

## November, 2011



POLICE AND FIREFIGHTERS' PENSION BOARD  
REGULAR BOARD MEETING  
WEDNESDAY, NOVEMBER 9, 2011, 12:30 P.M.

Present

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

Absent

Mark Burnam, Trustee

Also Present

Amanda Cintron, Assistant Administrator  
Laurie DeZayas, Pension Secretary  
Gloria LeClaire, Controller, Finance Department  
John Herbst, City Auditor  
Fred Nesbitt, Director of Media Relations  
Kevind Schmid, CapTrust  
Steven Schott, CapTrust  
Amanda Lebofsky, Recording Secretary, Prototype, Inc.  
Jack Cann, Retirees' Association  
George Farrell, Jr., Retirees' Association  
Bill Paton, Retirees' Association  
Frank Colleran, Retirees' Association  
Walt Courtney, Retirees' Association  
Fuzzy Larkin, Retirees' Association  
John Stuber, 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, November 9, 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.

MINUTES: Regular Meeting

Motion made by Mr. Hole, seconded by Vice Chair Rudominer, to waive the reading of the October 12, 2011 minutes.

Mr. Bayne noted corrections to the corrections p.2. P. 18, paragraph 1: change "3% annually" to "3% increase annually." Mr. Hole also noted a correction to p.2. to end the paragraph with "until the rate of return for 2011 has been determined."

In a voice vote, the motion passed unanimously.

**NEW MEMBERS:**

Chair Dew noted that new members are listed on p.17 of the Board's information packet.

**BENEFITS:**

Police Department:

DROP Retiree: Clay Barrett  
John Rendo

Fire Department:

New Retiree (Term. of DROP): James Chovan

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

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

**BILLS:**

Lee Munder	\$47,121.91
Sawgrass Asset Mgmt.	\$37,136.00
Northern Trust	\$28,343.05
Systematic	\$25,970.04
InTech	\$18,194.77
Eagle Asset Mgmt.	\$15,531.96
Franklin Templeton Investments	\$15,375.24
Boyd Watterson Mgmt.	\$14,220.00
Atlanta Capital	\$11,038.00
RhumbLine	\$6,464.00
Dr. Cornel J. Lupu, MD	\$1,700.00
Dr. Cornel J. Lupu, MD	\$1,200.00
Select Screen Printing, Inc.	\$1,544.66

Motion made by Mr. Hole, seconded by Mr. Naugle, for payment of the bills as documented.

Mr. Hole confirmed the amount listed by Select Screen Printing, Inc.

In a voice vote, the motion passed unanimously.

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

Fuzzy Larkin, retiree, asked if there would be payment increases for individuals who were already retired before smoothing went into effect. He stated that it was their opinion that individuals not subject to smoothing should receive an increase.

Mr. Cypen said the Board is working on a history of which changes would apply to specific groups of retirees. He noted that the opinion expressed by Mr. Larkin may be correct, but he could not answer it at this time. Chair Dew explained that the Board had asked Mr. Cypen to thoroughly research this issue to determine what was applicable at the time an individual or group of individuals retired. He recalled that this concern was widely expressed in the recent survey of retirees.

Walt Courtney, retiree, asked if Mr. Cypen was also researching who was or was not "sunsetting." Chair Dew confirmed that this was also part of the study. He stated that the study was all-encompassing, and he planned to document the findings so they are easily understood once the study is complete.

Mr. Courtney noted that the fund was supposed to earn a certain amount of money before a cost of living adjustment (COLA) was considered. He asked if this amount has changed. Chair Dew said this is also part of the

study.

Frank Colleran, retiree, asked if the study would specify the meetings at which changes were made. Chair Dew explained that the changes did not occur at meetings, and the Board does not establish contractual obligations. Mr. Colleran explained that he recalled when a former City Manager had appeared at a Board meeting and requested that the Board adopt a particular change. He felt the meetings at which changes were discussed should be referenced so others can look up pertinent information themselves.

Mr. Cypen clarified that two different kinds of smoothing were discussed at meetings: one that is used for actuarial funding purposes and one that is used for COLA. The Board does not have the authority to take action regarding COLA.

