City of Fort Myers Firefighters' Retirement System

Minutes: Meeting of June 2, 2011

1. CALL TO ORDER

Chairman Matt Galewski called a meeting of the Board of Trustees for the Fort Myer's Firefighters' Retirement System to order at 1:02 PM. Those persons present included:

TRUSTEES	OTHERS
Matt Galewski, Chair	Scott Baur & Linda Runkle, Pension Resource Center
Dino Magas, Secretary	Tim Nash & Jill Lukas, Bogdahn Group
Chief Ken Dobson	Debra Emerson, City of Fort Myer
Richard Hall	Scott Outlaw, Investment Consultant
Paul Stavich	Scott Christiansen, Christiansen & Dehner
	Additional Members of Public

2. APPROVAL OF MINUTES

The Trustees noted that the Board previously reviewed and approved the minutes for the meeting of March 3, 2011. The Trustees then reviewed the minutes for the meeting of March 24, 2011.

Richard Hall made a motion to approve the minutes for the meeting of March 24, 2011. Dino Magas seconded the motion, passed by the Trustees 5-0.

3. INVESTEMENT REPORTS

<u>Passive Strategies (Scott Outlaw)</u>

Scott Outlaw asked to speak about passive investment strategies, strategies making use of index funds rather than active investment managers. Mr. Outlaw asked if an active manager can consistently outperform the market. Since the market consists of all managers and investments taken together, by definition only half of all managers must underperform the market before fees at any given time. Once fees are taken into consideration, only 20% of managers then actually outperform the market. Mr. Outlaw stated that many of these managers do not consistently deliver such performance over time, and investors are not likely to identify those managers based on past performance.

Scott Outlaw discussed the various available index funds, including index funds that duplicated the performance of the S&P 500 market index and other alternative market indices. He used Vanguard as his examples due to low fees and substantial assets under management. He also discussed various international market indices. He noted that the advantages for indexed investment strategies include greater diversification, increased predictability or reliability, low fees, elimination of variance from the market, and full investment of assets. The only advantage to an index investment strategy is the portfolio never actually outperforms the index. Mr. Outlaw then reviewed actively managed funds, noting again that 80% of all active managers will fail to outperform the market over extended periods. Mr. Outlaw provided examples from Vanguard to illustrate the portion of managers that actually beat the market index for different asset classes over the trailing 15 years. He then gave examples of a plan that implemented an indexed investment strategy.

Tim Nash noted that Pimco often uses hedge strategies rather than trading actual bonds. Mr. Baur inquired about the apparent dispersion between the reported returns for the index strategies and the sample returns provided for actual client portfolios. Mr. Outlaw proposed to provide services to the Fort Myers Firefighters' Retirement System for about 5 bp or $22,000 per year based on current assets. When asked about tactical changes to the asset allocation for the plan, Mr. Outlaw indicated that he did not believe that the asset allocation can be reliably managed.

Mr. Outlaw explained why he would continue to use active managers for the fixed income assets, while he would index the equity portfolio. Mr. Outlaw believes that fixed income managers can in fact outperform the fixed income benchmarks over time, so he would only index the equity portfolio. Scott Christiansen asked about Exchange Traded Funds (ETFs), and Scott Outlaw explained the mechanics of the investment vehicles in greater detail. Mr. Outlaw noted that an ETF can trade during the day in the market with corresponding brokerage fees, but the trading value for the funds can also deviate from the value of the underlying securities based on supply and demand.

The Trustees discussed the services currently provided to the Board by the Bogdahn Group, and the Trustees considered the services proposed by Mr. Outlaw. Scott Outlaw departed the meeting at 2:05 PM.

Quarterly Performance Report (Tim Nash, Bogdahn Group)

Tim Nash reported that multiple managers held Microsoft during the quarter ending June 30, which struggled during the quarter. Nevertheless, the managers still beat their respective benchmarks. The international equity portfolio also beat its benchmark, despite holding in Japan and the impact of the earthquake.

Mr. Nash reported that the plan had assets of $44,450,311 as of March 31, 2011. He then reviewed the dollar reconciliation for the portfolio for the current fiscal year. The portfolio had returns of 4.26% for the quarter compared to 4.06% for the benchmark. For the fiscal year through March 31, 2011, the plan had returns of 14.35% compared to 13.30% for the benchmark. The returns did not include the performance of the Metropolitan real estate holding, which had not completed its audit and reported updated asset values. Paul Stavich noted that the real estate investment significantly reduced the recent performance for the overall portfolio. Tim Nash explained that the benchmark contained in the Investment Policy did not historically include a component for the real estate, which accounted for some of the difference in performance from the plan to the benchmark.

