



City of Temple Terrace Fire Department Pension Board

**Roger Chewning, Chairman; Gerald Terenzi, Vice-Chairman; Ian Kemp,
Secretary; Frank Chillura, City Mayor; Jerry Seeber, City Manager**

MINUTES OF THE MEETING HELD May 9, 2013

1. CALL TO ORDER

Roger Chewning called a meeting of the City of Temple Terrace Fire Department Pension Board of Trustees to order at 9:15 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

Roger Chewning, Chair
Gerald Terenzi, Vice-Chair
Ian Kemp, Secretary
Frank Chillura, Mayor
Jerry Seeber, City Manager

OTHERS

Scott Baur & Pam Nolan, Pension Resource Center
Bonni Jensen, Attorney (Klausner et al.)
John Breth, Bogdahn Group
Steve Stack, ICC Capital Management
Ted Beason, Acting Finance Director
Alecia Latimer, HR Director

2. INVESTMENT REPORTS:

The Police Officer Board of Trustees, their meeting already in progress, reported that the Trustees made a decision to reinvest the ADR portfolio currently managed by ICC Capital Management with another manager.

Steve Stack addressed the Board on behalf of ICC Capital Management. Mr. Stack stated that Jon Breth of the Bogdahn Group lacked confidence in the ability of ICC to continue to manage the portfolio over other available options. Mr. Stack noted that Jon Breth expressed concerns about the ownership of the company, as well as the liquidity of the portfolio. Steve Stack explained that the internal research team at Bogdahn ultimately lost confidence in the investment process implemented by ICC; however, Mr. Stack indicated that the research associate from Bogdahn visited his company only one time. According to Mr. Stack, the research associate from Bogdahn did not appear to have an adequate background to properly evaluate the portfolio or the investment process.

Steve Stack addressed the ownership of the investment management company first. He stated that Bart McMurray is now 48, while Steve is age 44. The company has 4 partners in their 70's that do not manage assets. Mr. Stack stated that he is now the 3rd oldest person in the Orlando office out of 17 employees. ICC Capital Management recently considered a sale of the company to Munder, but the firm ultimately concluded that Munder was not a good fit as a partner following extensive due diligence. He noted that ICC recently had strong performance in the portfolios managed by the firm. The company has lost only one employee to personal family issues, so the company does not have an issue retaining personnel.

Steve Stack reported that the ADR portfolio currently included about 35-40 securities. He explained the ADR market, which includes about half the securities the MSCI EAFE Index. If the ADR portfolio managed by ICC has recent strong performance, then Mr. Stack concluded only the ownership of the firm could create some concern for the Bogdahn Group. He again noted that only one new analyst from Bogdahn actually visited the offices of ICC, while another value analyst that did not visit the firm's offices made the recommendation to terminate.

Jon Breth explained the due diligence conducted by the Bogdahn Group, which focused on the limits of the ADR portfolio along with the underlying investment process implemented by ICC. Steve Stack and Jon Breth addressed the investment process at ICC in greater detail. Mr. Stack stated that ICC does not rely entirely on the quantitative model developed by the firm, but adds some qualitative judgment to the final stock selection process. While he perceives that the Bogdahn Group somehow now sees the qualitative judgment as a flaw in the stock selection process, Mr. Stack stated that ICC has always implemented the same process to construct the portfolio. Mr. Stack observed that ICC now served as an investment manager to Temple Terrace Fire since 1986. He thanked the Board for the long and productive relationship that his firm experienced with the plan. Mr. Stack departed the meeting.

John Breth, Bogdahn Group

Jon Breth responded that the Bogdahn Group communicated their concerns regarding the process to manage the ADR portfolio on multiple occasions. He remarked that the issue with the portfolio has less to do with the historical performance generated by ICC, as opposed to what is best for the Pension Fund going forward.

Jon Breth provided an overview of the market for the quarter ending March 31, 2013. The European market experienced a sell-off during the quarter, while the domestic fixed income securities got a boost from the movement of capital. Value outperformed growth for the quarter, due primarily to the poor performance by Apple. Mr. Breth noted that the international indices still weight Japan very heavily. Japan is attempting to increase inflation by devaluing its currency, boosting exports in the process. Currency exchange rates, on the other hand, cut into the recent gains by the Japanese market. Concerns about the possibility that bonds will lose value if interest rates rise, as well as reinvested cash, also propelled the equity markets during the quarter.

