

**MINUTES OF THE LADY LAKE
SPECIAL POLICE PENSION BOARD MEETING
LADY LAKE, FLORIDA
July 10, 2013**

The Special Police Pension Board Meeting was held in the Commission Chambers, 409 Fennell Blvd., Lady Lake, Florida. The meeting convened at 1:30 p.m.

CALL TO ORDER: Chairperson/Member Lt. Wherry called the meeting to order at 1:30 p.m. and noted there was a quorum present.

MEMBERS PRESENT: Chairperson/Member Lt. Vernon Wherry, Member William Reed, Member Sgt. Robert Tempesta, Member Connie Merrell-Kasch, and Member Dee Dee Rountree

TOWN STAFF PRESENT: Kris Kollgaard, Town Manager/Town Clerk; Jeannine Michaud, Finance Director, Pam Winegardner, Assistant Finance Director; Brice Noble, Police Officer; and Nancy Slaton, Deputy Town Clerk

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

1. Approval of Minutes: Regular Meeting – June 12, 2013

Chairperson Lt. Wherry asked if anyone had any questions or corrections regarding the minutes of the June 12, 2013 meeting.

Upon a motion by Member Sgt. Tempesta and seconded by Member Kasch, the Board approved the meeting minutes of June 12, 2013 as presented by a vote of 5-0.

2. Discussion of Alternatives Relative to Replacing the Pension Fund Portfolio Managing Firm of Bowen, Hanes & Company or the Consulting Firm of The Bogdahn Group - or Both

Chairperson Lt. Wherry reported that since the last meeting, he has received calls from David Kelly of Bowen, Hanes & Company, and Mr. Kelly indicated that he would not be present at today's meeting, but asked that he be notified of the Board's decision on this matter.

Chairperson Lt. Wherry reviewed the reason for this discussion. He stated that at the last meeting of the Board, differences between the account management firm of Bowen, Hanes and the consulting firm of The Bogdahn Group were revealed, and Mr. Kelly of Bowen, Hanes stated that if the Board chooses to keep The Bogdahn Group as consulting firm, they would no longer manage the Police Pension Plan portfolio.

Scott Christiansen clarified that Bowen, Hanes is continuing to manage the portfolio and will until a decision is made and/or a replacement firm is in place.

Chairperson Lt. Wherry stated that David West of The Bogdahn Group is present to offer suggestions on alternative managing firms if the Board chooses not to keep Bowen, Hanes.

David West of The Bogdahn Group apologized for the stress caused by the discussion of the differences between the firms at the last meeting. He stated that The Bogdahn Group's role is to serve as a third party independent consultant and it is their job to calculate, by industry standards and following proper industry protocol, a quarterly report summarizing all assets and returns. Mr. West handed out an Investment Policy Statement that was worked out between the Board and The Bogdahn Group, which is the governing doctrine for investments to the Plan. It states they are responsible for assessing certain performance standards that must be complied with in their measurement, and that the investment account manager must meet those standards. He stated that The Bogdahn Group acts as a scorekeeper, and uses the policy as their measure; it is objective and progress can be measured along the way.

Mr. West stated for the record that The Bogdahn Group does not receive any compensation whatsoever from any vendor, including custodian service and they have no vested interest in who is hired. He commented that they helped find Bowen, Hanes five or six years ago to provide management services for the Plan, but objectives were not met, unfortunately.

Mr. West presented a list of alternative options for the Board in terms of account management and stated these firms will have no problem working with The Bogdahn Group as consultants. He stated that the Town's pension plan is extremely sound and in selecting the proposed alternatives for management firms, he kept in mind that the Board prefers a conservative approach, slow and steady. He stated the options proposed include passive management which will remove the manager's risk, and save the Plan almost \$30,000 in investment management fees. Mr. West stated that they are proponents of both active and passive management, as active management can add value over time.

Mr. West reviewed the fees of the proposed options in comparison with the current fees of Bowen, Hanes. He stated Bowen, Hanes' current management fees are reasonable at .60% across the board for domestic equity, international equity, fixed income and cash funds. With the present fund total of \$5,207,911, their fees currently total \$31,247.

The three options under domestic equity funding were as follows: 1) Proposed 1 – fees for large cap based upon .75% were at \$14,051, and mid cap at .10% were at \$1,250, for a total of \$15,311; 2) Proposed 2 had three different firms with fees ranging from .89% and .66% to .10% for a total of \$15,780; and 3) Proposed Passive fees were at .05% for a total of \$1,562.

The two options under international equity were as follows: 1) Proposed Active had three firms with fees ranging from .50%, for a total of \$2,604, a high fee of 1.15% for a total of \$5,989, and .76% for a total of \$3,958; 2) Proposed Passive had one firm with a fee of .16% for a total of \$833.

