

**MINUTES OF THE LADY LAKE
REGULAR POLICE PENSION BOARD MEETING
LADY LAKE, FLORIDA
March 11, 2015**

The Police Pension Board Meeting was held in the Town Hall Commission Chambers at 409 Fennell Blvd., Lady Lake, Florida.

A. CALL TO ORDER: Chairperson Wherry called the meeting to order at 1:30 p.m.

MEMBERS PRESENT: Chairperson Officer Vernon Wherry, Member Van Reynolds, Member Dee Dee Rountree, Member John Schmied, and Member Lt. Robert Tempesta

TOWN STAFF PRESENT: Jeannine Michaud, Finance Director; Kris Kollgaard, Town Manager; Sgt. Shane Barrett, Police Officer; and Nancy Slaton, Deputy Town Clerk

ALSO IN ATTENDANCE: Scott Christiansen of Christiansen & Dehner, P.A.; David West of Bogdahn Consulting, LLC; and Commissioner Tony Holden

B. PUBLIC COMMENT

Chairperson Wherry asked if anyone in the audience had any comments or questions.

Commissioner Tony Holden stated he is concerned about the amount of money the pension plan has in bond funds and believes it is not very appropriate for a long-term pension fund since it is only paying 3.5%, with the advisors being paid 1.25%, for a net gain of only 2.25%. He stated it is his opinion that a long-term large capital growth fund would better enhance the future. Commissioner Holden also stated that he valued the board members' opinion and thanked them for their service on the board.

Chairperson Wherry stated perhaps Mr. West could address Commissioner Holden's concern during his report.

C. NEW BUSINESS

1. Approval of Minutes: Regular Meeting – December 10, 2014

Upon a motion by Member Schmied and seconded by Member Rountree, the Board approved the meeting minutes of December 10, 2014, as presented, by a vote of 5-0.

2. Report from The Bogdahn Group

This agenda item was taken out of order of the original agenda and was addressed prior to the quarterly report.

b. Change of Internal Controls: David West of Bogdahn Consulting, LLC explained that there has been internal ownership changes at The Bogdahn Group and notification regarding this, along with a firm update, was sent out on or around the second week of January. He stated the three owners of the firm include Joe Bogdahn, Mike Walker and himself, and as Mr. Bogdahn has tendered the majority of his shares to Mr. Walker, he now becomes the managing partner of

the firm. Mr. West stated that Mr. Bogdahn is beginning an early transition to sunseting although he is still the CEO, with Mr. Walker as President. He further disclosed some of the updates to the firm and their details. Mr. West requested that the Board approve the Consent to Change form as required by the SEC.

Scott Christiansen, Board Attorney, explained that the Board will only be meeting the SEC requirement in consenting to the change in internal ownership of The Bogdahn Group, and no other issues are at stake.

Upon a motion by Member Rountree and a second by Member Tempesta, the Board approved the consent to change of ownership of The Bogdahn Group by a vote of 5-0.

a. Quarterly Report: Mr. West reviewed highlights of the quarterly report for the period ending December 31, 2014. He stated three items emerged in the market activity recently which included: 1) the precipitous decline in the price of oil, 2) the surprise rally in the bond market, and 3) an increase in currency valuations; mainly the increase in the value of the US dollar. He stated that the Fed has suggested that interest rates may rise in the near future, and that this would not bode well for any bond portfolio holdings, but would be beneficial for currency.

Mr. West stated that foreign equity markets underperformed domestic equities and ended in negative territory, and domestic equities were stronger in the last quarter. He stated the total fund and gross net for the quarter, and fiscal year to date, was at 3.29%, which was ahead of the benchmark at 2.94. The total domestic equity was at 5.46%, also ahead of the benchmark at 5.24; the total international equity composite was at -1.63%, which was under the benchmark at -3.81; and total fixed income was at 1.76%, a little under the benchmark of 1.79. He stated this is a great start for the fiscal year; out-performing the bulk of the other public pension numbers for this period. Mr. West stated the total fund market value was \$6,228,324 at quarter ending 10/1/14, and was \$6,444,468 for quarter ending 12/31/14, for a total appreciation of \$59,135 after contributions, distributions, expenses and income were considered.

Mr. West addressed asset allocation on page 10 of the quarterly report which showed domestic equity at 51.2%, international equity at 9.6%, fixed income at 36.6%, and cash equivalent at 2.6% as of quarter ending 12/31/14. He stated the asset allocation is slightly under target at -0.9% for international equity and -4.0% for domestic fixed income, with domestic equity and cash being slightly over target.

Mr. West stated the current investment policy is set up with a target allocation of 50% equity, 10% international equity, 40% domestic fixed income and 0% cash equivalent. He stated this plan is on the small end of public pension system where some plans are on the multi-million dollar scale, so they must execute carefully and are limited as to what they can access. In comparing with other plans, this plan is on the high end in equity and US fixed income allocation, but has no allocations under international fixed income, alternative and real estate as do other larger plans. Mr. West stated that his firm had previously suggested expanding into global bond strategies, international equities, and increasing allocation into institutional real estate, but most real estate funds have a million dollar minimum and would require a higher allocation than would be recommended for this size plan at this time. He stated that the Board was more comfortable with a more conservative approach, although his firm believes opportunities exist in diversifying into global bonds.

