

## December, 2011



POLICE AND FIREFIGHTERS' PENSION BOARD  
REGULAR BOARD MEETING  
WEDNESDAY, DECEMBER 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  
Laurie DeZayas, Pension Secretary  
Gloria LeClaire, Controller, Finance Department  
Kevin Schmid, CapTrust  
Robert Soto  
Richard Sicking, Esquire  
Amanda Lebofsky, Recording Secretary, Prototype, Inc.  
Gregg Gurdak, President, Retirees' Association  
Linda Soloman-Duffey, Retirees' Association  
Jack Cann, Retirees' Association  
George Farrell, Jr., Retirees' Association  
Bill Paton, Retirees' Association  
Walt Courtney, Retirees' Association  
John Stuber, Retirees' Association  
Jack Chew, Retirees' Association  
Fuzzy Larkin, Retirees' Association  
Rick Schulze, Retirees' Association  
Frank Colleran, 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, December 14, 2011, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

### Communications to the City Commission

None.

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.

Chair Dew recognized Trustee Mark Burnam at this time. Mr. Burnam has served on the Board since 2005, and today's meeting would be his last. The Board recognized Mr. Burnam's years of service with a round of applause.

### MINUTES: Regular Meeting

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, to waive the reading of the November 9, 2011 minutes [as corrected].

Mr. Hole requested that the corrections he and Mr. Bayne made to the October minutes be specified in the November 9, 2011 minutes.

In a voice vote, the motion passed unanimously.

## NEW MEMBERS

Chair Dew noted that the new members are listed on p.14 of the members' information packets.

### BENEFITS:

Police Department:

New Retiree (Term. of DROP):

Thomas Reed

DROP Retiree:

Mark Breen

Raul Diaz

Frank Sebregandio

Vested Retirement:

Ira Israel

DROP Withdrawal:

Rick Burn

Refund Request:

Darrell Camble

Retiree Death:

Fred Hollowell

Fire Department:

Vested Retirement:

Charles Frank

Eric Pologruto

Retiree Death:

John Dunn

Motion made by Mr. Naugle, seconded by Vice Chair Rudominer, for the benefits for Police and Fire [as corrected].

Ms. Wenguer noted the following correction: the name listed in the Agenda under Police Department/Retiree Death should be Fred Hollowell.

In a voice vote, the motion passed unanimously.

Formal Service-Connected Disability Hearing: Robert E. Soto

Mr. Cypen recalled that Mr. Soto's previous Application at the informal level had been denied. The Applicant's counsel at that time filed a request for a formal hearing, which has not yet been held.

Chair Dew said the Board could concur with its previous findings, which were that Mr. Soto's injury was not service-connected, or could change their minds. Mr. Cypen recommended that the criteria of total, permanent, and service-incurred be separately considered, as the members may have differences of opinion. He explained that Mr. Soto was entitled to know the basis or bases on which his Application was denied.

Motion made by Mr. Hole, seconded by Mr. Fortunato, to deny Mr. Soto's formal Application for service-incurred disability, based on the fact that it is not service-incurred. In a roll call vote, the motion passed 5-2 (Vice Chair Rudominer and Mr. Bayne dissenting).

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, that the Board finds Mr. Soto is totally disabled. In a roll call vote, the motion passed unanimously.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, that the Board finds Mr. Soto permanently disabled. In a roll call vote, the motion passed unanimously.

### BILLS:

Artio Global: \$52,493.45

Agincourt: \$45,607.55

Prudential: \$41,182.81

Marcum: \$1,175.00  
Ellen Schaffer: \$157.50

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, to pay the bills as documented. In a voice vote, the motion passed unanimously.

#### INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Walt Courtney, retiree, requested clarification of p.4, paragraph 2 of the November 9, 2011 minutes, in which it was noted that Mr. Cypen discussed two different kinds of smoothing, one of which is used for actuarial purposes and one that is used for cost of living adjustment (COLA) purposes, and the Board does not have authority to take action on COLA. He asked that Mr. Cypen or a member of the Board provide further information on this issue.

Mr. Cypen said the smoothing related to actuarial activity involves gains, determined costs, liabilities, and funding for the Plan. Smoothing related to COLA is built into the Ordinance, which states that smoothing must be done in order to determine the COLA. The Board cannot do anything in relation COLA smoothing.

