# October, 2014

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, October 15, 2014, 12:30 p.m.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne, Trustee
Jeff Cameron, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Lynn Wenguer, Administrator
Steve Cypen, Cypen & Cypen, Board Attorney

Absent
Richard Fortunato, Secretary

Also Present
Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Linda Logan-Short, Deputy Director of Finance and CFO
Fred Nesbitt, Director of Media Relations
Kevin Schmid, CapTrust
Brad Heinrichs, Foster and Foster
Drew Ballard, Foster and Foster
Jim Ingersoll, Retirees' Association President
Rich Schulze, Retirees' Association
Dominic Bartot
Paul DeBold, Retirees' Association
Walt Courtney, Retirees' Association
W.R. Spodnick, Retirees' Association
Brian Kahley
Emilie Smith, Budget Manager
Jamie Opperlee, Recording Secretary, Prototype Inc.

Communications to the City Commission
The Board wished to inform the City Commission that:
They had terminated two investment managers.
They had commissioned an experience study.
They had early adopted GASB 67.

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.

MINUTES:
Regular Meeting: September 10, 2014

Motion made by Mr. Hole, seconded by Mr. Rudominer, to approve the minutes of the September 10, 2014 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM PUBLIC
None.

BENEFITS: POLICE DEPT.: New Retiree: Michael L. Lilly
(Term of DROP)

DROP Retiree: Jeffrey Jennings

New Beneficiary: Barbara Pullease

FIRE DEPT.: New Retiree: Steve M. Thomas
(Term of DROP)

DROP Retiree: David Beckwith
Jesse T. Carr
Edward S. Duncan
Rodney Peeler

New Beneficiary: Brenda Johns

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

BILLS:

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|---|---|
| Lee Munder | $55,765.13 |
| Boyd Watterson | $39,942.00 |
| Systematic | $20,027.46 |
| CapTrust | $21,250.00 |
| Rhumbline | $14,870.00 |
| Holland & Knight | $1,485.00 |
| Holland & Knight | $325.00 |
| Dr. Lupu | $2,500.00 |
| Total Orthopaedic | $2,250.00 |
| Dr. Diaz | $1,500.00 |
| Klausner, Kaufman | $1,075.00 |
| Marcum | $356.00 |

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

Ms. Wenguer stated $1,410 from Holland and Knight and the entire $1,075 Klausner, Kaufman bill would be sent to the City because these were charges related to the In-Service Distribution.

Mr. Hole asked who was working on the In-Service Distribution issue. Chair Dew replied that Mr. Cypen was working with Bob Friedman, Bob Klausner, and Bill Coleman, who was representing the City along with an expert Klausner was using.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:
Mr. Ingersoll asked if there was any provision when the COLA had sunset for people who were active and then became disabled. Mr. Cypen said this was an element of plan design many cities used to discourage people from going out on disability. Chair Dew said this was beyond the Board's scope and advised Mr. Ingersoll to take this issue to the City Commission.

CAPTRUST: Monthly Investment Review Kevin Schmid, Steve Scott

Manager Recap

Mr. Schmid said EnTrust and Fir Tree's type of investment vehicle bridged the gap between an open-ended hedge fund and a longer-life equity vehicle.

Mr. Schmid said Fir Tree and EnTrust were at the top of the list for alternative investment options. Grosvenor was similar to Entrust but was exclusively focused on credit, so if there was an investment horizon with "not much to do in credit" Grosvenor's hands would be tied. Taconic was similar to Fir Tree but was exclusively focused on European debt, specifically Spain. This lacked the diversification the Board was seeking.

Mr. Rudominer asked what happened if the trigger for a Fir Tree investment was never hit. Mr. Schmid explained that investments remained where they were until called by Fir Tree. The commitment for Fir Tree was two years; after that time, they could recommit for two years or get out. Mr. Rudominer pointed out that when the trigger hit, if the committed funds were not in cash, this would require rebalancing the portfolio. He wondered if a period when the market dropped was a good time to be rebalancing. Mr. Schmid said it depended on whether the vehicle to which the funds were transferred performed better than the vehicle from which the funds were taken. It was expected that an investment in dislocation would recover more sharply than the overall market. He stated they could keep the committed capital in the liquid alternatives portion of the asset allocation.

Mr. Schmid said EnTrust was also a capital call investment and had the same general parameters but did not have as clearly defined triggers as Fir Tree. EnTrust carried a 1.25% management fee plus the underlying fees of the investment vehicles. Fir Tree was offering their vehicle at .75 % and there were no additional fees. Both funds carried a 10% incentive fee but EnTrust did not charge the incentive fee until investors earned at least 7.5%; Fir Tree charged the incentive fee regardless of the earnings.

