

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
February 16, 2016

The meeting was called to order at 9:14 A.M. in the Conference Room at Station 91, Lake Worth, Florida. Those persons present were:

TRUSTEES

Mark Lamb
Rory Kimbrell
Rich Seamon

OTHERS

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

PUBLIC COMMENTS

There were no public comments.

ADDITIONS AND DELETIONS

There were no additions or deletions.

MINUTES

The Trustees reviewed the minutes of the meeting of November 17, 2015. A motion was made, seconded, and carried 3-0 to accept the minutes of the meeting of November 17, 2015.

AUDITOR REPORT

Steve Gordon and Eric Leventhal appeared before the Board. Mr. Gordon provided a firm update. He stated that he has merged with the firm of Kabat Schertzer DeLaTorre Taraboulous. He stated that KSDT has been in business for over 30 years. They have offices in Miami-Dade and Broward. He stated that all of his employees came with him and they are all doing the same work. He stated that the merger will offer him more resources and the ability to do more auditing work and less administrative work. Mr. Leventhal provided more on the background of the firm.

Mr. Gordon presented the Annual Audit as of September 30, 2015. He stated that they were issuing a clean unmodified opinion. He reviewed Management's Discussion and Analysis. He reviewed the Statement of Net Fiduciary Position as of September 30, 2015. The total assets were \$37,787,307 with most of the money in investments. Total liabilities were \$151,664. Total net position restricted for pensions was \$37,635,643. Mr. Gordon reviewed the Statement of Changes in Net Fiduciary Position. He stated that there was a decrease in the Plan net position of \$335,604. Mr. Gordon reviewed the schedule of administrative expenses. He stated that the administrative expenses decreased significantly from \$217,064 the prior year to \$92,510 due to the settlement of the lawsuit. He reviewed the notes to the financial statements. He stated that he found no significant

internal control issues. A motion was made, seconded and carried 3-0 to accept the Annual Audit as of September 30, 2015. Mr. Gordon presented the Management Representation Letter. A motion was made, seconded and carried 3-0 to authorize the Chair to execute the Management Representation Letter.

ACTUARY REPORT

Pete Strong appeared before the Board. He presented the Actuarial Valuation as of October 1, 2015. He reviewed the annual required contribution. He noted that the total required contribution did not go up that much. The total required contribution for the plan year ending September 30, 2017 would be \$2,811,277. He stated that with contributions from Division II of \$100,662, the City's contribution would be \$2,710,615. Mr. Strong stated that the assumed rate is decreasing from 7.75% to 7.60%. Also there is an additional one year reduction in the amortization period. There was a net actuarial loss of \$255,733 for the year, which means that the actuarial experience was less favorable than expected. The loss was primarily due to lower than expected return on the actuarial value of assets. He stated that there would be no 13th check because the Plan experienced a cumulative actuarial loss. The funded ratio was 50.6% versus 50.3% last year. Mr. Strong reviewed the actuarially determined contribution. He reviewed the actuarial value of benefits and assets. He stated that the market value trails the actuarial value by about \$1.5 million. He noted that last year the actuarial value trailed the market value by about \$2 million. Mr. Strong stated that he did not expect the required change to the FRS mortality table to be that significant. He thinks it will bring a slight cost decrease. He stated that he did not adopt the FRS mortality change in this Valuation.

There was a lengthy discussion regarding the assumed rate of return. There was discussion on reducing the investment assumption by .25 basis points versus .15 basis points. Mr. Strong stated that the change would not be significant. Mr. Strong reviewed the reconciliation of Plan assets. He stated that the DROP assets are about 40% of the Fund, which is up from last year where the DROP assets were about 34% of the Fund. He reviewed the calculation of the actuarial value of assets. He reviewed the historical investment rate of return from fiscal year ending 1972 through 2015. A motion was made, seconded and carried 3-0 to approve the Actuarial Valuation as of October 1, 2015.

There was further discussion regarding the assumed rate of return. Mr. Strong stated that he would recommend the Board possibly consider reducing the investment return by .30 basis points versus .15 basis points next year if the mortality table change is a net decrease. Mr. Strong stated that he would send a letter notifying the City of the Board's consideration.

ATTORNEY REPORT

Mr. Levinson presented a proposed Revised Administrative Policy Regarding the DROP effective November 17, 2015. He reviewed the changes that were made with the Board. There was a lengthy discussion. Mr. Levinson stated that he will add additional language to the Policy to make sure it is clear that effective October 1, 2016 there are new options. There was also discussion on the default option should Participants not make a new timely election. A motion was made, seconded and carried 3-0 to authorize the Chair to sign the Revised Administrative Policy Regarding the DROP once the additional changes

are made. There was discussion on providing notice to the DROP Participants. The Board authorized Mr. Levinson to prepare a condensed summary of the changes in the DROP interest election that will be effective October 1, 2016.

Pete Strong departed the meeting.

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, 2015. He reviewed the performance as of December 31, 2015. The total market value as of December 31, 2015 was \$38,173,614. The asset allocation was comprised of 54.7% in domestic equities; 7.6% in international equities; 20.0% in fixed income; 10.6% in real estate; 4.0% in alternative investments; and 3.1% in cash. The Fund was up 3.17% net of fees for the quarter while the benchmark was up 3.43%. Total equities were up 4.90 while the benchmark was up 5.68%. Domestic equities were up 5.24% while the benchmark was up 6.27%. International was up 2.49% while the benchmark was up 3.30%. Fixed income was down .58% while the benchmark was down .57%.

