

**April, 2012**

POLICE AND FIREFIGHTERS' PENSION BOARD  
REGULAR BOARD MEETING  
WEDNESDAY, APRIL 4, 2012, 12:30 P.M.

Present

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

Also Present

Amanda Cintron, Assistant Administrator  
Laurie DeZayas, Pension Secretary  
Kevin Schmid, CapTrust  
Stephen Schott, CapTrust  
Captain Rick Maglione, Police Department  
Dr. Cornel Lupu [by phone]  
Amanda Lebofsky, Recording Secretary, Prototype, Inc.  
John Stuber, President, Retirees' Association  
Walt Courtney, Vice President, Retirees' Association  
Clara Watler-Rodriguez, Secretary, Retirees' Association  
Fred Nesbitt, Director of Media Relations  
Michael J. Kenney, Retirees' Association  
George Farrell, Retirees' Association  
Bill Paton, Retirees' Association  
Jack Cann, Retirees' Association  
Rick Schulze, Retirees' Association  
Ann Lindie-MacNeil, Retirees' Association  
Bruce MacNeil, Retirees' Association  
Frank Colleran, Retirees' Association  
Linda Soloman-Duffey, Retirees' Association  
Fuzzy Larkin, Retirees' Association

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, April 4, 2012, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to City Commission

The Board voted to terminate Franklin Portfolio Advisors and Atlanta Capital and transfer those assets to existing managers upon the recommendation of the CapTrust consultants.

After hearing a presentation on equal weighted indexing, the Board agreed by consensus to continue using the S&P 500 aggregate index rather than change to an S&P 500 equal weighted index.

Chair Dew called the meeting to order at 12:32 p.m. and roll was called. All present recited the Pledge of Allegiance and observed a moment of silence.

MINUTES

Regular Meeting: March 14, 2012  
Regular Meeting: February 15, 2012



committee has also learned that Franklin Portfolio Advisors plans to make a significant portfolio management change as well. The committee met the previous week to discuss these potential concerns.

Because CapTrust's confidence in Franklin was directly tied to their lead portfolio manager: as a consequence, the investment research committee has recommended terminating this strategy and transferring the mandate to Eagle Asset Management, as they are comfortable with a single manager in this asset class. He suggested that GTS should be involved in this transfer in order to ensure a seamless transition of securities from one portfolio to another.

Mr. Schmid continued that the committee faced a more difficult decision with regard to Atlanta Capital, as one member of a three-person portfolio team was retiring. He noted that Atlanta Capital's performance has been disappointing for quite some time, particularly in 2011, despite their higher concentration in treasury securities. Mr. Schmid concluded that the committee also recommends termination of Atlanta Capital, with their mandate to be moved to Boyd Watterson. In addition, the duration of Agincourt's portfolio will be decreased, which would make the overall fixed income portfolio more defensive.

Mr. Schott added that concentrating the fixed income assets under Boyd Watterson would result in improved fee savings for the Board. Mr. Schmid advised that when the discussion of consolidating the mandate was raised, Boyd Watterson offered a modest fee reduction of one to two basis points.

Chair Dew requested an update on K2. Mr. Schmid confirmed that this manager remains on CapTrust's watch list, although their first quarter results have not yet been compiled. He expected that their performance would have improved over the past quarter.

He continued that CapTrust plans to set up presentations of more diversified hedge fund strategies for the Board in June. Mr. Schmid advised that in the long run, long/short remains an important diversified alternative strategy; however, this does not mean the plan must have a dedicated long/short fund. Chair Dew commented that K2 has underperformed for some time, and he felt the Board should more aggressively consider alternatives to this manager.

Vice Chair Rudominer asked if long/short equities were underperforming as an asset class, or if the underperformance was specific to K2. Mr. Schmid said long/short can be a difficult asset class, and K2 has failed to add significant value as a manager. He recalled that the Board had seen an educational presentation from EnTrust in late 2011, and suggested that it would make sense to invite them to present once more, as well as two additional funds.

Chair Dew observed that the fixed income asset class appears to have lost traction, and noted that nearly 30% of the plan is allocated to this class. He asked if funds might be transferred to cash from this allocation. Mr. Schmid said it made sense to consider fixed income to be the first source of funds to tap into for cash needs, barring any other significant deviation from other target asset allocations. He advised that CapTrust was comfortable with this allocation being modestly underweight without getting too far out of balance. He pointed out, however, that fixed income can also act as a "shock absorber" against volatility, preventing any large drops in portfolio value. Mr. Schott agreed that it would not be wise to drop significantly lower than this 30% allocation.

Mr. Naugle left the meeting at 12:53 p.m.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, to terminate Franklin Portfolio Advisors and transfer those assets to Eagle Asset Management, at the recommendation of the consultants. In a voice vote, the motion passed unanimously.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, to terminate Atlanta Capital and transfer those funds to Boyd Watterson at the recommendation of CapTrust. In a voice vote, the motion passed unanimously.

Investment Policy Statement

Mr. Schmid stated that when CapTrust was hired, they had laid out a plan to submit a modified investment policy statement incorporating all the items they had addressed since that time. When this draft was submitted to the Board's counsel, it was returned to CapTrust with the inclusion of Florida statute-related language that had not been included in the existing investment policy statement. He pointed out that the Statute-related changes in the statement were recommended by counsel; the additional changes reflected the adjustments to the asset allocations that have already been made.

He observed that other adjustments were made with respect to the Protecting Florida Investments Act, as the original statement was written before this legislation took effect. Mr. Schmid also noted other changes, such as the change from the aggregate bond index to the intermediate government credit bond index, as well as generic language referring to alternative investments. The asset allocation is consistent with the addendum to the statement approved by the Board in 2011.

