

**CITY OF FT. PIERCE POLICE OFFICERS' RETIREMENT TRUST FUND**  
**MINUTES OF MEETING HELD**  
**MARCH 17, 2016**

A quarterly meeting of the Board of Trustees was called to order on March 17, 2016 at 9:40 A.M in the 1st Floor Conference Room located at the Fort Pierce City Hall, Fort Pierce, Florida.

**TRUSTEES PRESENT**

John Schramm  
Daniel Flaherty  
Frank Amandro (Departed 10:08 am)  
Carlos Villanueva

**OTHERS PRESENT**

Bonni Jensen, Klausner Kaufman Jensen & Levinson  
Brittany Park, Pension Resource Center  
Burgess Chambers, Burgess Chambers & Associates  
Peter Strong, Gabriel, Roeder, Smith & Co (10am)  
Christine Luna, City of Fort Pierce  
Rob Rossi, CS McKee

**PUBLIC COMMENTS**

There was no public comment.

**APPROVAL OF MINUTES**

The Trustees reviewed the minutes of the meetings held on November 19, 2015. Frank Amandro made a motion to approve the minutes of the meetings held on November 19, 2015. Daniel Flaherty seconded the motion, approved by the Trustees 4-0.

**INVESTMENT MANAGER REPORT: CS MCKEE**

Rob Rossi appeared before the Board on behalf of CS McKee Investment Managers to provide a report on the large cap, small cap and fixed income portfolios as of December 31, 2015. He advised that 18% of large cap managers outperformed the S&P500 over the last 10 years. He discussed fang stocks which represented 100% of the S&P500 last year and reported that they are behind by 70 basis points. He compared the PE ratios for 2016-2017 and noted that they were less than the index. They are positioned for a slightly higher rate environment, and if the environment changes, there will be a change in relative performance.

Burgess Chambers asked Mr. Rossi how he would identify his top 3 team members. Mr. Rossi explained that Greg Melvin has been the Chief Investment Officer and head of the team since 2000. Bob McGee and Mike Donnelly select the stocks. Mr. Chambers asked Mr. Rossi how that has changed from 5 years ago. He stated that Mr. Donnelly is the only one who has remained for 5 years. Mr. Chambers additionally asked Mr. Rossi if there is anything in the investment policy guidelines that Mr. Rossi would like to see change that would give more latitude or flexibility. Mr. Rossi replied no with respect to allocation

that is up to the consultant, they just allocate as directed. There was continued discussion on fang stocks, and it was noted that the portfolio would be more concentrated if it was run as a fang portfolio. Mr. Chambers emphasized that they still need active management during these troubling times, and he wished they had better numbers. Mr. Chambers explained that selecting the right stocks is the most important.

Mr. Rossi discussed bonds and reported that they returned 1.9% vs the 1.2% index. They have outperformed for the past 13 years and were ahead by 80 basis points since inception in 2015. Mr. Rossi explained that the Fed raised interest rates in December. Mr. Burgess asked Mr. Rossi to explain why this is so important. Mr. Rossi discussed as interest rates go up, bonds go up. If the Feds feel comfortable raising interest rates, it could be negative for bonds but positive for stocks. Mr. Rossi explained that they are remaining defensive which has been positive for the portfolio, and they can expect a return in the portfolio of up to 1.93% vs 1.2% for the index.

### **ACTUARY REPORT**

Peter Strong appeared before the Board on behalf of Gabriel, Roeder, Smith & Co. to present the 2015 Actuarial Valuation. He advised that the total contribution rate as of September 30, 2015 was 10.08% of pay and the total chapter revenue that came in for the year was higher than expected at 4.1% of pay which went up from the past year. He explained that they were able to add \$66,761.00 to the excess contribution reserve since they were down as of September 30, 2014 and is expected to keep adding to that this year.

Mr. Strong reported that the experience gain for the year was mostly due to terms of employment. He discussed the possibility of getting more conservative on the assumption rate by lowering the member contribution rate, however advises waiting until the reserve goes up some more. The funded ratio is 94.9% vs 94.1% last year and the plan benefited from the smoothing that is being done on the assets. There was a negative return on market value at 89.6% for the year yet an additional 7% on smooth actuarial value. There is still smoothing in gains from the last 3 years, so the net average return for the year was 7% on the smooth value of assets. Last year the market value was higher of assets than the smooth value. However, this year they have switched places because the smooth actuarial value went up and the market value stayed about the same, so this is what resulted in the market ratio being at 89.6%. Mr. Strong advised that the anticipated revenues from the chapter 185 money and member contributions are expected to continue to be sufficient and should expect to see continued building of the excess reserve overtime.

