

City of Fort Myers General Employees' Retirement System

Minutes: Meeting of March 20, 2013

1. CALL TO ORDER

Chairperson Elise Pennington called a meeting of the Board of Trustees for the Fort Myers General Employees' Retirement System to order at 9:05 AM. Ms. Pennington called roll. Those persons present included:

TRUSTEES

Eloise Pennington, Chair
Richard Griep, Secretary
William Mitchell
Donna Lovejoy
Barbara Carlson

OTHERS

Pam Nolan, The Pension Resource Center
Tim Nash, The Bogdahn Group
Scott Christiansen, Christiansen & Dehner
Mike Seagle, City of Ft Myers
Holly Simone, City of Ft Myers
Debra Emerson, City of Ft Myers

TRUSTEES NOT PRESENT

Dennis Pearlman
Tom O'Malley

2. APPROVAL OF MINUTES

Richard Griep moved that the minutes of the January 16, 2013 meeting be accepted as submitted. Barbara Carlson seconded. Motion Carried 5-0.

Richard Griep moved that the minutes of the February 20, 2013 meeting be accepted as amended. Barbara Carlson seconded. Motion Carried 5-0

3. ATTORNEY REPORT – Scott Christiansen, Christiansen & Dehner

Poffenbarger Repayment

Mr. Christiansen advised the Board that he received a signed repayment schedule set up by Foster & Foster agreement from Mr. Poffenbarger February 28, 2013.

Investment Agreement – Eagle Capital Management

Mr. Christian reviewed the language now being included in all Christiansen & Dehner Investment Agreements that includes lost opportunity cost when making the plan whole if the manager should violate the terms of the Investment Policy Statement. Eagle declined signing the agreement with the lost opportunity cost language included on a 'most favored nations' basis. Eagle's position is that none of the other agreements they have with other clients have the language regarding lost opportunity cost, and therefore they would not enter into an agreement with the Ft Myers General Employees' Pension Plan that would be more favorable than what is agreed to with their other clients. Mr. Christiansen advised the Board that the language was not legally required, so if the Board so desired, the language could be taken out of the Investment Agreement for Eagle Capital Management. Mr. Mitchell inquired if other investment managers have signed the updated agreement with the added language. Mr. Christiansen and Mr. Nash are aware of investment managers that have accepted the revised language. Advisory Research, which the plan recently switched to from Moody Aldrich Partners, had the language in the Investment Agreement that they signed last month. Mr. Christiansen pointed out that it is in Eagle's control to avoid any violation of the investment guidelines. Ms. Pennington asked Mr. Nash about the Board's second choice of investment manager. Mr. Nash advised that while not as strong as Eagle's, Dana has had solid

performance with a strategy that involved slightly less risk. Mr. Christiansen added that Dana has accepted the language in Investment Agreements they have signed with other plans. The Board discussed ways of recovering lost opportunity cost and Eagle's position on most favored nations basis. Mr. Nash pointed out that Eagle's performance did make them the top choice out of the top five managers the Board reviewed. Mr. Nash assessed Eagle's position as being along the lines of they are very good at what they do and don't need to modify their business practices. Mr. Griep asked Mr. Nash to review the difference between Eagle and Dana. Mr. Nash felt that while both were good choices, Dana's strength would be in the longer term, that there would be a significant difference in Eagle's net of fees return over Dana's in the short term. Ms. Lovejoy recalled that the differentiator for her in the evaluation of the managers at the special meeting in January was that Eagle out performed the index in a down market.

Donna Lovejoy moved that the lost opportunity language be struck from the Investment Agreement for Eagle Capital and authorized Scott Christiansen to amend the agreement. Richard Griep seconded. Motion carried 5-0

Tax Status

Mr. Christiansen reported that the project to evaluate changes required to maintain the tax qualification status of the plan has been completed. There were no substantive changes required, just language changes that will bring the ordinance in compliance with the updated tax code.

