City of Fort Myers General Employees' Retirement System
Minutes: Meeting of December 19, 2012

1. CALL TO ORDER

Chairperson Barbara Carlson called a meeting of the Board of Trustees for the Fort Myers General Employees' Retirement System to order at 9:00 AM. Ms. Carlson called roll. Those persons present included:

TRUSTEES	OTHERS
Barbara Carlson, Chair	Pam Nolan, The Pension Resource Center
Richard Griep, Secretary	Scott Baur, The Pension Resource Center (until 11:18 am)
William Mitchell	Scott Christiansen, Christiansen & Dehner
Tom O'Malley	Patrick Donlan, Foster & Foster
Donna Lovejoy	Tim Nash, The Bogdahn Group
Eloise Pennington	Debra Emerson, City of Fort Myers (arrive 9:25 am)
Dennis Pearlman	Holly Simone, City of Fort Myers
	Leif Lustig, City of Fort Myers

2. APPROVAL OF OCTOBER 17, 2012 MEETING MINUTES

Richard Griep made a motion to approve the Minutes as amended, for the meeting of October 17, 2012. Donna Lovejoy seconded. Motion carried by the Trustees 7-0.

3. INVESTMENT PERFORMANCE REVIEW - Tim Nash, The Bogdahn Group

a. Fourth Quarter 2012 & Fiscal Year End 2012

Mr. Nash was pleased to report that the plan's return of 16.88% for the Fiscal Year End as of September 30, 2012 was a solid return that would have a positive effect on the Actuarial Valuation. The overall market performance in the last quarter showed international equities outperforming domestic for the quarter, but for the fiscal year, domestic equities gave double the returns of the international market. Bonds performed solidly, around 5.2% for the fiscal year, an unexpected turn of events. The Bogdahn Group's expectation for this year is that US core bonds would have a more likely return of 2.75 to 3.75 %. Mr. Nash pointed out that the Fed will be making an effort to keep bond valuation stable in 2013.

Mr. Pearlman asked what the most positive sector in the plan was. Mr. Nash replied that the private real estate sector provided improved value as well as income. The Board had moved 25% from bonds to the Morgan Stanley Real Estate fund a while ago. Mr. Nash noted that The Bogdahn Group has been watching the Templeton Global Bond Fund, which was up 13.25% as of September 30, 2012 vs. 5% for core bonds in the US. These investments (which hold only government bonds) are not tied to interest rates which makes them a good diversifier. The Board decided to pursue this further at a future meeting. Mr. Nash proposed that possibly the Morgan Stanly Real Estate investment could be increased, taking from the current core bond allocation. Mr. Nash also advised that investing in a mutual fund such as the PIMCO Asset Allocation fund, which is primarily fixed income securities, would provide the ability to quickly move to any bond fund. The target goal for these investments would be to beat inflation by 5%. The Board is looking to also evaluate these changes at a future meeting.

Mr. Nash called the board's attention to the Annual Survey conducted by the Bogdahn Group and invited Trustees to provide their feedback at the survey site: Https://www.surveymonkey.com/s/TBGSurvey2012. Both Mr. Nash and The Bogdahn group received a score of 8 out of 10 in last year's survey.

In looking at the total plan assets, Mr. Nash noted an increase of $10.5M in total assets at the end of this fiscal year versus last year. The plan's fiscal year return of 16.88%, though slightly under the benchmark of 18.02%, put the plan in the 60th percentile of the 436 US plans that make up the ranking group. Mr. Pearlman asked if there was a correlation of similar risk amongst the plans in the group? Mr. Nash replied that the plan was actually slightly less risky than others in the group.

Mr. Nash reported that in the domestic equity area of the portfolio, the growth portion (2.67% over its benchmark) outperformed the value portion (-5.17% under its benchmark) and the international equity portion, at 7.52% over the benchmark, brought the total equity performance in at 1.14% over the policy index.

