September, 2011

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, SEPTEMBER 14, 2011, 12:30 P.M.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Richard Fortunato, Secretary
J. Scott Bayne, Trustee
Mark Burnam, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Administrator

Also Present
Amanda Cintron, Assistant Administrator
John Herbst, City Auditor
Marian O. Dollard, Finance Department
Fred Nesbitt, Director of Media Relations
Gregg Gurdak, President, Retirees' Association
Linda Soloman-Duffey, Retirees' Association
Walt Courtney, Retirees' Association
George Farrell, Jr., Retirees' Association
Fuzzy Larkin, Retirees' Association
Jack Chew, Retirees' Association
Rick Schulze, Retirees' Association
John Stuber, Retirees' Association
Frank Colleran, Retirees' Association
Bill Paton, Retirees' Association
Jim Ingersol, Retirees' Association
Jeffrey Riche, Fort Lauderdale Police Department
Richard Sicking, Attorney
Lt. Glenn Galt, Fort Lauderdale Police Department
Carmelo Colon, Jr., Fort Lauderdale Police Department
Drew Dinkmeyer, CapTrust
Kevin Schmid, CapTrust
Steve Schott, CapTrust
Brenda Alfaro, Hansberger Global
Ron Holt, Hansberger Global
Tom Franzese, Lazard International
Mark Little, Lazard International
Erik Schonberg, Manning & Napier
Jeff Donlon, Manning & Napier
Barbara Hartmann, Recording Secretary, Prototype, Inc.

Pursuant to authority of Ordinance C-00-34, Article II, this regular meeting of the Police & Firefighters' Pension Board convened at 12:30 P.M., Wednesday, September 14, 2011, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to the City Commission

The Board has tentatively selected two new international fund managers, Hansberger Global and Lazard International. Hansberger Global is a locally based firm.

The Board has extended and renegotiated its office lease with the assistance of Mr. Naugle. The renegotiated lease reflects significant savings.

Chair Dew called the meeting to order at 12:30 p.m. All present recited the Pledge of Allegiance and observed a moment of silence.

MINUTES: Regular Meeting

Motion made by Vice Chair Rudominer, seconded by Mr. Naugle, to waive the reading of the minutes of the August 10, 2011 meeting. In a voice vote, the motion passed unanimously.

BENEFITS:
Fire Department:
New Beneficiary: Eileen Zeidler

Police Department:
New Retiree (term of DROP): Robyn L. Christophers

DROP Retiree: Gregory A. Blazs

Refund Request: Jason Hersh
Scott L. Kingslien

Motion made by Vice Chair Rudominer, seconded by Mr. Naugle, for the payment of the benefits for Fire and Police. In a voice vote, the motion passed unanimously.

BILLS:

Agincourt:	$44,453.10
Prudential:	$40,465.64
Dr. Cornel J. Lupu:	$1,500.00

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

Informal Service-Connected Disability Hearing: Jeffrey Riche

Chair Dew clarified that while evidence is not typically presented at an informal hearing, he had requested a presentation be made which will involve an expert witness in training with firearms and defensive tactics.

Mr. Cypen explained that the Board must decide whether or not Mr. Riche's disability is total, permanent, and service-incurred, and whether or not he is wholly prevented from performing the services of a Police Officer or any other duties available in the Police Department.

The board heard Mr. Riche's case.

Mr. Cypen stated that three potential motions are in order: if the Board feels the evidence is insufficient or should be amended, they may move to defer or table the hearing. If they feel that all three criteria are present, they may move to grant the disability application. If they do not feel all three criteria are present, they may move to deny disability.

Motion made by Mr. Fortunato, seconded by Mr. Burnam, to grant the service-connected disability, finding that the disability was found to exist 91 days prior to today. In a roll call vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Walt Courtney, retiree, requested permission to distribute a document to the Board members. The document included a synopsis of the pension plan "as…it was, compared to what it is today." Mr. Courtney provided the

Board members with copies of the document, and read an additionally prepared statement. [A copy of the letter is on file with the minutes.] At its conclusion, he requested that a copy of the complete pension Ordinance be given to the retirees with no fee.