Mr. Christiansen noted that the Town's ordinance language would have to change if asset allocation changed as it currently restricts equities to 65% and there is no authority for real estate.

Mr. West agreed the current ordinance certainly restricts them from moving into alternative strategies.

Chairperson Wherry asked Mr. West what his opinion is as to how large the plan's portfolio would have to be in order to get into real estate; whether it be 8 million, etc.

Mr. West replied that ordinance contingent, they could potentially access real estate funds at approximately $\frac{3}{4}$ of a million dollars if the plan portfolio increased to at least 7.5 million, but 10 million would allow broader investments.

Member Reynolds asked which investments are giving the most returns.

Mr. West replied that is clearly the equity component, and they are projected to be the highest returning asset class for a long period of time.

Member Reynolds asked if bonds have low returns because of low interest rates and what percentage of the portfolio is invested in bonds.

Mr. West replied that it is because of low interest rates, and bond allocations are targeted at 40%.

Member Reynolds asked why 40% of the allocations are not being restructured to take advantage of higher returns than 3%.

Mr. Christiansen replied that the current ordinance for the plan restricts the investments to 65% of the assets being invested in equities, be it international or domestic, and the other 35% does not allow for good choices for investments except for bonds.

Chairperson Wherry stated the Board has been taking the conservative approach.

Mr. West agreed with the comments from both Mr. Christiansen and Chairperson Wherry.

Member Reynolds asked if Mr. West would recommend that the ordinance language be changed to be less restrictive while remaining safe.

Mr. West replied that they suggested previously that the ordinance language be changed to be less restrictive, and Town staff did not agree, but that it would be a standing recommendation.

Town Manager Kris Kollgaard stated for the record that it is up to the Board to make the recommendation to the Town Commission. She stated if the Board makes the recommendation, staff will take it to the Commission and they will make the final decision.

Member Schmied asked if REITs are considered real estate investments or trust fund investments.

Mr. West replied that REITs (real estate investment trusts) are considered an equity, not real estate.

Member Reynolds asked Mr. West what his firm's previous recommendation was for asset allocation.

Mr. West replied that their recommendation was to allow for some latitude and flexibility for investing, ideally allowing for investing in global bonds at 5% and allocate 10% to hard asset institutional real estate funds. He said this allocation would come from investment grade fixed income. He stated that if the change was recommended, they would have to change their investment policy statement in addition to the change in the ordinance language by the Town.

Chairperson Wherry asked if Mr. West would be willing to come up with a new recommendation before the next Board meeting as there are two members new to the Board since it was last discussed.

After further discussion, it was the consensus of the Board members to have Bogdahn bring back a recommendation regarding a change to asset allocation at the next Board meeting in June.

Mr. Christiansen asked Mr. West to address a recent issue with Salem Trust.

Mr. West stated that Salem Trust, as the independent third party accounting, received an unfavorable opinion as to their custodian operations after an operational audit.

Mr. Christiansen further explained that this happened after Salem Trust underwent a software systems change-over from SEI to SunGard approximately a year and a half ago. During this changeover, there were issues regarding late client statements and other items that were not properly documented due to issues with the change-over, although no monies were lost or misplaced. He stated that the Town should have received an audit opinion letter and a response letter.

Mr. West stated he will ask Salem Trust to forward the audit opinion letter and response letter to this Board. He stated that some plans have discussed initiating an RFP for these custodial services.

Mr. Christiansen stated that also during this time, Salem Trust was a victim of fraud. He stated no action is required by the Board, and Salem Trust should be cleared after another audit is completed. He asked if the Board wanted to consider changing custodians, but stated it is not a simple process. He stated his only concern is that Salem may lose clients due to this, and as a result, service could begin to deteriorate, although that is not the case at this time.

Member Schmied asked when Salem Trust's next audit will be available to the Board.

Mr. Christiansen replied that their next audit will be through June 30, 2015, and should be due out in July or August.

3. Report by Christiansen & Dehner

a. Update of Officer Disability Claim: Scott Christiansen of Christiansen & Dehner, P.A. reported that Officer Rita Boice filed a disability claim in mid-December, 2014. He stated his office sent out interrogatories in December, and Ms. Boice has since hired Attorney Paul Kelly. Mr. Christiansen stated his office is waiting on the receipt of the interrogatories so they can begin processing the claim, and he noted that the processing time of 90 days does not begin until the interrogatories are sent back and received by his office.

Mr. Christiansen reported that Chairperson Wherry's and Member Lt. Tempesta's terms expire next month in April, and they need to stand for re-election by the police pension plan members before the June Board meeting. He recommended that they each run for a seat separately. He

stated Member Rountree's term also expires in April, and she is selected by the Board members if she wishes to be reappointed, and asked that these items be on the agenda for the June meeting.

