City of Temple Terrace Fire Department Pension Board

MINUTES OF THE MEETING HELD
August 8, 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 9:07 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 & Pam Nolan, Pension Resource Center
Gerald Terenzi, Vice-Chair	Bonni Jensen, Attorney (Klausner et al.)
Ian Kemp, Secretary	John Breth, Bogdahn Group
Frank Chillura, Mayor	Steve Stack, ICC Capital Management
Jerry Seeber, City Manager	Angela Atkinson

2. PUBLIC COMMENTARY:

No members of the public addressed the Board.

3. INVESTMENT REPORTS:

Jon Breth reviewed his process to search for a re replacement manager for ICC Capital Management. He explained that his firm recently developed some concerns regarding ICC and the investment process implemented by the manager. He suggested replacing ICC with a combination of an active manager and a passive index fund. He recommended the Board consider Dodge and Cox for the actively managed portfolio, along with a Vanguard index fund. He explained that RBC would make a presentation to the Board, while Dodge and Cox would join the meeting by phone. Mr. Breth stated that the Bogdahn Group believed that better options existed to replace ICC as the manager of the international portfolio.

Jon Breth noted that RBC offered a commingled product.

4. INVESTMENT MANAGER PRESENTATIONS:

<u>RBC (Michael Schuntz)</u>

Mr. Schuntz introduced RBC. The firm has $291 billion in assets under management. The team managing the international portfolio is located in Boston.

Mr. Schuntz explained that the actual investment team for the portfolio originated at Polaris Capital Management. A very diverse management team oversees the portfolio. The team uses a value style of management with a bottom-up approach to selecting securities for the portfolio. The investment process focuses on cash flow, identifying the most undervalued streams of free cash flow. Cash flows are easier to identify and measure across the various international markets. The screen to identify higher cash flow levels compensates for the additional risks associated with the international investments. The manager employs fundamental analysis of the companies after the initial screen to filter the securities. The fundamental analysis uses the Graham model for value analysis, similar to Warren Buffet, a well-known value investor. The resulting portfolio is more diverse than the corresponding benchmark index. Mr. Schuntz reviewed the current geographic and sector weightings for the portfolio, as well as the long-term returns generated by the process.

Mr. Schuntz stated that the portfolio does not use any options or derivatives in the construction, nor do the managers hedge currencies. H then explained the performance in relation to the market since the downturn in 2008. RBC foresees some kind of market correction still this year. The international strategy has only domestic clients investing in the portfolio. RBC is also aware of the scrutinized companies on the list issued by the Florida Legislature. The portfolio holds 8.6% of the portfolio in securities of emerging markets, though the position can range from 0% to 25% of assets.

RBC waived the $5 million minimum investment in the portfolio for the plan, and the manager will accept mandates down to $1 million for Bogdahn. The manager charges 95 bp, 45 bp going to Polaris and the other 50 bp going to RBC. RBC inherited the sub advisor relationship with Polaris from the acquisition of Freedom Capital Management.

Dodge and Cox (Matt Beck, by phone)

Jerry Seeber departed the meeting due to a schedule conflict.

Matt Beck joined the meeting by phone from San Francisco. He reviewed the background of the company. The ownership of Dodge and Cox stays in the hands of the active members of the management team. Owners must divest of their interest in the firm by age 70. The firm has $201 billion in assets under management with $43.3 billion in the international mutual fund. The mutual fund has one share class only, available to all investors. Mr. Beck reviewed the background of the key members of the management team.

Mr. Beck then explained the investment process, which employs a value style of management coupled with a long-term investment horizon. The portfolio typically includes 75-90 holdings. The securities selection process focuses on valuations, the external environment of a company, and the internal characteristics of that company. He reviewed the characteristics for the current holdings in the portfolio, along with the sector weightings relative to the benchmark. He also reviewed recent changes to the portfolio holdings.

John Gunn, one of the principals at Dodge and Cox, sold his shares in the firm at age 70. He has stepped back with regard to his responsibilities at the firm, but he still plays a key role in the management of the portfolio. Diana Strandsburg is the lead manager for the team. Even though the mutual fund accepts retail investors with a minimum of $2,500, institutional investors make up 75% of the assets of the fund.

