

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
May 18, 2015

The meeting was called to order at 9:03 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
Nerahoo Hemraj, Finance Director

PUBLIC COMMENTS

There were no public comments.

ADDITIONS AND DELETIONS

There was discussion regarding the ability of a retiree to change his joint survivor. Mr. Levinson stated that Florida law was amended to allow members, even if the joint survivor passes away, to substitute another joint survivor. He noted that while the law does not allow someone to change their option, they can change their joint survivor. It was noted that if they change their joint survivor their benefit would need to be recalculated.

There was then discussion on the ability of a DROP participant, that was terminated due to allegedly using up the allocated sick time available, to return to work. Mr. Levinson stated that this was not an issue for the Board. It was noted that it would not affect the pension benefit because once someone enters the DROP their pension benefit is already determined. It was determined that if he returned to work, they would just get more DROP time.

Nerahoo Hemraj entered the meeting.

ACTUARY REPORT

Pete Strong appeared before the Board. He presented the Supplemental Actuarial Study on the impact of lowering the investment return assumption. He stated that the investment return assumption has been lowered over time from 8.5% to the current assumption of 7.75%. He discussed the closed status of the Plan and the need to get more conservative. There was discussion on the salary assumption. He stated that he thinks the 6.5% salary assumption currently used is still appropriate because that has been the average salary increase over time. With respect to the possible required change in the mortality table to be used, he does not expect that to have much effect on this Plan.

Mr. Strong presented the Study. He stated that he provided two scenarios. The first scenario reduces the investment return assumption .15% each year until it reaches 7%, which will take five years. The second scenario reduces the investment return assumption .15% each year until it reaches 6.5%, which will take ten years. Mr. Strong stated that he thinks reducing the investment return assumption to 6.5% is more realistic. He reviewed the 15 year projection of the City contribution requirement for the first scenario and noted that there is a marginal increase. He noted that the turn swings up about five years from now. He stated that the swing has less due to investment returns but more to do with the fact that the amortization period will be reduced by an extra year. He stated that the goal is to be fully funded in 2027 when the last member retires. Mr. Strong reviewed the second scenario. He stated that he prepared a similar plan as that which was agreed to by the Police Pension Plan. He noted that the Police Pension Plan agreed to reduce their investment assumption by .15% a year to a target of 7% for now. He stated that in five years they will determine what to do at that point.

There was a lengthy discussion. Mr. Hemraj stated that reducing the investment return by .15% for the next five years would put the Plan on a much more realistic path and would help balance the resources so that all obligations are met. He stated that five years would help give the City an opportunity to get things in order.

Mr. Levinson discussed the outstanding proposed Ordinance that the Board had previously submitted to the City regarding fixed income investments. He stated that the Police and General Employees Boards have a little more flexibility than this Board, especially with fixed income investments. He advised Mr. Hemraj that this Board would like to have the same investment options. It would help give the Board further diversification tools. Mr. Nash stated that currently the Board is limited to only U.S. fixed income in one of the three highest categories. This does not allow the Board to invest in global bonds or master limited partnerships. If the Board can get a little more flexibility on the fixed income side it is anticipated that the investment return could be enhanced a little bit. It was made clear that the Board is asking for no more or no less flexibility than the Police and General Employees Boards currently have. It was noted that an Ordinance change would be necessary in order to obtain this investment flexibility.

Mr. Levinson discussed the second outstanding proposed Ordinance that the Board had previously submitted to the City regarding disability conversion. He explained the issue to Mr. Hemraj and stated that the Board just wants the same language that the Police Pension Plan has regarding disability conversion. Mr. Hemraj stated that he would look into these two pending Ordinances.

