

**October, 2015**

**POLICE AND FIREFIGHTERS' PENSION BOARD  
REGULAR BOARD MEETING  
888 South Andrews Avenue, Suite 202  
Fort Lauderdale, FL 33316  
Wednesday, October 14, 2015, 12:30 p.m.**

**Present**

Michael Dew, Chair [by phone]  
Ken Rudominer, Vice Chair  
Jim Naugle, Trustee  
Scott Bayne, Trustee  
Dennis Hole, Trustee  
Jeff Cameron, Trustee  
Richard Fortunato, Secretary  
Lynn Wenguer, Executive Director  
Steve Cypen, Board Attorney  
Stu Kaufman, Board Attorney

**Also Present**

Amanda Cintron, Deputy Director  
Alexandra Goyes, Pension Secretary  
Linda Logan-Short, Deputy Director/CFO  
Kevin Schmid, CapTrust  
Steve Schott, CapTrust  
Paul DeBold, Vice President, Retirees Association  
Keith Kotrady, Retirees Association  
Al Scotti, Retirees Association  
Bill Sharp, Retirees Association  
W.R. Spodnick, Retirees Association  
Carl Borino, Retirees Association  
Jack Chew, Retirees Association  
Ann Lindie-MacNeil, Retirees Association Secretary/Treasurer  
Bruce MacNeil, Retirees Association  
Jim Ingersoll, Retirees Association President  
Fred Nesbitt, Communication Director  
Lisa Edmondson, Recording Secretary, Prototype Inc.

**Note: Items were heard out of order.**

**ROLL CALL/CALL TO ORDER**

Vice Chair Rudominer called the meeting to order at 12:30 p.m. Roll was called and a quorum was determined to be present.

**PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE**

The Pledge of Allegiance was followed by a moment of silence.

**MINUTES:**

**Regular Meeting:** September 16, 2015

Mr. Ingersoll requested changes to the minutes.

**Motion** made by Mr. Hole, seconded by Mr. Bayne, to approve the minutes of the September 16, 2015 meeting as amended, pending staff approval. In a voice vote, the motion passed unanimously.

## COMMENTS FROM PUBLIC

None.

## NEW HIRES

Vice Chair Rudominer recognized the new hires.

## BENEFITS

<b>POLICE DEPT:</b>	<b>Term of Drop:</b>	Raul Diaz
	<b>NonVested Termination:</b>	Alana Ashley
	<b>New Beneficiary:</b>	Linda White
<b>FIRE DEPT:</b>	<b>New Retiree:</b>	Phillip Pennington
	<b>Bac-Drop Retiree:</b>	David Dipetrillo

Ms. Wenguer distributed corrections regarding the firefighters' classifications.

**Motion** made by Mr. Bayne, seconded by Mr. Naugle, to approve payment of the benefits as corrected. In a voice vote, the motion passed unanimously.

## BILLS

<b>Northern Trust</b>	\$40,414.49
<b>Boyd Watterson</b>	\$36,239.00
<b>CapTrust</b>	\$21,250.00
<b>Foster &amp; Foster</b>	\$1,650.00
<b>Holland &amp; Knight</b>	\$600.00

Mr. Rudominer questioned the Foster and Foster bill. Ms. Wenguer explained that Foster and Foster had charged an additional \$1,702.00 to present the experience study and noted that the contract was not specific regarding travel time. Foster and Foster had also charged extra to review meeting minutes in order to prepare a report. The Board agreed to pay the Foster and Foster bill less \$1,890 pending clarification of the additional billing.

**Motion** made by Mr. Bayne, seconded by Mr. Hole, to approve payment of the bills as amended. In a voice vote, the motion passed unanimously.

## INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll stated the retirees wished to hire Mr. Heinrichs and requested the Board's approval. Chair Dew agreed with this and felt it would provide a more complete understanding of the statute and enable them to lobby for change.