Mr. Courtney asked if the Board has the authority to grant COLA. Mr. Cypen said they do in accordance with the Ordinance. Chair Dew explained that the Board may not take any action regarding the smoothing cited in the Ordinance. With regard to actuarial smoothing, if the actuary finds that enough monies are in the Plan for COLA, the Board may act on this.

Mr. Cypen said the Board uses a smoothing method for funding purposes in order to determine the gains and losses allocated in a period of time. He noted that he believes the Board uses five-year actuarial smoothing. The smoothing gains and losses referred to in the COLA Ordinance may not be affected by the Board.

Chair Dew noted that the issue is potentially confusing, which is why a very thorough study of past Ordinances and interpretations is being made.

Frank Colleran, retiree, asked when the five-year smoothing went into effect. Chair Dew said this would need to be determined, and Ms. Wenguer could let Mr. Colleran know at a later time.

Gregg Gurdak, President of the Retirees' Association, stated he would soon step down as President. A new election would be held in February 2012. Chair Dew thanked Mr. Gurdak for his partnership with the Board and his representation of the Retirees' Association.

#### CAPTRUST:

##### Monthly Progress Report Kevin Schmid

Mr. Schmid recalled that at the last meeting, the Board had voted to adjust the benchmark for Agincourt from U.S. aggregate to intermediate. This required a change in the investment policy statement (IPS), which is forthcoming. He explained that the body of the IPS must be adjusted rather than an addendum; this meant he would need to discuss the issue further with the Board members. He noted that he would need to discuss the Board's decision regarding alternative investments as well, as a change would also require amendment of the IPS.

Regarding international equity, Mr. Schmid recalled that the Hansberger contract was still in question at the time of the November meeting. Hansberger did not meet the timetable of one additional week to complete contractual negotiations. In accordance with the Board's wishes, Mr. Schmid had moved on at this time and allocated the funds originally intended for Hansberger to Lazard. This meant all the funds previously allocated to Artio have been moved to Lazard. This transition was completed in early December.

On the alternative investment side, Mr. Schmid said he has invited another firm, EnTrust Capital, to present to the Board at today's meeting. They have a diversified hedge fund-of-funds, and are also working on a new product that the Board may want to consider. He recalled that the Board has heard two previous presentations from alternative investors, and suggested they may want to discuss direction after hearing a third presentation.

Mr. Burnam noted that he did not recall the fixed income policy maximum and minimum being as high and low as they currently appear. Ms. Wenguer noted there has been no change to this policy. Mr. Burnam explained that he was specifically concerned with the maximum and minimum, which no longer appeared to be realistic. Chair Dew recalled that large cap was previously adjusted from 30 to 20, small cap from 15 to 5, and fixed income from 35 to 25, among other allocation changes. Mr. Schmid said he would look into the issue with Ms. Wenguer and bring back more information in January.

ALTERNATIVE INVESTMENT PRESENTATION:  
EnTrust Chris Keenan, Helen Wong, Kevin Manning

Chris Keenan of EnTrust Capital made a presentation to the Board at this time. Mr. Keenan stated that EnTrust is a \$7.5 billion hedge fund asset management firm, which was founded and SEC-registered in 1997. He advised that approximately two-thirds of the capital the fund manages comes from institutional investors, including public pension funds throughout the U.S.

Mr. Keenan noted that many institutional investors are currently struggling with meeting their actuarial rates of return, as it has been difficult to make money in the equity and fixed income markets over the last 11 years. He pointed out that there is more money outside the traditional asset classes and in alternative asset strategies. One reason for this is that investors are seeking less erratic rates of return and more predictable distributions.

Mr. Keenan stated that EnTrust has differentiated itself from its peer group in key ways: by being one of the top performing fund-of-funds managers over most trailing periods; by significantly outperforming traditional barometers for performance; and by keeping investors out of trouble through due diligence and a conservative investment strategy. He noted that while some investors could not get their capital back from hedge fund industries in 2008, EnTrust has never suspended redemptions. They have also never exposed their clients to any of the problematic hedge funds made public in recent years. EnTrust provides a high level of transparency to its investors.

While hedge funds are often considered to be a new asset class, Mr. Keenan asserted that EnTrust believes they are not new, but are instead a different investment strategy. The managers in which EnTrust invests typically invest in the same equity strategies and fixed income markets as traditional managers. Mr. Keenan pointed out that EnTrust is an opportunistic investor with a significant allocation to credit; they have no material allocations to global macro-managers or trading-oriented managers. They also provide access to complementary managers.

