

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
February 17, 2015

The meeting was called to order at 9:17 A.M. in the Conference Room at Station 93, Lake Worth, Florida. Those persons present were:

TRUSTEES

Mark Lamb
Pat Highland
Valerie Hurley
Rich Seamon
Rory Kimbrell

OTHERS

Margie Adcock, Administrator
Adam Levinson, Attorney
Tim Nash, Investment Monitor
Pete Strong, Actuary
Steve Gordon, Auditor

PUBLIC COMMENTS

There were no public comments.

ADDITIONS AND DELETIONS

There were no additions and deletions.

AUDITOR REPORT

Steve Gordon appeared before the Board. He presented the draft Annual Audit as of September 30, 2014. Mr. Gordon discussed an internal control issue that came up with Salem Trust Company. He stated that Salem Trust Company received an adverse SSAE-16 Audit. He explained what the SSAE-16 Audit was and why it was important. He stated that there is not a fraud issue here, but rather an internal control issue. He stated that the SSAE-16 Audit states that they have no confidence that the reports Salem provided are accurate. He stated that in order for him to release the Fund's Audit, he will need to do some more testing and procedures to determine if the reports are accurate. He noted that the Investment Managers do keep independent reports, so he plans to work with the Investment Monitor to send the portfolio listings provided by Salem to each Manager and have them certify the listings are accurate. Mr. Gordon stated that he has never had an issue like this before. He stated that he does do some independent testing anyway in the Audit process and has done enough testing for most aspects of the Audit to be comfortable. The only thing he really needs to get comfortable with is the value of the portfolio at September 30 2014. Mr. Nash stated that in general the reports should be fairly accurate because they do compare Salem's reports with those of the Investment Managers and if there is +/- 10 basis points they would have delved into the numbers further to determine why there was such a discrepancy. There was a lengthy discussion.

Mr. Gordon reviewed the draft Audit. He stated that assuming he can get comfortable with the balances he would be issuing a clean opinion. Mr. Gordon discussed the new reporting requirements of GASB 67. He reviewed Management's Discussion and

Analysis. He reviewed the Statement of Net Fiduciary Position as of September 30, 2014. The total assets were \$38,019,812 with most of the money in investments. Total liabilities were \$48,565. Total net position restricted for pensions was \$37,971,247. Mr. Gordon reviewed the Statement of Changes in Net Fiduciary Position. He stated that there was an increase in Plan net position of \$2,668,574. Mr. Gordon reviewed the schedule of administrative expenses. He stated that there was a big jump in legal fees and actuarial fees because of the lawsuit. He reviewed the notes to the financial statements. He reviewed the additional schedules required by GASB 67. He stated that he found no significant internal control issues other than the issue with Salem Trust.

There was further discussion on Salem Trust. Mr. Gordon stated that he is not expecting huge differences even though he used Salem's statements. He stated that the Investment Monitor would have noticed if something was unusual because they are constantly reviewing things. Mr. Levinson stated that Salem's adverse SSAE-16 Audit is about internal controls and not misappropriated funds. A motion was made, seconded and carried 5-0 to accept the Annual Audit as of September 30, 2014 subject to written confirmation from Steve Gordon that he is comfortable with the balances. Mr. Gordon presented the Management Representation Letter. Mr. Levinson discussed the letter. A motion was made, seconded and carried 5-0 to authorize the Chair to execute the Management Representation Letter.

MINUTES

The Trustees reviewed the minutes of the meeting of November 13, 2014. A motion was made, seconded, and carried 5-0 to accept the minutes of the meeting of November 13, 2014.

ACTUARY REPORT

Pete Strong appeared before the Board. He presented the Actuarial Valuation as of October 1, 2014. He reviewed the annual required contribution. He noted that the total required contribution increased from last year mainly due to no active employees leaving the Plan and the fact that payroll was higher than anticipated. The total required contribution for the plan year ending September 30, 2016 would be \$2,709,016. He stated that with contributions from Division II of \$121,857, the City's contribution would be \$2,587,159.

Mr. Strong stated that this is the fifth year for the phase in of the assumptions. He noted that the assumed rate is decreasing from 7.9% to 7.75%. There was a net actuarial gain of \$394,596 for the year, which means that the actuarial experience was more favorable than expected. The gain was primarily due to a higher than expected return on the actuarial value of assets, which was 9.1% versus the assumed 7.9%. He stated that there would be no 13th check because the Plan experienced a cumulative actuarial loss. The funded ratio was 50.3% versus 48.8% last year. Mr. Strong reviewed the actuarial value of benefits and assets. He reviewed the calculation of the actuarial value of assets. He reviewed the required disclosures.

Mr. Strong discussed the assumed rate of return. He stated that for a closed plan 7.75% is still very high. He recommended taking further steps to further reduce the assumed investment return. He recommended the Board target 7% or lower on the investment return assumption. He stated that once everyone is retired, the investment return assumption should be closer to 6%. He stated that this assumption could be phased in over a five year period by reducing it .15% each year. He stated that having a plan in place will also demonstrate to the State that the Board is addressing the issue of the funded ratio. He stated that the Plan needs to become more conservative due to the closed nature of the Plan. There was discussion on the impact of such a change. Mr. Strong stated that the impact would be an increase of about \$50,000-\$60,000, which is less than the increase in this year, which also included the mortality table.

