

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
March 15, 2017

The special meeting was called to order at 9:11 A.M. in the Conference Room at Station 91, Lake Worth, Florida. Those persons present were:

TRUSTEES

Mark Lamb
Rory Kimbrell
Rich Seamon
Valerie Hurley

OTHERS

Margie Adcock, Administrator
Adam Levinson, Attorney
Tim Nash, Investment Monitor (via teleconference)
Pete Strong, Actuary
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 3, 2016. A motion was made, seconded, and carried 4-0 to accept the minutes of the meeting of November 3, 2016.

AUDITOR REPORT

Eric Leventhal appeared before the Board. He presented the Annual Audit as of September 30, 2016. 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, 2016. The total assets were \$40,077,482 with most of the money in investments. Total liabilities were \$285,079. Total net position restricted for pensions was \$39,792,403, with \$23,249,480 restricted for defined benefits and \$16,542,923 restricted for DROP benefits. Mr. Leventhal reviewed the Statement of Changes in Net Fiduciary Position. He stated that there were total additions of \$6,114,864 and total deductions of \$3,958,104 leaving an increase in the Plan net position of \$2,156,760. Mr. Leventhal reviewed the schedule of administrative expenses. He reviewed the notes to the financial statements. He discussed the new GASB 72 disclosure which increased reporting surrounding the fair value measurements of investments. Mr. Leventhal stated that he found no significant internal control issues.

Mr. Levinson discussed an issue that has arisen in the City of Miami Beach regarding internal controls. He stated that he thought this was a worthwhile conversation for the

Board to have. Mr. Leventhal discussed the internal controls. He stated that the Board has regular meetings with the Attorney involved as well as the Administrator, and Investment Monitor. He noted that not one individual has ultimate power. In fact, there cannot even be a meeting outside of the Sunshine. He stated that there is a clear segregation of duties in the Fund that was most likely missing in the City of Miami Beach. Ms. Adcock reviewed their internal controls as well. Mr. Leventhal stated that they conclude that all is working properly and there are checks and balances at every stop. A motion was made, seconded and carried 4-0 to accept the Annual Audit as of September 30, 2016. Mr. Leventhal presented the Management Representation Letter. A motion was made, seconded and carried 4-0 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, 2016. He reviewed the annual required contribution. He noted that the total required contribution actually went down from last year. The total required contribution for the plan year ending September 30, 2018 would be \$2,794,091. He stated that with contributions from Division II of \$96,922, the City's contribution would be \$2,697,169. Mr. Strong stated that the assumed rate is decreasing from 7.60% to 7.45%. Also there is an additional one year reduction in the amortization period. There was also the required change mandated in the mortality table used by FRS. He stated that he used the most recent FRS mortality table. These changes resulted in an increase of \$97,507 in the required contribution. There was a net actuarial gain of \$629,711 for the year, which means that the actuarial experience was more favorable than expected. The gain was primarily due to lower than expected salary increase (2.1% actual versus 6.5% expected) and higher than expected returns on the actuarial value of assets (8.2% gross and 9.7% net versus 7.6% expected). The actuarial experience resulted in a decrease of \$69,366 in the required contribution. Mr. Strong stated that there would be no 13th check because the Plan experienced a cumulative actuarial loss. The funded ratio was 53.1% versus 50.6% 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 investment rate of return. He stated that the average compounded rate of return since 1972 at market value was 7.8% and the actuarial value was 7.5%. The average compounded rate of return for the last five years at market value was 9.3% and the actuarial value was 7.0%. Mr. Levinson provided a NASRA Issue Brief which showed the investment return assumption for public pension plans. He stated that it measured 127 plans and noted that the trend showed a reduction in the investment rate assumption. Since fiscal year 2010 it showed a decline in the average return assumption from 7.91% to 7.52%. Mr. Strong stated that using JP Morgan, the forecast for a standard 65%/35% plan is down almost 80 basis points over the next ten years going from a low 7.1% to 6.3%. He stated that the news is getting worse in terms of the forecast. A motion was made, seconded and carried 4-0 to approve the Actuarial Valuation as of October 1, 2016.

Pete Strong departed the meeting.

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 statements for the period ending February 28, 2017.

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

ATTORNEY REPORT

Mr. Levinson provided a Fee Amendment from Brown Advisory. The Fee Amendment provides a fee discount of 15% for 2017. This was offered in recognition of Brown's poor performance. The fee concession is an incentive to keep the Board's patience during this time. Mr. Levinson stated that there is no disadvantage to the Fee Amendment and recommended the Board execute the document. A motion was made, seconded and carried 4-0 to accept the Fee Amendment to the Brown Advisory Agreement.