The Trustees continued to discuss the active investment strategies and the indexed portfolio alternatives, in light of the manager risk or variance. Tim discussed the return and asset allocation in comparison to the benchmarks, focusing on the real estate components and the fixed income allocation as examples. He also recommended that the Board consider a replacement to the growth equity portfolio, currently invested in an ETF following termination of the prior portfolio manager, in the event that the Trustees choose to continue with actively managed portfolios. Dino Magas noted that the overall portfolio merely tracked the market historically based on the up- and down- capture ratios and beta for the portfolio.

Tim Nash stated that he analyzed the portfolio historically to compare the performance to the passive strategies. Mr. Magas noted the difficulty to choose active managers that will actually outperform the benchmark. Mr. Nash compared the asset classes to the various separate account managers, as opposed to the mutual fund universe. He agreed that the plan can hire one or more bad managers, but he also believes the plan has mostly better historical performance as a result of the managers hired by the Board. Dino Magas indicated that the plan, however, had not met the objectives set forth in the Investment Policy. Mr. Nash responded that the indexing cannot help the plan, by definition, meet or exceed the performance of the benchmarks. A quick poll of the Board members present appeared to indicate that the Board either favored or should continue to investigate a passive approach as an alternative to the current portfolio management. Tim explained an additional approach, called “index satellite”, which combines a core index portfolio with high octane managers to oversee smaller portfolios of assets. Many larger retirement systems use such an approach to avoid moving the market when trading large blocks of assets. Paul Stavich and Dino Magas appeared to favor replacing all of the active managers with passive strategies.

Mr. Nash reviewed the current agreement with the Bogdahn Group, which initially included a three year rate guarantee that ending in 2009. The firm currently charges $16,000 annually for services, so Mr. Nash proposed to increase the fee to $21,000 per year. The new fee would have another three year rate guarantee. Mr. Nash proposed that the new fee should take effect with the quarter starting October 1, 2011. Even at the proposed $21,000 per year, Mr. Nash noted that the fee was still less than the fee proposed by Scott Outlaw to advise the Board on an index portfolio. The Bogdahn Group could advise the Board on a similar portfolio as well, if the Trustees desired. The Board decided to defer action on the fee increase to the larger question of the approach to managing the portfolio.

4. ATTORNEY REPORT: Scott Christiansen (Christiansen & Dehner)

Scott Christiansen reminded the Trustees that they must file the annual financial disclosure Form 1 by July 1. He then explained that the Board must designate a Records Maintenance Liaison Officer (RMLO). Because the plan must adopt a records retention schedule as well, he reviewed the requirements of the standard records retention schedule. H provided a sample resolution for the Board to adopt to appoint the RMLO. He suggested that the Board might appropriately designate the plan administrator for the role since the administrator serves as the records custodian.

Dino Magas made a motion to designate Scott Baur as the Records Maintenance Liaison Officer (RMLO) for the Board. Chief Dobson seconded the proposal, approved by the Trustees 5-0.

Mr. Christiansen asked for an update regarding the overpayments to Mr. Wright. Matt Galewski indicated that he was still working with Mr. Wright on the matter.

Scott Christiansen inquired about the status of the proposed ordinance to establish Share Accounts for the active members. Matt Galewski was told that the current members already in the DROP cannot participate in a new Share Plan, but new members in the DROP can participate depending on the language contained in the ordinance. The changes, if agreed by the City, will require a Memo of Understanding for the parties to waive bargaining. Mark Floyd, attorney for the bargaining unit, is drafting changes to the contract for the proposed ordinance.

Scott Christiansen reminded the Board that even though the Union must negotiate the changes to the plan, the Pension Board must implement any changes to the ordinance. He also noted that, in the process, comments were made that he appeared unresponsive; however, he responded immediately on all occasions when any requests were made. Furthermore, he indicated that he would prefer to draft or review a proposed ordinance for the pension prior to submission to the City for consideration. He also stated that the plan defines DROP members as retirees, and the plan must treat all retired members equitably. The union representative committed that Trish Shoemaker would review any agreement related to the bargaining contract before Scott Christiansen is asked to draft a proposed ordinance for the plan.

Scott Christiansen addressed the changes required by the recently passed SB1128. He reviewed the history of the legislation, starting with HB303. The legislation went through many changes before finally passing the state legislature. The final bill was also not so catastrophic to the members of the plan in terms of mandated reductions to benefits. The final bill has so far not been sent to the governor for signature. Mr. Christiansen reviewed the provisions of the final bill that passed, including the required task force to review the presumption for disability for public safety. Members can now agree to increase their own contributions to the plan without any corresponding increases to benefits. Finally, the definition of salary changed to limit overtime to 300 hours per year and exclude accumulated sick and vacation leave after the effective date from the final average salary calculation. The changes must take effect when the next bargaining contract for the members begins, but the current contract does not expire until 2013. Scott Christiansen explained that the Division of Retirement clarified that the banks of sick and vacation hours available to the members for calculation of the final average salary should become frozen when the changes take effect.