Mr. Nash presented an appraisal of investment managers. Mr. Nash noted that Manning & Napier had again turned in a ranking in the less than 40th percentile. Moody Aldrich, which has had a best/worst result in the last few quarters, has been sold to Anchor Capital. The Bogdahn Group sees this as a positive move. Anchor's practice to keep a portion in cash allows them to move quickly if a market opportunity is present. In 2008, at the start of the market plummet they put 25% of their clients' portfolios to cash, which turned out to be a very good move. Mr. Nash advised that it was possible that Moody Aldrich would continue to perform as they have been, despite Anchor's ownership, due to the Moody Aldrich accounts not being combined with Anchor's practices in the initial time period following the purchase.

Mr. Nash's recommended terminating Moody Aldrich as well as Manning & Napier and moving to two other investment mangers in the value equity sector. Mr. Nash suggested doing this within the quarter. Tim Nash advised that he will send an assignment letter to the board regarding moving the plan's investment from Moody Aldrich to Anchor. Mr. Nash recommended that the letter be executed immediately. The Board set a special meeting in January to select two new domestic equity managers, moving from the two current all-cap type managers to a large cap specialist and a small/mid cap (SMID) specialist. Mr. Pearlman asked if the plan's investment policy had any limit on the number of managers in the portfolio. Mr. Nash replied that there was only a minimum requirement, no maximum. Mr. Pearlman inquired if Moody Aldrich would be terminated immediately, with the proceeds being held in cash. Mr. Nash felt that staying with Moody Aldrich until the next manager was selected and then completing the transition would be best as long as the transition is completed within the current quarter. Mr. Pearlman voiced a concern that there would be a general exodus from Moody Aldrich. Mr. Nash agreed but said that a decline in value as happens with a mutual fund when managers change would be less likely with stocks as there would more likely be a 'wait and see how the new manager works out' reaction, and due to the transaction costs he recommends that a new manager be selected in January, with a transition manager in place to achieve the least cost for the move to the new manager in February. Mr. Pearlman's concern was to weigh the roughly $1,200.00 in transition cost savings against the value of the investment's return during the time it takes to complete the transition. Mr. Nash agreed and felt that executing the transition in a timely manner would be important to ensure the preservation of value. Mr. Pearlman wondered if more managers would be warranted. Mr. Mitchell asked if having more managers correlated to an increase in the rate of return. Mr. Pearlman clarified that he was thinking more along the lines of better fit; in the areas of small cap versus mid cap, for instance. Mr. Mitchell agreed that the point is expertise, not the actual number of managers. Mr. Nash said that each manager brought into an evaluation is first chosen for its fit into the fund's investment strategy.

Ms. Pennington remarked that as we are getting to be a bigger fund, we might be able to look at different managers than we would have been considering investing with in the past. Mr. Pearlman agreed that since many managers have minimum requirements more may be available now.

Mr. Nash then directed the Board's attention to the Compliance Checklist. He noted that though the three and five year points were still a 'no', that the three year point had turned to a 'yes' due to the 'bad year- 2008' now rolling off that period. As fiscal 2012 was a very good year, if 2013 turns out just to be even just a good year, then the five year period questions will see most answers move to a 'yes' next year. He noted that none of the 436 plans in the US had a 'yes' answer to the fourth question regarding the plan equaling or exceeding the 8.4% actuarial earnings assumption over the trailing five year period. In equity compliance, he expects the change in managers to improve the answers on meeting or exceeding the benchmarks and ranking within the 40th percentile over the trailing three and five year periods. Mr. Pearlman asked Mr. Nash's about Lateef's performance. Mr. Nash replied that Lateef had a bad 2008, an OK performance in 2009 and 2010, another bad year in 2011 but a very good year in 2012, ranking in the 10th percentile, so he is comfortable with them for now at 12% of the portfolio. Mr. Pearlman agreed that 2008 was a bad year all around, but half of Lateef's gain in the last fiscal year was due only to their performance in the third quarter of 2012. Mr. Nash will continue to monitor Lateef's performance.