Mr. Courtney also read into the record a letter from retiree Ron Pritchard, who was not present at the meeting. In the letter, Mr. Pritchard requested that his letter be entered into the minutes of the meeting. [A copy of the letter is on file with the minutes.]

Mr. Burnam asked why retirees would have to pay $750 to receive a copy of the Ordinance. Chair Dew said there is a policy in place stating that when a request is made under the Request of Public Records Act, time and effort is included in the fee. Ms. Wenguer added that the document provided for this fee was the original Ordinance, as well as every other such Ordinance that has passed since 1976. Chair Dew concluded that waiving this fee was a Board decision.

Chair Dew asked if this must be made an Agenda Item. Mr. Cypen advised it may be added to the Agenda. He also suggested the addition of a policy stating in cases of Retirees' Association members, the fee would be subject to waiver.

Motion made by Vice Chair Rudominer, seconded by Mr. Naugle, to add to the Agenda for the waiver of the fees for the public records request for the Retirees' Association. In a voice vote, the motion passed unanimously.

Motion made by Mr. Burnam, seconded by Mr. Bayne, that all costs incurred with getting the Ordinance and subsequent changes be waived.

Ms. Wenguer asked if the change would be a one-time waiver of fees. Mr. Naugle said he was comfortable waiving the fee on a one-time basis, and if future issues arise regarding the fee, it could be placed on the Agenda again. Should multiple requests from the same individuals occur, the policy change could be revisited by the Board. Chair Dew clarified that the motion is to waive the fee a single time; a policy change would require additional discussion in the future.

In a voice vote, the motion passed unanimously.

Chair Dew stated that the decision to which the letters referred, which states that a previous motion or denial was made by the Board, refers to Me Too 1: when this was in process in 2001, the calculations were approved as presented to the Board. Chair Dew stated that the issue discussed in the letters, originally raised by Mr. Colleran, was relevant during the time of the Me Too 1 discussions rather than during Me Too 2, as Me Too 2 specifically dealt with another decision.

Ms. Wenguer explained that Me Too 1 included benefit changes through the year 2000. In 2002, the employees negotiated another benefit, which was Me Too 2. An additional Me Too discussion occurred in 2006 and addressed a small group of individuals who did not retire although they were eligible to do so. Mr. Cypen agreed that this was an accurate representation of events, and that the Me Too 2 and Me Too II discussions did not involve benefits but specifically addressed different groups of individuals, in this case retirees and eligible retirees.

Chair Dew commented that while he appreciated the concerns raised by the two letters, he had not perceived Mr. Cypen's comments as rude, but as factual; had he seen any comments as inappropriate, he asserted that he would have addressed them. He added that while the Board respected the opinions of individuals, they must follow legal advice. Should they fail to do so, they would be subject to failure to perform their fiduciary responsibility, unless malfeasance or other gross misconduct occurred.

He continued that another concern raised in the letters was for the overall integrity of the Board. Chair Dew said he felt the Board has strong integrity, and has made and will continue to make difficult decisions. They have also implemented many changes in recent years, and would continue to support and build upon the work those previous Boards had accomplished. He concluded that all the Board members come to meetings with a strong sense of commitment.

Mr. Colleran asked if the parameters used to calculate Me Too were used to calculate Me Too II, and whether or not this was the reason the benefit stopped at 100%. Ms. Wenguer confirmed this, noting that Me Too was a benefit increase, while Me Too II specifically related to a group of individuals who had been eligible to retire. Mr. Colleran said he understood the discussion to mean no vote was taken with respect to Me Too II, as it used the parameters of the Me Too decision for a different group of people. Ms. Wenguer confirmed this as well.

Chair Dew advised that a pre-retirement seminar will be held on September 22 and 23 at City Hall. He invited current retirees to attend the seminar as well.

Ms. Wenguer commented that the Ordinance and its updates were scanned onto CDs for retirees. Chair Dew recalled that one letter had stated the Ordinance information was not complete, and asked that this be double-checked, as he had felt all information was included.

