

City of Lauderhill Police Officers' Retirement Plan
Minutes
August 07, 2013
10:00 A.M.

Roll Call:

Mr. David Hennessy called the meeting of the City of Lauderhill Police Officers' Retirement Plan to order at 10:12 a.m. at the City of Lauderhill Police Department. As there was not an official quorum, this meeting proceeded as a workshop where no formal action was taken or approved.

Members Present:

David Hennessy – Chairman & Floyd Harris - Trustee.

Absent & Excused:

Gary Celetti, Kennie Hobbs & Michael Lucas – Trustee's

Others Present:

Stu Kaufman – Klausner, Kaufman, Jensen & Levinson (left at 12:15); Dave Williams & Patty Ostrander – Precision Pension Administration, Steve Stack – ICC Investment Manager (left at 12:15); Jeff Swanson – Southeastern Advisory Services (left at 12:20), Karen Russo & Brad Rinsem – Salem Trust (left at 11:25).

Consent Agenda: Warrant Ratification / Approval:

Approval of July 10, 2013 Minutes - Tabled

Warrant 311-315 - Tabled

ICC - Investment Manager Report:

Mr. Stack, ICC indicated that as of June 30, 2013, the portfolio had a market value of \$10,506,211. The allocation at the end of the quarter based on each asset class is as follows: 7.2% in cash, 27.1% in growth equity and 65.6% in value equity.

Investment performance for the quarter by asset category is as follows: value 3.62% vs. the benchmark of 2.65%, and growth 2.08% vs. the benchmark of 2.65%, which equates to a quarterly return of 3.10% vs. 2.65%.

The investments return on a fiscal year basis - value 20.16% vs. the benchmark of 14.04%, Growth 17.72 % vs. the benchmark of 14.04%, which equates to an annual return of 19.01% vs. 14.04%.

On a five year basis the total account return was 5.50% vs. the benchmark of 7.12%.

The foregoing returns are reported on a gross basis.

Mr. Hennessy asked Mr. Stack what action was taken to exceed the benchmark. Mr. Stack responded that they were over weighted in financials.

Mr. Hennessy asked how ICC was doing on the Salem Trust conversion and Mr. Stack replied that they are doing well. Mr. Stack stated that ICC stayed on top of all issues that have arisen to address and resolve ASAP. Mr. Stack spoke about ICC's internal controls and self-reliance of independent data.

City of Lauderhill Police Officers' Retirement Plan— Minutes
August 07, 2013
Page 2 of 5

Mr. Swanson asked Mr. Stack to talk about Mr. Andy Richie who left the company. Mr. Stack advised the Trustees that Mr. Richie was not involved in the Lauderhill account. They have hired a replacement for him.

Salem Trust Review:

Mr. Williams placed this item on the agenda as a result of a purchase request that failed. Mr. Williams invited representatives from Salem Trust to the meeting to outline what happened with regard to that issue.

Mr. Brad Rinsem – President and CEO of Salem Trust and Mrs. Karen Russo – Senior Vice President explained the purchase of the security which failed. Mrs. Russo distributed & reviewed a timeline for Salem Trust. That timeline is attached hereto and will be made part of the record. Further, Mr. Swanson of Southeastern Advisory also provided a timeline that too will be made part of the record.

It was conveyed that on June 25, 2013 Salem Trust executed the purchase of the Vanguard S & P 500 Index Fund in the amount of \$3,000,000.00. This purchase was made due to written instructions provided by Mr. Williams to Salem Trust on June 12, 2013. Salem Trust confirmed to Mr. Williams & Mr. Swanson that the purchase was in fact executed.

It was initially discovered by Salem Trust on July 11, 2013 when the portfolio was being rebalanced that the foregoing trade failed. Salem Trust representatives stated that they immediately began to establish what the problem was once they were made aware of the situation. They conducted what was described as a “postmortem” process. Representatives from Salem Trust indicated that they began taking corrective action to make the purchase of the Vanguard Fund as originally directed.