The investment portfolio for the Pension Fund had a value of \$16,381,327 as of March 31, 2013. Mr. Breth stated that the asset allocation remains in line with the target allocation for the Investment Policy. Mr. Breth reviewed the cash flows through the portfolio during the quarter. He reported that the portfolio returned 6.32% net of investment fees for the quarter ending March 31, 2013, compared to a return of 6.03% for the benchmark. The return ranked in the top 14th percentile of the Bogdahn comparison universe. For the fiscal year to date, the portfolio returned 7.76% net of investment fees compared to 8.11% for the benchmark, ranking in the top 18th percentile. He noted that Sawgrass had the best relative performance for the quarter, helping Sawgrass to continue to close the gap of underperformance since inception as a portfolio manager for the Pension Fund. Eagle trailed the benchmark for that portfolio slightly for the quarter, taking a more defensive approach.

Jon Breth stated that the Bogdahn Group does have concerns about how Bart McMurray implements the quantitative screen used as part of the securities selection process for the ADR portfolio managed by ICC, since the qualitative judgment creates the appearance that the manager arbitrarily ignores the model. Mr. Breth also reviewed the performance of the fixed income and the real estate components of the portfolio. Mr. Breth foresees a rotation to active management in the market, where stock selection will become increasingly important.

Mr. Breth then reviewed the search results for an international portfolio manager to replace ICC Capital Management. The search results included 2 mutual funds, 2 commingled funds, and a Vanguard index fund. Mr. Breth noted differences between the value and growth styles of management represented in the search. He also reviewed the diversification and style differences between the portfolios. Mr. Breth addressed the liquidity of the options, along with the fees. He recommended that the Board reallocate the ICC ADR portfolio to the Dodge and Cox and Vanguard options, splitting the funds between the two. Mr. Breth suggested adding another account at Salem to hold the mutual funds, since the current agreement with the custodian should allow another portfolio with any corresponding increase to fees charged by Salem. Dodge & Cox provides a long-term value style of management, while the Vanguard component adds additional diversification. Roger Chewning observed that the historical performance for the ICC ADR portfolio appears stronger than the alternatives offered through the search, offering greater returns with lower risk or volatility. Mr. Breth responded that he does not have a lot of faith in the quantitative process implemented by ICC Capital Management. He stated that Dodge & Cox has implemented a consistent process since the 1930's. Mr. Breth indicated that the recommendation to terminate ICC does not relate to performance; the Bogdahn Group sees the alternative options as likelier to produce stronger results prospectively. Mr. Chewning further questioned the recommendation to terminate ICC.

Ian Kemp asked why the perspective that the Bogdahn Group shifted over time in light of the consistent performance. He noted that if the management process had deficiencies, the process had those same deficiencies previously. Mr. Breth maintained that the Board now had better options available for investment of the ADR portfolio. Mr. Kemp expressed reservations about hiring a replacement manager without first interviewing the managers. He also expressed concerns about the risk and returns generated by the alternative portfolios recommended by the Bogdahn Group. The Board noted that Vanguard charges lower fees. The Board further considered the recommendations, as well as the fees proposed by the alternative managers. The Trustees also considered the history of the ICC relationship.

Ian Kemp made a motion to interview RBC and Dodge & Cox, as well as ICC, at the next quarterly meeting. Jerry Terenzi seconded the motion, approved by the Trustees 5-0.

3. APPROVAL MINUTES

The Trustees reviewed the Minutes for the meeting of February 14, 2013. The Trustees noted corrections to the header on the minutes.

Jerry Seeber made a motion to approve the Minutes for February 14, 2013 as corrected. Frank Chillura seconded the motion, approved by the Trustees 5-0.

