City of Fort Myers General Employees' Retirement System

Minutes: Meeting of December 14, 2011

1. CALL TO ORDER

Chairperson Cecile Mazzio called a meeting of the Board of Trustees for the Fort Myers General Employees' Retirement System to order at 9:05 AM. The plan administrator called roll. Those persons present included:

TRUSTEES	OTHERS
Cecile Mazzio, Chair	Scott Baur & Linda Runkle, Pension Resource Center
Leif Lustig, Vice-Chair	Debra Emerson & Connie Gleason, City of Fort Myers
Donna Lovejoy, Secretary	Scott Christiansen, Christiansen & Dehner
Barbara Carlson	Tim Nash, The Bogdahn Group
Richard Griep	Brad Heinrichs & Christine Laufer, Foster & Foster
Thomas O'Malley	
Eloise Pennington	

Those persons present recited the Pledge of Allegiance.

2. APPROVAL OF MINUTES

The Trustees reviewed the minutes for the meeting of October 19, 2011.

Donna Lovejoy made a motion to approve the minutes of the meeting for October 19, 2011. Eloise Pennington seconded the motion, passed by the Trustees 7-0.

Cecile Mazzio recognized Connie Gleason, present at the meeting on behalf of the City of Ft Myers. Ms. Gleason addressed the Board regarding HIPAA privacy issues for retiring employees of the City. The new plan administrator does not have a business associate agreement with the City, so she asked the Board for direction regarding communication of premiums for retired members to the Custodian for payment.

Scott Baur explained the purpose of the business associate agreement, which creates a contractual protection between the parties to protect the confidential information of the plan members. He explained that he believes his firm has an agency relationship to the City as the plan administrator, so he does not normally have a secondary business associate agreement with the municipality for the administration of a pension plan. His firm does, however, keep business associate agreements with other municipalities related to benefit plan consulting and administration. He expressed no reservations about entering a business associate agreement with the City of Ft Myers, but he suggested that the Board authorize Connie Gleason as a signor for Comerica for the purpose of communicating premium deductions or changes from pension checks for retired employees of the City. In the meantime, he indicated that he would forward a template business associate agreement to Connie Gleason for consideration.

Ms. Gleason noted that the health insurance premiums for retired general employees often consume the entire pension check, unlike retired police officers or firefighters. She indicated that the City does obtain a written authorization from each member authorizing the custodian to deduct the premiums from the pension check.

Richard Griep made a motion to add Connie Gleason as an authorized signor for Comerica. Donna Lovejoy seconded the motion, approved by the Trustees 7-0.

Ms. Gleason thanked the Board.

3. ACTUARY REPORT (Foster & Foster)

Brad Heinrichs and Christine Laufer presented the annual actuarial valuation on behalf of Foster and Foster. Mr. Heinrichs explained that Patrick Donlan had a conflict for the Board meeting date.

Mr. Heinrichs indicated that the valuation contained good news related to the required contributions. Contributions as a percent of payroll decreased from 28.3% to 27.7%; meanwhile, the total pension payroll volume for the City also decreased. As a result, the required City contribution decreased by about $750,000. The Board discussed the best way to present the news related to the decrease in required contributions.

Mr. Heinrichs explained that the contribution decreased due to corresponding decreases in payroll relative to the assumptions adopted by the Board. He also noted that the -15.3% investment return for 2008 would drop from the 4-year smoothing of investment returns on the next valuation. The valuation also expresses the required contribution as a percent of payroll only for members not in the DROP. Mr. Heinrichs stated that his firm switched to a new valuation platform, and the new software adjusted some of the liabilities from the prior valuation. Due to the software change, the unfunded liability decreased from approximately $67,000,000 to $54,000,000, highlighting the arbitrary nature of the report issued by the Collins Institute at the University of Florida that assigned an "F" grade to the plan. The valuation amortized the $13,000,000 gain in the unfunded liability over 10 years.