On July 22, 2013 Mr. Swanson contacted Mr. Rinsem to state his displeasure with the Salem Trust system changeover. It was during this telephone communication when Mr. Rinsem initially advised Mr. Swanson of the foregoing event. Mr. Rinsem stated that Salem Trust was responsible & proceeded to say that Salem Trust would make the Plan whole. Following that communication, multiple conversations / e-mails were exchanged between all parties to include Mr. Kaufman, Mr. Swanson, Mr. Williams & Mr. Hennessy.

Mr. Hennessy asked Mr. Kaufman if the Salem Trust contract includes insurance coverage. It was reported that Salem Trust has a \$25,000,000 errors & omissions coverage.

Mr. Hennessy expressed his concern stating that he knows human errors happen, but he is curious as to the timeline & the process involved. Mr. Rinsem stated that they were converting to a new system. They received a report stating that the trade was settled, only to find out later on that if there is no time stamp in the last column, then the trade was not settled. No time stamp was on this particular trade. Mrs. Russo stated that if they were not doing the conversion, this failure would not have happened.

Mr. Hennessy is concerned about the delay (July 11-July 22) & he feels that sooner contact should have been made. Mr. Rinsem stated that it was his decision to hold notice from the client until they had all the facts & how Salem Trust would resolve the situation.

Mr. Kaufman also expressed his concern regarding the delay. He asked what would have happened if Mr. Swanson did not make the initial contact? Mr. Rinsem stated that he & Mrs. Russo were prepared to disclose this matter. Mr. Rinsem stated that he wanted to wait until they were on more solid ground & understood the entire event.

City of Lauderdale Police Officers' Retirement Plan— Minutes
August 07, 2013
Page 3 of 5

Mr. Hennessy asked Mr. Stack how many mutual clients he has with Salem Trust and if this has happened in the past. Mr. Stack replied maybe 50 clients and this has not happened in the past.

Mr. Hennessy also asked Mr. Williams if he has had issues of this nature with Salem Trust in the past. Mr. Williams stated that he knows of no previous errors.

Mr. Hennessy asked Mr. Swanson how many mutual clients he has with Salem Trust and if this has happened in the past. Mr. Swanson stated that he sees custody errors occasionally, which is normal. Mr. Swanson expressed his concern about the time frame for notification and why wasn't notification provided sooner with the Market going up in July.

Mr. Hennessy asked Mr. Kaufman how many mutual clients he has with Salem Trust and if this has happened in the past. Mr. Kaufman replied that they do have mutual clients and does not recall any previous errors of this nature. Mr. Kaufman stated that he has not found a better custodian than Salem Trust and this is their first mistake.

Mr. Harris asked Mr. Swanson if the Plan has now been made whole. Mr. Swanson & an Analyst in his firm cannot find anything wrong with the final calculation which was valued at \$173,632.75. However, they will continue to review it.

Mr. Rinsem was asked about the system conversion timeline in which it has elapsed over a six month duration. Mr. Swanson then asked Mr. Rinsem about future system contracts & when the next projected conversion will take place. Mr. Rinsem advised the next conversion will be in 7 years.

Mr. Rinsem apologized & stated that this time frame went longer than it should. He would have had a greater sense of urgency but he made up his mind that it was Salem Trust's liability & not the Plan's. Mr. Rinsem stated that he has renewed emphasis on client communication, should an event in the future. Mr. Hennessy asked when and if human errors are made in the future, that a call be placed when identified and it will be taken care of. Mr. Rinsem agreed with Mr. Hennessy.

Mr. Swanson asked Mrs. Russo to estimate when the June statements would be re-issued. She stated that the statements are being regenerated for June & unfortunately she did not have an answer as to when the July statements will be made available.

Mr. Rinsem commented on the vagueness of the time line. He assured the Board that he is pushing every button he can to resolve the issues. He is meeting with Senior Management tomorrow to put an end to this. He will keep the Board posted as warranted.

Mr. Hennessy asked Mr. Swanson if he feels that Salem Trust will be reliable once the conversion is completed. Mr. Swanson replied yes.

Mr. Hennessy thanked Mr. Rinsem & Mrs. Russo for coming to the meeting. At this juncture they departed the meeting.