Chair Dew requested clarification of the term “event-driven.” Mr. Keenan explained that this meant managers search for a catalyst that will make a stock trade higher, such as a regulatory procedure, a merger, or a spinoff of a non-core asset. EnTrust prefers to allocate capital to companies that may be currently undervalued, but there is an identifiable catalyst to help realize their potential value.

Mr. Keenan advised that EnTrust’s portfolio tail risk fund (PTR) is 3.93%, and explained that the firm has worked with a subset of its managers to create this separate fund for large institutional investors. This fund is not yet available to outside capital, although this is planned for 2012. The PTR is constructed to significantly reduce risk to systemic market crises, such as those seen in 2008. Chair Dew requested some specific examples from portfolios invested in PTRs.

Mr. Cypen asked if EnTrust was invested in Harbinger, which recently went out of business. Mr. Keenan explained that EnTrust has fully redeemed from Harbinger over one year ago. Ms. Wong added that Harbinger had received notice that the SEC intended to charge them with security violations; while EnTrust withdrew as many funds as possible from them in 2010, Harbinger did not allow them to withdraw all assets from some investments, which meant EnTrust still technically owned shares in these investments.

Mr. Keenan referred the Board members to a graphic of EnTrust’s performance since inception, which reflects its performance relative to U.S. and European equities. They were able to outperform both equities markets with 50% of the volatility. Their flagship funds have been diversified since 2002. He provided the members with additional informational materials from EnTrust. Mr. Keenan concluded that EnTrust goes above and beyond in order to ensure that their investors know exactly what they are investing in.

Chair Dew noted that fund-to-funds are historically known for their cost. Mr. Keenan said EnTrust offers different share classes. Most investors invest in class C shares, which is a management-fee-only class. For investments in excess of \$5 million, the fee is 140 basis points annually, which is decreased on a sliding scale. He observed that hedge fund fees have decreased significantly over the years, and the figures reflected in EnTrust's materials are net of all fees, including underlying manager fees.

Ms. Wong stated that investors are investing in sound businesses as well as EnTrust's capabilities. A team consists of CPAs for all active licensees, all of whom have prior experience working on hedge funds. Hedge funds are visited to discuss any issues they may have, and the EnTrust team independently confirms several different aspects of their business by contacting the funds' auditors, administrators, and attorneys. They request documentation from the hedge funds to confirm their activity. She cited Harbinger as an example of a fund that exhibited characteristics which made EnTrust withdraw from them in 2010. Both civil and criminal background checks are conducted on any individuals who handle cash or control trades.

Chair Dew asked if Ms. Wong would be comfortable stating that EnTrust's due diligence and transparency is above and beyond that of most fund-to-funds. He commented that transparency has been an issue with many hedge funds in the past. Ms. Wong said she was not aware of any other fund-to-funds that provide the same level of information to investors.

Mr. Cypen asked how many EnTrust clients are located in Florida. Mr. Manning cited institutional funds located in other cities and in Broward County.

Mr. Hole complimented the EnTrust team on the transparency of the materials they provided for the Board members.

Chair Dew thanked the EnTrust team for their presentation.

#### COMMUNICATION DIRECTOR'S REPORT:

Chair Dew noted that Mr. Nesbitt was not present.

#### ADMINISTRATOR'S REPORT

Ms. Wenguer advised that Mr. Soto had informed her he would like to apply for non-service incurred disability, and had initialed his Application to that effect. Mr. Cypen said a motion to grant non-service incurred disability would be in order when Mr. Soto and his counsel returned to the meeting.

#### GTS

Ms. Wenguer provided the Board members with copies of the final GTS contract. Mr. Cypen confirmed that he had reviewed and approved the document.

Motion made by Mr. Hole, seconded by Mr. Fortunato, to accept the revised GTS contract. In a voice vote, the motion passed unanimously.

The following Item was taken out of order on the Agenda.

#### Pension Software RFP

Ms. Wenguer explained that contract negotiations are currently underway. Mr. Cypen said he expected these negotiations to be successful.

#### DROP Withdrawal Calculation

Ms. Wenguer explained that without a Memorandum of Understanding (MOU), there are questions about a provision to give an individual a rate of return other than the previous year's rate, which was negative, until the

current year's rate has been determined. Chair Dew stated that this meant the individual would receive a negative rate of return until the current year's rate is determined.

Ms. Wenguer added that the individual in this case had signed paperwork for 20% withholding in 2011, when the policy was revised, rather than in 2010, when he had entered the DROP. Mr. Bayne advised that when the individual signed the withholding paperwork, he was agreeing to be subject to withholding until 2012.