Mr. Heinrichs stated that the present value of the accrued benefits increased to $107,662,048, while the market value of assets decreased slightly to $62,693,153. He noted that the plan experienced a loss due to negative investment performance, but the 15% gain over expected salary increases in this case weighed more than the investment loss. Because the assumed payroll growth cannot exceed the actual 10-year average payroll growth, the valuation actually accelerated the funding of the remaining liabilities.

Mr. Heinrichs reviewed the required supplemental information to the State required by SB1128. The supplemental information shows the plan liabilities using a 7.75% earnings assumption. The Trustees discussed asking the actuary to draft a summary of the valuation results that the Board could forward to the City Council. The Trustees also considered having a representative attend the January 3 Council Meeting.

Leif Lustig made a motion to approve the actuarial valuation. Donna Lovejoy seconded the motion, passed by the Trustees 6-0.

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

Scott Christiansen advised that changes to the Summary Plan Description should be postponed until pending issues regarding benefit changes and the composition of the Board are resolved. He reported that he is negotiating with investment manager Manning & Napier Advisors regarding language in the recently revised Investment Policy Statement.

Mr. Christiansen presented Resolution 2011-1 regarding the designation of a Records Management Liaison Officer (RMLO). He recommended that the board designate Scott Baur and Linda Runkle, Pension Resource Centers, as the RMLO.

Richard Griep made a motion to approve Resolution 2011-1 designating Scott Baur and Linda Runkle of the Pension Resource Center as the Records Management Liaison Officers. Leif Lustig seconded the motion, approved by the Trustees 7-0.

Mr. Christiansen reported that the Operating Rules and Procedures will be amended to reflect the Board's designation of signature authority. He will present recommended changes at the next quarterly meeting. He advised that he does not anticipate any proposed legislation in the next legislative session related to General Employee Pension Plans. He reviewed proposed quarterly meeting dates for 2012: March 21, 2012; June 20, 2012; September 19, 2012; and December 19, 2012.

Donna Lovejoy made a motion to approve the proposed quarterly meeting dates for 2012. . Barbara Carlson seconded the motion, approved by the Trustees 7-0.

Mr. Christiansen discussed the pending proposed ordinance to modify the composition of the Board to include the City Manager or his designee. He stated that the designee must be a stable appointment for a term, not a designee that changes with each meeting.

A lengthy discussion of negotiations between the City and the Union regarding changes to the pension plan ensued. Donna Lovejoy expressed concerns regarding the proposed bargaining article that would allow members to change benefit tiers following passage of the ordinance. She noted that members previously selecting the higher benefit tiers paid the increased contribution rate already for several years. The Board considered the inequities created by allowing new members to enroll in a higher benefit after some members already enrolled and paid the higher contribution rates for as many as 8 years. The Trustees also considered the role of the Board, since the Board merely administers the plan but has no part in the negotiation process.

Brad Heinrichs stated that the proposed enrollment period could affect the contribution rates required for the members previously electing the higher benefit tiers. While the current valuation already included substantial changes from the prior year due to changes in methodology, he recommended reworking the numbers in the valuation rates based on alternate scenarios or assumptions regarding what the members might choose during an open enrollment period. The Board continued to consider the proposed contract. Tom O'Malley stated that the City and the bargaining unit had already reached an agreement on the proposed changes. He further noted that the members should have the choices negotiated by the union due to the substantial benefit changes included in the proposed ordinance.

Rose addressed the Board. She stated that her department is in an uproar over the inequities posed by the proposed ordinance to members previously electing the higher benefit tiers. She further stated that the members would likely resort to litigation given that the proposed enrollment period might create an adverse impact to the members who already made an irrevocable election to participate in one of the benefit tiers. Donna Lovejoy noted that the Council must still adopt an ordinance following ratification of the bargaining agreement by the union members. Brad Heinrichs discussed the role that a Board sometimes plays to assist with the negotiation process. He suggested a study to identify the issues and consider the possible impacts to the members, as a more constructive approach to offering input to the process.

Eloise Pennington inquired about the current status of the negotiations, which appear to have already resolved the pension issues. Donna Lovejoy objected to the expense to engage an additional study, since the City should pay the cost to obtain the pertinent information. Richard Griep observed that the City ultimately pays the cost to administer the pension plan through the required City contributions. Scott Christiansen stated that such a study would in fact fall within the scope of the role that the Trustees play as fiduciaries to the plan.

