

September 11, 2019



**POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316**

Board Members

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| Ken Rudominer, Chair | P |
| Richard Fortunato, Vice Chair | A |
| Scott Bayne, Secretary | P |
| Jim Naugle, Trustee | P |
| Jeff Cameron, Trustee | P |
| Dennis Hole, Trustee | P |
| Derek Joseph, Trustee | P |

Also Present

Lynn Wenguer, Executive Director
Alexandra Goyes, Deputy Director
Jacqueline Smith, Administrative Assistant
Robert Klausner, Board Attorney
Anna Klausner Parish, Board Attorney
Kyle Campbell, CAPTRUST
Steve Schott, CAPTRUST
Fred Nesbitt, Board Communication Director
Jamie Opperee, Prototype Inc. Recording Secretary

ROLL CALL/CALL TO ORDER

The meeting was called 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: August 14, 2019

Motion made by Mr. Naugle, seconded by Mr. Hole to approve the Board's August 14, 2019 meeting minutes. In a voice vote, motion passed unanimously.

NEW HIRES:

Chair Rudominer recognized the new hires.

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| BENEFITS: | POLICE DEPT: | DROP Retiree: | John P Davis |
| | | Vesting: | Andrew Cavalier |
| | | Member Termination: | Ashley Nawrocki |
| | | Lump Sum Refund: | Shaun Poche |
| | | | Lauren G. Liptak |

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| FIRE DEPT: | DROP Retiree: | Ronald Tetreault |
| | | Kevin Galt |

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| | Rafael Dominguez |
| New Beneficiary: | Suzanne Durham |
| Retiree Death: | Paul Scardina |

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

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| BILLS: | CAPTRUST | \$21,250.00 |
| | Foster & Foster | \$6,690.00 |
| | Klausner, Kaufman | \$3,000.00 |
| | Klausner, Kaufman | \$2,000.00 |

Ms. Wenguer said the \$2,000 bill from Klausner was to reimburse them for paying a doctor to review a disability application.

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

COMMENTS FROM PUBLIC/ INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

None

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| CAPTRUST: | Kyle Campbell |
| Monthly Investment Review: | |

Chair Rudominer asked if they were still paying EnTrust full fees for the Peruvian bonds and Ms. Wenguer stated they were paying approximately \$600 per month, which was not the full fee. Mr. Campbell stated they were compiling a full EnTrust fee report encompassing the last three years.

Chair Rudominer asked if CAPTRUST had suggestions for mitigating the risk that political headlines could have on markets. Mr. Schott agreed there was significant impact and resultant volatility from President Trump's comments and from the ongoing trade/tariff issues. He noted that the current availability of information from many sources had impacts. Mr. Schott agreed there was more volatility but noted it could affect markets in positive as well as negative ways. He recommended staying the course over time and adhering to their plan

Mr. Hole asked if Mr. Schott would consider putting 10% back in bonds, even considering the interest rate risk. Mr. Schott said adding to bonds would not get them to their actuarial goal. Over time, he said they had seen that one must be in the stock market to obtain those gains.

Mr. Schott stated in the short term, the expected returns on the market would be lower than for the past 10 years, but it would still be better than fixed income.

Mr. Campbell provided a market update: The S&P 500 was up 1.7% for this quarter and was up over 20% for the year. International markets were up year to date over 12% but were down 1.5% this quarter. Mr. Campbell reported active managers were holding up well in this environment

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| Private Credit: (under separate cover) | |
| Churchill Asset Management | David Heilbrunn, Ken Hudson |

Mr. Hudson and Mr. Heilbrunn provided a presentation about the company and their Churchill Middle Market Senior Loan Fund II.

Mr. Hudson stated Nuveen, Churchill's parent company, was a \$1 trillion asset management firm over four platforms: fixed income, equities, alternatives and multi-asset. It was the 15th largest

asset management firm in the world, giving them scale, longevity and resources.

Mr. Hudson continued that five years ago, Nuveen had been acquired by TIAA CREF. He informed the Board that they were responsible for 5 million teachers' and professors' pensions.

Mr. Heilbrunn explained that the regulatory environment had driven banks away from lending to small and medium sized companies. Churchill had been set up 14 years ago to address this need. Mr. Heilbrunn stated they only lent to companies that were owned by private equity firms. In 14 years, they had made over 600 loans, invested \$11 billion in capital and had a cumulative loss rate of less than 1%. In 2009, their worst year, they had generated a 4.2% return net of losses. Over 14 years, their average return was 7%. Mr. Heilbrunn reported TIAA Nuveen retained one-third of every loan they made.

Mr. Heilbrunn remarked on the stability of the team: the same seven people who started the firm were still managing the firm today. They had been voted Lender of the Year in the U.S. Mergers & Acquisitions magazine.

Mr. Heilbrunn informed the Board that the Middle Market Senior Loan Fund II focused on traditional senior secured loans to middle market companies owned by private equity partners. Target net returns were 6 – 7% net of fees and expenses. They already had \$1 billion committed and were seeking a total of \$1.5 billion. The fund had been up for over a year.

Mr. Heilbrunn said the reason they limited lending to private equity owners was because the equity firms invested capital in the companies and if there were problems, the usual remedy was for the private equity firm to provide additional capital.

Mr. Klausner noticed that this was organized as a limited partnership, so they would own units in the partnership. He asked if the fund was liquid and Mr. Heilbrunn said, "I'm not going to prevent you from selling your shares if you want to, but realistically, that's going to be a challenge. It's not a liquid product; it's a private fund." If they needed to exit the fund, he said Churchill could help them try to sell their position. The duration was six to seven years.