Mr. Christiansen reviewed the composition for the Board of Trustees. The City cannot change the composition of the Board, but Mr. Christiansen noted that the Mayor could be replaced on the Board with another City designee.

5. ADMINISTRATOR REPORT: Scott Baur (Pension Resource Center)

Scott Baur thanked the Trustees for the opportunity to work with the Board and the members of the plan.

He then addressed various items associated with the transition in plan administration. He provided the Trustees with a detailed overview of the transition, along with a timeline for completion of various aspects associated with the transition. Mr. Baur provided the

Trustees with an updated contact list for the Board, and a separate contact list of other service providers working for the plan. He asked the Trustees to provide any updates as necessary to the information that he had received. He also reported that he already included the Ft Myers Firefighters' Retirement System on the website for the Pension Resource Center, making information for the plan available to the participants. The website includes some of the plan documents and forms he received from Christiansen and Dehner, counsel for the Board. Other items, such as minutes and reports from the investment consultant, will be posted to the website as they become available. He urged the Trustees to review the website and provide any feedback.

Mr. Baur provided the Board with an updated signature authorization for the plan, to allow the new administrator to give direction to the Fiduciary Trust, Custodian for the plan, on behalf of the Board. Mr. Christiansen explained that the update was routine, and he indicated that he would provide a revision to the Operating Rules and Procedures for the Board based on any changes to the authorizations.

Dino Magas made a motion to execute the signature authorization for Fiduciary Trust to include the new administrator; the new authorization would require direction by any two Trustees or the plan administrator. Chief Dobson seconded the motion, approved by the Trustees 5-0.

Mr. Baur offered sample letters that he would send to members of the plan as he received more detailed information regarding the members from the City and the custodian. He then reviewed a detailed procedure that his firm would use to calculate benefits for members of the plan, created from the Ordinance, Summary Plan Description, and most recent actuarial valuation. He asked the Trustees to review the procedure carefully for consistency with policy and practice as previously administered by the Board. He created a new form for members explaining the retirement process as well.

Scott Baur briefly updated the Board regarding the annual review process for disabled members. The members do not appear to have had a recent review, so his office will begin an annual review procedure as needed.

6. PLAN FINANCIALS

Mr. Baur provided the Warrant dated June 2, 2011 for review and approval by the Trustees. The Warrant included all payments of invoices since January 1, 2011. He explained that the plan appeared not to have paid many invoices in the preceding 6 months, so his office will continue to gather and review any outstanding invoices for payment. The Warrant dated June 2, 2011 would therefore likely not capture all activity for the current fiscal year; rather, the Warrant would implement a new procedure for the Board to review and approve payments.

Paul Stavich made a motion to approve the Warrant for accounts payable dated June 2, 2011. Dino Magas seconded the motion, passed by the Trustees 5-0.

Mr. Baur did not have any other benefits for approval at the meeting, but he indicated that the Board would review and approve all benefits and changes to benefits in the future.

7. OLD BUSINESS

The Trustees did not have any additional old business for discussion.

8. NEW BUSINESS

Mr. Baur explained the delay in the DROP Statements provided by Foster, actuary for the plan, to the members in the DROP. Since the actuary lacked the return for the real estate component of the investment portfolio as of March 31, 2011, the actuary could not determine the overall rate of return on the plan assets for the quarter and update the DROP Accounts accordingly. The actuary will provide new statements to members in the DROP once the plan receives the quarterly return for Metropolitan.

Paul Stavich asked why the Department had no permanent light duty positions available for partially disabled members. Scott Christiansen explained that Chapter 175 Florida Statutes set the standard for an active member of the plan, and members must maintain their certification. Disabled members typically cannot meet the physical requirements of the job. Mr. Christiansen did note that the state has reconsidered the definition of disability periodically.

The Trustees previously discussed the status of the benefit overpayments.

9. NEXT REGULAR MEETING

The Trustees discussed the schedule for a Special Meeting to consider an indexed approach to management of the plan assets. Tim Nash indicated that he would provide a study for the Special Meeting to the Board in the next 30 days. The Trustees previously set the schedule for the next regular quarterly meeting on Thursday, September 1 at 1:00 PM.

10. ADJOURNMENT

There being no further business, Chief Dobson made a motion to adjourn the meeting at 4:30 PM, seconded by Richard Hall, and approved by the Trustees 5-0.

Respectfully submitted,

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Dino Magas, Secretary