Leif Lustig made a motion to engage the actuary to provide an updated report exploring the possible impacts of the proposed ordinance. The report would go to both the City and the Union. Richard Griep seconded the motion.

Brad Heinrichs suggested that Foster provide the analysis to the Board, and the Board could then forward the study to the City and the union. Christine Laufer explained that the actuary would make assumptions regarding the choices that the members might actually make if given an open enrollment for the existing and proposed benefit tiers. She indicated that members closer to retirement might be likelier to choose a higher benefit. The Trustees further considered the choices that the members might make during an enrollment. Donna Lovejoy stated that the bargaining contract was scheduled for ratification on January 10, while the Board had the next scheduled meeting on January 18. Richard Griep said that the information should go to Council, if possible, prior to the scheduled ratification vote.

Debra Emerson stated that she did not believe a study would provide relevant information to the process underway, since the study would necessarily contain guesses about what the members might choose. She does not believe that many members will actually change benefit tiers during an enrollment. Leif Lustig believes the Board has an obligation to provide input to the process if the Trustees have reason to believe that the ordinance changes will result in negative outcomes. Brad Heinrichs noted that the more the more choices the members have to make selections, the possibility that the members will subject the plan to adverse selection with those choices increases. Tom O'Malley explained that the proposed ordinance would allow members to make another one-time choice to elect one of the alternative benefit tiers, with an additional one-time future election available to select a different multiplier. Brad Heinrichs explained the complexities of an actuarial valuation where 500 members might have 500 different benefits. Tom O'Malley made clear that the union represented the wishes of the union members during the labor negotiations, as opposed to the non-bargaining employees.

Richard Griep called the question on the motion. Donna Lovejoy expressed her objection to a study that must rely on conjecture, and the Board would not have the opportunity to review the assumptions made by the actuary. Brad Heinrichs could not provide a clear cost estimate in advance for the study, although his firm would charge the contractual hourly rate. Leif Lustig restated the motion.

Leif Lustig made a motion to request that Foster & Foster provide an analysis and commentary regarding the impact of movement within the existing plan tiers, including advice on the economic impact of the proposed changes. The analysis must be completed prior to January 3, 2012 for submission to the City Council. Richard Griep seconded the motion, approved by the Trustees 6-1; Donna Lovejoy voted against the motion.

The Board discussed the current investment return assumption of 8.4%. Investment Consultant Tim Nash advised that 8.4% is a reasonable assumption for this year, the next several years, and the long term thereafter. Richard Griep reported that he supports decreasing the assumption to 8.25%. Brad Heinrichs explained that a 1% reduction in the assumption would increase the City's required contribution by 8 to 10% of payroll. He stated that a reduction of .15% would increase the City's contribution by 1.5%. He also advised that a change in assumption at this point would require a correction to the 2011 Actuarial Valuation.

Richard Griep made a motion to maintain the investment earnings assumption at 8.4%. He further moved that the Board expected to obtain an 8.4% return for the next year, the next several years, and the long term thereafter. Donna Lovejoy seconded the motion, approved by the Trustees 7-0.

Mr. Christiansen discussed the proposed ordinance regarding the purchase of air time and advised that the Union must approve the proposed changes prior to submission to the council. Thomas O'Malley reported that the Union has not acted upon the proposed changes at this time.

Scott Christiansen departed the meeting and the Board took a brief recess.

5. INVESTMENT REPORTS

Tim Nash briefly introduced the three equity growth firms scheduled to make presentations to replace Atalanta Sosnoff. He provided a brief overview of the respective portfolios managed by the companies scheduled to make presentations, noting that Brown manages a more concentrated portfolio, Winslow has a broader range of holdings, and Wells Fargo also has a more concentrated portfolio. He noted that each firm will make a presentation for 20 minutes, allowing an additional 10 minutes for questions and answers.