Fixed Income had two options: 1) Proposed Active with three firms with fees ranging from .30% for a total of \$5,249, .43% for a total of \$8,958, and .25% for a total of \$5,208; 2) Proposed Active had one firm with a .10% fee total of \$2,083.

Member Kasch pointed out that the total weight percentage amount for domestic equity shows 60%, and that it does not add up. She wondered if the funds were going to be allocated differently.

Mr. West stated that it should be 50%, which would change the fund amount and fees accordingly. He thanked Member Kasch for catching the error. He recommended that the Board

stay with the current allocation which is 50% domestic, 10% international, and 40% fixed income.

Mr. West asked that everyone turn to the Total Portfolio page to review the bottom line of the proposed management options. It showed the current allocations with Bowen, Hanes and the total fee amount of \$31,247. If the Board chose to go with the Proposed Active, which included five firms, the fees totaled \$22,003. And if the Board chose to go with Proposed Passive with Vanguard firms, the fees totaled \$4,218.

Mr. West reviewed a line chart showing a management evaluation of the current manager, and the proposed active and proposed passive management. Bowen, Hanes was at the bottom, with the proposed passive and proposed active topping it respectively. Mr. West also reviewed charts showing trailing reserves and peer group analyses, calendar returns and peer group analyses, rolling percentile ranking, up/down markets portfolio evaluations, and historical statistics. He commented that the strategy is to minimize volatility.

Mr. West summarized by stating The Bogdahn Group is providing two total portfolio suggestions as an alternative to the current management, being the Proposed Passive approach using only index funds for the lowest fee, and Proposed Active approaches with a little indexing mixed in as well to keep the allocation down. Mr. West stated they are recommending the Plan stay within the risk constraints of the current investment policy statement with no increases to equity or risk assets. He stated the manager blends they put together for these options are the most optimal in their opinion, based on their working knowledge of working with these managers.

Chairperson Lt. Wherry asked if Bogdahn consults for these managers.

Mr. West stated Bogdahn represents the Board as trustees; they do not represent any managers. He stated they have done due diligence on all these managers and the portfolio construction, and have vetted the list to what they feel is the most appropriate for what the Board is trying to accomplish for the Plan.

Member Kasch clarified that Bogdahn is asking the Board to choose between the three listings under domestic equity showing Proposed 1, Proposed 2 and Proposed Active.

Mr. West replied affirmatively.

Member Rountree clarified that the Plan would no longer have one manager, but would have several.

Mr. West replied affirmatively.

Mr. Christiansen further explained that there could be even more as there could be several under domestic equity, and one each from international equity and fixed income.

Member Kasch asked why Bowen, Hanes kept a cash balance of \$631,000 shown under Bowen, Hanes' current allocations.

Mr. West stated Bowen, Hanes uses the cash balance opportunistically, perhaps using it to offset their bond portfolio, or as cash reserve in case the equity market rolls over, etc. He stated it is a larger amount of cash than most managers keep in reserve.

Mr. Christiansen stated the driver of the decision is the fees per percent allocation which was provided for comparison purposes.

Member Sgt. Tempesta asked if the Board is being asked to choose from the Proposed Active and Proposed Passive groups shown on the Total Portfolio page.

Mr. West replied affirmatively.

Member Reed asked Mr. West which choice would come closest to the returns by Bowen, Hanes.

Mr. West replied that the Proposed Passive would be closest.

Member Kasch commented that even the Proposed Passive would show better returns than what Bowen, Hanes has been showing recently. She clarified that the choice would be either all active or all passive.

Mr. West stated there are multiple options, but they have chosen the mix they think will work best for the Plan under active and passive.

Mr. Christiansen stated that Mr. West has made choices for the Board, but they could change the mix. He stated Mr. West has chosen those he thinks will work well with each other, as well.

Mr. West drew a tic-tac-toe type chart to demonstrate how the choices were made.

Chairperson Lt. Wherry asked if the Board was comfortable with making a decision today or if they would like to wait until the next meeting.

Member Kasch commented that the Board first needs to make the decision as to whether to keep The Bogdahn Group as consultant, and thus Bowen, Hanes will no longer be manager, or to keep Bowen, Hanes as manager and find a new consultant.

Mr. Christiansen agreed that a decision and motion needs to be made on this issue before going forward.

The members all agreed that they would like to keep The Bogdahn Group as consultant.

Upon a motion by Member Kasch and a second by Member Reed, the Board agreed to retain The Bogdahn Group as Consultant and replace Bowen, Hanes as Manager for the Police Pension Plan by a vote of 5-0.

Mr. West thanked the Board for their confidence.