John Stuber, retiree, said he felt the study was good news, and thanked the Board for initiating the process. He asked if they could estimate when it might be complete. Mr. Cypen said he was not certain of a deadline at present. He estimated it could be complete in the spring of 2012.

Vice Chair Rudominer asked if the study would result in changes to be adopted by the Board or issues to be pursued with the City. Chair Dew said this was not known, as they did not know what the results of the study would be. He cautioned against making any assumptions regarding the results.

Informal Non-Service Connected Disability Hearing: Colin Cowderoy

Ms. Wenguer stated that Mr. Cowderoy was unable to attend today's meeting, but can be reached by telephone. Mr. Cypen advised that Mr. Cowderoy should be contacted if possible.

Mr. Cypen pointed out two issues that are not related to the narrative in this case: the Internal Affairs investigation and the resignation. He noted that normally an individual who resigns leaves without benefits, and concluded that he was not entirely certain whether or not this meant Mr. Cowderoy has the right to apply for non-service connected disability.

Ms. Wenguer stated that Mr. Cowderoy was now present via telephone.

Mr. Cypen continued that if non-service connected disability was exacerbated by conditions related to service, it could be considered service-connected. Mr. Fortunato asked if this was true if a condition was exacerbated when an individual did not take his medication. Mr. Cypen said this was true for any condition. He noted that the information requested for today's informal hearing was submitted under oath and was subject to perjury if any information was incorrect.

Ms. Wenguer asked that the trustees request any additional information they felt was necessary to the application so it could be presented at a subsequent hearing. Chair Dew informed Mr. Cowderoy that the Board had begun discussion of his case; however, they were concerned that additional information would be necessary before proceeding with the hearing, and would defer the informal hearing until this information could be obtained and studied. Mr. Cowderoy agreed to this.

Mr. Fortunato asked if there were any other medical records or documentation of treatment other than what had been supplied for today's hearing, including records prior to February 2010. Mr. Cowderoy said there were no records related to his condition.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, for deferral [of the informal hearing for non-service incurred disability]. In a voice vote, the motion passed unanimously.

CAPTRUST:

Monthly Progress Report Kevin Schmid, Stephen Schott

Mr. Schmid recalled that the Board had expressed consensus for another alternative manager to make a presentation at the December meeting. On the international equity side, Lazard's documentation has cleared

attorney review; however, there are still concerns with the contractual language for Hansberger, and there have been further communications to address this issue. He noted that resolution appears to be forthcoming.

Chair Dew asked how long the issue with Hansberger would continue if the firm did not accept the Board's most recent proposal. Mr. Schmid said the final draft has been sent to Hansberger, and if it is not accepted, the entire mandate could be given to Lazard. Mr. Cypen added that the language has been changed five times. Chair Dew stated that Mr. Cypen has represented the Board in good faith and it may be the case that Hansberger is not willing to participate.

Mr. Schmid advised that it would be preferable to make a clean break from Artio and take all the funds from that manager at once rather than take half the funds at one time and the remaining half at a later date. He noted that Artio has performed reasonably well in October, so the plan is not losing anything by the delay. Mr. Schott added that if the funds are broken up in this way, the plan could incur additional costs.

Chair Dew suggested that the Board make a decision regarding the possibility of moving all funds to Lazard if no deal with Hansberger has been reached by Wednesday, November 16. Mr. Schmid agreed there would be nothing lost by extending the negotiations by one week. Mr. Cypen clarified that the language that has seemed problematic involves indemnification.

Motion made by Trustee Fortunato, and duly seconded, for a one-week extension for negotiations for Hansberger; if it is not done by Wednesday, November 16, all the funds would be converted to Lazard.

Mr. Schmid advised that the issue is not with Hansberger, but with the firm that administers third-party commingled funds. Mr. Schott agreed that the issue has gone on long enough at this point.

Mr. Cypen briefly left the meeting at this time, stating he would seek an update on the contractual language issue.