Mr. Strong stated that long term his recommendation is to have the Board get to a 6% or 6.5% range for the assumed investment rate of return. He stated that how the Plan gets there is up to the Board. The Police Pension Plan is going to go to 7% and then re-evaluate. Mr. Strong recommended targeting 6.25%. He stated that the Board could start by targeting 7% and then re-evaluating later. There was a lengthy discussion. Mr. Levinson stated that the Board could target 6.25% now but noted that, if needed for some reason, the Board would always have the flexibility to change that. Mr. Nash reviewed an Asset Allocation Analysis. He stated that looking at JP Morgan's return assumptions, a return of 6.9% is expected for the next ten to fifteen years. He stated that he thinks 7% is

a reasonable target with the current asset allocation. He thinks 6.25% is a reasonable target for the long term.

Mr. Strong discussed the ramifications of lowering the investment return to DROP members. He stated that there is a leverage risk on the portion of the portfolio that is non-DROP. He stated that it could be managed better by keeping the 1.5 basis points difference from the assumption for the fixed rate option. He stated that he would not recommend allowing the fixed rate option in the DROP to be a flat 6.25% because that would be exposing the Fund to too much risk. There was a lengthy discussion. Mr. Strong stated that he would recommend that there be some motivation to have DROP participants move their money out once they separate from employment. Mr. Levinson stated that the FRS has a 1.3% guarantee rate of return. It was noted that having money in the DROP has helped in recent years, but was a detriment in 2008-2011. The Board asked Mr. Strong to bring some options to the next meeting for the Board to consider. A motion was made, seconded and carried 5-0 to implement the first scenario of the Actuary's Supplemental Actuarial Study which will reduce the investment return assumption to 7% by reducing the assumption by .15% for the next five years.

MINUTES

The Trustees reviewed the minutes of the meeting of February 17, 2015. A motion was made, seconded, and carried 5-0 to accept the minutes of the meeting of February 17, 2015.

INVESTMENT MONITOR REPORT

Tim Nash appeared before the Board. He discussed the market environment and reviewed the major market index performance as of March 31, 2015. He reviewed the performance as of March 31, 2015. The total market value as of March 31, 2015 was \$38,787,239. The asset allocation was comprised of 55.6% in domestic equities; 8.3% in international equities; 19.2% in fixed income; 9.8% in real estate; 4.3% in alternative investments; and 2.6% in cash. The Fund was up 1.43% net of fees for the quarter while the benchmark was up 1.97%. Total equities were up 1.21% while the benchmark was up 2.16%. Domestic equities were up .78% while the benchmark was up 1.80%. International was up 4.31% while the benchmark was up 3.59%. Fixed income was up 1.69% while the benchmark was up 1.61%.

Mr. Nash provided a review on the individual managers. Cornerstone was down 4.69% while the Russell 1000 Value was down .72%. Mr. Nash noted that Cornerstone's short term performance is negatively impacting the Fund. He had a call with their investment team. He stated that they have a high quality portfolio and there has been no change to their personnel or the strategy. Due to their negative performance, they have placed Cornerstone on watch. Wells was up 4.86% while the Russell 3000 Growth was up 4.05%. Brown was up 4.19% while the Russell 1000 Growth was up 3.84%. Advisory was up 3.28% while the Russell 2500 Value was up 3.02%. Vanguard Tax-Managed International was up 5.3% while the benchmark was up 5.0%. The Vanguard Emerging Market was up 2.06% while the benchmark was up 2.28%. With respect to fixed income, Garcia Hamilton was up 1.69% while the benchmark was up 1.61%. American Realty

was up 4.46% while the NCREIF was up 3.40%. The PIMCO All Asset Fund was up .11% while the benchmark was up 1.20%. Mr. Nash reviewed the compliance checklist.

