City of Temple Terrace Fire Department Pension Board

MINUTES OF THE MEETING HELD
November 8, 2012

1. CALL TO ORDER

Roger Chewning called a meeting of the City of Temple Terrace Fire Department Pension Board of Trustees to order at 9:25 AM at the City Manager's Conference Room located at 11250 N. 56th Street, Temple Terrace, FL 33617.

Mr. Baur took a roll call of the Trustees present; the Board had a quorum for the quarterly meeting. Those persons present included:

TRUSTEES	**OTHERS**
Roger Chewning, Chair	Scott Baur, Pension Resource Center
Kim Leinbach	Robert Klausner, Klausner Kaufman Jensen & Levinson
Gerald Terenzi	John Breth, Bogdahn Group
	Steve Stack, ICC Capital Mangement
	Patrick Donlan, Foster & Foster (by phone)
	Alecia Latimer, HR Director
	Diane Reichard, Finance Director

2. INVESTMENT REPORTS: John Breth, Bogdahn Group

John Breth reported that markets were energized during the quarter ending September 30, 2012 by comments from Bernanke, Chair of the Federal Reserve Board. Mr. Breth also noted that value stocks were now outperforming growth stocks for the current quarter to date, while the election added to the volatility in the market.

Mr. Breth reviewed the asset allocation as of September 30, 2012, noting that the allocation conformed to the acceptable ranges established by the Investment Policy. Mr. Breth proposed a revision to the target allocations depending on the decision by the Board to hire a replacement manager for the ICC Capital Management value portfolio, equalizing the target allocations to the value and the growth portfolios. Mr. Breth indicated that he would provide a revised Investment Policy for the Board to review at the next quarterly meeting. He then reported that the plan had a gross return of 4.61% for the quarter ending September 30, 2012, compared to 4.74% for the benchmark. For the fiscal year, the portfolio returned 17.56% compared to 18.17% for the benchmark, ranking in the 45th percentile of the manager peer group for the year. Mr. Breth commented that the value portfolio did not perform well in the recent market, and he noted that he sensed some confusion evident with the manager regarding the market. He stated that the ADR (American Depositary Receipt) portfolio managed by ICC had much stronger relative performance.

Mr. Breth reported that the fixed income portfolio, meanwhile, had outstanding performance during the quarter ending September 30, as the manager rotated out of US Treasury Bonds to mortgages and corporate bonds. He also indicated that the recent diversification by the plan into real estate enhanced the overall performance of the portfolio as well.

3. **ACTUARIAL VALUATION:** Patrick Donlan, Foster & Foster

Patrick Donlan commented that the plan had only a slight increase in overall contributions expressed as a percent of payroll, although the Board reduced the assumed rate of return from 8% to 7.9%. He also noted that although the plan had strong investment gains for the fiscal year ending September 30, the plan only recognized an average return of 6.32% for the Valuation according to the 4 year smoothing adopted by the Board. Mr. Donlan stated that the Investment Portfolio would need to gain at least 6.2% for the current fiscal year to bring the plan back to a smoothed return of 7.8% for the next valuation. The plan continued to recognize investment losses from prior years on the current year valuation.

Due to the stop/ restart ordinance adopted by the City, the City had a credit balance of approximately $161,000. The City had a remaining contribution reserve of approximately $150,000 as of October 1, 2012. Mr. Donlan noted that the Department had two terminations, 1 member retiring, and two members entering the DROP during the year. As a result, the plan had 44 active members down from 46 active members the prior year. Since the active payroll volume decreased, the contribution requirement expressed as a percent of the active payroll increased even though the actual dollar requirement changed very little. Mr. Donlan stated that the plan had a funded ratio of 76% in 2007, dropping as low as 59.4% in 2011. The funded ration increased to 60% as of September 30, 2012. Mr. Donlan noted that if the plan had no smoothing of investment returns, the funded ratio would actually increase more quickly. Mr. Donlan also explained that the valuation used a 20 year amortization of gains and losses, the same amortization period used by the 2011 Valuation.

Kim Leinbach made a motion to approve the actuarial valuation for October 1, 2012. Jerry Terenzi seconded the motion, approved by the Trustees 3-0.

4. **INVESTMENT MANAGER PRESENTATIONS**

Jon Breth indicated that he allocated about 20 minutes for each manager presentation.

ICC Capital Management: Steve Stack

Steve Stack apologized to the Board for the scheduling conflict that he had at the August meeting, but he wanted to make sure the Board had the necessary confidence level in the manager. Mr. Stack explained that the holdings in the portfolio sold off a bit more than the overall market recently, but he attributed most of the underperformance in the overall portfolio to JP Morgan, which declined by 20%. He reported that the ICC value portfolio performed above the benchmark for the quarter ending September 30, 2012, although he acknowledged that the market provided a challenging environment over the past 5 quarters. He explained that the returns for the S&P 500 were dominated by a few components such as Apple, which alone dragged the market index down by almost 2% over the past few weeks. He stated that ICC does understand the performance and the market environment, although many active managers trailed the market in recent quarters. ICC struggled even more due to a more concentrated allocation to the financial sector.