Mr. Kaufman questioned whether the Board wanted their actuary doing work for the Retirees Association, which may file a lawsuit regarding the COLA. He felt it would be acceptable if a member of the Board and a Board attorney were involved in all discussions. Mr. Ingersoll stated he wanted the actuary's input "for informational purposes" regarding changing the state statute as it applied to the Retirees Association. He said it would be a financial hardship for them to hire a new actuary who would not be well versed in the City's plan and the COLA. Mr. Kaufman felt any actuary working in Florida would be familiar with the State statute and recommended the Board not approve the request.

Mr. Kaufman said he would be comfortable if the Retirees Association put their questions in writing and submitted them through the Board. Mr. Ingersoll agreed, if the Board would be responsible for attorneys' fees. Mr. Kaufman said the Board could approve the questions at their next meeting without

a separate review by the attorney. Mr. Rudominer wished to instruct Mr. Heinrichs to formulate his responses in a generic fashion that was not specific to the City's plan.

**Motion** made by Mr. Bayne, seconded by Mr. Hole, to authorize the Retirees Association to work with Foster and Foster to answer generic questions related to COLA interpretation under the current state of the law in Florida, pursuant to a separate, written contract between those two parties, with the stipulation that the Board would receive a copy of the response as soon as it was produced. In a voice vote, motion passed unanimously.

## **EXECUTIVE DIRECTOR'S REPORT**

### **In-Service Distributions**

Ms. Wenguer distributed a copy of the ordinance that would be presented to the City Commission on October 20. She said there would be no cost involved for the plan. They were still working with the City on reproducing 1099Rs for affected members.

Chair Dew said the Assistant City Manager had wished to hold a meeting with affected members prior to this Board meeting but they wanted to wait until members had their corrected 1099Rs in hand. Mr. Coleman and Mr. Freeman would be present at that meeting to address retirees' questions. Ms. Wenguer stated they would hold a meeting of the stakeholders before it was presented to the retirees. She reminded the Board that if more than one Board member wished to attend the meeting with the members, it must be noticed as a public meeting.

### **Assistant Administrator/Deputy Director**

Ms. Wenguer announced that the Deputy Director was leaving and advised the Board that they may be not properly compensating for the position. Ms. Wenguer asked if the Board wished to include a salary range in the job specs or leave it open. She had posted it on monster.com, the FPPTA would include the job posting in their newsletter and she wished to post it elsewhere.

Mr. Naugle suggested performing a survey of the 15 largest Florida cities and base the salary on the results. Ms. Wenguer agreed to perform the survey but said she wanted to find someone as soon as possible. She agreed to consult the Board if she wanted to hire someone for more than the budget specified.

### **Office Compensation Plan**

Ms. Wenguer stated she had been working there for 22 years but had been in the pension plan only 15 years. When she was put on the plan, the Board of Trustees at the time had promised to make her membership in the plan effective from her original date of employment, but this had not happened. Chair Dew said the Board had been advised not to get involved in this issue, but he wanted the Board to ensure that due benefits were paid. He stated other employees had taken advantage of the ordinance and been allowed to buy their time back but Ms. Wenguer had not. Chair Dew wanted the Board to support allowing Ms. Wenguer to buy her time back.

Mr. Hole said the City, not the Board, had made that promise to Ms. Wenguer, and she was a member of the GERS plan. Mr. Rudominer said it had come to light that Ms. Wenguer's benefits were below market and if the Board agreed they wanted to keep Ms. Wenguer, they should discuss ways to boost her compensation "either through actions we can take without cost or based on salary survey and outside a contract, increase the cost."

Mr. Hole did not feel the Board should spend members' and beneficiaries' money fighting for Ms. Wenguer's personal benefit when she was a member of another plan. Mr. Fortunato thought they needed to find ways to enhance the benefits since employees did not have the ability to enter a defined benefit plan. He wanted to do whatever was possible to make Ms. Wenguer whole.

Mr. Bayne wanted the Board to consider a more meaningful retirement benefit for their employees. He wanted to see proof, in writing, of the promise made to Ms. Wenguer. She agreed to provide Mr. Bayne with all of the documentation she had collected.

