

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
January 31, 2012

The meeting was called to order at 9:02 A.M. in the Conference Room at Station 93, Lake Worth, Florida. Those persons present were:

TRUSTEES

Jimmy Shook
Rich Seamon (9:07 A.M.)
Pat Highland
Mark Lamb

OTHERS

Margie Adcock and Scott Baur, Administrator
Shaun Malvin, Attorney
Tim Nash, Investment Monitor
Steve Gordon, Auditor
Steve Carr, Finance Director

ADDITIONS AND DELETIONS

There were no additions or deletions to the Agenda.

MINUTES

The Trustees reviewed the minutes of the meetings of November 8, 2011 and January 11, 2012. A motion was made, seconded, and carried 3-0 to accept the minutes of the meetings of November 8, 2011 and January 11, 2012.

Rich Seamon entered the meeting.

AUDITOR REPORT

Steve Gordon appeared before the Board. He presented the draft Annual Audit as of September 30, 2011. He stated that the Audit was in draft because there was an issue over the City's contributions to the Plan. He stated that the City made contributions to the Plan based on the dollar amount determined by the Actuary in the Valuation. However, the State apparently is requiring contributions on a percent of payroll basis. In taking the percentage of payroll and applying it to the actual payroll, the City should have contributed \$419,000 more because payroll was higher than the Actuary expected. The City did make contributions of \$132,000 in October, so according to the dollar amount basis, the City still owes \$287,000. Mr. Gordon stated that he met with Steve Carr, Steve Palmquist and Scott Baur last week about this issue. He stated that the City was unaware that it was supposed to contribute on a percentage of payroll basis versus a dollar amount basis. He stated that the City has advised that it does not have the \$287,000 at this time. Additionally, the City wants to see the statutory authority requiring them to pay on a percentage of payroll basis. Mr. Gordon stated that the draft Audit currently shows the City owing the Fund \$287,000. The City's position is that it is not going to pay. Mr. Gordon stated that the Audit reflects the financial statements of the Fund and the Board has to determine if it is a collectable and/or how they want this issue to be reflected in the Audit.

Mr. Baur stated that he had an opinion on the matter. He stated that the issue came up as a management issue. He noted that his company issues the financial statements. The Auditor reviews the financial statements and issues the Audit for material accuracy. The

Actuary uses the financial statements for the Valuation. The Auditor and Actuary have advised that it is a judgment call on how to look at the City's contribution and what to put on the financial statements. Mr. Baur stated that they did advise Mr. Carr of the issue and had a meeting at City Hall with Mr. Carr, Mr. Gordon and Mr. Palmquist. Mr. Baur stated that the City's ability to pay is irrelevant on how he posts the contributions to the general ledger. It was noted that since this is a closed plan, a little swing in payroll has a big swing in contributions in terms of using a percentage of pay basis. Expressing the required contributions as a percentage of payroll is less meaningful in a closed plan as opposed to looking at dollar amounts. He noted that there was no good information that would have identified the issue earlier in the year. Mr. Baur stated that he believes, notwithstanding any guidance from the Division of Retirement, that the most appropriate way to look at contributions is probably the dollar amount stipulated by the Actuary. To the extent payroll comes out higher, it will create a negative experience, which will drive future contributions. He stated that his opinion as management would be to take the dollar amount and not the percentage of payroll amount. Mr. Baur stated that this was ultimately the Board's decision because it is the Board's financial statements.

Mr. Gordon stated that the financial statements need to be accurate as the Audit is reporting the financial position of the Fund. If it is listed as a collectable, it also needs to be collectable. In deciding whether to put in on the financial statements as an asset, it has to be collectable. Also, it must be decided legally whether the City really owes this money. Another consideration is the 175 premium tax monies, which is the State's leverage and has an effect on Division II. Mr. Gordon stated that he did not feel the Board could make a decision without getting an opinion from the Attorneys for both this Fund and Division II. If the City is not legally mandated to pay on a dollar basis, they are not going to pay.

Mr. Malvin stated that he discussed this issue with Adam Levinson in his office. Mr. Levinson suggested that a meeting be set up with Mr. Levinson, a representative of the Board, Mr. Carr and the City Attorney to try to work through this.

Mr. Carr stated that he was not aware of any rule or legal authority that the City had to contribute on a dollar amount basis. He stated that the percentage of pay is huge on a closed plan. The dollars that need to go into the Plan are dollars that are determined by the Actuary and that is what the City put in. He stated that no one has been able to give him any statutory reference that shows the City is legally required to contribute on a percentage of pay basis. Mr. Malvin stated that a big concern is the possible loss of the 175 premium tax monies. Mr. Carr stated that it is not the City's intent to jeopardize the receipt of the 175 premium tax monies. There was a lengthy discussion. Mr. Gordon stated that he did not think the Board had enough information to make a decision today. The Board still needs to hear from the Attorneys for Division I and II, as well as the State. Mr. Malvin recommended that the Board take no action today but rather allow a meeting to occur with the necessary professionals to work it out.