Ms. Wenguer requested clarification of the allocation to mid- to small cap equities, which shows 12.5%. Mr. Schmid said small cap growth should be further defined as 3.75%.

Motion made by Vice Chair Rudominer, seconded by Mr. Bayne, to accept the investment policy statement as presented by CapTrust, subject to the change in small cap growth on p.3, [which] would be 3.75%, [with changes] approved by [the Board's] attorney and consultant.

In a voice vote, the motion passed unanimously.

Informal Non-Service Connected Disability Hearing: Colin Cowderoy

Ms. Wenguer advised that she would attempt to contact Mr. Cowderoy, as he had stated he would like to be included in the discussion if he was available. In the event he was not available, he had requested that the hearing proceed without him.

Mr. Cowderoy was not available by telephone. Dr. Cornel Lupu joined the meeting by phone at 1:05 p.m.

Mr. Cypen swore in Dr. Lupu and Captain Rick Maglione of the Fort Lauderdale Police Department. He explained that the non-service incurred disability differs from service-connected disability only in that it is not incurred due to an injury, accident, or incident in the line of duty. The Applicant must be totally incapacitated, physically or mentally, from regular or continuous duty as a Police Officer; he must also be totally incapacitated from the performance of any other duties available to him through the Police Department; and the incapacity must be permanent.

The Board heard Mr. Cowderoy's case.

Motion made by Mr. Bayne, seconded by Mr. Hole, to deny the non-service incurred disability, based on the findings that the conditions are not permanent and not total.

In a roll call vote, the motion passed 6-0.

CapTrust: Equal Weighted S&P

Mr. Schmid recalled that at the previous meeting, Mr. Hole had requested additional information on equal weighted indexing, which was mentioned at the recent investment workshop. He stated that CapTrust had confirmed Rhumblin has an equal weighted fund available; while this fund normally carries a slightly higher fee schedule, Rhumblin had confirmed they would make this fund available at the current cap weighted fee schedule if the Board elected to make this change.

Mr. Cypen asked why the fee schedule would be higher. Mr. Schmid replied that the equal weighted schedule would require more work, as the stocks must be kept at equal weighting: should a stock move, it is necessary to trim them back to remain at equal weighting.

He continued that advantages of an equal weighted index include a reduced concentration in the top holdings. Another advantage is that the equal weighted index has outperformed the cap weighted index, although Mr. Schmid cautioned that past performance is no guarantee of future performance. While the S&P 500 includes traditional large cap names, the lower weighted names in this index tend to be mid- and small cap. When there is equal weighting, mid cap makes up 46% of this index. He pointed out that a good deal of additional performance in the equal weighted S&P 500 comes from exposure to mid- and small cap, and mid cap has been a very successful asset class.

Disadvantages include more trading, Mr. Schmid continued, which can bring additional trading costs to bear with an equal weighted fund. In addition to higher returns, equal weighting also historically brings greater risk, primarily due to the extra mid- and small cap exposure.

Mr. Schmid said equal weighting takes away some of the predictability and comfort of an aggregate index fund; it would no longer be possible to predict the performance of a fund by comparing it to the S&P 500. Mr. Schott advised that while equal weighting includes small- and mid cap, which have performed well over time, the current portfolio already has some exposure to these asset classes. He added that he would be hesitant to make the change to equal weighting; however, if the plan was starting from scratch as an index, he felt it would have more to offer.

Chair Dew asked if the CapTrust team could provide any information regarding the end of the first quarter. Mr. Schott said it was a very good quarter for home equities and small to mid cap; fixed income is at a slight positive after a difficult third month. He stated that the market is up 100% from the beginning of 2009. Mr. Schmid added that while he did not have specific figures for managers at this time, the total plan return was estimated in February as between 6%-7% for the first two months. He noted that although the May meeting will be later than usual, the results could be sent to the Board members prior to that meeting.

Chair Dew requested an update on real estate. Mr. Schott said this asset class has been positive, and performed particularly well in 2011; it should continue to appreciate solidly in this year.

#### COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt advised there was nothing to report.

#### ADMINISTRATOR'S REPORT:

##### City Network Connection

Ms. Wenguer informed the Board that the internet connection is extremely slow in the office, and she has been inquiring whether the City might be able to provide a faster connection. She was advised that the speed could be significantly increased, but the cost would be a one-time expenditure of \$3180 for the necessary equipment. She concluded that she would like the Board's approval to look further into this possibility, and noted that the software conversion appears to be going well. The expense would need to be added to the City's budget prior to June.

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, for \$3200 for internet equipment. In a voice vote, the motion passed unanimously.

Ms. Wenguer continued that the first review of the plan's audit should be complete by the following week, and it should be ready for presentation by May 23. The actuary is waiting to receive his numbers from the audited assets before his report can be completed. She felt both would be ready for presentation at the May meeting.

Mr. Cypen stated that a letter from co-counsel in the Bear Stearns litigation has been included in the members' information packets. He recalled that the plan is a lead plaintiff in the Bear Stearns litigation. The judge has dismissed claims based on false statements regarding ratings and has sustained claims on other untrue statements regarding registration. The question is whether or not the Board would like to continue just on the claims that were not dismissed. Mr. Cypen advised that co-counsel recommended that the Plan proceed on the remaining issues, with which the Board concurred.

##### New Business

Vice Chair Rudominer asked if there has been consideration of outsourcing the plan's disability to an HMO rather than paying doctors out-of-pocket. Mr. Cypen said when a third party has been sought for this reason, it does not work, as that third party does not have a relationship with the Board and does not save the plan money. Ms. Wenguer added that the plan uses specialists depending on an individual's disability.

#### Old Business

Chair Dew asked Mr. Bayne for an update on the ordinance rewrite. Mr. Bayne said he had reached out to an attorney and would need to work with him.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:08 p.m.

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