Member Kasch stated that their next choice would be whether the Board wants to go with active or passive management.

Chairperson Lt. Wherry stated that decision could be made now or the Board could think about it.

Member Rountree stated that then the choice would be to pick each firm under the category.

Mr. Christiansen stated that the Board could pick and choose and ask for presentations, or they could go with what Bogdahn has proposed under Total Portfolio.

Mr. West stated that The Bogdahn Group has already vetted the firms and proposed them under the categories of active and passive on the Total Portfolio pages. He stated some may be willing to come out and give presentations to the Board, but some would not, especially the passive firms.

Member Tempesta stated he liked the proposed active group. The other members agreed.

Member Reed asked if there was any cost involved in switching managers.

Mr. West stated there will be a cost. He stated that usually a transaction broker is used as an independent third party to transition from one manager to others to liquidate the portfolio, and the custodian will then purchase the funds in the percentage amounts. He stated the fee is normally 1.5 cents a share. He recommended using Capis, who is a known transaction broker with a good reputation.

-Member Kasch apologized, but stated she had to leave the meeting at this point as she had another commitment.

Mr. Christiansen explained that all of the stocks for the Plan held under Bowen, Hanes have to be sold to have cash for the mutual funds. He stated Bowen, Hanes could sell it off at whatever price, but that a transaction broker has a fiduciary responsibility to the Plan and the broker would sell the stocks at the best price they can, and would receive 1.5 cents a share as fee. He stated it is normal practice, and that a motion would need to be made to utilize Capis.

Member Reed asked again about the fee.

Mr. West stated for this size portfolio, it would be no more than 1.5 cents a share, but they could try for less at 1.25 cents a share.

Mr. Christiansen stated that is the only fee they collect; the 1.5 cents a share, and no other.

Upon a motion by Member Reed and a second by Member Rountree, the Board agreed to utilize Capis as Transaction Broker for the liquidation for the Bowen, Hanes portfolio during the transition of account managers for the Police Pension Plan by a vote of 4-0.

-Technical difficulties with audio system feedback happened at this point in the meeting, and as a result, there was a low audio level on the recording for the balance of the meeting.

Member Reed asked if The Bogdahn Group will be the intermediary for the Board to put these actions into place.

Mr. West stated that The Bogdahn Group will put together a direction letter so that Salem Trust will accept direction from The Bogdahn Group to rebalance assets within the parameters.

Mr. Christiansen stated that Mr. Reed had a good point. He confirmed that Mr. West will now take over that function of keeping track of the asset allocation that Bowen, Hanes used to do since there will be more than one more manager. He will make recommendations regarding asset allocations at the quarterly meetings for the Board to decide on.

Chairperson Lt. Wherry asked if the members were ready to make a motion to select a group as managers.

Upon a motion by Member Tempesta and a second by Member Reed, the Board chose The Bogdahn Group's Proposed Active group (Ridgeworth LCV, Wells Fargo LCG, Vanguard Mid Cap, EuroPacific Growth, and Baird Aggregate Bond) listed under the Total Portfolio page to act as account managers for the Police Pension Plan by a vote of 4-0.

Mr. Christiansen pointed out that the investment policy statement shows the target is 45% domestic and 15% international.

Mr. West stated that they can operate within the range of the target.

Mr. Christiansen stated that the choice for Proposed Active will operate within the range, but is not reaching target, and he wanted to be sure that was what Bogdahn was proposing.

Mr. West stated this might be a good time to discuss asset allocation. He stated he would suggest lowering the target for international equity from 15% to 10%, and increasing domestic equity up to 50%.

Mr. Christiansen suggested that Mr. West bring a revised investment policy with the changes in asset allocation talked about here today to the next meeting to be voted upon.

Town Manager Kris Kollgaard stated she would be more comfortable with that as it can be put on the next agenda, and perhaps all the members would be in attendance.

Mr. West stated that The Bogdahn Group will put together a coordinated series of communications to include a termination letter to Bowen, Hanes, which will coincide with the transition transacted by Capis, and the Proposed Active portfolio group will subsequently purchase the allocations as shown in the portfolio.

Member Reed asked when Mr. West will know what the transaction will cost.

Mr. West stated he cannot say for sure, but it should not be higher than 1.5 cents per share.

3. Discussion of Reducing the Number of Years to Become Vested for Members of the Police Pension Plan

Chairperson Lt. Wherry stated that this topic is a carry-over from a discussion begun at the last meeting in June. He stated that he had been approached by a number of officers asking about the possibility of reducing the vesting period for police officers from 10 years to a lower figure; some suggesting eight or six years. Lt. Wherry stated that they tasked the Fraternal Order of Police for discussing this among their membership. He passed out copies of the memo received from the FOP which showed the results of pension ballots distributed on June 25, 2013. The FOP received 27 of the 28 ballots, and as a result of the count on June 28, 2013, there was a unanimous vote of 27 in favor of the eight year vestment as opposed to the current 10 year vestment period.