Richard Griep moved to authorize Mr. Christiansen to make the required language changes to the ordinance governing the plan to comply with the current tax code. Barbara Carlson seconded. Motion carried 5-0.

Legislative Update

Mr. Christiansen advised the Board that two years ago changes were made to the Florida Retirement System that set member contributions at 3% and reduced the COLA. The legislation survived a challenge by the Florida teachers union in the Florida Supreme Court. Current legislation proposes the closure of the FRS as of January 2014 and offer a defined contribution/401-K plan for all new employees. This does not directly affect the pension plan, but it reflects on trends for pension plans in the State. There is no other proposed legislation in this session that affects the plan. Mr. Mitchell asked Mr. Christiansen about the financial analysis upon which the State based the changes, as the City looked at defined benefit as compared to defined contribution and came to the conclusion that it would not be economically advantageous to the City to make a change. There was an initial high cost of transition and a requirement to maintain two plans until the defined benefit plan was phased out. Mr. Christiansen said he believed the main advantage for the State was reducing the contribution percentage for new employees and that costs to make the change were high.

Ms. Lovejoy asked Mr. Christiansen about absences from Board meetings. Mr. Christiansen advised that if a Trustee missed two consecutive meeting without notice, then they are considered to have resigned. This does not apply to the 'named' seats defined in the Ordinance, like the President of the Employees Union or City Manager/designee.

Ms. Carlson advised Mr. Christiansen that she will be retiring at the end of June and inquired as to what needs to be done. Mr. Christiansen advised that she will need to file a form 1F when she leaves the board.

Mr. Christiansen advised the Trustees that they will need to file the annual Financial Statement (Form 1) with the State prior to the July 1, 2013 deadline. The forms are available online at the State Commission on Ethics website: <http://www.ethics.state.fl.us/ethics/forms.html>

4. INVESTMENT CONSULTANT REPORT- Tim Nash, The Bogdahn Group

4Q 2012 Fund Performance Review

Mr. Nash gave an overview of the fourth quarter market performance in 2012. International equities had a strong rally through the end of the quarter. The S & P 500 has a -4% return for the quarter, but the plan's equity managers did fairly well. Bonds outperformed their expectations for the quarter, with Barclays US Aggregate coming in at 4.2% and Barclays US TIPS at 7.0%. Mr. Nash noted that tech stocks had a very rough quarter. Apple finished the quarter at -19.8%. Wells had 4% of their portfolio in Apple but Lateef was fortunate enough to sell their position in Apple before the decline started in September. Ms. Pennington noted that in Bogdahn reports the Board can compare all the managers, and asked if the managers have the ability to see how each other is doing throughout the quarter. Mr. Nash noted that the results are reported on Bloomberg every 30 days. Mr. Nash reviewed the allocation of the plan throughout the quarter and noted that at the end of 2011 the plans' assets were at \$65.1M and at the end of 2012 the plans assets were at \$73.7M. Ms. Pennington inquired as to the plan's assets at the end of February and Mr. Nash reported that February closed at \$77.9M, an even higher market value.

For the quarter, the plan's return of 1.43% beat the benchmark of 1.20%, and the plan ranked in the 56th percentile of the 460+ plans in the US. The bright spots were in domestic value with Moody Aldrich beating the benchmark by 4.06%, making a good gain on the exit. In the growth equity arena, the Lateef return of .67% beat the benchmark which was at -1.32% for the quarter. International performance was very strong with Polaris coming in at 6.34%, over the benchmark of 5.89% for the quarter. The fixed assets gained only .47%, but this was over the benchmark which was .18%. Morgan Stanley Real Estate was up 3.05% for the quarter, putting it in the top 25th percentile of US pension plans. All in all, a strong performance by the fund for the fourth quarter of 2012 under the market conditions.

