

City of Gulfport General Employees' Pension Fund

Minutes: Meeting of April 23, 2015

1. CALL TO ORDER

Blake Boyer called a meeting of the Board of Trustees for the Gulfport General Employees' Pension Fund to order at 1:04 PM.

2. ROLL CALL

Scott Baur call roll on behalf of the Board. Those persons present included:

TRUSTEES

Blake Boyer, Chairman
Deanna Doss, Secretary
John Lapham
Dena Lebowitz
Damon Weisz
Marjorie Milford (1:35 PM)

OTHERS

Scott Baur, Resource Centers
Scott Christiansen, Christiansen & Dehner
Mark Rhein & Lynn Skinner, Salem Trust
Jack Evatt, Bogdahn Group

TRUSTEES NOT PRESENT

Paul Rousseau

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF MINUTES

The Trustees reviewed the minutes for the meeting of January 22, 2015.

Deanna Doss made a motion to approve the minutes for the meeting of January 2, 2015. Dena Lebowitz seconded the motion, approved by the Trustees 5-0.

5. REPORTS

Jack Evatt, Bogdahn Consulting

Jack Evatt reported that both stocks and bonds had gains for the quarter ending March 31, 2015. He reviewed the performance of world markets, noting that in spite of the strong quarterly results, foreign equities still had losses for the 1 year period. Smaller companies also performed well, and bonds had further gains as interest rates declined once again.

The plan assets increased to \$14,310,855 as of March 31, 2015. The Templeton Global Total Return Fund, added to the portfolio for diversification of the fixed income allocation, added to the overall performance. Mr. Evatt reported that the Board did not need to rebalance, since current allocations came close to the Investment Policy target allocations. The assets gained 1.85% for the quarter ending March 31, 2015, compared to 1.97% for the benchmark. For the fiscal year to date, the portfolio had returns of 4.14% compared to 4.74% for the benchmark. Mr. Evatt explained that the domestic equity managers trailed the market indices for the quarter, but the managers and the portfolio had strong long-term results. Dodge & Cox positioned the fixed income portfolio more defensively against rising interest rates. He also noted that the REIT contributed to the gains in the portfolio as well.

Mark Rhein and Lynn Skinner, Salem Trust

Mr. Rhein addressed the adverse opinion received by Salem Trust on the SSAE-16 Audit and provided details of fraud experienced by Pennant, an investment affiliate of Salem Trust.

Mr. Rhein explained that problems with the SSAE-16 Audit, which reviews Salem's internal operating controls and procedures, began during the problematic system conversion that Salem began two years ago. He noted that many managers did not observe new trading instructions, leading to issues settling trades. In the subsequent period, Salem failed to complete and retain documentation relating to such trading activity. Mr. Rhein stressed that reporting problems ensued, but no plan of Salem ever lost any assets as a result. Furthermore, Mr. Rhein noted that the payment portion of the system conversion proceeded very smoothly.

Mr. Rhein stated that staff at Salem meet weekly to review audit related issues and documentation. Salem will begin the next audit cycle on July 15 to complete the process by September 30. Mr. Rhein expressed absolute confidence that Salem would have a clean opinion on the next SSAE-16 Audit.

Marjorie Milford joined the meeting at 1:35 PM.

Mr. Rhein then addressed the fraud by Pennant, an investment affiliate owned by the same parent company as Salem. Pennant managed a portfolio of repurchase agreements backed by the USDA, but Nick Pattel, one of the individuals selling such agreements to Pennant, sold fraudulent securities to the manager. Pennant ultimately identified the fraud and began seizing assets belonging to Mr. Pattel. Mr. Rhein stressed that no employees of either Salem or Pennant were involved in the fraud in any way, and no Florida public plans served by Salem experienced any losses. Salem did serve as Trustee for the STIF (Short Term Investment Fund) managed by Pennant. Salem is also pursuing the guarantees for the securities provided by the USDA, as well as a bank providing documents to Mr. Pattel used as part of the fraud. Ultimately a court appointed receiver will liquidate seized assets to reimburse some of the investors. Recovery will depend on the proceeds of the sales, as well as any other parties suffering losses and entitled to reimbursement.

As a worst case scenario, Mr. Rhein stated that Salem could go out of business or get acquired by another company. He stated that regulators monitor the capital requirements for Salem quarterly. Plan assets in custody at Salem are not vulnerable to any liabilities of Salem. Salem could experience issues by 2017 if proceeds from sales of seized assets for Pennant do not sufficiently cover the losses sustained in the investment portfolio resulting from the fraud.

John Lapham departed the meeting at 1:56 PM.

Scott Christiansen indicated that most Boards using Salem have taken a "wait and see" approach to address the issues at Salem. Mr. Rhein stated that Salem has remained very transparent regarding these issues. Salem discounted fees to the plan by 10% for two quarters during the period when the custodian failed to issue reports timely as the result of conversion issues.

Attorney Report (Scott Christiansen, Christiansen & Dehner)

Scott Baur reported that he just received the signed confidentiality request from the City Clerk. The confidentiality request extends the exclusion for records exempt from public disclosure to the Board.

The Board discussed the recently completed election process. Members of the plan reelected Blake Boyer to another term on the Board, but Damon Weisz failed to get a majority vote of the active plan members even though he received a majority of the votes in the election. The Trustees considered the

wording used in the election notice, but Scott Christiansen advised that the Board must adhere to the requirements for the election stipulated in the ordinance. The Trustees considered modifications to the election process, as well as modifications to the ordinance. The Trustees considered mailed ballots as well as electronic ballots through the website, but ultimately decided to hold another election using the nomination process and ballots included with the paychecks for employees. The Trustees recommended changes to the ordinance.

Scott Christiansen reviewed updates to the Board Operating Rules and Procedures.

Blake Boyer made a motion to approve the changes to the Operating Rules. Deanna Doss seconded the motion, approved by the Trustees 5-0.

Administrator Report (Scott Baur, Resource Centers)

The Trustees briefly addressed the situation for Mike Taylor, a member with a prior period of employment at the City not documented on this annual benefit statement.

6. PLAN FINANCIALS

The Board had no benefits for approval as of the meeting.

The Trustees reviewed the Warrant dated April 23, 2015 for payment of invoices.

Blake Boyer made a motion to approve the Warrant dated April 23, 2015. Damon Weisz seconded the motion, approved by the Trustees 5-0.

7. NEXT REGULAR MEETING

The Trustees previously set the schedule for the next regular quarterly meeting on Thursday, July 23, 2015 at 1:00 pm.

8. ADJOURNMENT

There being no further business, the meeting was adjourned at 2:31 PM.

Respectfully submitted,

Deanna Doss, Secretary