

October, 2014 Special Meeting



POLICE AND FIREFIGHTERS' PENSION BOARD
SPECIAL BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, October 22, 2014, 10:00 a.m.

Present

Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne, Trustee
Jeff Cameron, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee (left at 12:44pm)
Lynn Wenguer, Administrator

Absent

Richard Fortunato, Secretary

Also Present

Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Fred Nesbitt, Director of Media Relations
Kevin Schmid, CapTrust
Paul DeBold, Retirees' Association
Mark Ahnrud, Invesco
Claire Potter, Invesco
Meghan Colarusso, BlackRock
Mitchell King, BlackRock
Greg Keenan, GMO
Lisa Edmondson, Recording Secretary, Prototype Inc.

Communications to the City Communication
None.

ROLL CALL/CALL TO ORDER

Chair Dew called the meeting to order at 10:10 a.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.

The Board determined that a total of 45 minutes would be allotted for each presentation.

EXECUTIVE DIRECTOR'S REPORT: (Moved up on agenda)

Ms. Wenguer outlined the terms of the new Milliman contract asking for the Board's approval.

Motion made by Mr. Rudominer, seconded by Mr. Bayne, to accept the new contract. In a voice vote, the motion passed unanimously (6-0).

COMMENTS FROM PUBLIC: None

TACTICAL ALLOCATION FUNDS:

Invesco Balanced Risk Allocation Fund

A binder was handed out to the Board and a presentation given by Mr. Mark Ahnrud and Ms. Claire Potter, which commenced with a history of Invesco and the makeup of their global asset allocation and investment team.

Highlights of the presentation included:

Investment strategies and asset allocations
 Long and short multi-asset classes and individual asset classes
 allocated 1/3rd each:
 Asset selection and commodity exposure design
 Valuation drives long-term stock performance
 Asset selection and bond exposure design
 Investment objectives
 Investment process: strategic and tactical
 Balanced risk allocation strategy
 Diversification framework and objectives
 Investment universe
 Asset selection and commodity exposure design
 Valuation driving long term stock performance
 Asset selection and bond exposure
 Sharpe ratios from strategic allocation
 Asset weight vs. risk weight
 Risk attribution
 Tactical signal generation
 Tactical asset allocation 2% risk target
 Historical targeted risk contribution
 Return contribution
 Tactical model signals
 Composite performance history
 Performance attribution
 Upside/downside capture
 Representative asset class performance returns
 Schedule of investment performance

Mr. Rudominer questioned fitting “this product into the alternative bucket” and was advised by Mr. Ahnrud that 90% of their institutional clients utilize this strategy as Invesco invests in futures, uses leverage, and has a low correlation behavior of their strategy relative to stocks or bonds or other traditional assets classes.

It was noted that Invesco has public pension plans as clients across the US, but may not have any in Florida.

The fee for the Collective Trust is 45 basis points.

Chair Dew expressed concern regarding the volatility of investing in commodities, especially with regard to the energy sector, asking what would be used to offset the significant losses that appear to be long term. He further inquired as to how far out, when doing futures, the purchases are made. Mr. Ahnrud stated that futures are looked at approximately six months out. Their strategy is designed to address commodities fluctuations.

[A short recess was taken from 10:59 to 11:04 a.m.]

Mr. Rudominer asked Mr. Schmid specifically what they are looking for in terms of performance expectations. Mr. Schmid explained that they are basically looking to replace the bulk of the Pimco assets which is a liquid portion of the alternatives allocation. A long term rate of return is expected, which beats or exceeds actuarial returns with a lower correlation relative to the other investments in the portfolio, and to do so at a lower fee. The goals are daily liquidity, full transparency, and a lower fee from the perspective of an alternative investment.

BlackRock Global Allocation Fund

A binder was handed out to the Board and a presentation given by Mr. Mitchell King and Ms. Meghan Colarusso.

Highlights of the presentation included:

- Firm culture and pool of resources
- Firm mission: competitive returns and 1/3rd less volatility
- Ability to invest across a full set of opportunities
- Reference benchmark
- Flexibility to search for undervalued investment opportunities
- The allocation portfolio management team
- Global investment capabilities
- Benefits of active management
- Performance in varied market conditions
- Record of growing client assets
- Investment process
- Risks and quantitative analyses
- Adaptation to changing market conditions
- Allocation performance
- Implementation in a diversified portfolio
- Improving risk adjusted return
- Improving downside protection
- Equity directional investment with historically less volatility
- Fund characteristics

In response to Mr. Rudominer's inquiry, Ms. Colarusso stated there were no restraints relative to the benchmark, with no risks taken by overinvesting in one security or in one area of the portfolio. Allocations are generally 60% stocks, 40% bonds.