4. ADDITIONAL INVESTMENT REPORTS

Jon Breth provided a fee increase proposal to the Board on behalf of the Bogdahn Group for investment consulting services. He noted that the fee lasted increased in 2011 to \$9,000; the Bogdahn Group proposes to increase the retainer to \$12,500. The proposed fee still remains well under 1 bp of assets for services rendered by the consultant. Jon Breth noted that the Bogdahn Group does gain some efficiency working for both the Police Officers' and the Firefighters' Pension Funds. The Bogdahn Group in this case also proposes to update the agreement with the plan. The fees in the updated agreement are no longer contingent on the Board meeting jointly with the Trustees for the Police Pension Fund. Apart from the retainer fee, the proposed agreement does not have any additional fees for other costs such as travel or manager searches. The proposed agreement includes up to 6 meetings of the Board per year.

Ian Kemp made a motion to approve the fee increase for the Bogdahn Group from \$9,000 to \$12,500, subject to review of the proposed Agreement by counsel. Jerry Terenzi seconded the motion, approved by the Trustees 5-0.

5. ATTORNEY: Bonni Jensen

The Mayor departed the meeting due to a schedule conflict with another previously scheduled meeting.

Ms. Jensen reported that SB 458 passed the Senate but not the House. Three other bills with provisions affecting the public pension plans in Florida did pass, including a bill that makes changes to the filing process for the annual Form 1 financial disclosure completed by the Trustees. The disclosure forms filed by the Trustees will become available to the public online, and the Trustees will also have an option to file electronically starting in 2015. Florida can now collect fines for Trustees failing to file by garnishing wages.

Ms. Jensen reported that all public meetings must have a public comment section. The Board directed the administrator members of the public to address the Trustees for 3 minutes at the beginning of the meeting, consistent with other public meetings in the City.

Ms. Jensen stated that SB 534 mandates additional reporting requirements for the public pension plans, essentially a third annual actuarial valuation using additional return and mortality assumptions as a kind of “stress” test for the plans. All plans must begin to use the RP2000 mortality table as well.

Ms. Jensen explained that the Division of Retirement had a new confidentiality form to maintain certain information regarding members and Trustees confidential. She indicated that the City must execute and submit the form. Alecia Latimer reported that she already signed and submitted the form for the City. Ms. Latimer indicated she would provide a copy of the form to the administrator.

Ms. Jensen provided the Trustees with hard copies of the restated Ordinance. After a brief discussion, the Trustees determined that the Summary Plan Description was updated previously.

6. ADMINISTRATOR: Scott Baur, Pension Resource Center

Mr. Baur provided the Trustees with updated contact information for the Board and the Service Providers. He reminded the Trustees of two upcoming conferences, the annual Division of Retirement conference in Tallahassee and the FPPTA Conference at the end of June near Orlando. Mr. Baur also reminded the Trustees to file the annual Form 1 financial disclosure forms with the Supervisor of Elections in the County in which each Trustee resides by July 1.

7. PLAN FINANCIALS

The Trustees reviewed the Warrant for accounts payable dated May 9, 2013.

Ian Kemp made a motion to approve the Warrant dated May 9, 2013. Jerry Terenzi seconded the motion, approved by the Trustees 4-0.

Ian Kemp made a motion to approve the Benefits for the meeting. Jerry Terenzi seconded the motion, approved by the Trustees 4-0.

8. NEW BUSINESS

The Trustees had no new business to consider.

9. OTHER BUSINESS

Roger Chewning recommended that the Board consider joining the National Council of Public Employee Retirement Systems (NCPERS). He noted that the annual membership fee of \$225 is not substantial, and the organization makes available additional resources and educational opportunities to the Trustees.

Ian Kemp made a motion to join NCPERS. Jerry Terenzi seconded the motion, approved by the Trustees 4-0.

The Board briefly discussed moving the meeting of the Board of Trustees for the Firefighters' Pension Fund to another day. The Board currently meets on the same day with the Board of Trustees for the Police Pension Fund, overlapping the meetings for the investment reports. The Trustees decided not to move the next quarterly meeting previously scheduled for August 8, 2013 at 9 AM. Mr. Breth will provide the schedule of manager presentations for the August 8 meeting, to begin at approximately 9:15 AM.

10. NEXT MEETING DATE

The Trustees previously scheduled their next quarterly meeting for August 8, 2013.

11. ADJOURNMENT

There being no further business, Ian Kemp made a motion to adjourn the meeting at 11:24 AM, seconded by Jerry Terenzi, and approved by the Board 4-0.

Respectfully submitted,

Ian Kemp, Secretary