February 2013 Monthly Flash Report

The plan was up 4.88% at the end of February. For the fiscal year to date, the equity portion of the portfolio was up 8.39%, this is over the index performance of 7.65%; the active managers are earning their fees. The domestic equity managers beat their index by .02%, while the international manager exceed their index by 1.9%, ending the month at 13.11%. Mr. Nash noted that the reports for March will show the changes in the fixed investments and the domestic equity managers except for Eagle, which will be being changed in March. Ms. Pennington remarked that the return percentage was moving in the right direction. Mr. Nash agreed that Bogdahn was looking to lock in a good return as all pension plans in the US need the boost and the general outlook for the future was positive. Mr. Mitchell asked if Bogdahn reviews the market outlook with the various managers. Mr. Nash said the returns of the Dow are discussed and an 8% target is generally agreed upon. The general consensus is that US corporate profits are high and there is not a lot of wage pressure due to unemployment. The Fed should not be raising interest rates this year and corporations, cities and educational institutions are refinancing debt at the lowest interest level ever. Durable goods usually have about a ten year life; the appliances put into use during the 2004/5 housing peak should be reaching the end of their life about this time and the hope is that this could be a positive influence on the economy.

5. ADMINISTRATOR REPORT - Pam Nolan, Pension Resource Center

Ms. Nolan reported that the Summary Plan Description had been distributed along with the Annual Statements to the active plan participants by PRC working from mailing labels supplied by the City. There was a mix-up between two employees with the same last name in the group of 12 or so participants that are represented by the Gulf Coast Chapter Florida Police Benevolent Association.

Ms. Lovejoy noted that she continues to receive complaints about the customer service received from the Cape Coral office and wondered when Scott Bauer would attend a Board meeting. Ms. Nolan noted that Mr. Baur would be attending the May 15, 2013 meeting and will be contacting the Board members to gather their feedback in the meantime.

Ms. Emerson requested that future mailings to the plan participants would benefit from a cover letter explaining what was being distributed and providing contact information should they have any questions regarding it. This will be incorporated in future mailings from PRC's Cape Coral office.

Mr. Griep inquired if the Annual Statements prepared by Foster & Foster included service purchased by the participant. Ms. Nolan will follow up with Foster & Foster to see if an adjusted date of hire that reflects the additional service time could be put on the statements.

6. PLAN FINANCIALS

a. Interim Financial Statements

The Board reviewed the Balance Sheet and Income & Expense Statement for the 2013 Fiscal Year through February 2013. Mr. Seagle called the Board's attention to the \$1.7M receivable in November that the City paid in two payments in December and January are not shown on the Balance Sheet. Ms. Nolan will follow up with the person at PRC who produces the statements to accurately reflect the payments.

b. Benefit Approvals

While reviewing the Benefit Approvals, Mr. Griep inquired if the people retiring review the paperwork and verify their information is correct (birthdate, hire date, etc) in some way. Ms. Nolan advised that not all retirees come into the office in person when they submit their retirement paperwork. The Board requested Ms. Nolan follow up with Mr. Christiansen to see if the forms can include some kind of note regarding review and validation that the information is accurate by the retiree at the time of submission.

Richard Griep made a motion to approve the Benefit Approvals as submitted. William Mitchell seconded. Motion carried 5-0.

c. Warrant - March 20, 2013

Mr. Mitchell inquired regarding how the investment manager fees were calculated. Mr. Nash advised that each manager's fees were agreed to in the Investment Agreement and applied at quarter end. Another inquiry was made regarding Foster & Foster's charges. Mr. Christiansen advised that they were set by contract.

William Mitchell made a motion that the Warrant be approved as submitted. Richard Griep seconded. Motion carried 5-0.

7. NEW BUSINESS

8. OLD BUSINESS

9. NEXT REGULAR MEETING

The Trustees previously set the schedule for the next regular monthly meeting on Wednesday, May 15, 2013 at 9:00 am

10. ADJOURNMENT

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

The meeting was adjourned at 10:19 AM,

Respectfully submitted,

Richard Griep, Secretary