Chair Dew thought the Board had decided to hold a special meeting just for comparing new managers. He was concerned about reviewing just one per meeting and trying to compare them months later. He wanted the Board to discuss how they wished to proceed. Mr. Rudominer explained that this presentation was supposed to be more educational. The situation at PIMCO meant they may need to accelerate their decision. The Board had been reluctant to set a special meeting in Chair Dew's absence at the previous meeting.

Market Update

Mr. Schmid said there had recently been significant declines in small cap and international markets and the large cap domestic markets were catching up this week. The year's gains in the S&P 500 had been erased. The bond market continued to move against consensus expectations. There had been fear in the equity market that they had been fair to slightly overvalued and based on historically high profit margins, so this quarter's earning season would be very important to stemming the losses.

PIMCO Update

Mr. Schmid stated with Bill Gross' departure, they recommended termination of PIMCO. They were not concerned with direct investment impact, but by the fact that this was the second senior management departure in nine months. He said there was a perception that Mr. Gross' departure would affect PIMCO's ability to retain assets which would have an impact their ability to retain personnel.

Mr. Schmid distributed a presentation, a copy of which is included in these minutes for the public record. He reported CapTrust had created this search report for a new manager recommending three firms for consideration: The BlackRock Global Allocation Fund; The Invesco Balanced-Risk Allocation Fund and the GMO Benchmark-Free Allocation Fund. All of these funds were similar or lower in cost than PIMCO. They also provided exposure to a wide range of assets. Mr. Schmid recommended the Board hold a special meeting to interview these three managers.

Mr. Schmid informed the Board that they did not anticipate a significant market impact to the PIMCO All Asset Fund but they wanted to act quickly and prudently to replace it. Chair Dew asked if they should cash out of PIMCO now. Ms. Wenguer stated they currently had $26 million in cash. Mr. Schmid said they considered fixed income and cash together toward a 30% cash allocation and they were now higher than that. He did not recommend selling off PIMCO immediately, provided they could find a replacement within a few weeks. If they sold their entire investment in PIMCO, they would have 7.5% of the portfolio in cash.

Motion made by Mr. Hole, seconded by Mr. Rudominer, to terminate PIMCO immediately. In a voice vote, motion passed unanimously.

Mr. Schmid said they could leave the money in cash or split it with half staying in cash and half in Rhumbline.

The Board discussed possible dates for a special meeting to review new managers.

Motion made by Mr. Rudominer, seconded by Mr. Hole, to keep the funds taken out of PIMCO in cash temporarily. In a voice vote, motion passed unanimously.

Mr. Schmid recalled that after the last meeting, when Lee Munder representatives had been present, the Board had decided give Lee Munder additional time based on their track record and the fact that there had been no changes to the organization. Since then, a member of the small cap value team had departed, which changed their standing. Because of this, Mr. Schmid recommended terminating Lee Munder. Mr. Rudominer remarked there was a suitable alternative to Lee Munder while they waited to determine a replacement: an index fund. Mr. Schmid suggested Rhumbline mid-cap.

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to terminate Lee Munder immediately and move the funds to Rhumbline mid-cap. In a voice vote, motion passed unanimously.

The Board agreed to meet on 10/22 at 10 A.M. and 11/10 at 10 AM.

FIR TREE Grace Kim Dislocation Fund

Ms. Kim distributed a presentation, a copy of which is attached to these minutes for the public record. She described the firm's founder, Jeffrey Tannenbaum and the firm's evolution. She reported that today they managed approximately $13 billion in capital with 80 team members. The largest investor in the funds was the Fir Tree team, totaling approximately 10% of the total assets.
Mr. Rudominer asked what would happen to the firm if Mr. Tannenbaum left. Ms. Kim replied that since hiring Mr. Fredman, Mr. Tannenbaum had given more responsibility for managing the portfolio to other senior members of the team. Today, Mr. Tannenbaum focused more on training and development and new areas of opportunity.

Ms. Kim stated the minimum investment of $25 million had been waived for CapTrust clients. The fee was .75% on invested capital; there were no fees on committed capital on which they had not yet drawn. The incentive fee was 10%, and was only paid after investors received all capital back.

Ms. Wenguer asked the return on the fund and Ms. Kim said the Dislocation Funds had investor commitments but since they had yet to hit any of the market triggers, they had not called or invested any of the capital.

Ms. Kim informed Mr. Cypen that Fir Tree accepted full fiduciary responsibility. Mr. Cypen asked about UBTI issues and Mr. Kim stated they had several structures in place to manage UBTI and she would provide a schedule of what the numbers had been historically. Regarding leverage, Ms. Kim reported because of Mr. Tannenbaum's investment philosophy, they used very small amounts of leverage because this could force them to exit an investment that sold off dramatically even when they believed it was a sound, long-term investment.

