

*TOWN OF LONGBOAT KEY CONSOLIDATED RETIREMENT SYSTEM*  
BOARD OF TRUSTEES SPECIAL MEETING

**MINUTES: FEBRUARY 27, 2015**

**1. CALL TO ORDER**

Steve Branham called a meeting of the Board of Trustees for the Town of Longboat Key Consolidated Retirement System to order at 1:30 PM in the Conference Room at Town Hall, 501 Bay Isles Road, Longboat Key, Florida.

Those persons present included:

TRUSTEES

Steve Branham, Chair  
Frank Cona, Vice-Chair  
Ann Ross, Secretary  
Bill Forcht  
Jim Haas  
Sandi Henley  
Judd Jensen  
Lou Levy  
Nancy Woodley

OTHERS

Lee Dehner, Christiansen & Dehner  
Scott Baur & Tracie Waight, Resource Centers  
John Thinner, Boghahn Consulting  
Mark Rhein & Lynn Skinner, Salem Trust  
Charles Mulfinger & David Wheeler, Graystone Consulting  
Sue Smith, Finance Director

TRUSTEES ABSENT AND EXCUSED:

None.

All present recited the Pledge of Allegiance. Mr. Branham welcomed Trustee Jim Haas to the Board. The Town Clerk previously administered the Oath of Office to Mr. Haas.

**2. PUBLIC COMMENT**

No members of the public were present to comment.

**3. APPROVAL OF THE MINUTES**

The Board had no Minutes available for review or approval.

Frank Cona made a motion to carry over the approval of the minutes until the next meeting. The motion was seconded by Judd Jensen and approved by the Trustees 9-0.

**4. REPORTS**

Graystone (Charles Mulfinger & David Wheeler)

Dave Wheeler from Greystone Consulting briefly explained the Summary packet for the Fire & Police portfolios, as well as the International Manager Search to replace Wentworth Houser. The reports included the modifications previously requested by the Trustees. Even though Graystone presented the international manager search results, Charles Mulfinger recommended that the Board not make any changes at this time due to market volatility. Mr. Wheeler then reviewed the economic environment for the quarter ending December 31, 2014.

Mr. Wheeler reported that GDP grew by 2.6% for the quarter with the best job creation since 1999. Unemployment fell to 5.6%, yet wage growth, underemployment, and long term unemployment remain concerns. Domestic companies experienced strong profit growth, while markets overseas appear to be slipping into recession. Mr. Wheeler then addressed the collapse of oil prices. He reviewed recent and historical performance for various market segments. He reviewed the international markets as well, noting the impact of a strengthening dollar on the performance of foreign holdings.

Chairman Branhan questioned current thoughts on interest rates for the remainder of the year. Mr. Wheeler commented that Janet Yellen focuses policy only on the US economy; she appears to have switched to a mode of going from meeting to meeting regarding possible rate increases. Low inflation gives the Federal Reserve Board to hold interest rates for a longer period, while any rate increases while cause corresponding gains for the dollar and hurt profits for globally oriented companies. Fed Chair Janet Yellen also appears to focus still on the struggling labor markets. Charles Mulfinger noted the Federal Reserve continues to provide stimulus to the economy by maintaining the balance sheet. Some foreign bonds have negative yields, further driving currency moves while holding domestic interest rates down as the result of capital inflows. With markets now at all-time highs, Mr. Mulfinger does not expect strong market gains to continue for the immediate future.

The Board addressed the compliance checklist, noting certain managers appeared not to comply with the Investment Policy goals. Mr. Mulfinger stated that energy holdings strongly impacted relative manager performance. Managers with an overweight to energy underperformed the market for the period. The Firefighter portfolio returned 2.17% net for the quarter compared to a gain of 2.33% for the benchmark. The portfolio had assets of \$15, 810,515.28 as of December 31, 2014. Mr. Mulfinger recommended that the Board rebalance assets to target weights. The portfolio had investment related expenses of \$32,350 for the quarter.

Mr. Mulfinger then reviewed the individual manager performance in detail. He did not express concerns regarding the performance for any specific manager, explaining that the managers appears to remain on target over a full market cycle. Some more defensive managers will protect assets better when markets decline, yet lag when the market gains. Mr. Mulfinger reviewed the Wentworth Housser portfolio in detail, which substantially underperformed the market due to a significant overweight to energy and materials. He stated that Wentworth had greater volatility and lower correlation to the benchmark, but the manager outperformed the market over longer periods. Mr. Mulfinger indicated that he would eventually recommend that the Board replace Wentworth with a less volatile choice, but not immediately after Wentworth had such strong underperformances.