Lt. Wherry also passed out a copy of the local statute 112.64 which stated that: *no unit of local government shall agree to a proposed change in retirement benefits unless the administrator of the system, prior to adoption of the change by the governing body, and prior to the last public hearing thereon, has issued a statement of the actuarial impact of the proposed change upon the local retirement system, consistent with the actuarial review, and has furnished a copy of such statement to the division. Such statement shall also indicate whether the proposed changes are in compliance with s. 14, Art. X of the State Constitution and with s. 114.64.*

Lt. Wherry stated that the Board would need to make a motion to authorize Foster & Foster to conduct an actuarial study to see what the impact would be on the Pension Plan to change the vesting period from 10 years to eight years. He stated the membership has agreed to pay for the study, estimated to cost \$500.

Member Reed stated that he is opposed to the concept because by reducing the vesting period, he feels it is inviting a larger turnover in the police force. He stated he believes it should remain at 10 years.

Lt. Wherry stated that even if the vesting period were reduced from 10 years to eight years, an officer could not retire until he was 55 years old.

Member Reed stated the age requirement was for retiring, but vesting could be carried from one police force to another, thus still effecting turnover.

Mr. Christiansen clarified that vesting is the point at which you have a right to receive a benefit other than the return of your own money, and the vesting period is currently 10 years. He stated that even if an officer left after 10 years, he is still not eligible to receive the retirement benefit until he reaches early or normal retirement age. Mr. Christiansen asked if Lt. Wherry was suggesting changing the retirement age as well as the vesting period.

Lt. Wherry stated that there has been no discussion on changing the retirement age at this time.

Mr. Christiansen clarified that as a Board of Trustees, the Board is not involved in the negotiations between the FOP union and the Town for changes to the Plan. The Board is only authorizing a study to be done by the actuary, Foster & Foster, with the union paying the cost of it, not the Plan. The union will receive the results of the study and take it into negotiations with the Town. The Town may decide they do not want to change the vesting period for the same reason Member Reed is raising, regarding turnover. He stated he wanted to be clear if the change will only be the number of years for vesting, or if it includes the number of years of service required for early or normal retirement.

Lt. Wherry stated it was his understanding that it is only the number of years required to work, or vesting, before you would have a pension available at age 55.

Mr. Christiansen stated that currently the pension is at 55 years old and 10 years vested, or 52 years old and 25 years vested.

Member Reed stated it was his understanding that retirement would be allowed at 55 years of age and eight years vested, if the change were made.

Mr. Christiansen stated that typically both the age of retirement and vesting years would be changed at the same time.

Town Manager Kris Kollgaard stated that negotiations with the FOP have already been underway with the one opener allowed according to the contract. She stated that the FOP cannot bring this item up for negotiation until next year, and the study based on the actuary cannot be a year old; it would have to be redone. Ms. Kollgaard suggested having the FOP contact the Town and request to have the discussion re-opened.

Member Reed clarified that if FOP negotiations are already underway, this item could not be added to the discussion this year.

Ms. Kollgaard stated that was correct. The FOP is entitled to negotiate one article and wages, and they have given the one article in their opener, and it is not regarding the vesting period. She stated the FOP could submit a request to the Town to add an article, but she suggested the Board wait to vote on having the actuary study done until they hear whether this could be added.

Lt. Wherry asked when the Town actually engages in negotiations with FOP.

Ms. Kollgaard stated that negotiations started a couple of weeks ago.

Lt. Wherry stated that he wished he had been informed about this when he had been talking with the FOP. He stated he thought that by receiving the memo from the FOP regarding the vote, that the FOP would follow up and submit the vesting period as an article for discussion in this year's negotiations.

Ms. Kollgaard stated that Lt. Wherry should get in touch with Tia O'Neal in Human Resources regarding the FOP negotiations. She stated he could also get in touch with FOP and ask them to submit a request to open up another article for discussion. She stated it may or may not be approved, and the vote on the actuarial study should wait until the Board finds out if this item will be included in this year's negotiations with the FOP.

Mr. Christiansen stated that this item could be discussed again at the next meeting in September and the Board could be given an update on whether it was included in this year's FOP negotiations.

4. Adjourn

With no further business to discuss, Chairperson/Member Lt. Wherry adjourned the meeting at 3:07 p.m.

Kristen Kollgaard, Town Clerk

Chairperson Lt. Vernon Wherry

Transcribed by Nancy Slaton, Deputy Town Clerk