City of Fort Myers General Employees' Retirement System
Minutes: Meeting of January 16, 2013

1. CALL TO ORDER

Chairperson Barbara Carlson called a special 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	Tim Nash, The Bogdahn Group
Donna Lovejoy	Debra Emerson, City of Fort Myers
Eloise Pennington	
Dennis Pearlman	

TRUSTEES NOT PRESENT

William Mitchell
Tom O'Malley

The Board ensured a quorum was present and the meeting notice had been properly posted by the City Clerk.

2. DOMESTIC EQUITY MANAGER SELECTION - Tim Nash, The Bogdahn Group

Mr. Nash noted that the goal of this change was to enhance the portfolio. The portfolio is well diversified but the current active managers are not meeting the Investment Policy targets. The Hypothetical Plan Review as of September 30, 2012 report is to give a hypothetical view of how the fund might have performed had these managers been in place.

Mr. Nash introduced the Russell Indexes as preferable to use to measure the performance of the domestic equity mangers over the S&P or Dow Jones Indexes. Mr. Nash explained that the stocks in the Russell indexes more closely match the stock mix of the managers so would be a better measurement of their performance.

Mr. Pearlman noted the Mr. Nash was recommending each manager be given approximately 25% of the domestic equity portfolio and wondered how this percentage was determined. Mr. Nash said that some modeling was done by Bogdahn's research team and he also did not want to take from Wells Capital as their performance has been very good.

Mr. Pearlman inquired if use of an indexed fund reduces risk. Mr. Nash said that the main reason an index fund is used is to perform closer to the benchmark, and this does not necessarily lower volatility. Generally, active managers can do better in a down market. Ms. Pennington pointed out that the use of indexed funds can reduce cost. Mr. Nash agreed that they dramatically reduce cost.

Discussing the current domestic equity managers, Mr. Nash pointed out that Manning & Napier and Moody Aldrich had been a good pairing because Manning & Napier were largely in the Large Cap/Value area with some Mid Cap holdings and Moody Aldrich was mainly lots of smalls and mid cap equities. A change is warranted now because the Large Cap/Value performance is not what it had been and Moody Aldrich's change in management.

In looking at the value allocation, Mr. Nash is looking for a dedicated Large Cap manager and one other manager focused on the Small/Mid cap sector.

Mr. Nash reviewed the engagement of Capis or ConvergEx to manage the transition ensuring best price and best execution. He explained the process of selling the Manning & Napier/Moody Aldrich holdings except for any holdings the new managers might keep and then buying into the selections of the new manager. The cost of the last transition was approximately $1200 to $1660 to liquidate $8M when we last changed the growth manager. There will be lower fees, 60 basis points, for instance for mutual funds like Templeton Global Advantage and PIMCO All Asset.

Diversification is another important factor. Currently the fund is 60% other investment sectors (domestic fixed income, international equity, real estate, cash) and 40% domestic equity sector and rebalanced quarterly. Tactical allocation is not a big factor to consider; PIMCO can be more reactive as it is a group of their funds. Mr. Pearlman asked if taking 5% from each bond fund would be to get a 10% greater exposure in the international bond market. Mr. Nash replied that PIMCO is not entirely international, that there is some domestic element to the fund.