Mr. Forcht questioned the limits in the Investment Policy to prevent managers from making concentrated sector bets. Mr. Mulfinger stated that the new Policy limited managers from taking such concentrated bets. The former Board selected a more conservative group of managers with the exception of Wentworth, which the Board chose to provide the opportunity to add greater returns. While the returns for many of the managers for the Fire portfolio performed under the average for the peer manager group, the managers still added positive alpha to the portfolio due to considerably lower volatility. Mr. Mulfinger reported that the portfolio gained 4.4% for the current fiscal year to date as of February 26, 2015. Graystone believe that equities will outperform bonds and foreign markets will outperform domestic markets going forward.

The Police portfolio had assets of \$6,900,593.65 as of December 31, 2014. The portfolio returned 2.15% net of fees for the quarter, compared to a gain of 2.8% for the benchmark. For the calendar year the portfolio gained 5.83% gross of fees compared to a gain of 7.31% for the benchmark. Mr. Mulfinger noted

that allocations to energy drove individual manager performance. While the returns lagged the benchmark, the portfolio had considerably lower volatility, with slightly positive alpha since inception for risk-adjusted performance.

Mr. Mulfinger reviewed the manager search results for a possible future replacement for Wentworth Houser. Mr. Mulfinger noted that Wentworth had a high standard deviation with the worst short term performance compared to the other managers, but the manager also had the strongest long term gains as well. Wentworth overweighted the energy sector and Europe by region, which may set the manager to experience a strong rebound in performance. Mr. Mulfinger would the portfolio when the manager posted strong gains. Both Delaware and Lazard take considerably less risk in their portfolios by comparison.

Bogdahn Consulting (John Thinnies)

Mr. Thinnies noted that international markets were down and domestic markets gained for the quarter. Most notably, long term interest rates continued to decline for the period. Mr. Thinnies did not provide as detailed of a market overview after the very detailed presentation by Graystone.

Mr. Thinnies reported that the General Employees portfolio had assets of \$10,467,896 as of December 31, 2014. He reviewed the asset allocation and the manager allocation for the portfolio. The assets returned 2.48% gross compared to a return of 2.48% for the benchmark for the quarter. For the calendar year, the portfolio gained 6.37% compared to 7.49% for the benchmark. The assets still fell within the target ranges specified by the Investment Policy, so Mr. Thinnies did not recommend rebalancing the portfolio at this time. Lee Dehner explained that the Board would typically return the portfolio to the policy guidelines in a prudent manner once the asset allocation exceeded the target ranges. Mr. Thinnies noted that recent manager changes by the prior Board had a positive impact on performance. Mr. Thinnies then reviewed the individual manager performance in greater detail. Bogdahn will continue to monitor the performance for Manning, although Mr. Thinnies does not recommend any changes any changes at this time. The portfolio has very low expenses, with over half the assets invested in index funds with very low fees.

Mr. Thinnies provided an international equity manager search. The search results included international mutual fund portfolios. Mr. Thinnies reviewed the historical performance for each of the manager choices, comparing the choices to Manning & Napier. He considered the risk for the managers relative to the returns as well. He explained the supplemental material contained in the manager search book. The Board will review the manager search results and consider changes to the international equity portfolio at the next quarterly meeting. Bogdahn will also provide updated performance information to the Board for the manager search results at that meeting.

Finally, Mr. Thinnies presented the change to internal control for the Bogdahn Group. Joe Bogdahn, founder of the company, is transferring a majority of his ownership to Mike Welker, his primary partner. The transition in ownership will ultimately begin the transition to employee ownership for the company. The change does not affect operations or current management of the firm in any way, but rather moves the company from a family owned business to an employee owned business. Lee Dehner stated that he reviewed the consent and recommended that the Board authorize the change.

Sandi Henley made a motion to authorize the consent to change in control for the Bogdahn Group. Jim Haas seconded the motion, approved by the Trustees 9-0.

Charlie Mulfinger recommended that the Board hold on rebalancing Police or Fire allocations at this time, since the current allocations complied with the target ranges in the Investment Policy.

Subcommittee Report (Investment Policy)

Mr. Branham reported no change for the Investment Policy at this time, with work still in progress. He stated that the Board needed legal counsel as the Trustees addressed the Policy, the selection of service providers, and the consolidation of the plans.

Subcommittee Report (Policy Manual)

Nancy Woodley provided a similar report that the subcommittee to review the Policy Manual required guidance on the process to engage service providers. She requested that Scott Baur review progress on the Policy Manual and offer input as well. The Trustees will consider the updated draft to the Policy Manual at the next meeting of the Board.