Mr. Stack reviewed the quantitative process used by ICC to initially screen securities for holdings in the portfolio. While the model used by the manager is fluid, the manager does not adjust the screen constantly. He then discussed the additional considerations and analysis that ICC then uses to qualitatively construct the portfolio. Mr. Stack summarized the process, noting that ICC uses a quantitative screen on the market with qualitative judgments about the economy and market sectors, before evaluating and investing in any specific issues. Mr. Stack thanked the Board, understanding that the Trustees faced difficult decisions regarding the management of the value portfolio.

Roger Chewning asked Mr. Stack to contrast the approach by ICC Capital Management to the investment process used by Advisory Research and Eagle Capital Management. Mr. Stack responded that Advisory Research managed an all cap portfolio, although he was less familiar with Eagle. Jon Breth interjected that both Eagle and Advisory focus on a fundamental bottom-up type analysis in the construction of the portfolio, compared to the quant screen initially used by ICC to filter the universe of securities. Jon Breth asked Steve Stack to comment on any recent changes or additions to the investment staff employed by ICC Capital Management. Mr. Stack noted that ICC recently acquired another investment manager, Valley Forge. As a result, ICC added one person to the investment management team with a strong quant background and another person with more of an economic background. ICC still relies on a team of 4 managers to oversee the strategy, while Bart McMurray makes the final decisions regarding the portfolio construction. Mr. Stack said the recent additions to the management team made an additional positive contribution to the capabilities of the manager.

Mr. Klausner asked Mr. Stack to explain the history of the quantitative screen used by the manager. Mr. Stack stated that ICC tweaked the quantitative model 3 times since 1995, most recently when Towers Perrin ceased to exist with the World Trade Center. ICC builds the analysis of numerous research firms into the model, although the manager does not adjust the model to hype driven by the media. Jon Breth indicated that each of the companies making presentations employed very different management approaches. Mr. Klausner asked how ICC compared to the universe of quant managers, and Mr. Breth responded that ICC had very mediocre performance in comparison to the style group. Mr. Breth indicated that the ADR portfolio, on the other hand, had a much smaller universe that ICC must use to construct the ADR portfolio.

Eagle Asset Management: John Johnson

Mr. Johnson stated that Eagle manages assets for many public plans, including other similar plans in Florida. The manager focuses primarily on the preservation of capital, recognizing the responsibility of the manager to in the public sector. Eagle has only one investment strategy with 25 dedicated employees, with a total of $13.8 billion in assets under management. Mr. Johnson believes this singular focus adds to the management value. He also noted that the team of 7 investment professionals has long-term compensation packages based on revenues and profits, in contrast to shorter term risk based performance bonuses. Eagle therefore tends to take a very long view to portfolio construction and performance as a result.

Mr. Johnson explained the investment process at Eagle. Eagle looks for undervalued companies with an unrecognized potential. The manager avoids issues with high expectations, preferring instead to look for the more unrecognized opportunities. The manager likes to find these opportunities early. If the manager is wrong about a particular holding, the holding tends not to blow up in the portfolio since the holdings did not begin with high expectations anyway. In this way, the holdings in the portfolio tend to have a "value floor". Eagle looks for management committed to strengthening the financial position and the wherewithal to execute. Eagle concentrates the portfolio into 25-35 holdings. Historically, The manager has captured 100% of the market upside and only 71% of the downside using this approach. Ultimately, Eagle relies on fundamental research. Mr. Johnson used Oracle as an example for the investment strategy.

Eagle charges a fee of 1% on the first $5 million in assets, then 75 bp thereafter. Mr. Johnson stated that Eagle would aggregate the Police and Fire assets for purposes of determining fees if selected. He stated that the company has 11 partners, with all 7 investment team professionals as partners in the company. Mr. Johnson explained that the company is structured like a law firm.

While Eagle does not see itself as an international manager, Mr. Johnson noted that the manager likes companies with a global footprint. The average holding period for an issue in the portfolio is 4-5 years, with a 25% annual turnover rate for holdings. Mr. Johnson said that the manager does try to exit early from a holding when the manager makes a mistake. Mr. Johnson summarized the approach by saying that the manager likes to buy when a company is a value stock, hold the issue when the company becomes a growth stock, and then sell when the company becomes a momentum play. Since the manager is very focused, Mr. Johnson offered that the staff at Eagle is very accessible.