CAPTRUST: Kevin Schmid, Steve Schott, Drew Dinkmeyer

Mr. Schott introduced Drew Dinkmeyer, who is an international analyst based at CapTrust's Miami office.

Mr. Dinkmeyer advised that all managers presenting before the Board today are on CapTrust's recommended list; one is a local candidate, and the other two have a strong presence in Florida. Mr. Schott added that the three presenting managers would complement the existing managers in the total portfolio.

Hansberger Global: Brenda Alfaro, Ron Holt

Brenda Alfaro, representing Hansberger Global, stated that the firm was founded in 1994 and is 100% dedicated to the international market. Most of their business is with institutional investors. Their headquarters are in Fort Lauderdale, with offices are located throughout the world. Hansberger manages $9.8 billion in assets. Ms. Alfaro explained that the core product would be presented to the Board today.

Ms. Alfaro referred the members to Hansberger's client list, noting that they have a very broad range of clients, including corporate and public funds. They are presently focused on building local relationships, including General Employees from Fort Lauderdale and Hollywood. She advised that the approach to client service is one of the firm's best features, as they offer boutique service to their clients despite the size of the firm.

Ron Holt, also representing Hansberger Global, referred the Board to p.4 of their material. The firm's core philosophy is to look for companies that represent the best investment opportunity at any given time without looking at nations or sectors. In building a portfolio, Hansberger maintains a consistent 50% allocation of value stocks and 50% of growth stocks, and re-balances these allocations back to 50% at least twice annually. Risk is controlled through regional allocations. Hansberger will typically be within 5% of their benchmark allocation, so there will not be great changes at the broad regional or sector level.

The process for stock selection first investigates historical growth, financial strength, and valuation, particularly in companies that appear to be undervalued when compared to their competitors. Analysts then meet with representatives of these companies and discuss strategy, revenue potential, and cost basis. The growth and value teams then go through due diligence and discuss the investment decisions. If the team ultimately agrees on the company, it is then eligible for purchase through the value or growth sleeve of the portfolio.

Mr. Holt asserted that Hansberger's portfolios are well-diversified, holding 120 to 140 positions. They seek to remain fully invested, do not hedge their portfolios, and discuss how to mitigate currency exposure with clients. There may be countries to which the portfolio has under- or overexposure within their regions, as risk control is done at the broader level.

Chair Dew noted that Hansberger invests roughly 26% in emerging markets. Thus far in 2011 they are slightly below their index, as these stocks may underperform in a volatile market. In addition, Hansberger pays less for companies in emerging markets as compared to Europe or Japan, and these may become significant contributors to overall performance.

Mr. Holt concluded that Hansberger offers a high-quality large-cap portfolio with higher earnings growth rates than the index. He stated that the commitment to emerging markets helps differentiate the firm from others.

Chair Dew asked if Hansberger was set up similarly to mutual funds. Mr. Holt said the collective investment trust is a commingled product: it is a single fund populated from the value and growth sleeves, and is managed as a single fund.

Mr. Burnam asked how often the growth team will get rid of a company that has underlying value. Mr. Holt noted that this has happened at times, and is largely a function of the cyclical nature of the business rather than a structural element.

Mr. Burnam commented that he had prior experience with Hansberger Global, and confirmed their commitment to emerging markets. He added that while the firm had been relatively new at the time, their team was experienced.

Vice Chair Rudominer requested clarification that recent underperformance was related to the firm's higher allocation in emerging markets. Mr. Holt agreed this had been a headwind for the company, particularly in atypical years such as 2008. He noted that in most other negative markets, their product outperformed the index, noting the performance in 2009.

Mr. Hole noted references to specific companies, including Indigo Capital Management, and asked what Hansberger's relationship was to these companies. Mr. Holt said the growth team was lifted out of Indigo in the late 1990s, and Hansberger's parent company, Natixis Global Asset Management, owns multiple investment managers. They are primarily present to help the firm in matters of corporate structure or compliance, but are not involved in the investment process. The board is controlled by Hansberger. While the entity that owns Hansberger is not public, the entity that owns the Asset Management Group is ultimately a publicly traded company.