Salem Trust (Mark Rhein, COO & Lynn Skinner)

Ms. Skinner addressed the adverse opinion that Salem received on the SSAE-16 Audit report, a service audit of internal controls and procedures for the company. The Board received the Audit report with the meeting packet materials. The Board also received correspondence provided by Salem regarding a fraud experienced by Pennant, an investment affiliate of Salem owned by the same holding company. Mark Rhein made the distinction between things done and not done at Salem Trust. Salem completed essential tasks for clients during the period, but the custodian did not retain sufficient documentation for the SSAE-16 audit process. He contrasted the adverse opinion on a process audit to an adverse opinion on a financial statement. Ms. Smith reported that Mauldin Jenkins, auditor for the Town, would not experience any substantial delays to issue the Town CAFR as a result of the problems at Salem. Mr. Rhein stated that Salem now focused on not getting another adverse opinion for the period ending June 30, 2015. Operations staff at the company now report directly to Brad Rinsem, the CEO. Mark Rhein, meanwhile, meets with the audit committee to focus on compliance with internal controls and procedures.

Mark Rhein stated that the conditions giving rise to the adverse opinion, which he attributed to the troubled Salem system conversion, no longer exist. He described various procedures and responses received by his company from clients. Mr. Rhein described the conversion from SEI to Sungard in greater detail that precipitated many of the issues. Mr. Levy questioned the timing of the conversion compared to the issue of the SSAE-16 Audit. Mark Rhein stated that Salem is committed to remaining transparent through the process. He believes that Salem will have the next SSAE-16 Audit issued around October 2015. Mr. Branham requested some earlier resolution by Salem to provide evidence that the custodian addressed the issues giving rise to the adverse opinion. Mr. Rhein stressed that an interim audit would take nearly as long to issue as the regular report, and Salem is now only 120 day from the start of the next audit cycle. He also noted that the Town auditor did not appear to have major issues with the custodian as a result of the adverse opinion. Mr. Branham requested another update from Salem at the next quarterly meeting of the Trustees.

Lee Dehner asked Mark Rhein for an update on the Pennant issue. Mr. Rhein explained the structure of USFS, a holding company for Salem, GreatBanc, and Pennant. GreatBanc provides services primarily to ESOP plans, while Pennant offered asset management services primarily for short term vehicles. The STIF fund managed by Pennant used repurchase agreements guaranteed by the USDA. Pennant ultimately discovered that the manager purchased fraudulent securities that appeared to carry a guarantee from the USDA. The fraud resulting in losses of \$178,000,000 to institutional investors, but USFS has so far recovered about \$135,000,000 in non-liquid assets by seizing personal property of the individual perpetrating the fraud. USFS is also pursuing the USDA guarantees, since staff affiliated with the agency appeared to offer

the guarantees on the fraudulent securities. Mr. Rhein reported that one institution has now filed suit against USFS as a result of the matter, and the suit names Salem Trust as well. Mr. Rhein explained that Salem Trust acted as custodian for the fund that experienced the fraud. Lee Dehner advised that the Board should continue to monitor the situation, and he recommended that the Board seek proposals for a replacement custodian in the case that the situation should deteriorate. Mr. Rhein said that only a mass exodus of Salem clients might cause a further disruption in service by the custodian, which he characterized as unthinkable. The Board will continue to discuss and review the situation.

Mark Rhein continued to explain efforts by USFS to recover assets as collateral against the fraudulent securities purchased by Pennant. Proceeds from any asset sales will go into a recovery trust, and Mr. Dehner questioned whether a judge had actually awarded any of the proceeds to USFS. Mr. Rhein stated that the matter was still in progress. Pennant no longer exists as a result of the incident.

#### Human Resources Report (Lisa Silvertooth)

Ms. Silvertooth reported that she consolidated the rosters of members down to one single list of members due future benefits. She indicated that no other activity has taken place since her last report to the Board.

She stated that First State, custodian for the Fire assets, stopped sending direct deposit advices to retired members on January 1. After receiving negative feedback, First State agreed to resume providing the deposit advices at their own expense. The retired members were not notified of the change in advance.

#### 5. RATIFYING OF INVOICES

The Trustees reviewed the invoices pending approval for payment.

Jim Haas made a motion to approve the invoices, seconded by Nancy Woodley, and approved by the Trustees 9-0.