Mr. Pearlman asked about the Morningstar future projection rating for both the PIMCO and Templeton funds- they are “Gold” rating and that is a positive rating. Mr. Griep asked about taking 9% from Galliard to add a new manager. He does not like Mutual or Indexed funds because there is very little upside. Will the fund lose out if Galliard’s portion is reduced. Mr. Nash replied that Galliard is doing well but US bonds have gone as high as 8% and The Bogdahn Group opinion is that this level will not last much longer. It wouldn’t be reasonable to expect the 40% of the fund that is in Fixed Assets to get even 5% in the future; this probably won’t continue in the future domestic Bond market. Mr. Griep proposed perhaps taking Galliard from 30% to 21%. Mr. Nash acknowledged this possibility as Bogdahn expects Templeton and PIMCO to exceed the market average, but not domestic bonds. Ms. Lovejoy then asked the reason to keep even the 21%. Mr. Nash said it would be to stabilize the portfolio. PIMCO is not an all bond fund. There is some equity in it and it would be probable that there would be a little more return. Another change could be to take half of Lateef and reduce cost and put that to one of these funds being evaluated. Mr. Nash pointed out that fees are negligible with an index fund. Mr. Pearlman brought up weighing saving on expense versus performance of the fund. Mr. Nash said that based on the historical returns of indexed funds, the fund would only lose a little on the return. Ms. Lovejoy wondered if this would just be reacting to past performance. Mr. Nash pointed out that indexed domestic equity funds generally do not exceed the benchmark. Mr. Pearlman commented that there appears to be a trend that 80% of domestic equity managers do not beat the index, so doing some insurance by taking 25% of the domestic equity portion of the fund to index funds would not be indicated. Mr. Nash agreed that the last three years’ results of the index funds have been bad, and bonds have also had a very volatile market. To make any kind of return an active bond manager was required, and this will hold true for the future. On the domestic equity side lately, it has been hard for even active managers to outperform the index.

Mr. Nash called the Board’s attention to the historical performance of the proposed managers on page 4 and 5 of the plan review report. Had the fund been invested in the recommended portfolio over the last then years it would have ranked in the first to fifth percentile over that time. Mr. Pearlman pointed out that stabilizing returns was a goal for management of the fund. Mr. Nash commented that the entire goal statement was achieving as close to 8% over time with the least risk and cost. Over all, adding the indexed funds only brought the potential returns closer (lower) to the benchmark. Mr. Nash first reviewed All Cap Value managers to replace both Moody Aldrich and Manning & Napier, but especially Moody Aldrich. Ms. Lovejoy pointed out that though they did well in volatile markets the future outlook does appear to be less volatile so there is no necessity to remain with the All-Cap high performers in the volatile markets.

Looking at pairing a Large Cap manager and a Small Mid Cap manager instead of All Cap managers, Mr. Nash reviewed the potential Large Cap managers Ceredes, Eagle, Eaton Vance, Cambiar and Dana on page 12 of the report. In considering Eagle, Mr. Nash noted it was like looking at like buying a business when they are getting ready to close the fund/strategy. Eagle's fees now scale, charging 85 basis points for the first five million and scaling down from there at additional increments. Mr. Nash noted that the Dana Investment Group has been a consistent but conservative performer and they are in the Ft. Myers Firefighters' portfolio. Mr. Griep noted that Dana would be a better alternative than any indexed fund as they consistently beat the benchmark. Mr. Griep questioned where the consideration to move to indexed funds is coming from. Mr. Nash replied that since the two domestic equity managers have not been performing the best, all options to come as close to the benchmark incurring the lowest costs have been included. Mr. Griep felt it was a bit of a hedge. Mr. Nash pointed out that it will also help manage cash flow as there is no transaction cost to get into or out of indexed funds. Mr. Pearlman asked Mr. Nash how The Bogdahn Group arrived at these managers out of the thousands out there. Mr. Nash said that a five analyst research team at Bogdahn used criteria matching the funds investment strategy and also included minimum asset size, the track record and make up of the management team, operational issues, the risk/return pattern to mix and match manager types. That yielded about twenty managers in each category, these five are the best of the twenty. Mr. Griep would rather look at active managers such as Dana than index mutual funds.

Mr. Nash moved to the Small/Mid Cap (SMID) fund evaluation on page 28 of the report. Advisory Research has done well in the down side markets, not performing as well on the up side, but still doing well. They would make a good paring with Eagle. In looking at the peer group scattergrams on page 30 they are a consistent high performer. Eagle is now letting Bogdahn plans in below their regular investment levels and would lower cost from what is currently paid to Moody Aldrich.

Mr. Nash let the Board know that managers could be brought in for interviews. In the past, he has not seen any changes after the interviews and he is not sure of the value of it.