Chair Dew wanted to assist Ms. Wenguer in getting her buy-back, including paying for legal support. He would also support Lisa Galligan in this regard. Mr. Klausner had indicated the cost to represent an employee in this would be minimal because he would only need to refer to the ordinance.

Mr. Kaufman believed it was within the Board's purview to assist Ms. Wenguer in getting prior credited service in the GERS plan. He suggested raising Ms. Wenguer's salary, which would result in an increase in her pension, instead of buying back time through GERS. Compensating her could also be accomplished through an annuity product. Mr. Bayne was not comfortable with Mr. Kaufman's suggestion. Chair Dew said he was waiting for direction from the Board before he discussed this with the City Manager. It was agreed that Chair Dew would meet with the Mayor, City Manager and City Attorney to discuss this on behalf of Ms. Wenguer.

The Board returned to this discussion later in the meeting. Ms. Wenguer stated the Board could do whatever it wished regarding employee benefits. She advised the Board to seek advice from Mr. Klausner and Mr. Kaufman.

### **AON Proposal**

Ms. Wenguer needed the Board's approval to bind the coverage. She noted that the coverage and premium were the same as last year.

Mr. Kaufman suggested requesting a quote for a plan with a higher deductible. Ms. Wenguer said they had done that a couple of years ago and it had not reduced the premium but agreed to call AON.

**Motion** made by Mr. Hole, seconded by Mr. Bayne, to approve binding the contract. In a voice vote, motion passed unanimously.

### **2016 Meeting Calendar**

Ms. Wenguer asked Board members to make her aware of any conflicts as soon as possible. Chair Dew said the November 2016 meeting needed to be moved from the 9<sup>th</sup> to the 16<sup>th</sup>.

### **Firefighters Supplemental Insurance Money**

Ms. Wenguer informed the Board that they had received \$297,468.00 in supplemental insurance money.

### **SYSTEMATIC FINANCIAL:**

#### **Annual Performance Review**

#### **Steve Schott, Kevin Schmid, CapTrust**

Mr. Schmid said Systematic had trailed their benchmark index by a couple of percent and were down 11% for the quarter. He stated they were less tolerant of managers that consistently underperformed in negative environments and Systematic had done this during a couple of periods in the past five years. Systematic representatives were present to explain the factors that had led them to underperform this quarter.

James Wallerius and Brian Kostka from Systematic distributed binders to Board members. Mr. Wallerius admitted the difficult performance in a very volatile third quarter after doing very well earlier in the year.

Mr. Kostka explained that in the first half of the year, they were outperforming the benchmark by 170 basis points but companies with positive fundamentals and companies trading at low PE valuation levels were outperforming the market. He described how high-dividend stocks with no fundamental improvement had been trading at unprecedented levels at the beginning of the year but people had realized there was no reason own these stocks and they had begun correcting.

Mr. Kostka said the Federal Reserve had not raised interest rates and had introduced additional risks to the US GDP, causing people to dive back into the high-dividend stocks because they statistically carried low risk. Hillary Clinton's discussion of her health care proposal had also introduced political risk, causing a shift from investment in healthcare stock to dividend yield stocks. Mr. Kostka said the Board

should not be concerned about current underperformance; the market was starting to look at company fundamentals again and they believed the short term reaction would reverse.

Mr. Kostka confirmed for Vice Chair Rudominer that they believed the process they had in place outperformed over time and they anticipated the performance they had experienced at the beginning of the year going forward.

Mr. Hole said Systematic's 10-year performance was not a strong argument for keeping them. He asked about their 94% turnover ratio. Mr. Kostka explained that the macro currents in the last five years had overwhelmed company fundamentals. He said they constantly invested in companies that showed the best fundamentals at that time; if a company missed expectations, this triggered them to sell.