Chair Dew observed that the global market is volatile at present due to recent events in Europe and Africa, and there is not a way to determine when these markets will settle. He asked if the strategy would be to wait for the markets to settle or to adjust for the volatility. Mr. Holt advised that he did not feel the current level of volatility was sustainable. He noted that when the current period of events is settled, Hansberger will probably pull back on its exposure to emerging markets, although they were not likely to remove themselves from these markets altogether.

Chair Dew noted that Hansberger's fees are 75 basis points, and asked if this was negotiable. Mr. Holt said the fee is part of a commingled trust and would not be negotiable for this reason. He noted that the fee is competitive, as it includes custodial costs and the management fee; there would be no additional fees on top of this.

The Board thanked Ms. Alfaro and Mr. Holt for their presentation.

Lazard International: Tom Franzese, Mark Little

Tom Franzese, representing Lazard International, introduced Mark Little, lead portfolio manager in international strategy. Mr. Franzese stated they are a global firm with offices in 10 different countries. Lazard manages $145 billion in assets, and their analysts are based in offices in different countries so they acquire local knowledge.

Mr. Franzese noted that the assets under management are multi-client and multi-product, including public funds, which represent roughly 21% of their assets. International equities represent 10%, including international strategic; 73% of Lazard's assets are global. He referred the Board to Lazard's client list, which shows some of the public funds managed around the country. Other Florida public funds are managed as well, including FPPTA, which is a longtime memeber.

Mr. Little advised that he has been lead portfolio manager in international strategies since 2003. He described his investment team, which is experienced in both large- and small-cap products. Each member is considered a specialist in a sector, region, or asset class. He emphasized the importance of emerging markets to the firm's strategies.

Mr. Franzese described the firm's philosophy as selecting stocks from the bottom up and investigating relative value and profitability to determine if a company is worth the profits they are producing. Most attribution of performance comes from stock selection. Mr. Little described the team's process when a company is considered for selection. Team members visit the offices of companies they are considering, develop a thesis, construct a financial model, and test all the assumptions, examining valuation in different ways. If a stock meets these and other stringent criteria, Lazard will then purchase it.

Mr. Franzese advised that Lazard has three levels of risk monitoring: a portfolio perspective, an oversight committee, and a risk management team that meets monthly. Risk in each sector is monitored and discussed to ensure that the firm is aware of the risks it is taking. He referred the Board to p.19 of their materials, noting that in 2002, which was a very negative environment, Lazard outperformed the benchmark by nearly 1000 basis points. In every month since 2004, over a three-year rolling period, Lazard has outperformed the index 100% of the time.

Mr. Little advised that any stock the firm purchases falls into one of three categories:
Compounding stocks: businesses with good returns, which can reinvest the money they make to a compounding effect over time;
Restructuring stocks: the firm is not purchasing today's profits, but the profits the business will make in two to three years' time;
Mispriced stocks: assets and cash flows that are currently undervalued by the market.

He continued that the market cap for companies is flexible, as Lazard purchases wherever they can find the best valuation of returns, whether it is small, mid, or large cap. Roughly 14%-15% of stocks come from emerging markets.

Mr. Franzese concluded that Lazard's differentiating insight is very important to them, reiterating that their portfolios are created by stock selection rather than simply allocating assets to a particular market. He characterized this as local knowledge with global leverage.

Chair Dew asked if Lazard would be a mutual account or a separate account. Mr. Schmid recalled that at present, all the plan's international investments are in funds, and they do not pay for a global custody platform. However, the international managers presenting today have the capability to use separate accounts if the Board prefers. Chair Dew concluded that they would want to stay with mutual accounts, and asked if this would mean a fee of 75 basis points plus 15 basis points.

Mr. Franzese said if Lazard manages the account separately, the fee would be negotiable. He explained that 75 plus 15 basis points was the standard fee rather than a minimum. The minimum investment required for separate management is between $5-$10 million. He noted, however, that Lazard cannot negotiate the fee on the mutual funds side, as they are required by the SEC to treat every shareholder the same.