Mr. Pearlman asked about REIT (Real Estate Investment Trust) investments. Mr. Nash said the fund does have 5%, about $3M, in the Morgan Stanley Real Estate fund, and that Bogdahn recommends five to ten percent in real estate for all their funds. Bogdahn sees REITS as over valued at the current time and prefers direct real estate investment. The fund was able to get into the Morgan Stanley RE fund below the minimum investment. This fund is actual ownership and is not a REIT per se. Mr. Pearlman asked about perhaps increasing the percentage in Morgan Stanly RE. Mr. Nash said he would recommend going to 10% but the current subscription agreement is very difficult to change and when Bogdahn investigated changes without a subscription agreement, a capital call could possibly tie up the capital for up to a year. Mr. Pearlman requested that increasing the funds' Real Estate allocation should go on a future meeting agenda. The Board discussed adding some indexed funds to the portfolio and opted not to do it at this time as not all Board members were present and Mr. Nash pointed out that the fund could easily move to indexed funds at any time in the future. Mr. Griep noted that indexed funds only earn near the index and since the board is not leaning toward indexed funds at this time, perhaps Dana would be an option. Ms. Lovejoy commented that the stability of an indexed fund is still a plus. She noted that there would be people leaving the DROP soon, clearing their DROP accounts thereby reducing the fund balance. Ms. Pennington said there are an estimated 20 in the DROP program and quite a few would be leaving in the coming five years. Mr. Pearlman noted that going with an indexed fund would add a passive element to the strategy. The consensus of the Board was to table the indexed fund decision as there does not look to be a big impact from delaying this for six months or so. Mr. Pearlman asked how many other pension funds have or use a passive element. Mr. Nash replied that only three of the 175 Bogdahn client pension funds have it.

Richard Griep moved that the fund replace the 11.25% of the fund invested with Moody Aldrich All Cap value manager with 8.5% of the fund in Advisory Research as the SMID value manager and replace the 11.25% of the fund invested with Manning & Napier All Cap value manager with 14% of the fund with Eagle as the Large Cap Value manager. Donna Lovejoy seconded. Motion carried 5-0.

Dennis Pearlman moved for discussion that the fund move 5% of the total fund from Galliard to the Templeton Global Bond mutual fund and move 5% of the total fund from Galliard/Equity to PIMCO All Asset mutual fund.

Mr. Nash noted that the Templeton Global Bond mutual fund was sovereign (governments, not private foreign investment) debt only and this lowers risk.

Richard Griep seconded the motion on the floor. Ms. Carlson called for a vote. Motion carried 5-0.

The Board authorized Tim Nash to execute the above two motions, utilizing a transition manager to ensure best price and best execution strategy for the transition.

The Board discussed the historical performance of the fund managers. Ms. Pennington asked if it was OK to have the indexed fund decision in a couple of months or even farther into the future. Mr. Nash said doing it over a couple of quarters would be fine if that is a direction the Board wants to go. Ms. Pennington asked if he recommended the Board look at it again in the March meeting. Mr. Nash said The Bogdahn Group's bias is to active managers and is neutral on indexed fund investments. Mr. Pearlman suggested that they could be included in the next manager review. Mr. Griep requested that if The Bogdahn Group sees a manager doing poorly, such as Manning & Napier, this be brought up for discussion with the Board. Mr. Nash said that their research group is monitoring that looks at six quarters' performance in the compliance checklist in their quarterly reports.

Eloise Pennington made a motion to authorize Mr. Nash to update the table and investment manager agreements in the Investment Policy Statement and have the revised IPS reviewed by Scott Christiansen. Motion carried 5-0.

3. NEXT REGULAR MEETING

The Trustees previously set the schedule for the next regular monthly meeting on Wednesday, February 20, 2013 at 9:00 am.

4. ADJOURNMENT

There being no further business, a motion was made by Eloise Pennington to adjourn and seconded by Richard Griep. Motion carried 5-0.

The meeting was adjourned at 11:07 AM,

Respectfully submitted,

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Richard Griep, Secretary