the return on investments until the last member of the plan died. Mr. Heinrichs stated the assumed rate of return was based on projecting into the future, but predicated on prior experience.

Mr. Heinrichs referred to a letter he had drafted dated 10/13/17 which described four scenarios for what could happen depending on if/how they adjusted the assumed rate of return:

- In scenario 1, they made no change to the current assumed rate of return, 7.5% - and the plan earned 7.5%.
- In scenario 2, they lowered the rate by 10 basis points in the first year and by 5 basis points each year thereafter until it reached 7.0%, and the plan earned exactly what they assumed.
- In scenario 3, they lowered the rate as in the second scenario but the plan earned 7.5%.

Mr. Heinrichs explained that while they assumed one thing, they were likely to earn something different. The assumptions were made to anticipate the City's funding requirements for 20 years. The scenarios described the possible impact of lowering the rate of return on future funding requirements.

Chair Dew stated even if they lowered the assumed rate of return, they would still strive to get a 7.5% return.

Mr. Heinrichs said he had assumed they would maintain stable Police and Fire workforces over time. He referred to the graph on page 3, which demonstrated the difference in funding requirements based on the first three scenarios. The first line, which represented scenario 1, showed a reduction in funding requirements with no new unfunded liability over the next 20 years. The scenario 2 and 3 lines showed a gradual increase in the first few years, which leveled off and then declined. Scenario 2 took longer to decline than scenario 3.

Mr. Heinrichs referred to another chart describing the unfunded liability based on the three scenarios and explained that under scenario 1, the unfunded liability would be paid off by 2030; under scenario 2, the unfunded liability stayed higher for longer; under scenario 3, the unfunded liability was larger until 2030 but later became a credit or surplus.

Mr. Heinrichs referred to Graph C - the Estimated Funded Ratio, and said under scenarios 1 and 3, in 2029, the funded ratios would be equal but after that, the funded ratios would be higher under scenario 3. Under scenario 2, the funded ratio increased more but equaled scenario 1 in 2036.

Mr. Heinrichs said Florida state law dictated that "if you have a surplus [in unfunded liability], you can't use that surplus to offset your normal cost; you must contribute at least the normal cost." The surplus in scenario 3, starting in 2029, would only continue to increase and would create very level and stable funding.

Mr. Heinrichs referred to Graph D, the market value of the fund, and noted that by 2036, they would have $150 million more in the fund under scenario 3 than scenario 1. This was because they put more cash into the fund as they lowered the assumed rate of return, which was the compounded over time.

Mr. Heinrichs stated in scenario 4, they could elect to lower the assumed rate of return only in those years when the return on the fund exceeded the assumed rate of return by using the extra proceeds to buy down the rate, instead of toward lowering the City's funding requirements. Mr. Heinrichs stated they could decide only to lower the assumption when they had the money to pay for it. He had created a chart showing the return they needed to pay for the reduction.

Chair Dew asked what would happen if they maintained a 7.5% assumed rate and they did not meet the assumption. Mr. Heinrichs explained this would result in a steady increase in funding requirements. Chair Dew said the time to lower the assumed rate was when they could afford it. Mr. Heinrichs said this was probably accurate but they wanted to use their best estimate of future experience. If their investment adviser warned that they probably would not continue to earn 7.5%, they should heed the advice and consider lowering the assumed rate of return.

Chair Dew said the Board could also decide to stop the stepped-down reduction scenario whenever they wished. He added that the goal was always the long-term stability of the plan.

Mr. Rudominer asked if anything was coming from the Society of Actuaries that would have an impact on assumption changes and therefore funding. Mr. Heinrichs replied that the Society was about to release a mortality table specific to the public sector and there would be a public safety version. He believed the mortality would be worse than the tables they were currently forced to use and funding requirements would go down.

Chair Dew wanted the Board to consider whether they wished to reduce the assumed rate of return in a gradual process and to determine which process to use.

Mr. Hole asked for Mr. Heinrichs' input on the funding policy. Mr. Heinrich said funding policies for plans in the State of Florida were not necessary. He agreed to create a formal letter with his input on Mr. Klausner's draft funding policy. Mr. Klausner wanted Mr. Heinrichs to provide a preface or an appendix explaining the rationale of the policy. Mr. Heinrichs said the funding policy was only memorializing what was already happening. It was not a statutory, actuarial or legal requirement. Mr. Heinrichs explained that investment advisors' time horizons only extended 10 to 15 years and actuarial time horizons were much longer. The biggest difference he saw was in the assumption of inflation. He said Mr. Schmid probably assumed inflation would be in the 2% range, while Mr. Heinrichs assumed it would be in the 3% range. Mr. Schmid said right now, they were in a period of low inflation and low interest rates but over a longer period of time, there was more likelihood for both of these to normalize.

Chair Dew felt it was obvious, because of their uncertainty, that they should lower the assumed rate of return. Mr. Heinrichs remarked that .5% would make a marked difference over 75 years. He felt both 7% and 7.5 were in the reasonable range.

Mr. Heinrichs agreed to provide something in write pertaining to the funding policy prior to the Board's next meeting.

Motion made by Mr. Rudominer, seconded by Mr. Naugle, to lower the assumed rate of return from 7.5% to 7%.

Mr. Klausner stated the City needed to know what its contribution would be for budgeting purposes.