Brown (Chris Tophur)

Chris Tophur provided an overview of Brown, based in Baltimore, Maryland, and founded in 1993 as part of the management firm Alex Brown & Son. The firm has since separated from Alex Brown. He stated that 90% of the employees have ownership in the company, with the CEO holding only 4%; the ownership of the company is therefore well diversified amount the employees. The manager for the growth equity strategy has been with Brown since 1996. Both the managers and the analysts share in the ownership of the firm. Brown currently manages about $19 billion in total assets, about half for high net worth individuals and the other half for institutional investors.

Brown implements an investment approach driven by fundamental measures for companies, making concentrated investments in individual companies. Brown does not use a macro screen to determine market or sector allocation, and instead Brown builds the portfolio from the bottom up through selection of individual securities. The analysts are organized around individual market sectors, and the management team establishes its own estimates for the expected performance of companies based on their own analysis. The manager then establishes an upside and downside target for each holding in the portfolio. The manager will also adjust the shares held in the portfolio as the value of a security in the portfolio fluctuates in the range previously established. Mr. Tophur reviewed the historical performance for the proposed strategy, noting the manager captured a larger portion of the upside for the market while protecting the portfolio on the downside. As a result, the portfolio historically generated returns in excess of the benchmark. The lead manager for the strategy is 47 years old.

Chris Tophur then reviewed the risk controls implemented in the portfolio. The manager will rigidly eliminate a holding from the portfolio when the security reaches the established target. Brown manages a total of $6 billion in the proposed strategy. The firm will manage a portfolio with less than $10 million in assets for 80 bp. His firm will agree to Florida governing law and statutes in the manager agreement. In response to questions from Donna Lovejoy, Chris Tophur reviewed the performance of the portfolio during the 3rd quarter of 2011. When the portfolio experiences a significant drop in value, the manager looks for opportunities to redeploy capital. In 2008, the manager turned over many holdings to realize a substantial gain in 2009. Brown can also comply with the Investment Policy restrictions for international holdings in the portfolio.

Winslow (Dan Smith)

Dan Smith reviewed the background of the investment team and the portfolio manager for the proposed strategy. He explained that growth companies have a life cycle where many companies initially exceed their expectations in the market. His firm looks to identify such growth prospects before the market. The manager will reduce or eliminate holdings in the portfolio when those prospects change, based on analysis performed by the management team. The manager will also eliminate positions as the market recognizes the expected value for a holding. The manager remains true to the mandate for the strategy, regardless of the broader market. Winslow achieved strong results historically with this investment strategy, finishing in the top 2% of the manager peer group. Mr. Smith attributed the strong historical performance to the investment approach and the risk controls employed in the portfolio.

Mr. Smith reviewed the background for Winslow as an investment firm as well.

Wells Heritage (Ray Urban)

Mr. Urban introduced himself as a managing director for Nuveen, which purchased Wells in 2008. He has 30 years of experience in the investment industry. He reviewed the background for Nuveen; Wells was founded originally in 2008. The manager believes in a small nimble investment team with a concentrated portfolio. The firm has only one product with $25 billion under management. The firm will soon close the portfolio to new investors. The manager outperformed the benchmark in 10 of the last 12 years, with only slight underperformance in 2006 and 2008. The manager seeks opportunity while mitigating risk. Wells selects stocks by looking for earnings that will exceed expectations. The portfolio generally holds 55-60 names in the portfolio, while the portfolio composition does not closely mirror the benchmark.

With a single investment strategy, the manager employs a disciplined buy-sell process. The firm has had the same two lead managers on the portfolio for the past 12 years, and the portfolio has generated returns in excess of 400 bp over the benchmark historically.

Tim Nash discussed the differences between commingled accounts and separate accounts. He prefers the increased transparency associated with separate accounts, although the commingled accounts tend to have increased liquidity. Donna Lovejoy noted that Wells had the strongest upside/ downside capture ratio for the three managers. Donna Lovejoy also commented that she preferred the more concentrated portfolios managed by both Brown and Wells. Tim observed that Wells actually has a negative correlation to Latief, the large cap value equity manager.

Tim Nash indicated a preference for Wells due to the negative correlation against the other large cap equity manager retained by the Board. He would make Brown his second choice due to the investment process implemented by the manager. Tom O'Malley noted that Brown did not perform well during the volatile periods in the market.