Mr. Nash presented a SMID cap value domestic equity review. He stated that Advisory has been struggling for the last couple of years compared to their benchmark. He provided a review as of December 31, 2014. He reviewed the possible candidates: Advisory Research; Bernzott Capital Advisors; Cambiar Investors; Cardinal Capital Management; Southern Sun Asset Management. He stated that Cambiar and Cardinal do not have as much of a track record of smid cap value as the other candidates, but they have the same team that is running small cap value, which has a ten year track record to help the Board with making a decision. He stated that he would not encourage the Board to pick Southern Sun unless they were paired up with a broader based manager because they have an extremely concentrated portfolio of only 23 names. Mr. Nash stated that he still likes Advisory, but they are not meeting the matrix in this Plan. In looking at the information for this review, it has shown that there are other options that have done better. He reviewed the trailing returns for the quarter, year-to-date, 1, 3, 5, 6, 7, 8, 9 and 10 year time periods as of December 31, 2014. He reviewed the calendar year returns from 2006 through 2014 as of December 31, 2014. He reviewed the upside and downside capture ratios. He stated that he would lean towards Cambiar because they have a good team and have good returns and lower fees. He stated that Bernzott is good as well. There was a lengthy discussion. The Board discussed other passive options. Mr. Nash stated that he thinks Cambiar is an extremely compelling manager. They offer low passive management fees but with active management. A motion was made, seconded and carried 5-0 to terminate Advisory Research and replace with Cambiar Investors. The Board directed Mr. Levinson to negotiate a contract with Cambiar.

Nerahoo Hemraj departed the meeting.

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 March 31, 2015.

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

The terms of the Trustees was discussed. It was noted that Mr. Lamb's term is due to expire on May 31, 2015. Ms. Adcock advised that she would conduct an election for that seat. It was noted that Ms. Highland's term is due to expire on July 31, 2015 and she will need to re-apply with the City to remain on the Board. It was noted that Rich Seamon's position as the 5th Trustee is due to expire on September 30, 2015. Mr. Seamon expressed an interest in remaining on the Board. It was noted that no one else has expressed any interest in serving on the Board. A motion was made, seconded and carried 4-0 to reappoint Rich Seamon to the Board as the 5th Trustee for another term.

The Board was provided with an email from James Longenecker regarding SB 172. The Board took no action. Mr. Kimbrell stated that he would talk to Mr. Longenecker.

ATTORNEY REPORT

Mr. Levinson provided an email dated May 14, 2015 regarding compliance with SB 534/Section 112.664/60T-1.0035. He reviewed the various documents and information. He stated that Mr. Strong would be preparing the necessary reporting requirements. Mr. Strong stated that he has started the process. It was also noted that the Mr. Nash is in the process of preparing the information required regarding investments. Mr. Levinson discussed the sample memorandum. It was noted that the information would be available on the Plan's website with the Administrator in compliance with the legislation. It was also noted that the City would be asked to put a link on their website to the Plan's website.

Tim Nash departed the meeting.

Mr. Levinson discussed SB 172. He stated that SB 172 was adopted this Legislative session. He stated that they are waiting to hear if the Governor will sign the SB. It was noted that it passed unanimously in the Senate and by a vote of 112-4 in the House. It was stated that the Florida League of Cities has been fighting this legislation and there is a good change it might be vetoed by the Governor. If the legislation is passed, the effective date will be July 1, 2015. Mr. Levinson discussed the detailed accounting of expenses that would be required which would require the Audit to be put on the website. He discussed the budget that would need to be adopted by the Board prior to the beginning of the each fiscal year. There was also discussion on the premium tax monies noting that effective October 1, 2015 50% above the 2002 base could be used to offset the City's contributions to the Plan unless the parties agree by mutual consent to something different. He stated that he would need to have a conversation with the Division of Retirement regarding this.

Mr. Levinson discussed SB 1309 regarding mortality tables. The law would require the Plan to use the FRS tables. Mr. Strong stated that he did not think it would cost much for this Plan to change mortality tables to the FRS tables. Mr. Levinson stated that he does not think the Governor will veto this SB. It was noted that if it is not vetoed, it will take effect with the next Valuation. Mr. Strong recommended putting it in the Valuation as of October 1, 2015.

OTHER BUSINESS

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

Respectfully submitted,

Rory Kimbrell, Secretary