Mr. Schramm asked Mr. Strong to elaborate on the 94.9% funded ratio and how he can present this when asked. Mr. Strong explained that it represents a long-term actuarial basis; the liabilities right now vs assets which are covering 94.9% of liabilities. There is a shortfall of roughly 5% of liability that is being made up by contributions. Each year the normal cost is being funded which is the cost of benefits being earned in the current year plus the payment on the unfunded liability. Member contributions could fluctuate if there is adverse experience so the contribution may need to be increased if the plan were to

rough start is underweight by .5%. The convertible bonds which have served the fund well are overweight at 8.8% vs 8%. American funds are slightly underweight at 9.4%. The Reits had a great quarter and are slightly overweight. MEPT Private Real Estate is overweight by design at 6.5% vs 5%. CS McKee Core fixed income slightly overweight by 2.3%. Roughly 30% of money is in fixed income with about 6% is in private real estate so those are the 2 risk off categories; 1% cash and the rest in risky assets.

Mr. Chambers reviewed the investment summary noting that it was a tough, political but good quarter. The index was up by 7%. The MLP asset class made a tremendous comeback this quarter and Mr. Chambers added that this category may go up by the end of the quarter. For the three year average, the plan earned \$1.8M, and the 4 year smoothing was at \$2.8m averaging a net of 7.4% which is why the actuarial valuation return was 7% for the year Mr. Strong added. Mr. Chambers reported he is not too happy with CS McKee and their results, however they made a wise decision years back to pursue the passive product. He advised that at some point the Board will need to see a legit reason to keep that product around as their role as fiduciaries. CS McKee has done great with fixed income even though it is a horrible asset class. Mr. Chambers feels the fund is doing well overall despite the tough market and the fund being significantly different from the typically defined benefit plan. Mr. Chambers emphasized how equities markets are very uncertain and have a hard time keeping up with benchmark. There has been a lot of activity within the last 5 years with lump sum distributions earning about \$2.8M which is healthy.

Ms. Jensen asked Mr. Chambers if the Board should do something because the assumption rate is not being met and they are not beating the strategic model. Mr. Chambers stated that things have been in place as of last year and pending effect. He then provided additional examples on the strategic model's performance in the past. WHV and CS McKee's performance is what is putting the model behind. He advised that his plan by definition will always have a lower risk lower beta profile.

Mr. Strong suggested that the Board could go down to 7% for the assumed rate of return for the next valuation and still be within the amount that's being received in chapter money and member contributions. Per the Experience Study last year the Board voted on 7.25%, but they could initially choose to decrease it to 7% and the contribution rate would still be within 10.5 % of the pay range and still add to the excess contribution reserve. Mr. Strong discussed the benefits of lowering the assumption rate making it more in line with forecast being that it's a lower beta profile and more in line with asset allocation. Lower likelihood of incurring losses in future, and it is not that significant at the time, but can be years later. He discussed the cons in short terms noting that by lowering it would add less to the excess reserve and the funded ratio will decrease. Mr. Chambers encouraged the Board to consider the options. Jensen advised that Mr. Strong should monitor this for the next valuation.

Daniel Flaherty made a motion to move money from WHV to Euro Pacific and continue to monitor CS McKee. Carlos Villanueva seconded the motion, approved by the Trustees 3-0.

## **FINANCIAL REPORT**

The Board reviewed the financial report for the quarter ending December 30, 2015.

## **BENEFIT APPROVALS**

There are 2 new DROP participants Jon Smith and Katherine England which Mr. Strong generated calculations for prior.

Daniel Flaherty made a motion to approve DROP entries for Jon Smith and Katherine England. John Schramm seconded the motion, approved by the Trustees 3-0.

Pete Strong additionally discussed the GASB 67 and GASB 68 compliances and noted that this year is the first year for GASB 68. He reviewed the measurement dates where GASB 67 has to use the current date and GASB 68 can be a 12 month old measurement date. GASB 68 calculates pension expense and outflows pension expense is at \$332K.

## **ATTORNEY REPORT**

Ms. Jensen discussed the normal retirement age regulation which will not affect the plan at this time. In 2007, the IRS amended its provisions to allow for in service distributions provided that member was at normal retirement age which was age 62. She explained that since 2007 multiple regulations have come out and not been finalized just proposed. A proposed final regulation came out last month which the IRS believes will pass and Ms. Jensen feels that it is a good representation of how governmental plans work. It does not apply to the plan yet, however Ms. Jensen stated that a lot of retirees are retiring and coming back onto service and advised that this creates a need to take action if that is currently happening within the plan

## **OTHER BUSINESS**

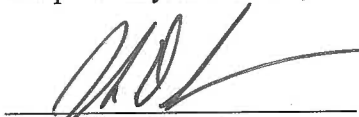
There was no additional business to report.

## **ADMINISTRATIVE REPORT**

Brittany Park advised that there were no outstanding administrative issues to report.

There being no further business and the next meeting being scheduled for June 16, 2016, the meeting adjourned at 11:13 A.M.

Respectfully submitted,

  
JOHN D. SCHRAMM