Dodge and Cox tends to take a contrarian style to management, so the portfolio tends to underperform relative to the market when the market goes to extremes. Mr. Beck provided the tech bubble of 1998-1999 as an example of an extreme market environment, along with financials in 2011. The portfolio does not weight a fixed allocation to emerging markets. The portfolio typically keeps under 25% of assets, however, allocated to emerging markets, and large cap names tend to dominate the portfolio. Bonni Jensen, counsel, inquired about other Florida public clients using Dodge and Cox. Mr. Beck stated that the manager does not have any Florida public funds investing in the portfolio. Ms. Jensen asked about the scrutinized company list, but Mr. Beck explained that the mutual fund cannot tailor holdings to accommodate a specific investment policy limitations. Dodge and Cox charges 64 bp, with 60 bp going to the management of the portfolio and the remaining 4 bp going to support operations.

ICC Capital Management (Steve Stack)

Steve Stack explained that Bart McMurray had jury duty; otherwise, he would have attended the meeting.

Mr. Stack stated that ICC served as a manager for the plan since 1986. He explained the qualitative model used to screen securities, followed by a bottom-up analysis used to construct the actual portfolio. He addressed the ADR (American Depository Receipt) strategy, which takes accounting standards into consideration. ICC also screens the Florida list of scrutinized securities. Finally, Mr. Stack noted that Bart McMurray is 48 years old, and the ADR strategy has a younger management team.

Mr. Stack indicated that the firm has consistently implemented the combination of the quantitative screen and the qualitative analysis over the history of the strategy. Mr. Stack discussed other personnel changes at ICC as well, none of which impacted the management of the ADR portfolio.

Jon Breth reviewed the comparative performance information that he presented in his replacement manager search. He recommended shifting the target index for the portfolio to the MSCI ACWI Index from the MSCI EAFE Index, since the ACWI benchmark has greater exposure to emerging markets. He also stated that a split of assets between the Vanguard index fund and a replacement active manager for ICC would substantially lower the management fees for the international equity allocation. Jon Breth stated that he favors Dodge and Cox as a replacement manager for ICC. He noted that Polaris offers a mutual fund, but the commingled portfolio has lower expenses. Mr. Breth reviewed the breakdown and comparison of fees between the propose options in greater detail. He advised that the discretion exercised by ICC in the implementation of the quantitative model makes the management process at ICC appear more inconsistent to the Bogdahn Group.

The Board discussed the management team at ICC, noting that recent changes did not affect the management of the ADR strategy. Mr. Breth reiterated that his recommendation to replace ICC resulted from broader concerns about the firm, rather than the performance of the portfolio managed by ICC. He recommended using a core index approach and splitting the current allocation to reduce the manager risk. Ian Kemp noted that the ICC ADR strategy has delivered stronger long-term performance than the recommended replacements. Mr. Kemp also favored RBC as a replacement to ICC, or a possible split of the international equity portfolio between RBC and Dodge and Cox. Mr. Terenzi also noted that the data provided by Bogdahn clearly indicated that ICC consistently outperformed the benchmark since 2007.

Ian Kemp made a motion to split the current ADR Strategy managed by ICC Capital Management between ICC Capital Management and RBC. Jerry Terenzi seconded the motion, approved by the Trustees 4-0.

2013 Contribution Requirements (Patrick Donlan, Foster & Foster)

Mr. Donlan joined the meeting by phone. Roger Chewning stated that the required City contribution to the pension plan substantially increased for the next year as a percent of payroll. Mr. Chewning asked Patrick Donlan to explain the cost changes, along with any components of that cost that might result from action or assumptions adopted by the Board.

The Mayor departed the meeting at 11:43 AM due to scheduling conflicts.