Mr. Rudominer asked if this was a hedge fund and Ms. Kim explained that Mr. Tannenbaum considered Fir Tree to be a value-oriented investment firm. This vehicle was a closed-end fund; its structure was more like a private equity than a hedge fund.

Mr. Rudominer asked about benchmarks and Ms. Kim explained that they did not use benchmarks but when the sent out performance reports, they indicated how they compared to the S&P and treasuries. They felt that benchmarking ignored factors such as risk.

Mr. Cypen asked if they had any investments with Florida participants. Ms. Kim replied that Ash Williams, Executive Director of the Board of Florida State University, formerly worked as Head of Marketing for Fir Tree. Mr. Cypen remarked that there was a provision in Chapter 112.661 that indicated that you can't have an investment that can't be measured. Ms. Kim reiterated that their performance reports included comparisons to the S&P 500 and treasuries.

Mr. Cypen asked how Net Asset Value was determined. Ms. Kim stated they used a third party administrator, Citco and redundant internal policies to match their valuation to CItco's.

Ms. Kim explained to Mr. Rudominer that their investments depended upon opportunity; at different times, they were more weighted toward equities or credit. Mr. Cypen stated this was a hedge fund, which was a vehicle, not a strategy. It was an off-shore, unregulated vehicle for very sophisticated investors. He stated the change in fees for hedge funds over the last five years was evidence of what was happening with hedge funds and why they seemed to be falling by the wayside.

The Board took a brief break.

FOSTER & FOSTER Brad Heinrichs Plan Update

Mr. Heinrichs stated the annual report had been approved by the State. Ms. Wenguer said the City had made their contribution in full, less credits. Mr. Bayne asked if the City had claimed interest on the Police 185 VEBA money on which they had claimed credit and Ms. Wenguer said she was making a determination on this now.

Mr. Heinrichs stated the Governmental Accounting Standards Board [GASB] had released new standards: 67 for fiscal year 2014 and 68 for fiscal year 2015. He said cities usually liked to have their books tied down by the second month of the following calendar year but valuations often were not presented until then, creating an accounting problem. Mr. Heinrichs said for some clients, they were going to early adopt GASB 67, using the 2013 report to create the GASB 67 information, enabling them to provide it to the City prior to the close of the calendar year. He noted this would not cost the City any extra and there was no downside. Ms. Logan-Short agreed with this and felt the external auditor would appreciate it as well.

Motion made by Mr. Rudominer, seconded by Mr. Cameron, to early adopt GASB 67 and have Mr. Heinrichs create the report. In a voice vote, the motion passed unanimously.

Mr. Heinrichs had been working with the State to revise the Cumulative Gain/Loss position and he had recalculated it in July without the interest component. They had spoken with the State's actuaries, who agreed it was the Board's prerogative to do it this way. He had asked for something in writing, and the State had advised, "You'll get it in writing when we approve the next report." Mr. Heinrichs explained that they would explain the change in methodology in the 10/1/14 actuarial report and provide the correspondence.

Mr. Rudominer recalled this would result in an $18 million change and requested further explanation. Mr. Heinrich explained that the prior actuary had been attributing 7.5% interest to the balance. This meant they must have a $7.5 million gain in one year in order to break even. This did not concern the funding of the plan; it was a provision that stated they could not provide any special COLAs until they were in a cumulative gain position. He proposed changing the methodology used to calculate the Cumulative Gain/Loss to exclude interest on a balance.
Motion made by Mr. Bayne, seconded by Mt. Rudominer, to accept the recalculated Cumulative Gain/Loss position. In a voice vote, the motion passed unanimously.

Mr. Heinrich wished the Board to approve conducting an experience study this year, prior to the valuation so they could decide on the assumptions and methods used in the 2014 valuation. Chair Dew said he would like the study done to see where they could improve their valuations.

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to table discussion on an experience study. In a roll call vote, the motion failed 2-4 with only Mr. Bayne and Mr. Rudominer voting in favor.

Mr. Heinrichs recommended conducting the study and presenting it no later than 60 days prior to the valuation delivery. Ms. Wenguer informed the Board that the 2007-2011 experience study had been delivered in 2012. Mr. Heinrichs added that the study would include a review of their assumed rate of return. He informed Ms. Wenguer that some standards had changed: specifically, he wanted to change the plan's asset valuation method. Mr. Heinrichs stated alternatively, he could make recommendations regarding things that are glaring to him He estimated the study would cost approximately $15,000 and no more than $20,000.