The last point Mr. Nash covered with the Board was the fee analysis. This recent addition to the investment performance report will give the Board visibility of the costs of the active managers in the plan. Mr. Nash pointed out that the fees will probably change with the new managers due to negotiation of the fees when they are engaged. Ms. Pennington inquired how managerial changes would affect fees. Mr. Nash replied that it would depend on two things; if mutual funds were chosen they are no cost, but that it would also be possible to receive a lower fee from new active managers than the current active management fees. Mr. Pearlman inquired if the S&P index was widely used by pension plans to measure mutual fund performance. Mr. Nash said yes, especially when invested in the small and mid-cap mutual funds. Mr. Pearlman asked if the Vanguard family of funds was used in pension plan investment portfolios. Mr. Nash said yes, the Vanguard Total Stock Index was one that was utilized and there was some extra cost savings there due to an administrative arrangement with the custodian**.** Mr. Pearlman requested that the mutual fund options be included in what is evaluated at the January 16, 2013 meeting. Mr. Nash pointed out that mutual funds are more likely to yield a return closer to the benchmark as opposed to exceeding the benchmark and the domestic equity portion is 30 to 50% of the portfolio. Mr. Perlman noted that the Board would need to evaluate not only costs versus potential return but also how much, if any, should go to a mutual fund type of investment. Mr. Mitchell inquired how the plan arrived at which benchmark to use? Mr. Nash referred to the chart on page 46 that shows which indexes are in place for each sector of the plan's investments and discussed how each index was selected.

b. Plan Rate of Return

In discussing the Plan Rate of Return, Mr. Nash noted that the same amount of money will go into the plan, how and when is what is affected by the rate of return. The general consensus in the investment community seems to be that the recent past will carry forward. The plan's current 8.4% rate of return is the upper end of the range in the State. In 2011 65% of the plans had an 8% rate of return. Only 15% of the State's plans had a return rate greater than 8%. Mr. Donlan called the Board's attention to the last page of the 2012 Actuarial Valuation that shows this plan as having one of the highest rates of return in the State. He pointed out that most of the 8.5% plans are in the process of gradual reductions of .5% over five years in on order to not have a large increase in cost in one year.

Mr. Nash reviewed the Market Expectation report that contained the long-term capital market return assumptions. They are largely based on past performance and an attempt to set expectations for the long term. Ms. Lovejoy mentioned that while it would not be good to be too conservative, she is concerned about costs to the City. Mr. Mitchell remarked that the rate of return does not have an affect on the actual return of the investments or determine riskier versus conservative investing. Mr. Nash pointed out that since this is an open plan, the asset allocation does not need to change. Mr. Mitchell said that it would be better to exceed the rate of return; there is no value to achieve under it. Mr. Nash pointed out that based on the assumptions an 8% or 7.75% target for this plan could be achievable for this plan and that it would be reasonable to do in .75% per year assumption reduction. Mr. Pearlman inquired if this was a Board responsibility as opposed to the investment consultant or actuary. Mr. Christiansen confirmed that setting the plan rate of return was a Board responsibility. Ms. Lovejoy inquired what the impact would be on contributions required based on the different percentage. Mr. Donlan replied that an 8.4% to 8.25% return rate would require an increase of 1.1% of the current payroll. An 8.4% to 8% return rate would require an increase of 1.5% of the current payroll. He suggested the Board set a goal, 7.75%, for instance, and move to 8.2% this year, gradually lowering until the goal is reached. Ms. Lovejoy proposed setting it at 7.75% and then decide on how much to drop down to each year and how many years to take. Mr. Griep suggested reviewing annually because the current 8.4% was achieved two years ago when the Board lowered it from 8.5% and there was no change last year. Mr. Mitchell said that the City anticipates increased costs and budgets accordingly. He further noted that the City is satisfied with 8.0%, and it is better for the plan to have a realistic targeted return.

Donna Lovejoy made a motion for discussion that the plan’s targeted rate of return be changed to 8.0%.

Discussion of the motion was centered around how soon to achieve this rate. Mr. Mitchell said that it was OK to do now. Mr. Christiansen asked Mr. Donlan if the assumption change could be incorporated in the 2012 Actuarial Valuation. Mr. Donlan replied that it could be as the valuation was still in draft status. There would not be much effect on the payroll contribution; a fairly flat impact and he could incorporate the change. It will, however, increase the payroll contribution.