Mr. Strong reviewed the historical investment rate of return from fiscal year ending 1972 through 2014. The average rate of return is 8% on the market value. There was discussion on the salary increases. It was noted that the assumed salary rate of 6.5% was not unreasonable as there are only eleven people left and they are further on in their career. Mr. Strong reviewed the schedules added due to the new GASB 67 requirement. There was further discussion on the possibility of reducing the investment return assumption. There was discussion on the impact of reducing the assumed rate on the earnings election for the DROP. It was noted that the current earnings election cannot be changed. Mr. Levinson stated that he would look into whether the Board could allow a one-time change to the earnings election for those in the DROP. A motion was made, seconded and carried 5-0 to authorize the Actuary to prepare a study showing the impact of lowering the investment return assumption in 15 basis point increments over either the next 5 years or the next 10 years. A motion was made, seconded and carried 5-0 to approve the Actuarial Valuation as of October 1, 2014 contingent upon the Annual Audit being approved.

Mr. Strong discussed a letter from the Division of Retirement dated January 27, 2015 and his response dated January 29, 2015. He stated that this Plan was one of nineteen Florida public pension plans that fell below being 50% funded as of October 1, 2013. Mr. Strong stated that this Plan is now over the 50% funded ratio. It was noted that Mr. Levinson provided the Actuary's response to the Division of Retirement via email on February 10, 2015. The State had asked the Plan to notify all active and retired members of the Plan regarding the Plan's condition and what actions are being taken to improve the situation. Mr. Levinson stated that the State used strong language, but that they have no authority to require any notice be sent to the members. Mr. Levinson suggested that he felt it was adequate for the Board to have the information on the Fund's website. There was a lengthy discussion. A motion was made, seconded and carried 5-0 to direct the Administrator to put the information on the website.

Mr. Strong discussed SB 242, which is proposed Legislation requiring all plans to use the FRS mortality tables. He stated that the FRS mortality tables are slightly less conservative than those which the Plan currently uses. As such, liabilities may go down slightly if the Fund was to use the FRS mortality tables.

There was discussion on SB 534 and the necessary reporting requirements. It was noted that there are still no final regulations. Once the regulations are final, the Plan will have 60 days to post the requiring information on the website.

Mr. Strong discussed GASB 68. He stated that this is a City responsibility. He stated that he could reach out to the City to see if they would want him to prepare the required reporting. There was a lengthy discussion. A motion was made, seconded and carried 5-0 to grant the Actuary permission to work directly with the City regarding GASB 68.

ATTORNEY REPORT

Mr. Levinson stated that he had the Custodial Agreement with Regions for the Board's execution. He stated that it was the same Agreement that is in place with the Lake Worth General Employees Pension Plan and the Lake Worth Police Pension Plan. A motion was made, seconded and carried 5-0 to authorize the Chair to execute the Custodial Agreement with Regions Bank.

Mr. Levinson stated that he has not heard anything from the City regarding the proposed Ordinances. He stated that he would continue to reach out to the City.

INVESTMENT MONITOR REPORT

Tim Nash appeared before the Board. He discussed the market environment and reviewed the major market index performance as of December 31, 2014. He stated that international markets continued to struggle. Mr. Nash reviewed the performance as of December 31, 2014. The total market value as of December 31, 2014 was \$38,237,198. The asset allocation was comprised of 56.5% in domestic equities; 8.1% in international equities; 19.0% in fixed income; 9.7% in real estate; 4.4% in alternative investments; and 2.3% in cash. The Fund was up 2.27% net of fees for the quarter while the benchmark was up 2.89%. Total equities were up 3.17% while the benchmark was up 3.39%. Domestic equities were up 4.26% while the benchmark was up 5.24%. International was down 4.03% while the benchmark was down 3.81%. Fixed income was up 1.42% while the benchmark was up 1.79%.

Mr. Nash provided a review on the individual managers. Cornerstone was up 4.40% while the Russell 1000 Value was up 4.98%. Wells was up 4.81% while the Russell 3000 Growth was up 5.17%. Brown was up 5.03% while the Russell 1000 Growth was up 4.78%. Advisory was up 1.18% while the Russell 2500 Value was up 6.09%. Mr. Nash noted that Advisory underperformed significantly for the quarter. While their 3 and 5 year numbers are good, they are below the middle of the pack. He stated that he likes their strategy and the fact that they are conservative. However, he feels the Board should look at other options. He stated that he would bring a small/mid cap search to the next meeting. Vanguard Developed was down 4.18% while the benchmark was down 3.53%. The Vanguard Emerging Market was down 3.75% while the benchmark was down 4.44%. With respect to fixed income, Garcia Hamilton was up 1.42% while the benchmark was up 1.79%. American Realty was up 1.80% while the NCREIF was up

3.11%. The PIMCO All Asset Fund was down 2.90% while the benchmark was down 1.00%. Mr. Nash reviewed the compliance checklist.

Mr. Nash discussed a change of internal control regarding his firm. He stated that Joe Bogdahn and Mike Welker were the majority shareholders of the firm. In January 2015 Mr. Bogdahn sold a majority of his interest in the firm to Mr. Welker. He stated that this is an exciting time for the employees as this change will allow the employees an option to become owners of the firm. He stated that the firm is going from a family owned business to an employee owned business. He stated that this change in internal control would not change their relationship with the Fund. He presented a Consent Form for the Board to approve the change in internal control. A motion was made, seconded and carried 5-0 to consent to the change in internal control at Bogdahn Consulting.

ADMINISTRATIVE REPORT

The Board was presented with disbursements, including the investment manager disbursements. A motion was made, seconded and carried 5-0 to pay the listed disbursements.

The Board reviewed the financial statements for the period ending December 31, 2014.

The Board was presented with a list of benefit approvals. A motion was made, seconded and carried 5-0 to approve the benefit approvals.

OTHER BUSINESS

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

Respectfully submitted,

Rory Kimbrell, Secretary