Mr. Christiansen stated his office is working with a big law firm in Indianapolis, Indiana to review the plan for any suggested changes to it in order to be in compliance for the IRS tax qualifying letter that gets sent in every couple of years. He stated that, typically, any changes that are made do not have any funding impact and are basically compliance items such as changes to language to conform with changes that have been made to code or law. Mr. Christiansen gave a current example of federal law changes regarding same sex spouses.

Mr. Christiansen reported that the state legislative session is just starting and during the 60 day session, there are several bills they are watching regarding changes to Florida Statutes, Chapters 175 & 185 dealing with police and firefighters' pension plans. He stated two bills are SB 172 and HB 341 and they have to do primarily with additional state monies that becomes available for additional benefits, and whether the union and the Town mutually agree on the use of the additional state money that is available to use for a defined benefit plan. He stated if they do not mutually agree, then there is a convoluted method for the division of the money with some going to pay down the unfunded actual accrued liability, or improve the defined benefit portion of the plan, and part to create a defined contribution component. Mr. Christiansen stated the Florida League of Cities supported the proposed changes to Chapters 175 and 185 last year, but do not this year. He stated one other bill that could have an impact is SB 242 which will require that the actuary use the same mortality table that the Florida State Retirement System uses, which is more conservative than one the plan is using now and assumes that people live longer, which could increase the cost of the plan.

Mr. Christiansen reported that he sent out a memo with a copy of Pension Form #1 (PF1) which is a request for confidentiality that plugs a potential loophole in the public records law. He stated that Florida public records law provides for an exemption for police officers and their families, but the statute allows that information in the hands of a custodian, not the Town, is not protected by the exemption unless the individual members or the employer request that the information be kept confidential. He stated that the Town Manager has signed this form to keep all information confidential.

Mr. Christiansen reported that his office has devised a chart for all the forms involved in the plan to show which forms need to be filled out for which action by the member, Board, actuary, etc., and this has been sent out to everyone to use as a checklist.

4. Required Update and Approval of the Summary Plan Description

Mr. Christiansen reported that the Summary Plan Description is a document that is required by the state to be compiled and updated every two years for distribution to all members of the pension plan. He stated everything that is required to be in the plan description is included. He explained the changes since the last plan which includes the date on the front, language clarification for terminated persons on page 3, maximum pension benefits up from \$205,000/year to \$210,000/year on page 7, an added paragraph #11 regarding ex-spouses as beneficiary on page 9, an added paragraph #12 on page 10 regarding exclusion of health insurance premiums from income, and an updated list of the Board of Trustees on page 11.

Upon a motion by Member Reynolds and seconded by Member Tempesta, the Board approved the Summary Plan Description as presented, by a vote of 5-0.

5. Approval of the Following Invoices Processed for Payment:

Chairperson Wherry read the list of invoices to be processed for payment for approval by the Board as follows:

- a) **Invoices from Christiansen and Dehner-Dated December 31, 2014 - Invoice # 25831 for \$983.20; and Invoice # 25832 for \$1,156.64**
- b) **Invoice from The Bogdahn Group-Dated 12/3/2014 - Invoice #11227 for \$3,875.00**
- c) **Invoice from Foster & Foster-Dated 12/11/2014 - Invoice # 6711 for \$8,869.00**
- d) **Invoice from Salem Trust-Dated 01/14/2015 for Period Oct. 1 - Dec. 31, 2014 for \$1,250.00**

Finance Director Jeannine Michaud noted that The Bogdahn Group was paid twice, and rather than request a refund, they will withhold the next payment.

Upon a motion by Member Schmied and seconded by Member Tempesta, the Board directed the invoices to be paid as listed, by a vote of 5-0.

6. Informational Items from Jeannine Michaud, Finance Director:

Finance Director Jeannine Michaud reviewed and explained the following informational items to the Board as included in the packet:

- a) **Copy of FY 2014 Annual Report of Investment with Investment Summary**
- b) **Copy of Correspondence to the Bureau of Local Retirement Regarding Declaration of Expected Return**
- c) **FY 2014 Annual Financial Statement**
- d) **October - December 2014 Quarterly Statement from Salem Trust Company**
- e) **Financial Statements for the Quarter Ending December 31, 2014**

Other:

Chairperson Wherry passed out a copy of a magazine article from a trade magazine he received. He stated this is primarily information for the newer Board members. He pointed out that this article has to do with the Town of Lady Lake's Police Pension Board and its former account manager, Bowen, Hanes. Chairperson Wherry stated it details some of the concerns the Board had with Bowen, Hanes, as well as their relationship with a few other municipalities such as Tampa.

D. ADJOURN

With no further business to discuss, Chairperson Wherry adjourned the meeting at 3:18 p.m.

Kristen Kollgaard, Town Clerk

Chairperson Officer Vernon Wherry