Mr. Schott continued with the capital market review, stating that U.S. Treasuries have been downgraded by one of the rating agencies during the previous quarter. Despite this, however, a significant deal of money came into U.S. Treasuries, which is a common occurrence during difficult periods in the market. He pointed out that even with the downgrade, Treasuries remained a safe and secure investment.

He noted that the plan's funds are based more in the aggregate market than the intermediate market at present. Mr. Schott advised that there have been discussions regarding moving the plan's aggregate portfolio to an intermediate portfolio in order to reduce risk on the aggregate side while still retaining the same managers. He stated that the risk is higher than the potential reward at present.

Domestic equities, which were positive in the previous quarter, were down by nearly (-14%), but have rebounded during the month of October to (-11%-12%). Mr. Schott noted that while the market is volatile, it will also present opportunities for the fund. He recalled that there was a similar 15% drop in the market in late 2010, although this caused less concern because there were fewer up-and-down swings.

Large cap domestic equities performed better than small cap, although this was primarily on the international side, as this market is having a psychological effect on the U.S. markets. He cautioned that while the situation in Greece is important, this is seen as the tip of the iceberg, and nations such as Italy are potentially more troubling, as their problems will increase volatility still further. Mr. Schott stated that even when international and emerging markets are down, it is best to take advantage of this volatility and buy when these markets are low.

#### Quarterly Performance Review

Mr. Schmid said there are positive changes despite ongoing governmental and employment issues. He advised that corporate America has never been in better shape than the present, as earnings have greatly increased and companies have more cash on hand. While bonds are not highly profitable at present, bond exposure is necessary because of the high volatility in stocks. The bond market was essentially flat in October, but nearly all the fund's equity managers saw a double-digit increase in the same month.

He continued that the quarter was not very good, noting that InTech and Rhumblin are in line with their large cap benchmarks, and Sawgrass and Systematic were “swing” managers, with Sawgrass holding up relatively well during the negative environment. Systematic, however, was down more than its benchmark in the last quarter. Mr. Schmid noted that at the beginning of the quarter, Systematic was positioned for a sustained global recovery; they were ultimately in the wrong sectors at the wrong time, and the wrong stocks within these sectors. While they are still outperforming the longer-term benchmarks, this brings their year-to-date numbers down.

On the small and mid cap sides, these stocks performed worse against their market performance benchmarks. NorthPointe has been replaced with Franklin Templeton Investments and Eagle Asset Management, which have only been in place for one month; Lee Munder remains in line for the quarter, and Rhumblin is relatively new in mid cap.

On the international side, there continues to be underperformance, although the delay in changing managers allowed Artio to outperform by 3% in October. Thornburg is also struggling in international markets, as European exposure has been difficult; Mr. Schmid noted that they have held up well over the longer term, however.

On the fixed income side, he reiterated that the downgrade led to a counterintuitive rush into U.S. Treasuries, which collapsed the yield curve and drove Treasury bond prices up. Mr. Schmid advised that the bond portfolio’s underperformance during the past quarter is considered an anomaly.

Mr. Schott stated that most quarters reflect less dramatic moves than those seen in fixed income in the last 90 days, as this is often more predictable. At present, there is an opportunity to get 85% of the yield on the intermediate side, with roughly half the volatility. Mr. Schott and Mr. Schmid recommended that it made sense to shift Agincourt’s benchmark to an intermediate duration at this time.

Chair Dew asked if this would be considered a policy change. Mr. Schott said it would be more of an asset allocation change; however, due to the way the draft policy is currently written, with Agincourt benchmarked against the aggregate, a policy change would be required. He recalled that an asset allocation addendum was added to the investment policy, which would open the door to alternative investments. A modification of this addendum would allow for a change to the intermediate benchmark for Agincourt.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to change the benchmark for Agincourt from Barclay’s U.S. aggregate to Barclay’s intermediate.