Ms. Carlson called for a vote on the motion on the floor. The motion was restated to “set the plan rate of return at 8% and to use this rate in the 2012 Actuarial Valuation”. Richard Griep seconded the motion. Motion carried 7-0.

Mr. Donlan requested the Board consider authorizing an updated mortality table to be used by the Actuary. Mr. Mitchell requested a comparison between using the existing table and the new table proposed by Mr. Donlan. Mr. Donlan replied that there are surveys that show the impact of the different tables and he will bring them to the February meeting when he brings the final 2012 Actuarial Valuation to be reviewed by the board. Mr. Pearlman inquired on what would the effect of updating the table versus not updating the table. Mr. Donlan said that the current table from 2000 does not have the projection of the last 12 years; the 2012 table would reflect the improved life expectancy experienced in the last 12 years. Mr. Christiansen asks if this would affect the final benefit calculations and comments it would be best if they matched. Mr. Donlan will address at the February 20, 2013 meeting.

4. ATTORNEY REPORT - Scott Christiansen

a. Trustee Responsibilities

Mr. Christiansen reviewed an outline of Basic Fiduciary Principles with the Board. Mr. Mitchell inquired as to the source of the principles. Mr. Christiansen said they were taken from the Florida Statutes governing pension plans. Mr. Pearlman asked if they were taken from the ERISA interpretation. Mr. Christiansen said they incorporated legal precedents and broader fiduciary responsibilities. Ms. Pennington said in the seminars she's attended the advice was to keep plan participants and their benefits in mind at all times. Mr. Mitchell said he will keep these principles in mind. Mr. Griep said that his understanding is that the State has dictated that the sole responsibility is to the participants and their beneficiaries and there are many ways do to this; how to do it is open to interpretation. Mr. Christiansen reminded the Board that this was subject to State and Federal law. Mr. Mitchell pointed out that there was so much case law because the law is open to interpretation. Mr. Christiansen pointed out that ERISA was a fairly broad body of law; not just fiduciary responsibility. Fiduciary responsibility as defined by laws is fairly specific. Ms. Carlson felt that it was best if all Board members were cognizant of their responsibilities and concentrate on the whole.

b. Poffenbarger Overpayment

Mr. Donlan called the Board's attention to revisions he made to the letter that the Board reviewed at the October meeting. He added three more months of overpayment and the COLA's. Ms. Nolan advised the Board that Ms. Emerson met with Mr. Poffenbarger in her office to give him the letter and answer any questions. He was instructed to follow up with Ms. Nolan. Ms. Nolan called Mr. Poffenbarger the week after his meeting with Ms. Emerson as she had not heard from him. In that conversation Mr. Poffenbarger said that he wanted to hear back from his attorney prior to calling Ms. Nolan. That was the last contact with Mr. Poffenbarger to date. Mr. Christiansen advised that the ordinance clearly states that it is the Board's responsibility to correct errors in benefits. The Board discussed the varying options offered in the Foster & Foster letter and the impact of the different repayment options on the fund. The Board opted to offer Mr. Poffenbarger an option to repay in full and keep his current benefit payment or take a $151 benefit reduction for 25 years or appear before the Board.

William Mitchell made a motion to authorize Mr. Christiansen to contact Mr. Poffenbarger and request he make a choice to repay in full and keep his current benefit payment, take a $151 benefit reduction for 25 years effective March 1, 2013 or request a hearing before the Board. Richard Griep seconded. Motion carried 7-0.

- Scott Baur left the meeting at 11:18am.

c. Ordinance Revisions

Mr. Christiansen revised the ordinance updated in September with the rates calculated after the enrollment period closed. It is scheduled for a first reading January 7, 2013.

d. Summary Plan Description

Mr. Christiansen revised the Summary Plan Description to reflect the September 2012 multiplier changes. There are two versions, one for the union employees and one for those not in the union. They will need to be distributed to the active plan members along with Exhibit B from the Actuarial Valuation.

Richard Griep made a motion to approve the revised Summary Plan Description. Barbara Carlson seconded. Motion carried 7-0.