Advisory Research: Kevin Kling and Matthew Swain

Mr. Kling stated that the manager currently has about $9 billion under management, enough to withstand volatility in the market, yet small enough to provide customized and focused client service. Advisory started as a small cap manager, providing the manager with additional insight to the all cap strategy offered to the Pension Fund. Mr. Kling reported that Advisory maintains a deep research team to manage this strategy. Mr. Kling reviewed the historical performance for the strategy that included the small cap stocks. Advisory manages the portfolio against the Russell 3000 benchmark, using a bottom-up approach to portfolio construction based on research and selection of individual securities. Mr. Kling reported that the portfolio has a typical turnover of about 30-40% annually, so the manager usually allows companies 2-3 years to execute a business plan.

Mr. Swain noted that the manager focuses on downside protection when selecting securities for the portfolio. Advisory then looks for companies with substantial upside potential, with either an executable business plan or other catalyst. The manager sells a holding hen the security reaches the target valuation, when the manager identifies better opportunities, or the company management deviates from the business plan. Mr. Swain reviewed the current portfolio characteristics, providing examples of holdings in the portfolio. He then reviewed historical performance for the strategy, noting that Advisory outperformed the benchmark with less risk. Mr. Swain explained recent changes to the ownership of the firm, along with the compensation plan for the investment management team. Advisory rewards the investment management team based on longer term performance over short term results.

Advisory charges 1% to manage the first $5 million in assets and 75 bp thereafter.

Discussion

The Trustees considered the presentations, with a bias to Eagle based on the presentations. The Trustees discussed the wider range of market capitalizations represented in the Advisory all cap portfolio strategy. The Trustees then considered the how both Eagle and Advisory would complement Sawgrass as a manager. Jon Breth advised that the recent ownership change at advisory should not impact the management of the proposed strategy. He also noted the total fee for other manager should run about 80 bp. Mr. Breth indicated that the biggest difference between the two replacement managers is the small cap exposure in the portfolio proposed by Advisory. He also recommended the Board should rebalance assets in the process of funding the new portfolio.

Kim Leinbach made a motion to replace the ICC Capital Management value strategy with Eagle. Jerry Terenzi seconded the motion, approved by the Trustees 3-0.

Kim Leinbach made a motion to approve and execute agreements with Eagle, subject to review by counsel. Jerry Terenzi seconded the motion, passed by the Trustees 3-0.

The Trustees abbreviated the remainder of the meeting agenda due to the length of the meeting with the manager presentations. Mr. Klausner advised that he had no additional report, since he addressed various issues during the course of the meeting.

The Trustees considered the renewal for the fiduciary liability insurance policy. Since the policy had no substantial premium change, Mr. Klausner advised the Board should approve the renewal.

Kim Leinbach made a motion to approve the Fiduciary Liability Insurance renewal. Jerry Terenzi seconded the motion, passed by the Trustees 3-0

The Board reviewed the benefits pending approval. Mr. Klausner advised the Trustees could ratify the benefit approvals with a single motion.

Jerry Terenzi made a motion to approve the Benefit Approvals dated November 8, 2012. Kim Leinbach seconded the motion, passed by the Trustees 3-0

The Board reviewed the Warrant for payment of invoices. The Trustees briefly considered the reimbursements for conference expenses, as well as the invoice provided by Sawgrass.

Kim Leinbach made a motion to approve the Warrant dated November 8, 2012 for payment of invoices. Mr. Terenzi seconded the motion, passed by the Trustees 3-0

The Trustees reviewed the minutes for the regular meeting of August 9, 2012.

Jerry Terenzi made a motion to approve the minutes of August 9, 2012. Kim Leinbach seconded the motion, approved by the Trustees 3-0.

5. **OTHER BUSINESS**

The Board considered a member provided by Mr. Klausner relating to the $3,000 exemption from income for medical expenses that members receive with a normal retirement. Salem Trust, custodian for the Pension Fund, correctly reports the amounts paid to the retired members on the annual Form 1099R; however, the custodian adjusts the tax withholding from the standard withholding tables based on the amount of the exemption. Since the retired members have the ability to adjust withholding for income taxes at any time, the Board decided that no further action was required.

Mr. Klausner then addressed the proposal by Salem Trust to outsource the filing of all class action matters for holdings in the portfolio. Following communication from counsel, the custodian ultimately decided not to change the processing of class action filings on behalf of the plan.

6. **NEXT MEETING DATE**

The Trustees previously scheduled their next quarterly meeting for February 14, 2013. The meeting will begin at 9:00 AM for the Joint Investment Reports with the Police Officer Board of Trustees and 9:30 AM for the Regular Meeting.

7. ADJOURNMENT

There being no further business, Kim Leinbach made a motion to adjourn the meeting at 11:57 AM, seconded by Jerry Terenzi, and approved by the Board 3-0.

Respectfully submitted,

Ian Kemp, Secretary