Mr. Cypen requested clarification of other expenses. Mr. Franzese said these are custodial and legal expenses for the fund, and concluded that the total expense ratio is 90 basis points. Other expenses are not negotiable, although the total fees begin to decline once the assets increase. He noted that while the exposure to emerging markets might be considered expensive, the expertise offered on this side would be worthwhile. In addition, separate emerging market registration can be a problem.

Mr. Cypen asked what the criteria would be for reducing the 15 basis points for expenses, and how low it might go. Mr. Franzese said this could not be estimated. While the 15 basis points could increase if the fund declined, this is not an expectation. He stated it is a capacity-constrained strategy, as the fund can only manage a certain amount in assets.

The Board thanked Mr. Franzese and Mr. Little for their presentation.

Manning & Napier: Erik Schonberg, Jeff Donlon

Erik Schonberg, Vice President of Manning & Napier, introduced Jeff Donlon, member of the firm's senior research group.

Mr. Schonberg stated that the firm was founded on 1970 during a challenging period for investors; because they started during a difficult environment, they have developed an approach that finds opportunities even when the market as a whole is performing poorly. The firm manages over $44 billion in assets, with $14 billion of this in non-U.S. equities. Clients in Florida include the cities of Lakeland and Orlando.

He defined their strategy as all cap and core: all cap means they will not limit the size of the companies their analysts look into, and core means they take a flexible approach to identify opportunities in the market. Opportunities are identified by the way the firm looks at growth companies, the way they view cyclical companies driven by supply and demand, and a value definition. All three strategies must be used by analysts, and a single global research team is used for all their equity decisions.

Mr. Schonberg explained that the global strategies group is charged with performing in-depth research on every country Manning & Napier considers for investment. The quantitative strategies group looks at industry valuations and the strata of the market, including large, mid, and small cap. A final group tracks long-term trends in the marketplace that may cross several different industry groups.

He described the firm’s investment process, noting that they are not limited by a company’s size, location, or any definition of its growth or value: instead, they look at a company’s industries across the market, the nature of its business, and its stability and maturity. Drivers of growth and earnings in the future are also considered. Manning & Napier does not focus on relative valuations, but instead determines a company’s fair value in the marketplace. They purchase company stocks at a discount of at least 20% to create a margin of safety.

Mr. Donlon defined the three strategies used to identify opportunities:
Strategic profile: this strategy is designed to look at companies with strong sector growth opportunities. Value is added because the firm does not own these companies all the time.
Hurdle rate: this strategy applies to inherently cyclical businesses. Sources of supply and demand are the primary determinants of return on invested capital.
Deep value: this strategy looks for companies trading at a significant discount to their estimated fair value. This often means companies trading at 50% to 40% of this value.

Mr. Donlon advised that these definitions have been in place since the firm’s inception. Every stock selection in the portfolio must fit one of these strategies, which serve as frameworks to keep the firm out of some stocks as well as keeping them in the right ones. There is no predetermined mix of these strategies: they are tools used interchangeably by analysts.

The investment process involves input from the firm’s various research groups. They look for opportunities that fit the strategies and meet the absolute valuation, and submit written recommendations to the senior research groups based on these. Recommendations are peer-reviewed before they are submitted to the senior research group, which shows a peer is willing to take an economic stake in the performance of a stock. Mr. Donlon stated this is a unique aspect of Manning & Napier’s process. Finally, the senior research group scores the stock on strength of strategy fit and strength of the valuation discipline associated with that strategy fit. They then reject or accept the stock or add it to a “fire drill list,” which means it is a strong strategy fit but does not meet the valuation criteria.

Mr. Schonberg added that when a stock is peer-reviewed, the analyst and the peer share in the compensation from that stock. On a rolling basis, the gains related to that stock are evaluated and a bonus applied to them. This provides most of the firm’s compensation; however, the bonus rate also applies to the losses. This process serves to align the incentives of the analyst with the objective of the client.

He concluded that the firm’s returns are divided according to market environment. This allows them to add consistent value for their clients. If the market is in a cycle that creates below-average or negative returns, the firm has been able to add significant value during these periods. Mr. Schonberg noted that in 2008-09, Manning & Napier’s cumulative return has been 123% versus the benchmark.