Mr. Schott explained that because of the illiquid nature of this fund, he would recommend using funds from equities, not bonds.

Mr. Hudson said they only invested in 8% of deals they considered. Mr. Heilbrunn stated they tended to underperform in benign markets and significantly outperform in challenging markets.

Mr. Heilbrunn stated the loans were below investment grade. Their collateralized loan obligations required that they get a rating estimate for every loan and the estimates were typically in the strong B, weak BB range.

Chair Rudominer asked why the fund was not leveraged and Mr. Schott explained that leveraged loans would expose them to larger potential losses than they wanted in the portfolio.

Chair Rudominer asked if there was a 175 limit on this type of below investment grade fund. Ms. Klausner Parish agreed to determine this.

Mr. Campbell reminded the Board that they wanted to bring in Angelo Gordon to make a presentation.

**Mission Based Investing: (under separate cover)
Round Hill & Affiliated Development**

Chair Rudominer recalled the Fixed Income Alternative Committee had discussed investing locally. He had spoken with the local firm Round Hill & Affiliated Development and sent their

information to CAPTRUST to be vetted.

Mr. Campbell reported the firm had done six developments, including The Six13 underway in Fort Lauderdale. This was a real estate development company and was not focused on income generation, so this was not an ideal alternative to traditional fixed income.

Mr. Campbell said Round Hill & Affiliated Development was currently raising \$13 million for The MID project in Lake Worth. The average commitment from participants in the limited partnership was \$3 million to \$5 million. He said this was a single-deal commitment as well; there was no diversification. He stated they wanted to work toward getting an investment that was more programmatic.

**ATTORNEY'S REPORT:
Zuora Update**

Robert Klausner

Mr. Klausner said six other institutional investors had applied for lead plaintiff status and two had larger losses than Fort Lauderdale. Both investors met the standards for lead plaintiff and Mr. Klausner would file a notice on non-objection.

Mr. Klausner reported the Scott disability claim would be presented to the Board in October. There was another claim for a police officer named Mammarelli. A cardiologist had determined Mr. Mammarelli was disabled, but not for cardiac reasons, and strongly recommended a psychiatric exam. Ms. Wenguer said Mr. Mammarelli had originally applied for disability under psychological but he was being treated by a psychologist, which did not qualify. Mr. Klausner stated a PTSD claim must be under a psychiatrist's determination.

Mr. Klausner recalled that their representation agreement had a three-year fee guarantee. It had been 3.5 years and he would bring a modest fee increase to the Board's October meeting for consideration.

Mr. Klausner explained that if they wanted to invest in something that was below investment grade, such as Churchill, they would need to amend their investment policy statement. He stated they were permitted investments that were below investment grade, provided the overall quality of that class was A or better. Mr. Klausner stated the Board should see the rating process Churchill used and evaluate if the risk was worth the reward.

Mr. Klausner pointed out that this was not a fixed income replacement; they intended to use this as an equity replacement. They would not own the loans, but units in a trust, like shares in mutual fund. If the Board was interested, Mr. Klausner agreed to request a copy of the trust agreement to examine.

COMMUNICATION DIRECTOR'S REPORT:

Fred Nesbitt

Mr. Nesbitt announced they would have an interesting session at the FPPTA on the LeRoy Collins Institute. The chairman of the institute's board would be on a panel with Mr. Nesbitt to discuss the FPPTA report's methodology and its flaws. He hoped they could discuss ways to tweak the methodology. Mr. Klausner pointed out that the methodology did not take into account the actuarial communities' push to get municipalities to lower their pension funds' anticipated rates of return.

Mr. Klausner reported he would be speaking at the NCPERS Public Safety Conference in New Orleans on October 29 and at the State School on October 30.

EXECUTIVE DIRECTOR'S REPORT:

Website Redesign

Ms. Wenguer informed the Board that the redesign was underway.

2019-2020 Annual Budget

Ms. Wenguer had provided the 2019-2020 proposed budget to members. She had made a couple of minor changes over last year.

Motion made by Mr. Joseph, seconded by Mr. Bayne to approve the budget as presented. In a voice vote, motion passed unanimously.

Regarding the retroactive pay calculations, Ms. Wenguer stated the City had paid the majority of firefighters. Mr. Bayne said 45 were underpaid, 11 were overpaid and they were still going through them. Ms. Wenguer had also checked some calculations for Police and found them to be incorrect. They were postponing payment until they verified the amounts.

Ms. Wenguer had been working with the software provider on the retroactive pay calculator and she anticipated it would be active on the website again by Friday. She reported she was testing it now and it was working fine.

Mr. Klausner discussed recent municipal cyber-attacks and said insurance cost approximately \$2,000 per year for \$2 million in coverage. Chair Rudominer said Mr. Kaufman had recommended the Board get their own insurance even though their website was hosted by the City. Mr. Klausner said NCPERS had a competitively priced product and would send the Board the quote they had provided to Orlando.

Ms. Wenguer reminded everyone that the retirement seminar would be on September 27 and so far, only 10 police and fire and 40 general employees had signed up.

PENDING ITEMS:

New Business:

None

Old Business:

Schedule A

There being no further business to come before the Board at this time, the meeting was adjourned at 2:15 p.m.

Secretary

Chairman

Any written public comments made 48 hours prior to the meeting regarding items discussed during the proceedings have been attached hereto. Wednesday, September 11, 2019, 12:30 P.M.

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