Mr. Hole asked how Systematic viewed companies compared to Aristotle, which had done well over a number of years, and noted the differences in their turnover and weighting. Mr. Wallerius stated Systematic paid very low trade commissions, so they did not trade for the sake of generating commissions. Their style was based on avoiding companies that were in the "value trap", that had low valuations but had not begun to increase in stock price. The higher turnover was due to buying companies in the right part of their cycles, seeing the value realized and selling before the stock became overvalued.

Chair Dew was concerned about Systematic's weighting in energy and utilities, sectors that Mr. Kostka anticipated would take a hit when interest rates were raised. Chair Dew said Systematic had struggled compared to other active managers and wondered why the Board would stay with them if they intended to stay their course.

Mr. Kostka stated their weighting in utilities, real estate trusts and consumer staples were actually underweight compared to the index. Regarding performance, since inception, they were 50 basis points above the benchmark. He remarked that if interest rates rose, they should see a "meaningful tailwind" in the portfolio.

Mr. Wallerius stated earnings season was when the portfolio typically outperformed and today, the portfolio was outperforming the benchmark by 40 basis points. He believed it would come back fairly quickly, as company fundamentals came back into play.

Mr. Schott said they preached patience but were also very vigilant about pulling something when it was not working, and recommended removing this manager. Vice Chair Rudominer asked if they should stay with Systematic while they sought a replacement and Mr. Schmid remarked this was not a "house on fire" situation. He noted that until this quarter, Systematic had outperformed the benchmark by 1.25% annually, a fairly good track record.

Mr. Schmid stated there were four managers they would look at to replace Systematic and the Board members could suggest any others they wished to consider. Mr. Hole asked about Aristotle and Mr. Schmid said based on their utilities exposure, Aristotle would take a hit when interest rates rose but he believe they would still outperform the benchmark.

Chair Dew agreed it was time for a replacement and he wished to email the name of another manager he had researched for Board members to consider. Mr. Bayne was concerned that considering a manager on which CapTrust had not performed due diligence would cause a delay. Mr. Schmid suggested scheduling a special meeting in late October/early November to consider Aristotle Capital Management, Diamond Hill Capital Management and Seizert Capital Partners. Ms. Wenguer agreed to coordinate the meeting date with Board members.

## **CAPTRUST:**

### **Monthly Investment Review**

Mr. Schott reported on the current stock climate and remarked that high-quality fixed income was the right place to be. Mr. Schmid said in general, most of the active managers had outperformed the benchmark over the quarter in a negative environment. EnTrust was struggling on the alternative side,

down 5.5% for the quarter. Mr. Schmid wanted to know if the Board had any potential interest in Invesco Private Equity Partnership before proceeding with due diligence. He noted this was an illiquid asset class. Vice Chair Rudominer suggested CapTrust perform minimal due diligence to judge if the promise was real. He noted the headline and political risk of private equity investing. Mr. Schmid agreed to move forward with due diligence and report back to the Board.

## **PENDING ITEMS**

### **New Business**

Ms. Wenguer said the Division of Retirement was conducting a Trustees School from November 17 to 19 in Orlando and advised any interested Board members to contact Ms. Goyes.

Mr. Hole reported most Board members had attended the FPPTA to keep their certifications up. There had been good seminars on looking at individual money managers, how proxies are voted, and “holding the feet to the fire on some of these managers that support an initiative to do away with defined benefits” including looking at where they put their money and boards on which they sat.

## **COMMUNICATION DIRECTOR’S REPORT**

Fred Nesbitt

Mr. Nesbitt said Ken and Lynn had done an excellent job at the FPPTA on judging disability cases and there had been good participation.

### **Old Business**

#### Schedule A

No discussion.

#### Interest on Employee Contributions

Ms. Wenguer informed the Board that Assistant City Attorney Dunckel promised to provide an opinion on Friday. She had told affected employees to accept the checks the City was issuing because it could take months to resolve the problem.

### **Communications to the City Commission**

None.

There being no further business to come before the Board at this time, the meeting was adjourned at 3:25 p.m.

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