Chair Dew asked for year-to-date figures. Mr. Schonberg said the firm is even with the benchmark, or down 14%, thus far in 2011. He explained that there is a greater concern for solvency at present rather than looking at a company’s fundamentals.

Chair Dew requested clarification of fees. Mr. Schonberg advised that the overseas fund, which is the institutional mutual fund, has a fee of 76 basis points, all-inclusive. The holdings in the overseas fund are identical to the holdings in the core non-U.S. equity composite.

He added that emerging market exposure is just under 11% versus a benchmark of 23%; this is due to inflationary pressures in the emerging world, which bring down growth expectations.

The Board thanked Mr. Schonberg and Mr. Donlon for their presentation.

Mr. Schmid distributed a copy of Northern Trust's proposal for global custody for purposes of fee comparison. He advised that Hansberger had the advantage of being a local firm; while they had a difficult year in 2008, this is due to their weighting in emerging markets, which creates additional volatility. Their focus will be primarily in high-quality large cap companies in both domestic and emerging markets, while the other two managers will offer more in the mid and small cap markets. Their diversification, however, is still greater than that of both Artio and Thornburg.

Lazard is the largest firm, can bring the most resources to bear, and has the most standard performance profile. They also have the highest fee at 90 basis points. Manning & Napier offer the most unique investment process due to their compensation structure. Mr. Dinkmeyer said these two firms have been on CapTrust's recommended list for more than three years. Hansberger is under consideration for addition to this list.

Mr. Schmid noted that all three firms' fees are negotiable from a separate accounts standpoint. He recommended making a decision on the managers before negotiating further on fees. Mr. Dinkmeyer said the weights will fluctuate among the different managers, although due to the restrictions on Hansberger's investment process with respect to the benchmark, their performance will be closer to the benchmark. Lazard and Manning & Napier offer slightly more active management.

Chair Dew noted that Lazard had seemed to focus more on their risk managers than the other two firms, which was compelling in a volatile market. He said there is the possibility that the plan may see a large influx of money, which would mean greater consideration of risk factors. He noted that Hansberger had not included August 2011 figures, although the other two firms had provided information that they had outperformed the benchmark.

Mr. Fortunato asked if CapTrust would recommend that the Board select a single manager or diversify through bonds or small cap growth. Mr. Schott said because the money would be in a fund, it is easier to divide it. Mr. Schmid said if the influx of money occurred, some managers on the recommended list could be considered as a potential third international manager.

Chair Dew said his concern would be with fees, as the fund could reach a point at which it is spending more money on fees than it is bringing in on a relative basis. Mr. Schmid said there is no real economy to scale regarding fees, as they are merely another line item.

The CapTrust representatives discussed the three firms' fees, which were 75 basis points for Hansberger, 90 for Lazard, and 76 for Manning & Napier. Mr. Schmid advised that Lazard's 15 basis points for administrative costs were simply broken out from their total rather than included. As funds grow, the ancillary fees come down as a percentage of assets.

Mr. Bayne requested clarification of Manning & Napier's bonus system, expressing concern that it could lead them to take greater risks during a downturn. Mr. Dinkmeyer said they have not witnessed this over time with Manning & Napier, and added that their retention and performance rates for analysts are very strong. Taking too much risk could have negative results. The compensation structure focuses analysts on areas that offer absolute return, as they are paid by relative performance to the benchmark. The peer review process also limits risk, as the peer's compensation is linked to performance as well.

Mr. Schott said he liked Lazard as a potential single manager; if the Board opted for a dual manager, he felt Lazard and Hansberger were complementary to one another. Mr. Schmid said he was comfortable with this analysis, noting that Lazard was down the least of the three managers in the 2008-09 period. Historically, the existing manager, Thornburg, has similar downside protection characteristics to Lazard and has performed slightly better in upward markets.

Vice Chair Rudominer stated his preference for the dual manager proposal.