Mr. Hennessy asked Mr. Swanson if he feels this entire situation has been resolved. Mr. Swanson stated that all statements have to be corrected & re-issued. Mr. Swanson commented that he is committed to staying on top of this situation.

City of Lauderdale Police Officers' Retirement Plan— Minutes

August 07, 2013

Page 4 of 5

Mr. Hennessy asked all attendees what they thought about the delay in notification. Mr. Williams stated that at first glance the non-disclosure to a Client could be conceived as an integrity issue. Mr. Williams further stated that Mr. Rinsem explained his mindset in the delay & his process going forward. This should remedy any disclosure delays.

Mr. Hennessy asked Mr. Swanson what his recommendation was in terms of retaining the custodian. Mr. Swanson stated to stay the course with Salem Trust at this juncture. Mr. Swanson further stated that he is not comfortable with another conversion in 7 years. Discussion was held regarding other custodial companies available.

Mr. Hennessy asked Mr. Kaufman how many hours he has put into the Salem Trust issue. Mr. Kaufman was unsure but advised he would provide that information at the September meeting. Mr. Swanson also stated that he & his staff have put in a lot of hours relating to this matter. However, as his fee is based on a contract, no cost will be borne by the Plan. It was conveyed that Mr. Rinsem offered to reimburse any costs to the Plan.

Mr. Hennessy thanked Mr. Swanson for his time & attention in this matter. Mr. Hennessy also conveyed his appreciation to Mr. Kaufman as well.

Southeastern Advisory Report:

Mr. Swanson explained that he did not have his quarterly report due to the Salem Trust reporting errors. He stated that he would e-mail the second quarter report after the errors have been corrected. A full data report will be e-mailed to Mr. Williams & Mrs. Ostrander. Mr. Swanson did distribute assets as of August 05, 2013.

Mr. Swanson advised that the total fund was valued at \$41,299,016 as of August 05, 2013. Mr. Swanson indicated the total asset allocation for the portfolio as of that same date was 12.1% in absolute returns, 21.6% in fixed income, 47.5% in domestic equities, 13.3% in international equities, 2.6% in real estate and the balance in cash.

Euro Pacific Growth returned -0.73% for the quarter. On a one year basis that portion of the portfolio returned 15.89%. On a three and five year basis, the return was 9.44% and 1.41%.

Oakmark International returned 3.76% for the quarter. On a one year basis that portion of the portfolio returned 34.59%. On a three and five year basis, the return was 14.35% and 9.92%.

Mr. Swanson reported on the due diligence meeting with ICC which took place after Mr. Richie's retirement. Mr. Borden of Southeastern Advisory met with ICC Management in Orlando. Conversations revealed uncertainty in the future of ICC. Mr. Swanson cited numerous concerns with ownership issues, if ownership is going to be external or will ICC broaden internal ownership. Also questions about legacy owners cashing out. Mr. Swanson reflected the future of ICC is uncertain but had no reservations with current management. However, with that being said, Southeastern Advisory Services placed ICC under review and will not be recommending the firm to clients at this juncture. Mr. Hennessy thanked Mr. Swanson for the due diligence report but stated that his biggest concern is return and how they perform as compared to the index.

City of Lauderdale Police Officers' Retirement Plan— Minutes

August 07, 2013

Page 5 of 5

Attorney's Report:

Mr. Kaufman updated the Board on the current legislation & pending litigation in other jurisdictions.

Mr. Kaufman presented and reviewed the rules for public participation during meetings. Effective October 2013, public participation will be added to the agenda. Formal adoption will be placed on the September 2013 agenda due to the lack of an official quorum.

Mr. Kaufman advised the Board that the amount of 175/185 monies should be released on Monday, August 10th.

Mr. Hennessy asked Mr. Kaufman to explain the provisions of SB1128 and how it related to all pensionable time on the City books (sick / vacation). Mr. Kaufman stated that upon ratification of a new collective bargaining agreement a snapshot of the foregoing would have to be obtained by the City, as that pensionable time would still be counted towards retirement.