Chair Dew reported that he had met with the City Manager and an Assistant City Manager to discuss the MOU; he would meet again with them and others later in the week, and he hoped to have an answer on this issue at the January 2012 meeting.

#### Investment Seminar

Ms. Wenguer said CapTrust, who will host the seminar, has been presented with a contract for the location. Dates are set for February 16-17, 2012.

#### Beneficiary Alex Medina

Ms. Wenguer explained that Ms. Medina is the survivor of a Firefighter who has been receiving monthly benefits since his death. She has requested a lump sum in lieu of the monthly benefit, as she is only eligible to collect this benefit for one more year. Mr. Cypen said there is no provision to change from a monthly benefit to a lump sum once an individual has begun receiving the benefit. Ms. DeZayas said she had contacted the union to find out if they might be able to assist Ms. Medina in some way.

Chair Dew asked if Ms. Wenguer had informed Ms. Medina that there could be no change in the benefit. Ms. Wenguer confirmed this, and had advised that she would bring the issue to the Board as well.

#### Retiree Philip Cameron

Ms. Wenguer said she had spoken with Mr. Cameron regarding the type of benefit he had selected. She said Mr. Cameron's concerns have been addressed, and noted that while an individual's beneficiary may change, that individual may not change his form of benefit. Chair Dew recalled that he had gone before the City Commission, requesting that this change be made for benefits, but the request was denied. The current options were not available at the time Mr. Cameron had retired.

Ms. Wenguer concluded that the Plan had won a Public Pension Coordinating Council (PPCC) Planning Award.

Mr. Hole recalled that the Board had discussed insurance at the November meeting. Ms. Wenguer said they have the policy and have been paid.

#### NEW BUSINESS:

Chair Dew reported that the Mayor has received several applications from prospective trustees to succeed Mr. Burnam. The Mayor is now reviewing these applications, performing due diligence, and conducting interviews before making a selection. He tentatively plans to seat an appointee by the January 2012 Board meeting.

He continued that he had learned when the Board's fiscal year changed, they put the plan in a (-5.8%) position. Had they left the end date as December 31, this may not have been the case. He noted that this information came to light only hours ago, and Chair Dew has spoken with an Assistant City Manager and Doug Wood of the City's Finance Department regarding the situation.

He explained that the question is whether or not the Board would like to "remain as is" and end on December 31 until they can get more information from actuary Randall Stanley to determine what action is in the best interests of the plan.

Mr. Cypen pointed out that the fiscal year had been changed to end on September 30, 2011, at the close of a very bad quarter; this could be harmful to the Board in terms of their evaluation. He suggested that this may not have

been the best year in which to change the fiscal year.

Ms. Wenguer pointed out that the State is not yet officially aware that the Board had changed its fiscal year. Gloria LeClaire, Controller, advised that IT has changed its accumulators to reflect the change and begin accumulating on October 1.

Chair Dew asked if the Board could delay its final decision on the change until January 2012. Mr. Cypen advised that it may or may not be too late. Chair Dew explained that he had raised the issue in part so it could be suggested to the Finance Department that the Board may wish to make this change. Ms. LeClaire commented that it may be possible for IT to add the current quarter to the prior saved amount.

Chair Dew concluded that the Board would make its final and permanent decision on the fiscal year in January. Ms. Wenguer said she could delay the audit in order to accommodate this change.

Mr. Sicking rejoined the meeting at this time. Chair Dew stated that Mr. Soto is now applying for non-service-connected disability. It was noted that this was indicated and initialed on the Application.

Mr. Naugle asked what the benefit would be in this case. Ms. Wenguer said it would be approximately \$2800, or 50% of Mr. Soto's final average earnings at the time of disability.

Mr. Naugle asked if the Application meant Mr. Soto would not later take the issue of disability to court. Mr. Cypen said once this Application has been made, taking service-connected disability to court was no longer an option.

Motion made by Mr. Hole, seconded by Mr. Bayne, that the Board grant Mr. Soto's request for a non-service-incurred disability, based on the finding that he was disabled 91 days prior to granting the Application.

Mr. Bayne asked if the date of separation from service had any effect on the 91 days. Mr. Cypen said it would affect the amount, as it would be for 50% at the time of disability. He advised that the statement regarding 91 days was to avoid causing Mr. Soto to wait 91 days until he received his first payment.

In a roll call vote, the motion passed 7-0.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:10 p.m.

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