Mr. Bayne commented that the Board had previously discussed not chasing managers on returns, and noted that they might get a cheaper rate on a down portfolio. Mr. Naugle suggested that Hansberger might be used if the influx of funds occurs. Chair Dew advised that they might select Lazard as a single manager and remain open to the possibility of adding a second manager if there is more money.

Ms. Wenguer reported that she had been privy to a call regarding the POB and the City's plans for this money. Part of the discussion was that this year's contribution would be $15 million, which would arrive in roughly one month; there would then be pre-payment on the 2011-12 contribution. This would provide funding early in the year.

The Board members discussed whether to select one or two managers, with Mr. Hole and Chair Dew expressing a preference for one manager and Mr. Burnam and Mr. Naugle stating a preference for two managers. The members discussed how the managers would be balanced with the existing manager, Thornburg. Mr. Bayne asked what the CapTrust team might consider an ideal split of the international mandate. Mr. Schmid said a 40-30-30 division might be better than three equal thirds.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, to replace Artio with Lazard and Hansberger, subject to agreements being negotiated. In a voice vote, the motion passed 6-1 (Chair Dew dissenting).

Mr. Cypen observed that the negotiations with new managers could take some time. Mr. Schott said if the CapTrust team finds a way to lessen the fees by using a separate fund, they would do so; however, this would be highly unlikely. They would report on their progress at the next meeting.

CAPTRUST
Monthly Progress Report: Kevin Schmid, Steve Schott, Drew Dinkmeyer

Mr. Schmid stated there were few changes from the previous month. With respect to alternative managers, partial funds were moved from K2 into Pimco, which was positive, as K2 was down in August due to its exposure to equity markets. Pimco's All Asset Fund performed significantly better during this time. One long-term target is moving another 5% from equities into alternatives. He advised that for the remainder of the year they would continue to discuss potential alternative investments.

Chair Dew reported that he had been asked to attend the City Commission meeting scheduled for Tuesday, September 20, regarding the pension obligation bond. It had also been requested that he ask the CapTrust representatives to attend as well.

He added that prior to the previous City Commission meeting, Commissioner Rodstrom had asked him for information that he had been unable to provide before noon; at the meeting, the Commissioner had publicly stated Chair Dew did not respond to her request for this information. He wished to clarify this, as well as comments regarding the Board's fiduciary practices. To this end, he had written a letter to the Commission, including the emails exchanged between himself and Commissioner Rodstrom. The letter and attachments were included in the Board members' information packet.

Vice Chair Rudominer suggested that should an influx of money come into the plan, the Board could consider owning its own real estate. Mr. Schmid cautioned that there is existing real estate exposure in the current plan, and purchasing a property would create a concentration of risk in the portfolio. Mr. Schott added that should problems arise, purchasing a building might not be perceived as making a prudent investment. Mr. Cypen added that there would be additional expenses, such as insurance.

Mr. Schott said CapTrust had increased the plan's real estate investment from 6% to 10%; they would not advise making another investment of this nature during the early stages of economic recovery, but would instead recommend putting this allocation to work over time when American Realty could put the rest of the capital call in that sector to work. He advised there were other ways to diversify this allocation.

Chair Dew noted that NorthPointe still had $298 of the plan's money. Mr. Schott said this was a residual dividend and they would pursue this issue.

COMMUNICATION DIRECTOR'S REPORT: Fred Nesbitt

Mr. Nesbitt said during the City Commission's discussion of pension obligation bonds, the Commission had stated its intention to await the actuarial report of September 30, 2011 to determine the unfunded liability. The plan would be to pay off 75% of this liability. There was a possibility that bonds could be issued in the first quarter of 2012. There was also a focus on whether or not this would be considered a risky adventure. He did not know with what revenue source the bonds would be backed.

ADMINISTRATOR'S REPORT:

Ms. Wenguer said an audit would need to be done before the actuarial report previously discussed. It was not certain that the bond could be issued within the first quarter, as this information would go to the City Commission no earlier than January 2012.

She noted that although the budget was presented the previous month, some minor changes had occurred since that time. Chair Dew said the current draft could be accepted as a tentative budget for fiscal 2011-12, and asked that the budget appear on the following month's Agenda as well, as it would change further due to the terms of the renegotiated lease.