Plan Administrator's Report:

Mr. Williams advised the Board that the payroll spreadsheet is being updated continually by Mrs. Ostrander & sent to Mr. Johns our Auditor for reconciliation. Mr. Williams conveyed there is a difference that is outstanding however Mr. Johns is working with City Finance Representatives to resolve. Mr. Hennessy stressed the importance of this matter to Mr. Williams who concurred. Mr. Williams will also notify Mr. Johns of Mr. Hennessy's comments.

Mr. Williams told the Board that Mr. Epstein has not returned his retirement selection form as of yet because he waiting to talk to his Financial Advisor.

Mr. Williams announced that the annual Confirmation of Retirement Forms have been mailed out to all retirees.

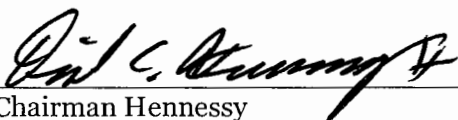
Mr. Williams thanked all the professionals who participated in the recent Pre-Retirement Seminar. Mr. Williams commended Mr. Hennessy for spearheading this worthy endeavor. Mr. Williams advised that the power point presentations provided at the seminar were posted on the plan website. Mr. Hennessy reflected the positive feedback that was received from the members who attended. Mr. Hennessy also conveyed his appreciation to all involved.

Open Discussion:

None.

Adjournment:

Being there was no other business; the meeting was adjourned at 11:47 a.m.

Approved: 
Chairman Hennessy

Date: 09-04-13

SOUTHEASTERN ADVISORY SERVICES, INC.
Registered Investment Advisor



Lauderhill Police

August 7, 2013

Salem Trust Timeline:

- June 12 Letters of instruction sent by Dave Williams to Salem Trust
 - \$3MM xfer from ICC to S&P 500 no later than June 27th
 - Rebalancing update: 75/25, S&P / NA over \$100K
- June 12 Instructions confirmed as received by ST (Anita)
- June 25 1:54PM Patty requests confirmation of completion to Swanson by email
 - 2:28PM Swanson replies "likely in progress, original instructions prior to 6/27"
- June 25 3:17PM ST transfers \$3MM from ICC to MF account (Anita)
 - Trade placed in S&P 500 for settlement on 6/26 in MF account
- June 25 4:10PM ST again separately confirms transaction has been processed
- July 21 Swanson emails Salem Trust regarding transition (Rinsem / Rhein)
 - Memo is general criticism - unrelated to specifics regarding Lauderhill Police
- July 22 AM Swanson speaks with Rhein in AM regarding general email
- July 22 PM Swanson returns Rinsem email by phone regarding general email
 - After discussion of email, Rinsem mentions Lauderhill Police loss for first time
 - Explanation is unclear but loss is termed "significant" and about "\$160K"
 - Swanson requests written explanation, return of loss to account
 - Rinsem confirms account has been credited already
- July 22 PM Swanson calls Hennessy to reports loss. Hennessy requests immediate notification to Kauffman.
- July 22 PM Swanson calls Kaufman & Co.
- July 24 Rinsem writes an email outlining events per request. Estimated loss is \$160,028.89.
- July 25 Rinsem increases loss to \$172,338.07 by email. Account is reportedly credited.
- July 25 & 26 Account is credited \$173,632.75.
- July 30 Conference call to review loss calculation. Loss increased to \$173,632.75.
- June 25 to July 22 is the window of incorrect trade confirmation to notification of loss.

August 6, 2013



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**City of Lauderhill Police Officers’
Retirement System
Board of Trustees Meeting**

August 7, 2013

**Brad Rinsem President & CEO
Karen Russo Senior Vice President**

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Mutual Fund Transaction Time Line

➤ Tuesday, June 25th

- STC receives request to purchase \$3,000,000.00 of Vanguard S&P 500 Index Fund
- STC transfers \$3,000,000.00 from ICC to the plan's mutual fund account
- STC enters purchase order for \$3,000,000.00 of Vanguard Fund
- STC confirms to Swanson & Williams, purchase made
- Purchase fails and not immediately identified
- \$3,000,000.00 transferred from MF a/c to R&D a/c, by cash management system