Barbara Carlson made a motion to hire Wells Heritage to replace Atalanta Sosnoff. Leif Lustig seconded the motion, approved by the Trustees 7-0.

Tim Nash requested the Board choose a backup manager, in the case that an agreement could not be quickly reached with Wells. Barbara Carlson agreed to amend her original motion to include Brown as a second choice. The Board passed the amended motion 7-0.

Performance Review: Tim Nash (Bogdahn Group)

Tim Nash further noted that Wells now has 8 public plans as clients in Florida, 7 with Bogdahn and 1 plan through Burgess Chambers. Tim reviewed the transition process to move the portfolio to Wells Heritage.

Mr. Nash indicated that the portfolio increased by 10% since September 30, with assets of $67,977,000 as of December 13. He also thanked the Trustees for participating in the recent client survey completed by Bogdahn.

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

Scott Baur reported that an updated list of authorized signors must be submitted to Comerica for the processing of pensions and the payment of invoices. He recommended that all Trustees be listed as authorized signors, in addition to City administration representatives and the plan administrators.

Eloise Pennington made a motion to approve the signature of two trustees or one plan administrator as authorized signors for the plan. Connie Gleason will continue to maintain signature authority for the purpose of authorizing benefit deductions from a retiree's pension. Barbara Carlson seconded the motion, approved by the Trustees 7-0.

Mr. Baur reported that the transition for plan administration is proceeding well. He has been in contact with various city departments to obtain necessary electronic records, and Linda Runkle is working with Debra Emerson to obtain paper records. Mr. Baur advised that the office hours at the Cape Coral Office will be expanded to 8:30 am to 5:00 pm, Monday through Friday, effective January 3, 2012. He reported that letters of introduction are being sent to all active and retired members of the pension plan.

Mr. Baur discussed the brief synopsis of the pension plan and the document entitled "What To Expect Upon Retirement" which was included in the Trustee packets. He reported that the web site is set up for the Ft. Myers General Employees' Pension Plan, and explained that members may access information and forms on the web site. He explained that the annual dues for membership in the Florida Public Pension Trustees Association (FPPTA) are due in January and inquired whether the Board desired to renew membership for $600.00 per year.

Eloise Pennington made a motion to renew FPPTA membership for 2012. Leif Lustig seconded the motion, approved by the Trustees 7-0.

Mr. Baur explained that a Warrant list and a summary of Benefit Approvals will always be included within the Trustee packets for review and approval by the Trustees.

7. PLAN FINANCIALS

Mr. Baur indicated that his firm would take over the financial statements from the City, and he already met with Maria Joyner regarding the transition in reporting to his office. He then provided the Warrant dated December 14, 2011 for review and approval by the Trustees. The Warrant included all payments of invoices received by the administrator since November of 2011, although in transition the Board may have already authorized payment of invoices not included on the Warrant.

Donna Lovejoy made a motion to approve the Warrant for accounts payable dated December 14, 2011. Richard Griep seconded the motion, approved by the Trustees 7-0.

Mr. Baur did not have any 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.

8. OLD BUSINESS

The Trustees discussed the conflicting information regarding Trustee term expirations, and the need to schedule a Trustee election. Mr. Baur will work with Mr. Christiansen and the City Clerk's Office to determine the status of Trustee terms. He will create a posting to begin the next election with a timeline modeled after prior elections. He will provide the election details to the Board for consideration at the next meeting. The election of Board Officers will be placed on the agenda for the January meeting.

9. NEW BUSINESS

The quarterly meeting schedule for 2012 was previously approved under "Board Attorney Business". Mr. Baur included a listing of monthly meeting dates for 2012 within the Trustee packets.

10. NEXT REGULAR MEETING

The Trustees previously set the schedule for the next regular quarterly meeting on Wednesday, January 18, 2012 at 9:00 am.

11. ADJOURNMENT

There being no further business, the meeting was adjourned at 1:50 PM.

Respectfully submitted,

Donna Lovejoy, Secretary