Mr. Christiansen noted that the Election of Officers will need to be added to the agenda for the February 20, 2013 meeting.

Mr. Christiansen noted the need for submission of the 2012 Fiscal Year End investment report to the City. Ms. Nolan will submit to the City Finance Director.

Mr. Christiansen asked if the ex-Spouse Beneficiary memo had been distributed to all plan participants? Ms. Nolan replied that it would be included in the mailing of the 2012 Summary Plan Description and 2012 Annual Statement to the members when it is received from Foster & Foster.

Mr. Christiansen inquired on the status of the Waiver of Recourse reimbursement from the City for the 2012 Fiduciary Liability Insurance. Ms. Nolan replied that the State National policy from Ullico did not include a separate premium for Waiver of Recourse but said that coverage was included in the policy. Mr. Christiansen requested a copy of the Policy and will ensure proper coverage for the Trustees.

Mr. Christiansen advised the Board that he has been working with the plan's tax attorney to keep the plan current with IRS changes and will incorporate any necessary changes to the ordinance in the next revision.

Mr. Christiansen noted that the recordings of the meetings are a part of the public record. Ms. Nolan acknowledged PRC's role as the Public Information Record Officer for the plan. The tapes are being archived along with all plan records in the PRC office.

Mr. Christiansen addressed the issue of the Board potentially having some oversight of the City's 457 plan's investments. Mr. Griep clarified that the issue was from an FPPTA seminar and would only apply if the 457 plan did not already have an entity with fiduciary responsibility in place. Mr. Christiansen advised that this plan was the Board's only responsibility. Ms. Emerson advised that the 457 plan does have a third party with fiduciary responsibility in place.

5. ACTUARY REPORT - Patrick Donlan

Mr. Donlan presented the Board with draft copies of the 2012 Actuarial Valuation as it was pending final review. Ms. Lovejoy asked if the valuation was determined using normal retirement date or not, as she knew of quite a few people working after their normal retirement date. She also asked if the salary increase percentage used was 6% or not. Mr. Donlan explained that an Experience Study was done in 2009 that arrived at a 21 year average salary and that 7% was the percent salary increase used. Mr. Donlan remarked that salaries were now lower as they had a negative increase over the last three years. Mr. Griep inquired if the Board should change that assumption. Mr. Donlan said that it could be done with the rate of return change. Mr. Griep proposed that the salary increase percentage be reviewed at the next meeting Mr. Donlan attended. Mr. Donlan suggested that 5.75% might be more appropriate.

Mr. Donlan will attend the February 20, 2013 meeting to present the final 2012 Actuarial Valuation to the Board.

- William Mitchell left the meeting.

6. ADMINISTRATOR REPORT - Pam Nolan

Ms. Nolan advised the Board that there was a lot of activity around the close of the fiscal year for the fund. Mr. Donlan inquired if PRC would take on production of the Annual Statement for the active members of the plan. Ms. Nolan advised that that was not include in the contracted services PRC has with the Board and should continue to be done by Foster & Foster.

7. PLAN FINANCIALS

a. Benefit Approvals

Eloise Pennington made a motion to approve the Benefit Approvals as submitted. Richard Griep seconded. Motion carried 6-0.

b. Warrant dated December 19, 2013

Richard Griep made a motion to approve the Warrant as submitted. Donna Lovejoy seconded. Motion carried 6-0.

8. NEW BUSINESS

Ms. Lovejoy requested the Board approve her attendance at the January 27-30, 2013 FPPTA Trustee School at the Sawgrass Marriott. Ms. Pennington also requested approval from the Board to attend. The Board authorized attendance for both Trustees.

9. OLD BUSINESS

10. NEXT REGULAR MEETING

A special meeting to evaluate prospective Investment Managers in the Domestic Equity sector was scheduled by the board for January 16, 2013 at 9am.

11. ADJOURNMENT

There being no further business, a motion was made by Eloise Pennington to adjourn and seconded by Richard Griep. Motion carried 6-0.

The meeting was adjourned at 11:56 AM,

Respectfully submitted,

____

Richard Griep, Secretary