Mr. Nash provided a review on the individual managers. Cornerstone was up 3.91% while the Russell 1000 Value was up 5.64%. Mr. Nash stated that Cornerstone missed the benchmark by about 10% and they met with them. He stated that they are recommending termination of Cornerstone to all of their clients in the normal course of business. He stated that they are having stock specified issues. They bought and sold the same stock in a 60 day period and did not have a good reason for it. Based upon inconsistencies and poor performance, they are recommending termination of Cornerstone. Wells was up 6.49% while the Russell 3000 Growth was up 7.09%. Brown was up 7.69% while the Russell 1000 Growth was up 7.32%. Vanguard Tax-Managed International was up 3.87% while the benchmark was up 4.75%. The Vanguard Emerging Market was down .40% while the benchmark was up .73%. With respect to fixed income, Garcia Hamilton was down .58% while the benchmark was down .57%. American Realty was up 3.03% while the NCREIF was up 3.43%. The PIMCO All Asset Fund was down .04% while the benchmark was down .70%.

There was a lengthy discussion about the international portfolio. Mr. Nash stated that he would recommend moving from both of the Vanguard Index Funds to an active manager. He also thinks a move to an active manager in emerging markets would be beneficial. While the Fund would pay more in fees, he thinks it would give the Fund a lower volatility approach in the international space. He stated that active management has the ability to underweight and overweight securities which can uncover value.

Mr. Nash provided an International Equity Review. He reviewed the four mutual fund candidates: Artisan Partners; Capital Group (Euro Pacific); Lazard; and Thompson, Siegel & Walmsley. He stated that Euro Pacific has the most assets under management and a 20 year track record. He stated that this would be his number one recommendation. They have the lowest fee at 53 basis points. They have 9 portfolio managers and 28 research analysts. He stated that the GE and Police Plans have this investment. He stated that it has the lowest risk and catches the least amount of the downside. He stated that Thompson, Siegel & Walmsley are in the large cap and upper mid cap range of core international. He

stated that their fee is 95 basis points. He stated that he would recommend the Board look at Euro Pacific or TSW based on risk return and fees. Mr. Nash reviewed the performance of the four candidates from November 2005 through December 2015. He reviewed performance for the rolling 1, 3, 5, 7 and 10 year time periods from May 1984 through December 2015. He reviewed calendar year returns from 2006 through 2015. Mr. Nash stated that Euro Pacific and TSW kind of do the same thing so there would be no point in splitting the mandate. He stated that he would recommend Euro Pacific first and TSW second because of fees. There was a lengthy discussion. A motion was made, seconded and carried 3-0 to terminate the Vanguard Funds and replace them with Euro Pacific.

Mr. Nash provided a Domestic Large Cap Value Review. He reviewed the five candidates: Becker Capital; Ceredex Value Advisors; Delaware Investments; Eagle Capital Management; and M.D. Sass Investors. He stated that Eagle is no longer a consideration because they do not want to do business in Florida anymore because of the legal contracts. He stated that Becker would be a mutual fund; Ceredex and Delaware can be mutual funds or commingled; and M.D. Sass would be a separate account. Mr. Nash reviewed performance for the rolling 1, 3, 5, 7 and 10 year time periods from April 2004 through December 2015. He stated that Delaware will keep close to a market weight and there will be more volatility. They have 30 names in the portfolio. Ceredex has 80 names in the portfolio and invest only in holdings that have a dividend. M.D. Sass has 35 names or less in their portfolio but is not deep value. There will be more volatility in individual quarters. Mr. Nash reviewed the calendar year returns from 2005 through 2015. He reviewed the risk return comparison, as well as the upside/downside comparisons. He stated that his recommendation would be Delaware's mutual fund first; Becker's mutual fund second; and M.D. Sass third. He stated that this would be based on the least risk and the lowest fees. He stated that the GE and Police Pension Plans have M.D. Sass but they have more ups and downs than Delaware and Becker. There was a lengthy discussion. A motion was made, seconded and carried 3-0 to terminate the Cornerstone and replace them with Delaware Investments.

ADMINISTRATIVE REPORT

The Board was presented with disbursements, including the investment manager disbursements. A motion was made, seconded and carried 3-0 to pay the listed disbursements.

The Board reviewed the financial statements for the period ending January 31, 2016.

The Board was presented with a list of benefit approvals. A motion was made, seconded and carried 3-0 to approve the benefit approvals.

Ms. Adcock presented possible plaque options for recognizing previous Trustees James Shook and Patricia Highland for their many years of dedication and service to the Board. The Board decided move forward with the crystal plaque, and once received, invite both Mr. Shook and Ms. Highland to a future meeting to present them with the plaques.

ATTORNEY REPORT

Mr. Levinson discussed a Memorandum dated December 5, 2015 regarding an Insurance Premium Tax Database Reminder. He stated that he would review the system before the next meeting to see when the system was last updated.

Mr. Levinson discussed the status of the two proposed Ordinances that are currently pending. He stated that there is nothing new to report.

OTHER BUSINESS

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

Respectfully submitted,

Rory Kimbrell, Secretary