Mr. Gordon presented the draft Annual Audit as of September 30, 2011. He stated that other than the issue involving the City's required contribution he was issuing a clean opinion. He reviewed Management's Discussion and Analysis. He reviewed the Statement of Plan Net Assets. The total assets were \$26,920,527 with most of the money in investments. Total liabilities were \$57,701. Total net assets were \$26,862,826. Mr. Gordon reviewed the Statement of Changes in Plan Net Assets. He stated that there was a decrease in Plan net assets of \$570,424. He stated that the City contributions include

the \$287,000. He noted that it would go down if the Board decides to take it off the books. He reviewed the administrative expenses. He reviewed the notes to the financial statements. He stated that he found no significant internal control issues. He stated that he had no disclosures he needed to point out.

Steve Gordon and Steve Carr departed the meeting.

INVESTMENT MONITOR REPORT

Tim Nash appeared before the Board. Mr. Nash discussed the market environment and reviewed the major market index performance as of December 31, 2011. He stated that it was a much better quarter than the 3rd Quarter 2011. He noted that there was good news across the board in all of the markets. There was a big disparity between growth and value that has not been seen in several years. He stated that every sector was positive for the quarter. Mr. Nash stated that bonds are going to be a tough environment going forward. There was discussion on global bonds. It was noted that the Attorney was supposed to follow up with City on the proposed Ordinance to include such an investment. The Board stated that they needed to move on this as soon as possible. Mr. Malvin stated that he would make sure Mr. Levinson follows up on this before the next meeting.

Mr. Nash reviewed the performance as of December 31, 2011. The total market value as of December 31, 2011 was \$27,824,231. The asset allocation was comprised of 53.2% in domestic equities; 8.7% in international equities; 30.4% in fixed income; 5.5% in real estate; and 2.2% in cash. The Fund was up 6.99% net of fees for the quarter while the benchmark was up 6.50%. Domestic equities were up 11.71% while the Russell 3000 was up 12.12%. International was up 4.78% while the benchmark was up 3.77%. Fixed income was up 1.38% while the benchmark was up 1.12%.

Mr. Nash provided a review on the individual managers. Cornerstone was up 11.48% while the Russell 1000 Value was up 13.11%. Mr. Nash stated that their holdings in technology did not generate as high a return as the benchmark so that is why they underperformed for the quarter. He noted that long term they have done well. Wells was up 10.01% and Brown was up 11.78% while the Russell 1000 Growth was up 10.61%. It was noted that Wells replaced Aletheia. It was also noted that Wells is closing the Fund in the next couple of months. The Fund can continue to investment money in Wells but they will not take any new investors. Advisory was up 16.20% while the Russell 2500 Value was up 15.45%. Vanguard Developed was up 4.01% while the benchmark was up 3.38%. The Vanguard Emerging Market was up 5.99% while the benchmark was up 4.45%. With respect to fixed income, Garcia Hamilton was up 1.38% while the benchmark was up 1.12%. Mr. Nash noted that bonds did well. However, the Fund almost got double the rate of return out of real estate versus bonds. He stated that it was a good decision to add real estate to the portfolio. American Realty was up 2.77% while the NCREIF was up 2.91%. Mr. Nash stated that we are heading into an election year. Emphasis should be on employment. He thinks this should be a better year. Mr. Nash reviewed the compliance checklist. Mr. Nash stated that he had no recommendation for change.

ADMINISTRATIVE REPORT

The Board was presented with disbursements, including the investment manager disbursements. A motion was made, seconded and carried 4-0 to pay the listed disbursements.

The Board reviewed the financial statement for the period ending December 31, 2011.

The Board was presented with a list of benefit approvals. A motion was made, seconded and carried 4-0 to approve the benefit approvals.

Mr. Baur provided the Board with the results of their recent client survey that was done. He thanked the Trustees for taking the time to respond to the survey. He noted that a majority of the feedback that was received was overwhelmingly positive and stated that they were addressing the areas where responses indicated there could be some improvement. He noted that both of the Lake Worth Fire Plans were ranked the lowest out of all of the plans his company administers in terms of positive feedback. He stated that most of the comments were regarding the time frame for benefit calculations and DROP Statements. Mr. Baur stated that there is no normal flow of information for this Plan. He noted that his company has had numerous and difficult payroll issues with the City and this holds up calculations and statements. Much of the process has to be done manually which takes enormous effort and time. He noted that they do not have this much difficulty with any other pension plan that they work with. He stated that he has heard the feedback and will do his best to try not to disrupt the largest group of members that he can. Mr. Baur stated that they take seriously the job they do for the plans they administer and thanked the Board for the trust they placed in his company.

ATTORNEY REPORT

Mr. Malvin discussed the status of the lawsuits. He provided an update on the Merrill Lynch lawsuit. He stated that the parties have approved the settlement and they are working on getting the settlement approved with the Court. With respect to the lawsuit brought by the City against the Fund he stated that the City is in the process of serving everyone.

Mr. Malvin provided the Board with the Division of Retirement's Actuarial Summary Fact Sheets. He reviewed the information with the Board.

Mr. Malvin stated that Mr. Levinson would discuss the requirement to report income for disability recipients at the next meeting.

OTHER BUSINESS

There being no further business, the Trustees adjourned the meeting.

Respectfully submitted,

Mark Lamb, Secretary