Mr. Rudominer amended his motion to:
Motion made by Mr. Rudominer, seconded by Mr. Naugle, to reduce the assumed rate of return to 7.4% for funding year 2019.

Mr. Hole suggested being very specific about the increments and time periods.

In a roll call vote, the amended **motion** passed 6-1 with Mr. Hole opposed.

Motion made by Chair Dew, seconded by Mr. Hole, that beginning in fiscal year 2020, the assumed rate of return will be reduced by a minimum of five basis points each year until it reaches 7.0%. In a roll call vote, motion passed 7-0.

ATTORNEY'S REPORT
Mr. Klausner said they had published a memo on their website explaining what FRS did by lowering its own assumed rate of return.

Mr. Klausner reported Mr. Brutus's attorney had taken no action to advance the case.

Chair Dew announced he and Mr. Heinrichs would present the Board's decision to decrease the assumed rate of return on November 7 at the City Commission's conference meeting.

Mr. Klausner said Pier 66 had been so damaged in Hurricane Irma that they could not hold the March conference there. They had determined to hold the conference via a series of eight webinars and donate what they would have spent on the conference to disaster relief: the FOP Disaster Fund, the Community Foundation of the Virgin Islands and Puerto Rico.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS
Mr. Ingersoll hoped everyone had made it through the hurricane. He was pleased with the fund's returns and overall performance.

CAPTRUST: (under separate cover)
Monthly Investment Review Kevin Schmid
Mr. Schmid reported he would have the year-end report at the next meeting and he believed the return would surpass their 7.5% assumed rate.

Mr. Schmid confirmed they had received the accounting they requested at the last meeting from EnTrust Special Opportunities Fund III.

Chair Dew said Mark wanted to attend a meeting regarding Special Opportunities Fund IV and Chair Dew had explained the Board's concern about not receiving an accounting of the reinvestment from Special Opportunities Fund III. The Board agreed they did not need another presentation on EnTrust's Special Opportunities Fund IV.

Mr. Schmid noted that the Special Opportunities Fund III was finite and would return the investment. In the future and they would need to find a replacement for that investment.

Mr. Klausner recalled that EnTrust owed them money for some non-redeemable bonds and asked if the Special Opportunities Fund IV had the potential for the same type of exposure. Mr. Schmid stated it did, and explained that they were holding the bonds because they had terminated their exposure in EnTrust

Diversified. The Special Opportunity Funds had no liquidity feature; the money was locked up. Ms. Wenguer stated EnTrust had returned $10 million of $35 million but had reinvested it.

COMMUNICATION DIRECTOR'S REPORT:
Mr. Nesbitt had nothing to report.

EXECUTIVE DIRECTOR'S REPORT:

2017/2018 Budget

Ms. Wenguer had supplied a draft of the budget for the Board to review. She stated they had increased the travel budget to accommodate trustee training. Mr. Bayne advised they might wish to increase this line item even more. The Board agreed to increase it to $10,000. They also agreed to approve an increase in City printing costs to $1,000 and to adjust the retiree health benefits to $4,800.

Ms. Wenguer agreed to bring the revised version back in November for the Board's approval.

Motion made by Mr. Naugle, seconded by Mr. Rudominer to approve the budget as amended. In a voice vote, motion passed unanimously.

2018 Board Meeting Dates

Motion made by Mr. Hole, seconded by Mr. Rudominer, to approve the 2018 calendar. In a voice vote, motion passed unanimously.

Fixed Income Committee

Chair Dew said the subcommittee meeting had gone well. They had discussed funding sources, what type of funding they would use, and what type of infrastructure they would invest in. They had determined they had a funding range between $75 million and $100 million. The Board had consensus to commit from $75 million to $100 million from their fixed income asset allocation for infrastructure investment.

Chair Dew stated this would be a moneymaker and the subcommittee was considering different investment vehicles with differing returns, most of which were over 5%.

Fiduciary Liability Insurance

Ms. Wenguer said the policy cost $15,566 per year. Mr. Klausner said the policy coverage was good and this was a good insurance company.

Motion made by Mr. Rudominer, seconded by Mr. Hole to approve payment of the fiduciary liability insurance policy. In a voice vote, motion passed unanimously.

Milliman

Ms. Wenguer reported Milliman had alerted her that their fee would increase. After Board discussion, Ms. Wenguer agreed to speak to Milliman about a reduction.

Foster & Foster

Ms. Wenguer reported Foster & Foster had informed her of a fee increase: $750 in the first year and $300 per year going forward to cover additional reporting. Mr. Hole asked Mr. Klausner to determine if this increase pertained to all clients. Ms. Wenguer agreed to speak to Foster & Foster about a reduction.

Retirement Seminar

Ms. Wenguer reported the Retirement Seminar would be on December 6.

Investment Workshop

Ms. Wenguer asked to reschedule the workshop to December 14. Mr. Schmid said the investment managers would attend. The Board agreed to change the date to December 14.

Ms. Wenguer reported they had received $18,742 in 175 supplemental money, not as much as they had hoped for.

PENDING ITEMS:

New Business:

None

Old Business:

None

There being no further business to come before the Board at this time, the meeting was adjourned at 2:56 p.m.

FOR YOUR INFORMATION:

175 Supplemental Tax Funds	Confirmation
KCG Recapture Statement	Recapture Summary/August, 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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