Mr. Levinson provided an update on the Rayonier Class Action. He stated that they had mediation last week in New York. It was 16 hour mediation with over 60 members on the defense side. He stated that there is a tentative settlement. He noted that he is unable to disclose the settlement amount but stated that they were satisfied with the settlement. He stated that the settlement will be in excess of what the Chair initially approved.

Mr. Levinson provided a Legislative update. He reviewed Senate Bill 158 regarding the Firefighter Cancer Presumption. He discussed a recent Florida Supreme Court Case regarding financial urgency.

Mr. Levinson discussed the two proposed Ordinances that are currently pending. He stated that there was nothing urgent on the investment side. He stated that once things settle down he may try to pursue these Ordinances with the City.

It was noted that Mark Lamb's term is up on May 31, 2017. He stated that if no one else is willing to run, Mark can hold over in his position.

INVESTMENT MONITOR REPORT

Tim Nash appeared before the Board via teleconference. He stated that their firm was rebranded in early January and their name has been changed from the Bogdahn Group to AndCo Consulting. They changed their name to better reflect their vision for the future of their company and to acknowledge that their clients come first. It was noted that 5 of their employees became partners in early January.

Mr. Nash reviewed the performance as of December 31, 2016. The total market value as of December 31, 2016 was \$38,755,242. The asset allocation was comprised of 55.4% in domestic equities; 7.7% in international equities; 20.2% in fixed income; 10.5% in real estate; 4.5% in alternative investments; and 1.7% in cash. The Fund was down .52% net of fees for the quarter while the benchmark was up 1.12%. Total equities were down .40% while the benchmark was up 3.14%. Domestic equities were up .14% while the benchmark was up 4.21%. International was down 4.15% while the benchmark was down 1.20%. Fixed income was down 1.43% while the benchmark was down 2.98%.

Mr. Nash reviewed the individual managers. He stated that large cap growth was a problem for the quarter. Wells was down 4.06% while the Russell 3000 Growth was up 1.20%. Brown was down 4.59% while the Russell 1000 Growth was up 1.01%. Cambiar was up 10.65% while the Russell 2500 Value was up 9.34%. Delaware was up 3.61% while the Russell 1000 Value was up 6.68%. EuroPacific R6 was down 4.15% while the benchmark was down 1.20%. With respect to fixed income, Garcia Hamilton was down 1.43% while the benchmark was down 2.98%. American Realty was up 1.20% while the NCREIF was up 2.19%. The PIMCO All Asset Fund was down .32% while the benchmark was down 1.47%.

Mr. Nash stated that the last three years have been a challenge. Cornerstone missed the mark in one year by 10%. Additionally although both growth managers have had good long term performance, growth has been a difficult area for active managers to beat the benchmark. Mr. Nash provided an update as of February 28, 2017. The total market value as of February 28, 2017 was \$40,580,066. The Fund is up 4.71% net of fees quarter to date while the benchmark is up 3.66%. He stated that the trend is better on Brown. However, since this is a closed Plan there are some things the Board could do that might be more helpful. He stated that he thinks a portion of the portfolio should be in index funds for good liquidity and lower fees. That would reduce the amount of money the Fund has with the active growth managers. He stated that he thought it was still better to have one or two growth managers. He recommended replacing both Wells and Brown with Alger or MFS. He stated that Brown is very concentrated with only 28 holdings. As such, they can have periods of significant volatility. Wells has struggled with stock selection. They are not a bad manager but here are more attractive options.

Mr. Nash recommended terminating both Brown and Wells. He reviewed the large cap growth manager analysis as of December 31, 2016. He reviewed the growth, value, index blend analysis as of December 31, 2016. He stated that return is important but it is also important to see what happens in down markets. He stated that both Alger and MFS have been managing growth assets for over 25 years. They both have very consistent performance. Alger is moderately more aggressive than MFS and has just a little more volatility than MFS. Both have over 100 securities in the portfolio. There was a discussion on fees. There was a lengthy discussion. Mr. Nash stated that the biggest difference between the two is that Alger likes biotech which has been a volatile area as of late. He stated that the Fund would be very well served with either manager. He does like the low fee approach but he might like to lean towards the more aggressive Alger. A motion was made, seconded and carried 4-0 to follow the recommendation of the

Investment Monitor and terminate Brown and Wells. A motion was made, seconded and carried 4-0 to follow the recommendation of the Investment Monitor and reallocate the large cap growth portfolio to invest 50% in Vanguard; 25% with Alger; and 25% with Delaware.

OTHER BUSINESS

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

Respectfully submitted,

Rory Kimbrell, Secretary