#### 6. NEW BUSINESS

Trustee Sandi Henley reported that she recently attended the FPPTA Trustee School for continuing education. She appreciated the round table discussion format implemented by the FPPTA, and she suggested to the organization that future topics might include issues related to closed plans. She experienced no difficulties with the travel or arrangements. The next FPPTA Trustee School is scheduled from October 4-7, with the Annual Conference in Boca Raton from June 28 to July 1.

#### 7. OLD BUSINESS

The Fire members elected Jim Haas to the Board.

Sue Smith, Finance Director, reviewed her list of pending items from the prior meeting. She provided the draft Investment Policy to John Thinner and Charlie Mulfinger for their input. She plans to have Foster attend the next meeting to address the revisions requested to the Annual Valuation. She also noted that Foster could not yet complete the required SB 534 reports, since the State had yet to provide a format for the new reports even though Tallahassee mandated the additional reporting requirements during the last legislative session. Finally, Ms. Smith stated she is still collecting biographies from some of the new Trustees.

The Board discussed issues related to the different investment return assumptions that the Trustees must resolve prior to September 30. The Board would like input from Doug Lozen regarding the possible impact to required contributions from adjustments to the assumptions. Chair Steve Branham indicated that the Board needed a plan with milestones in order to complete the consolidation of the three closed plans by the September 30 ordinance deadline. Mr. Baur reported that his office would need updated signature authorizations for both Salem and First State to communicate direction regarding payments of benefits and expenses, and such other matters as the Board might need to relate to each custodian.

Sandi Henley made a motion to update the signature authorizations on file with Salem and First State to include Scott Baur as the new administrator. Ann Ross seconded the motion, passed by the Trustees 9-0.

The Board discussed the next meeting date, previously scheduled for Wednesday March 18. After some wrangling and consternation, the Trustees scheduled the meeting for Friday, March 20 at 8:30 AM.

The Trustees again considered the reporting requirements mandated by SB 534. The Board will invite the local Senator to the same meeting that Doug Lozen provides the SB 534 reports, notwithstanding that the actuary does not yet have the format to complete such reports. The requirements place an unfunded mandate and an unnecessary burden on local plans, and the Board further considered the broader impact and cost that the requirements would have across the State. Bill Forcht will address his concerns regarding the methodology used to produce the valuation reports directly to Doug Lozen. The Trustees considered the discretion of individual Trustees to contact service providers to the Board at will. The Board indicated that individual Trustees should coordinate such communication through the plan administrator.

Lee Dehner explained the statutory requirement for the Board to state the return expectations for the plan for the next year, the next several years, and the long-term thereafter. Charlie Mulfinger stated that the current return assumptions might fall on the high end of expected returns, but a lower return assumption would cause the Town to accelerate funding of the plan through increased contributions. The prior General Board adopted a 7% return assumption, which John Thinnes believes that the portfolio should achieve. The Trustees continued to discuss the higher 7.5% net return assumptions used by the Police and Fire portfolios. The Board again considered the task to consolidate these assumptions for the next annual valuation.

Sandi Henley made a motion based on the advice of the investment consultant that the General Employees portfolio expected to achieve a 7% return for the next year, the next several years, and the long term thereafter. Lou Levy seconded the motion, approved by the Trustees 9-0.

Ann Ross made a motion based on the advice of the investment consultant that the Firefighters portfolio expected to achieve a 7.5% return for the next year, the next several years, and the long term thereafter. Jim Haas seconded the motion, approved by the Trustees 9-0.

Frank Cona made a motion based on the advice of the investment consultant that the Police portfolio expected to achieve a 7.5% return for the next year, the next several years, and the long term thereafter. Bill Forcht seconded the motion, approved by the Trustees 9-0.

## 8. ATTORNEY REPORT

Lee Dehner provided the Board with a brief legislative update for the current session. A proposed SB 242 would require local plans to adopt the same mortality that the Florida State Retirement uses, which may also impact the funding requirements by the Town. SB 224 would require consultant contracts to acknowledge that records of the plan are subject to disclosure under Florida public records laws. Lee Dehner noted that bills affecting Chapter 175 & 185 local law plans would no longer affect Longboat Key.

Mr. Dehner reminded the Board of the initial, annual, and final Form 1 financial disclosure requirements.

9. BOARD COMMENTS

The Trustees had additional comments beyond the topics already addressed at the meeting.

10. ADJOURNMENT

The next meeting having previously been scheduled and there being no further business, Chair Steve Branham motioned to adjourn the meeting. Jim Haas seconded the motion, and the meeting adjourned at 4:51 PM.

Respectfully Submitted,

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Ann Ross