Mr. Hole inquired regarding investment grades, liquidity, draw downs, and leverage and was advised there is daily liquidity as they are a mutual fund and also a collective trust fund neither of which uses leverage. With regard to draw downs, this fund has decreased less than global equities. In looking at the past six weeks, the fund has declined half as much as global equities resulting in a faster recovery time. Investments can be made anywhere across the credit quality spectrum, but they are limited to 35% fund in the low investment grade bonds.

Fees are 78 basis points for the mutual fund. For the collective trust, the management fee would be 68 basis points per year and then an additional 2 or 3 basis points in administration fees.

Mr. Schmid noted a collective trust would require more work from Mr. Cypen, but has the same liquidity and is cheaper. Immediate investment into the mutual fund is available, with a later shift into the commingled trust fund available.

Full fiduciary responsibility can be accepted in the collective trust. No problem was seen with being governed under and in full compliance with the laws of the State of Florida.

GMO Benchmark-Free Allocation III Fund

A binder was handed out to the Board and a presentation given by Mr. Greg Keenan.

Highlights of the presentation included:

- Firm overview
- Representative clients worldwide
- Investment capabilities
- Asset allocation investment team
- Asset allocation Credo
- 7-year asset class and global real return and forecasts
- Benchmark free allocation fund
- Investment overview and record

Mr. Rudominer inquired regarding the “absolute return” fund and was advised by Mr. Keenan that they have multiple strategies in terms of liquid alternatives. Others have benchmarks such as 65/35, but this is an institutional mutual fund which is daily priced and seeking absolute returns.

In response to Mr. Hole’s questioning, Mr. Keenan explained they had just started offering benchmark-free as a stand-alone about two and a half years ago, driven by their clients and consultants asking for this product. In the past, clients have invested in this fund along with a GMO hedge fund called the “Global Allocation Absolute Return.” Clients did not want the illiquidity associated with the hedge fund piece. GMO had not offered it until 2012.

Mr. Hole pointed out that Florida Statutes and pension guidelines require use of a benchmark, asking how that would be addressed, as well as whether GMO would agree to be a fiduciary in the contract. He further expressed concerns regarding leverage, non-investment grade, and discontinuing of 2015 fee reimbursement affecting performance.

Mr. Keenan responded that CPI is used as a benchmark. With regard to fees, total expense ratio is 86 basis points, which has been recently reduced; \$19 billion is managed in the fund. It is their expectation that the fee level will be consistent over time. With respect to non-investment grade, the primary period would be within the emerging debt component, which is around 3%. GMO will agree to be a fiduciary with respect to the assets managed for the fund. Money is not borrowed to enhance returns of the fund; however, derivatives have been utilized to gain exposure. GMO generally utilizes commodities under the alternative strategy.

[A short recess was taken from 12:17 to 12:21 p.m.]

Mr. Schmid then provided his overall views and impressions of each company with discussion continuing regarding:

- Significance of basis points
- Flexibility of a collective trust
- Fiduciary responsibilities
- Correlations
- Volatility measures
- Allocations
- Commodity exposure
- Peer review/ranking
- Balanced funds
- Standard deviations
- Risk control and exposure
- Bond performance

Mr. Schmid suggested having a full asset allocation review at the November regular Board meeting.

Discussion continued comparing different aspects of all three companies as opposed to Pimco.

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to hire Invesco. In a voice vote, the motion passed 4-1 (with Mr. Hole dissenting, and Mr. Naugle and Mr. Fortunato not in attendance).

Chair Dew expressed specific concerns regarding the volatility of Invesco investing in commodities. There were further comments regarding splitting the asset allocation; however, as the full board was not present, that discussion was deferred, and the decision was made to initially move all monies from Pimco into Invesco.

It was decided that three small cap firms would be brought in for a special meeting in the future. We will hear Alternative Funds on November 10th. Entrust will be invited in for a second presentation.

There being no further business to come before the Board at this time, the meeting was adjourned at 1:19 p.m.

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