Mr. Cypen asked how this change would differ from what is in place for Atlanta Capital and Boyd Watterson. Mr. Schott said it would be the same benchmark and risk. Mr. Schmid recalled that when a portion of fixed income assets were shifted to Boyd Watterson and Atlanta Capital, this moved assets to the intermediate side. He felt due to the collapsing yields in fixed income, it made more sense to continue pulling risk back from long-term to intermediate.

In a voice vote, the motion passed unanimously.

Mr. Cypen observed that the motion would direct the administrator to file the change with the City, the State, and the actuary. Mr. Bayne noted that the motion did not address the need to move the money, but covered the policy change only.

Mr. Schmid moved on to real estate, recalling that earlier in the year, money had been moved from equities in order to bring real estate close to its target allocation. Year-to-date, real estate appears to have been the best place to have money, as real estate managers were up 12.3% during the fiscal year. On the alternative side, Pimco is still very new; after a difficult August and September, they rebounded in October. While CapTrust does not currently recommend any action on K2, they are continuing to monitor its performance. This is more of a commentary on the asset class in general rather than K2’s ability to manage.

Chair Dew said he had spoken with Mr. Schmid and Ms. Wenguer to determine if some of the facts of the quarterly review could be shared with the City Commissioners and other officials. He added that he has met with the City Manager and shown him a PowerPoint presentation, as well as provided him with the two Memoranda of

Understanding (MOUs) for review. He provided the Board with a draft of this information for their review, stating it would be sent to the City Commissioners if the Board agreed.

The Board members and CapTrust representatives reviewed the information packet and briefly discussed potential changes to the draft's language.

Mr. Schmid concluded that the quarterly performance review did not include a section on compliance because the report was sent out earlier than usual. He reported that everything was in compliance, with the exception of Sawgrass, which holds one security that is over the 5% maximum threshold. They have been notified of the issue.

#### COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt said he had no new information to report.

#### ADMINISTRATOR'S REPORT:

Ms. Wenguer explained that a motion was necessary to accept the rate of return, as this rate is used to calculate the DROP. The rate of return is -5.81% for the past three quarters. It was confirmed that the rate of return was net of fees.

Motion made by Mr. Bayne, seconded by Vice Chair Rudominer, to establish -5.81 as the rate of return for the period, starting 1/1/11 to 9/30/11. In a voice vote, the motion passed unanimously.

#### GTS

Mr. Schmid recalled at the last meeting, the CapTrust team was asked to review the contract with GTS with respect to investment-related business issues. This would lead to removal of language referring to specific triggers, and would confirm that the pricing offered by GTS is their lowest available fee schedule. When the contract was reviewed, it was discovered that the contract currently offered by GTS was a dramatic departure from the first contract. Counsel is currently attempting to work from the original contract to draft a contract that is acceptable to the Board.

Mr. Cypen reported that the most recent draft of the Hansberger Global contract was sent from his office to the firm on November 8. There has not yet been a response. Chair Dew asked if the Board would like to move all the funds to Lazard and end negotiations with Hansberger.

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, if by 11/11/11, 5 p.m., the current contract with Hansberger is not approved, the Board will give the whole mandate to Lazard. In a voice vote, the motion passed unanimously.

#### Pension Software RFP

Vice Chair Rudominer stated that after further meetings, a vendor has been selected to provide pension software. He added that another reason the software upgrade is necessary is that it constituted a negative on the Board's audit report, as the current system is outdated. Implementing the new software will eliminate this issue on future audits, as well as helping Ms. Wenguer and Staff calculate benefits and administer the plan.

Mr. Herbst noted that the City has just put out an RFP for payroll, which includes the necessity of performing pension-related activities for the Payroll Department. He explained that there have been questions regarding why the City was doing pension-related activity when the pension trusts should be handling their own issues. Ms. Wenguer stated that all calculations are done by the administrators; in addition, it is also not true that the City makes calculations for the general employees' fund. The City supplies the administrators with reports as payroll runs, so benefits can be accurately calculated. She clarified that the City cuts the checks and adds or deletes retirees.

Mr. Herbst asked if these procedures could be run in-house. Ms. Wenguer said while it has been discussed, this would most likely necessitate hiring additional staff. Mr. Herbst explained that he did not know if the

administration of pension-related activities would be part of the City's new RFP. He advised that it is possible the pension systems will be asked to take over the administration of services for their respective retirees.