➤ Thursday, July 11th

- Portfolio is rebalanced as per standing instructions provided by the Board of Trustees
- $\$3,540,958.00 - \$100,000.00 = \$3,440,958.00$
 - \$860,239.50 (25%) to New Amsterdam
 - \$2,580,718.50 (75%) to Vanguard Fund for purchase of Vanguard Fund
- Rebalancing communicated to STC Relationship Manager gives rise for concern
- Initial investigations discover failed trade
- Management made aware of possible problem



➤ **Friday, July 12th**

- Further review confirms that June 25 purchase had failed and not discovered
- Action taken to reverse July 11th \$860,239.50 (25%) to New Amsterdam
- Transferred cash to mutual fund a/c to purchase additional Vanguard Funds in the amount necessary to correct failed \$3,000,000.00 purchase
- Postmortem process begins
- Sr. Management notified of error and need to determine our liability and reimburse the Plan
- Relationship Manager gathers research necessary to determine exact amount of liability
- Investment professionals within STC begin independent calculations

➤ **Monday, July 22nd**

- In an exchange of emails, Rinsem asks Swanson for time on his schedule for the purposes of discussing his concerns over the transition and our efforts to finalize the amount necessary to reimburse the Plan
- Operations Manager conducts independent research of failed trade and impact
- Operations Manager arrives at new and increased liability



➤ **Tuesday, July 23rd**

- Email confirmation to Swanson of desire to visit
- Swanson calls Rinsem, in conversation, failed purchase and corrective action discussed

➤ **Wednesday, July 24th**

- Based on amounts yet to be confirmed, Swanson is provided initial findings
- Spoke with Swanson, Williams & Kaufman in regards to failed trade

➤ **Thursday, July 25th**

- Ongoing discussions regarding the purchase of shares or cash
- Swanson gives direction to purchase shares, Kaufman cc'd
- At STC expense, final shares purchased, subject to further confirmation by STC & Swanson



➤ **Friday, July 26th**

- At STC expense, additional shares purchased so make account whole

➤ **STC total reimbursement is \$173,632.75**

➤ **Tuesday, July 30th**

- Conference between Swanson, Connick, Russo, Hanson & Russo for purposes of agreeing on final calculations

Lauderhill Police - Vanguard Trade
 Ticker - VFINX

TRADES

<u>Date</u>	<u>Amount</u>	<u>NAV</u>	<u>Net Shares</u>	<u>Comments</u>
25-Jun	3,000,000.00	146.33	20,501.606	Shares should have purchased on 6/25
11-Jul	2,580,718.50	154.51	16,702.599	POSTED
12-Jul	419,281.50	154.98	2,705.391	POSTED
1,093.616 Shares owed to client to make whole for 6/25 error				

REBALANCING

<u>Account</u>	<u>Name</u>	<u>Balance as of 7/10</u>	<u>Comments</u>
30400668	89 Lauder Pol R&D less \$3 million	3,540,958.08 540,958.08	Hold back \$100,000
30400669	Lauder Pol- 05 Mutfd	330,718.56	Transfer 75% to purchase VFINX
30400700	Lauder Pol- 17 Newam	110,239.52	Transfer 25%

CORRECTIONS:

- 1 Purchase 1,093.616 shares to make client whole from 6/25 purchase error
- 2 Deposit \$330,718.56 to 3040066905 (Mut Fd) for 7/11 rebalancing
- 3 Purchase 2,140.435 shares to make client whole from 7/11 rebalancing
- 4 Deposit \$110,239.52 to 3040070017 (New Am) for 7/11 rebalancing

ACTUAL TRADE CORRECTIONS:

6/25/2013	25-Jul	170,111.97	155.95	1,090.811	(170,111.97)
	26-Jul	437.80	156.08	2.805	(437.80)
7/11/2013	25-Jul	332,944.66	155.95	2,134.945	(2,226.10)
	26-Jul	856.88	156.08	5.490	(856.88)
				07/26/13	(172,338.07)
				07/27/13	(1,294.68)
				TOTAL LOSS	(173,632.75)