Motion made by Mr. Hole, seconded by Mr. Cameron, to have Foster and Foster perform an experience study for the time period spanning the last five years at a minimum, to be delivered at the Board's January 10, 2015 meeting at a cost not to exceed $15,000. In a roll call vote, motion passed 4-2 with Mr. Bayne and Mr. Rudominer opposed.

Mr. Heinrich had reviewed the funding policy provided by Mr. Hole, and said this had become a hot topic across the country regarding pension funds. He felt it was not a bad idea, but pointed out that Florida was unique because it had many statutory mandates that would typically be part of a funding policy. Mr. Hole said this was not an issue anymore for the Board.

Mr. Heinrichs reported Senate Bill 534 was applicable for the 10/1/14 valuation and they would prepare it in conjunction with the valuation in March. He said they were required to show the GASB 67 information at an interest rate 2% lower than the rate they were currently using and using a mortality table that assumed mortality improved forever, and he thought this was with the intention of making their numbers look poor. Mr. Cypen suggested the Board authorize Mr. Heinrich to also calculate with an interest rate assumption that was 2% higher. Mt. Heinrich stated the cost would be $500 for the additional calculation.

Motion made by Mr. Rudominer, seconded by Mr. Hole, to authorize Mr. Heinrichs to replicate the new GASB schedule per Senate Bill 534 with a 5.5% assumed rate of return and again with a 9.5% rate of return. In a voice vote, the motion passed 5-1 with Mr. Naugle opposed.

Ms. Wenguer referred to page 35 of the agenda concerning the City's contribution. She explained that there had been no City contribution for the short year ending 9/30/13. The State had therefore rejected the annual report, so they had taken what was due on 9/30/14 and showed it in the 9/30/13 year, saying it had been paid late, bringing down the prepaid contribution. She remarked that this presented an ongoing problem, as they would need to use 2015 money as 2014 money so their annual report would never match their financial statement and they would always need to make an adjustment. Mr. Heinrich recommended leaving this the way it currently was because the State understood what they were doing. If they wanted to change the outcome, the City would be making two contributions in one fiscal year. Ms. Logan-Short had reviewed this and said this made it appear the City was missing a contribution. Mr. Cypen said the State would not allow this. Ms. Wenguer said she, Mr. Heinrichs and Ms. Logan-Short would work to develop a solution and report back to the Board.

COMMUNICATION DIRECTOR'S REPORT: Fred Nesbitt

Mr. Nesbitt asked if the Board wanted a new photo taken for the newsletter and they declined. Mr. Nesbitt agreed to prepare a statement regarding the investment decisions that Board had made.

EXECUTIVE DIRECTOR'S REPORT

Performance Monitor Discussion
Ms. Wenguer stated they would discuss this at their next meeting.

American Realty Fund Modifications
Ms. Wenguer reported American Realty had changed from a Delaware limited liability company to a Delaware limited partnership. Mr. Cypen stated the liability was the same.

Milliman Fee Increase

Ms. Wenguer said Milliman had sent a new contract with a 5% increase. Mr. Hole suggested they consider a multiple year contract that could save some money and Ms. Wenguer agreed to discuss this with Milliman and bring it to the Board's next meeting.

Proposed 2015 Meeting Dates Discussion
Ms. Wenguer stated these were included in the Board's packet.

Employee Handbook Revisions Draft
Ms. Wenguer referred to the change on page 39 regarding the addition of 3 personal days of leave and explained this had not been included when they downloaded the information for the employee benefit handbook but they were already granting this to employees.

In-Service Distributions Discussion
Chair Dew said originally, they planned to submit the IRS letter by the end of the year but this would not happen. Meetings were ongoing and Assistant City Manager Hawthorne would be providing a new timeline.

Retirement Seminar Recap
Ms. Wenguer thanked trustees who had attended and said the turnout had been fantastic. There had also been a lot of positive feedback.

Contributions from GERS Update
Ms. Logan-Short confirmed that the $80,000 contribution had been made by wire transfer.

PENDING ITEMS:
New Business:
Mr. Rudominer said the Fire Department Administration requested a disability candidate's request be heard as soon as possible.

Ms. Wenguer informed the Board that a previous disability applicant who had been denied a service-incurred disability wished to reapply to as non-service incurred. Mr. Cypen said this must go through the entire medical review process again.

Old Business: Schedule A
No discussion.

Communications to the City Commission
Discussed earlier.
The Board wished to inform the City Commission that:
They had terminated two investment managers.
They had commissioned an experience study.
They had early adopted GASB 67.

FOR YOUR INFORMATION:

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|---|---|
| ConvergEx | Recapture Summary/August, 2014 |
| Knight | Recapture Summary/August, 2014 |
| Knight | Recapture Summary/Sept., 2014 |

There being no further business to come before the Board at this time, the meeting was adjourned at 3:36 p.m.

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