

***City of Venice Police Officers' Pension Fund***  
**MINUTES OF REGULAR MEETING**  
**November 12, 2008**

CALL TO ORDER:

Chairman Kevin McGrath called a regular meeting of the Board of Trustees for the City of Venice Police Pension Fund to order at 9:10 AM. Those persons present included:

TRUSTEES

Kevin McGrath, Chairman  
Andy Devries  
John Holic  
James Luck  
Peter Sorrentino

OTHERS

Scott Baur, Pension Resource Center (Administrator)  
Dave Kelly, Bowen Hanes & Co. (Investment Manager)  
Doug Lozen, Foster & Foster (Actuary)  
Lee Dehner, Christiansen & Dehner (Attorney)  
Lisa Spanraft, Bogdahn Consulting (Investment Consultant)

Kevin McGrath introduced the members and visitors in attendance at the meeting.

**SELECTION OF FIFTH TRUSTEE**

Kevin McGrath indicated that no other person applied to serve on the Board.

**A motion was made to reappoint Andy Devries as the fifth Trustee to serve on the Board. The motion was seconded and approved 4-0.**

Mr. McGrath briefly discussed the minutes for prior meetings of the Board.

**DAVE KELLY, BOWEN HANES & COMPANY**

Mr. Kelly discussed the background for the current market environment, beginning with the sub-prime securities and mortgages. The crisis then led to the demise of major financial institutions. Forced selling, capital calls, and the proliferation of hedge funds added to the market problems. The value of commodities fell significantly, as did home values. Mr. Kelly stated that the Federal Reserve Board had actually been very proactive regarding the crisis in the market.

Mr. Kelly then reviewed the performance for the investment portfolio. For the fiscal year ending September 30, 2008, the portfolio had a return of -16.2%. The portfolio returned an average of 9.7% since inception in 1986. The equities, meanwhile, returned -23.8% for the fiscal year, compared to a -21% return for the Russell 1000 Growth Index benchmark. The total portfolio had a value of \$23,330,548.28 as of September 30, 2008.

David Kelly commented on some of the individual financial institutions that recently collapsed. The manager, at the same time, is streamlining the portfolio toward fewer names and higher quality companies. The manager believes that 35-40 overall holdings in the portfolio offer the plan adequate diversification.

### **LISA SPANRAFT, BOGDAHN CONSULTING**

Ms. Spanraft briefly reviewed the market environment. Financial companies actually outperformed energy for two out of three quarters for the current year to date. Ms. Spanraft provided information on historical bear markets. She reported that the portfolio returned -10.57% for the fiscal year ending September 30 compared to -6.55% for the benchmark. For the quarter, the portfolio returned -16.34% compared to -13.98% for the benchmark. The portfolio return of 7.84% for the trailing 5 years ranked in the top 5<sup>th</sup> percentile.

Ms. Spanraft discussed the process to select an additional investment manager to complement Bowen Hanes. David Kelly thanked the Board for the long relationship with his firm, and he asked the Trustees to consider both the consistent performance and low fees delivered over time. The Board affirmed the strong relationship, although the Trustees believe that their fiduciary requires sufficient diversification and a review of the options available to the plan.

Lisa proposed diversifying 25% of the portfolio to a second manager. She reviewed the hypothetical historical performance for various managers in combination with Bowen Hanes. She also reviewed returns along with risk or volatility. Ms. Spanraft noted that her firm currently has Dana Investment Advisors and Rockwood paired with Bowen Hanes in other plans. The Trustees considered the coordination between the managers, buy-sell decisions, and the potential for overlap between holdings in separate portfolios. The fees for the additional managers ranged from 70- 80 bp, compared to 40 bp for Bowen Hanes. Ms. Spanraft concluded that an additional manager would not likely increase returns, but could certainly reduce risk. Based on her experience with the firms, she recommended that the Trustees invite both Dana and Rockwood to make presentations to the Board at the meeting previously scheduled for February 25, 2009.

**A motion was made to invite Dana and Rockwood to the February meeting. The motion was seconded and approved 5-0.**

### **LEE DEHNER, CHRISTIANSEN & DEHNER**

Mr. Dehner indicated that the Board should send an annual letter to the Division regarding the expected returns on investments for the plan. Lisa Spanraft agreed to provide the letter with supporting documentation for the chair to sign. Ms. Spanraft stated that an 8% return is still a reasonable assumption for the next several years and for the long-term, if not for the current fiscal year. John Holic departed the meeting early.

**A motion was made that the Board determined, based on the advice of the investment consultant, that 8% represented a reasonable assumption net of fees for the next several years and for the long-term thereafter. The motion was seconded and approved 4-0.**

### **DOUG LOZEN, FOSTER & FOSTER**

Doug Lozen provided the annual actuarial valuation for the fiscal year ending September 30, 2008. He summarized the differences between defined benefit and defined contribution plans. The actuarial valuation determines the contribution required by the City to fund the benefits. Mr. Lozen reviewed the 4-year smoothing of investment returns, which also smoothes the

contributions required by the City in the short-term but does not impact the plan over the longer term. Mr. Lozen reported that the Pension Fund has significantly better investment performance than the typical public pension plan. He then reviewed the sources for gains and losses in the plan. Mr. Lozen indicated that payroll increased significantly compared to the assumptions, while the investments caused a loss.

The City must fund \$562,330 or 20.1% of payroll for the fiscal year ending September 30, 2009, which increases to 27.7% of payroll for the fiscal year ending September 30, 2010. Starting with the 2009-10 fiscal year, the City must begin to make contributions as a percent of payroll as opposed to a dollar amount due to new requirements imposed by the State. Mr. Lozen noted that the State has not approved the actuarial reports for 2006-8, but the State cannot go back more than 3 years to review the reports based on a recent action by the auditor general. Doug Lozen hopes to have all 3 pending years approved by the Division simultaneously.

Mr. Lozen made recommendations regarding the actuarial assumptions used by the plan. He suggested changes to increase the required city contributions, including a shorter amortization period to recognize gains and losses. Mr. Lozen said that the Board might have to make the recommended changes in the future to continue to receive funds from the State. The assumptions also have less significance with shortened amortization periods for recognition of gains and losses. Mr. Lozen also observed that payroll volume remained unchanged over the past five years even though salaries increased. The Department now has only 42 active members in the plan.

**A motion was made to approve the actuarial valuation as presented by the actuary. The motion was seconded and passed 4-0.**

The Board briefly discussed a member called up to active service in the military. Lee Dehner stated that the member would receive a maximum of 5 years service credit for the time served following release with an honorable discharge.

Lee Dehner is drafting amendments for the plan for compliance with federal tax laws. He then updated the Board on recent workshops conducted by the Division of Retirement for proposed revisions to rules. The Division appears to be modifying some of the proposals based on feedback received in the workshops. The process will also be slowed rather than rushed.

Scott Baur provided three original agreements for execution as the administrator on behalf of the Pension Resource Center/ Tegrity Plan Administrators. He provided a calculation procedure summarizing the benefits for the Pension Fund. He then described the change in the name for his firm in greater detail.

Lee Dehner provided an update regarding an application pending by a member for a disability retirement.

## **ADJOURNMENT**

There being no further business and the next regular meeting of the Board having been previously set for Wednesday, February 25, 2009 at 9 AM, a motion was made to adjourn the meeting at 11:49 AM.

Approved: \_\_\_\_\_