Mr. Donlan noted that the investment performance remained a key driver in the negative experience for the plan in recent years. If the market holds during the current year, however, Mr. Donlan estimated that the plan would have a gain of about $100,000 for the next valuation. He explained the payroll growth assumption, since the assumption resulted in a substantial increase to the required City contribution when the Board switched from a City contribution as a percent of payroll to a fixed dollar contribution amount. Actual payroll, meanwhile, remained very flat during the current fiscal year. The Board specifically considered options to reduce the required City contribution that resulted from recent method changes resulting solely from prior action by the Board. Mr. Donlan stated that the City contribution would decrease by about $100,000 if the Board switched back to a funding method as a percent of payroll, with the City prefunding the entire required contribution amount at the beginning of the plan year. Mr. Donlan noted that, across plans served by Foster and Foster, Cities contributed an average of 37.4% of payroll to the public pension plans. Mr. Donlan stated that he would redo the valuation report to show prefunding options by the City if the Board adopted any method changes.

Ian Kemp made a motion to change the funding method for the required City contribution back from a contribution expressed as a fixed dollar amount to a contribution expressed as a percent of payroll. Mr. Terenzi seconded the motion, approved by the Trustees 3-0.

Mr. Donlan stated that numerous changes in the industry and mandates by the state would increase the cost of future valuation reports. The state changed the method for use of the 1999 frozen premium tax receipts. Changes to GASB, meanwhile, would affect reports for 10/01/14 and 10/01/15. Finally, Florida mandated additional reporting using alternative assumptions as of 10/01/14 as well.

Quarterly Investment Report (Jon Breth, Bogdahn Group)

Mr. Breth briefly reviewed the market environment for the quarter ending June 30, 2013, which culminated in a significant increase to interest rates in June driven by Federal Reserve Board policy. As of June 30, 2013, the plan had assets of $16,599,850. The net return of 1.22% for the quarter slightly outperformed the 0.98% return for the benchmark. For the fiscal year to date, the plan had returns of 9.08% compared to 8.53% for the benchmark. The fixed income portfolio managed by Garcia Hamilton lost 1.87% during the quarter as interest rates increased. The diversification to real estate helped offset the losses in the fixed income portfolio, with a gain of 4.34% for the fiscal year to date.

Mr. Breth discussed the request by Eagle Capital Management to invest up to 25% of the growth equity strategy in international securities. Mr. Breth stated that the current allocation to international securities would accommodate the request by Eagle and remain within the guidelines established by the Investment Policy.

Ian Kemp made a motion to approve the request by Eagle, allowing the manager to invest up to 25% of the assets managed by Eagle in international equities. Jerry Terenzi seconded the motion, approved by the Trustees 3-0.

Approval Minutes

The Board reviewed the minutes for the meeting of May 8, 2013.

Ian Kemp made a motion to approve the minutes for May 8, 2013, with corrections. Jerry Terenzi seconded the motion, approved by the Trustees 3-0.

Attorney Report (Bonni Jensen)

Ms. Jensen presented changes to the Bogdahn agreement for the recent fee increase approved by the Board for signature.

She then noted that the additional reporting requirements resulting from the recent legislative session would likely increase charges by the actuary. The City will also report the unfunded plan liabilities resulting from GASB accounting standard changes. She commented on the requirement that the plan report a date that the assets would run out if the City never made any additional contributions to the plan.

Administrator Report (Scott Baur, Pension Resource Center)

Mr. Baur updated the Board regarding the 2012 Annual Report, approved by the Division of Retirement.

The Board discussed recent issues with reporting by Salem Trust, the custodian for the plan assets, resulting from a system conversion. Jon Breth does not believe the reporting delays impacted the management of the portfolio assets, although the problems did slow down reports to the Board issued by other service providers.

Plan Financials

The Board reviewed the Warrant for expenses dated August 8, 2013.

Ian Kemp made a motion to approve the Warrant dated August 8, 2013. Jerry Terenzi seconded the motion, passed by the Board 3-0.

The Board briefly discussed that Ms. Jensen attended recent meetings instead of Robert Klausner, although Ms. Jensen made a positive contribution to the issues addressed by the Board.

New Business

Ian Kemp requested that the administrator add the new Finance Director, Angela Atkinson, to the list for receipt of materials from NCPERS and FPPTA.

Other Business

The Trustees had no other business to discuss at the meeting.

Next Meeting Date

The Trustees previously scheduled their next quarterly meeting for November 14, 2013.

Adjournment

Ian Kemp made a motion to adjourn the meeting at 12:30 PM, seconded by Jerry Terenzi, and approved by the Board 3-0.

Respectfully submitted,

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Ian Kemp, Secretary