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, to accept the operating budget. In a voice vote, the motion passed unanimously.

DROP Interest Calculation

Ms. Wenguer said the plan has been administered by giving members the prior year's return until the current year's return is determined. They are trying to go to a quarterly investment return in order to eliminate this confusion; she advised this made more sense, as most plans issue statements and give returns quarterly rather than adjusting them back by one year. This revision has been made and sent to the unions, which are working with the City on a potential Memorandum of Understanding (MOU).

Chair Dew said when budgetary issues are concluded, he would present the prospective MOU to the new City Manager. He did not feel the MOU itself would need to change. He believed the new City Manager was aware of the issues involved and would recognize the opportunity to stabilize the fund and make money.

Motion made by Mr. Fortunato, seconded by Mr. Hole, to accept the amended DROP distribution for the policy and the form.

Vice Chair Rudominer expressed concern that the change under discussion was not the true intent of the Ordinance as written. It was noted that this was the reason the unions' approval and the MOU would be required. Ms. Wenguer said the Board was approving only the forms at present and would discuss the MOU further at a later time.

Mr. Bayne asked how they could approve something that still had to be approved through an Ordinance. Ms. Wenguer said the Board sets up the administration of the policy. Mr. Bayne said changing the policy now would be out of compliance with the Ordinance. Chair Dew said it would be presented to the City Manager contingent upon the approval of the MOU, which would change the interpretation of the Ordinance.

Chair Dew asked Mr. Fortunato to restate his motion with mention of the MOU.

Motion made by Mr. Fortunato seconded by Mr. Hole for accepting and implementing the form and policy, contingent upon adoption of the MOU by the unions and the City, or an Ordinance change. In a voice vote, the motion passed 6-1 (Vice Chair Rudominer dissenting).

Pension Office Lease

Mr. Naugle said if the proposed lease he presented was not acceptable to the Board, he would recommend they select a real estate broker to represent the Board in looking at available spaces in the City. A committee could be appointed to consider proposals. He cited the terms proposed in the lease, which would be $22 per sq. ft. for 17 months, with 3% increase annually. He felt this was the best renegotiation possible of the existing lease.

Regarding the idea of the Board purchasing its own property, he advised that investments in real estate through American Realty are diversified throughout the country, by region as well as into office, retail, industrial, or residential uses. If the Board owned a single building in the City for its own use, this could be seen as taking on additional risk.

Vice Chair Rudominer said if they extended the lease they were not precluded from purchasing other real estate. Mr. Cypen pointed out that the market rent would also be subject to scrutiny, and advised that they should also be aware of the costs associated with testing and cleaning Superfund sites if property was purchased. There would also be additional costs associated with retaining a property management company.

Motion made by Vice Chair Rudominer, seconded by Mr. Burnam, to approve and authorize the Chair to execute and deliver the lease. In a voice vote, the motion passed 6-1 (Mr. Bayne dissenting).

Pension Software RFP

Ms. Wenguer said one vendor has already presented, and three more vendors are scheduled to make presentations regarding their bids for the RFP. She would report further on these at the next month's meeting.

PENDING ITEMS:

New Business

Ms. Wenguer said the 2011 summary plan description for 2011 was distributed to all active members.

Surveys have been sent out and results are being returned and recorded. Retirees had a high return rate, although fewer active members had responded.

Chair Dew said several positive comments have been received regarding SPDs.

The retirement planning workshop will be held on Thursday and Friday, September 22 and 23, 2011.

Although the City Commission had been advised that the Board would like Mr. Burnam reappointed for the next term, he will term out as of December 31, 2011. A new Trustee will be appointed.

The Board determined that they would communicate the selection of the two new international managers to the City Commission, as well as the extension and renegotiation of their lease with significant savings.

Old Business

Mr. Hole said the Board was coming up on insurance renewal. Ms. Wenguer said this has been submitted to AON and is in process. Ms. Cintron monitors insurance quarterly, as different policies expire at different times.

There being no further business to come before the Board at this time, the meeting was adjourned at 4:25 p.m.

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