Vice Chair Rudominer noted that a module could be added to the new software that would allow for these services, although it was not part of the existing bid. Mr. Herbst estimated that no changes would be made for at least six months. He advised that the pension administration aspect appeared to be off-putting to some of the vendors.

Ms. Wenguer showed the Board a brief video on the selected pension software system. The system costs \$145,000, which includes total implementation and travel expenses. The annual licensing fee is \$18,000/year, which includes maintenance and updates. Members can visit the website and review their calculations themselves. The information will be hosted by the supplier rather than by the City, and can be accessed remotely in the event of an emergency.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, to acquire the system at the price that has been presented, subject to legal counsel and other clearance.

Chair Dew stated that Ms. Wenguer, Ms. Cintron, Mr. Nesbitt, and Vice Chair Rudominer had put a great deal of work into the software selection process, and he was very comfortable with and supportive of their choice.

In a voice vote, the motion passed unanimously.

#### Customer Service Survey

Ms. Cintron provided a handout to the Board members regarding the survey's findings. Approximately 1700 surveys were sent out, and 621 were returned, a response rate of 35%.

She reported that 75% of respondents said they had an understanding of the plan and were aware of the website. Only 5% of retirees who responded indicated that they did not have computer access. 98% of respondents said they found the newsletter to be helpful. Most comments from retirees focused on COLA and communications about the pension industry. She, Ms. Wenguer, and Mr. Nesbitt are discussing the addition of a Frequently Asked Questions (FAQ) section to the newsletter.

Chair Dew thanked Ms. Cintron for preparing the report on the survey results. He agreed that the communication aspect could be enhanced, and suggested that the members consider the results and bring back additional recommendations to the December Board meeting.

Ms. Wenguer noted that the time and cost spent on the survey was calculated at over \$1100, including 55 hours of staff time, printing, and mailing. She advised that SurveyMonkey.com could host surveys online in the future for \$300, and would compile the information.

Chair Dew asked the retirees in attendance if they would be supportive of an online initiative to help educate retirees and actives. Mr. Colleran said one issue would be that a large percentage of retirees did not have email. Ms. Wenguer said a postcard could be sent to retirees to let them know the survey was available online.

#### 2012 Board Meeting Dates

Ms. Wenguer noted there were conflicts on some of the prospective meeting dates. She added that the dates under consideration for the investment workshop were February 16-17. Chair Dew asked that the February meeting be scheduled for February 15, so it could be followed by the workshop. The second investment workshop is scheduled for October 17.

#### Trustee Elections

Ms. Wenguer congratulated Chair Dew and Mr. Bayne on their reelection to the Board. They will each serve another two-year term.

#### PENDING ITEMS:

## NEW BUSINESS

Ms. Wenguer said the information from the actuary report has been requested and they are waiting for this to be provided.

Ms. LeClaire noted there is an issue with Northern Trust. Two investments on this statement were not at fair value as of September 30; when the correct values were requested, the wrong information was supplied. The information has since been provided, but updated statements from Northern Trust must be supplied. June values cannot be used to calculate September values.

Ms. Wenguer noted that the Board's auditors usually get information from the managers. Ms. LeClaire stated they get information from these managers to audit the fund; the City uses the bank statement to determine its figures.

Mr. Hole reported that he had attended a one-day investment seminar sponsored by Sawgrass.

## OLD BUSINESS

Ms. Wenguer said she has been in contact with the fund's fiduciary insurance provider for the past three months to request updates on the policy. While she did not want to go out to bid, she did not feel it was reasonable that the provider could not maintain contact with Staff. Mr. Cypen advised sending the provider a letter stating that the Board assumed all was well unless they heard otherwise from him.

### Communications to the City Commission

Mr. Herbst said the City Commission would like this section to include items that advisory bodies wish them to take immediate action on, as opposed to discussion items. The meeting minutes of advisory bodies are read separately.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:37 p.m.

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