

WEST PALM BEACH FIREFIGHTERS' PENSION FUND

MINUTES OF MEETING HELD

FEBRUARY 4, 2016

Secretary Brian Walker called the meeting to order at 1:40 P.M. in the Conference Room at Station 1, 3rd Floor; 500 North Dixie Highway, West Palm Beach, Florida. Those persons present were:

TRUSTEES

David Merrell, Chair (arrived 2:30PM)
Brian Walker, Secretary
Guy Montante
Mark Parks
Ron Frano

OTHERS

Audrey Ross, Resource Centers
Bonni Jensen, KKJ&L
Paul Daragjati, KKJ&L
Dan Johnson, The Bogdahn Group
Jeanine Bittinger, DJC
Richard Cristini, DJC
Mariko Boswell, PIMCO
Lalantika Medema, PIMCO
Rick Roberts, Retired WPB Firefighter

PRESENTATION OF THE 9/30/2015 AUDITED FINANCIAL STATEMENTS: DJC (PRESENTED BY: RICHARD CRISTINI & JEANINE BITTINGER)

Mr. Cristini stated that an unqualified opinion was issued for the audited financial statements for the fiscal year ending September 30, 2015, which is the highest level that can be issued. He reviewed the audit process in detail in regards to testing of files, reviewing statements, doing onsite visits to the Administrator and the City, etc. Mr. Cristini compared the Plan's assets from 2014 to 2015 and noted that overall the net assets slightly decreased this year from \$177,047,533 to \$176,170,051. The total benefit payments increased this year due to more retirees and also the total investments decreased this year due to the down markets, so both of those situations lead to a net decrease this year of (\$877,482) versus last year's net increase of \$12,467,981. He briefly reviewed the Plan participant data and commented that as of September 30, 2015 there were 314 retirees and 202 active members. Also he wanted noted for the record that the Plan does files their QPD annually, so therefore the Plan is 100% covered. Mr. Cristini reviewed the breakdown of the DROP and Share account assets for State Law purposes as well as the DROP loan repayment schedule. Also he commented that the Plan did have an amendment change. Ms. Jensen noted that page 25 of the report reflects language that was removed during Legislative session regarding the in-service distributions for the Chief. Mr. Cristini noted that he will get the page revised as soon as possible. Also the mortality table change is included in this report which is a new State requirement. Mr. Cristini reviewed the GASB Statements No. 67 and No. 68 in great detail. He discussed the procedures and process of producing these statements and what they actually mean. He reminded the Trustees that these new GASB reports were for reporting purposes only and does not affect the Plan assets of financial statements. The City now has to carry this pension plan as a new liability on their City CAFR so there are more steps that are involved this year.

Lastly Mr. Cristini reviewed the internal control structure memo and noted that there was only one journal entry recommendation in regards to the DROP loan interest, but other than that everything else looks great and a clean opinion was issued.

A motion was made by Ron Frano to accept and approve the September 30, 2015 audited financial statements as presented, with the exception of page 25 that will be revised to remove the in-service distribution language. The motion was seconded by Guy Montante and carried 5-0.

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Ms. Bittinger stated that she had the audit management representation letter available today for the Board to execute so that the final copy of the audit can be released to the appropriate parties.

A motion was made by Ron Frano to accept and approve the September 30, 2015 audit management representation letter as presented. The motion was seconded by Brian Walker and carried 5-0.

INVESTMENT MANAGER PRESENTATION: PIMCO (PRESENTED BY: MARIKO BOSWELL & LALANTIKA MEDEMA)

Ms. Boswell introduced herself and Ms. Medema and reviewed their positions at PIMCO. She stated that they are here today to review the DISCO II product in which this Plan has been invested with for a couple of years now. They will also be reviewing another PIMCO product as well; the Tactical Opportunities Fund. Ms. Medema updated the Board on the DISCO II Fund in which they are still predicting a 7-9% net target return, which was decreased in 2015. This product continues to focus on senior risk within the fund and she reminded the Board of the four key drivers in this fund. The leverage in this portfolio remains low at 2.3 times and they will never go over 2.5 times, and the gross yield in this portfolio is 9.5%. Ms. Medema reviewed the West Palm Beach Fire account and noted that this Plan's initial investment to the DISCO II product was \$5M and now 4 years later the investment is now up to \$9.2M. She reminded the Trustees that this product offers downside protection and they will also remain keeping the duration low as well. Ms. Medema explained that the DISCO II has a total of \$2.1B in assets and reviewed the breakdown of assets by Country/Region and sector. Overall, PIMCO still feels very strong about this product as the returns still remain very high and they are still finding very attractive opportunities in this fund compared to other strategies. The Trustees discussed how much longer this product will remain open and Ms. Boswell stated that they think they will continue to still get the strong returns of 7-9% for another 2-3 years or so, but they are definitely not closing it now. Ms. Boswell stated that some clients did move out of the DISCO II Fund and into the Tactical Ops Fund because that Fund is projecting a higher return. Also they do have about another \$30M in redemptions coming up next quarter, but at the same time they have new investors coming in as well. She reminded the Board that in DISCO II Fund does have quarterly liquidity with a 60 day notice as this Plan is past the one year lock up.

Ms. Medema reviewed the Tactical Opportunity Fund (Tac Ops) that launched in February 2013 and is smaller than the DISCO II Fund with \$900M in assets. The target annualized return for this Fund is between 10-12% and there is a soft lock up of 18 months, or a 5% fee will be charged on the redeemed assets. She explained how the redemption process works and stated that on month 18 you can withdrawal a third of your investment, on month 24 you can withdrawal the other third, and on month 30th all money will be distributed. Ms. Medema noted that they have not had any redemption request for this Fund since inception, although they have had clients add more funds. This product does not have any correlation to the S&P500 and sits more between traditional hedge funds and traditional private equity. She reviewed the returns over the last couple of years and noted that last year's return was 5.98%. The Trustees asked if PIMCO plans on lowering this Fund's target rate of return like they did with the DISCO II Fund because it is not being met. Ms. Medema stated that they will be leaving their target rate of return where it is because their targets are annualized over a credit market and not a just a year. She reviewed the market types that they buy into and commented that they are mainly focused on

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debt opportunities. There is 100% leverage in this portfolio and Ms. Medema reviewed some of the things that they invest in compared to what the DISCO II invest in. There is a \$5M investing requirement for the Tac Ops Fund and there is no end date as of yet. The fee for this fund is a 1.25% management fee and also a 20% performance fee.

Lastly Ms. Boswell updated the Board on PIMCO as firm. She noted that when Bill Gross left last year, they also saw about \$30B in assets leave. Since then things have really turned around and they are doing great. Ben Berneke joined PIMCO as an advisor and he will be on the investment committee. PIMCO also added a global advisory board which consists of 5 members and all together is doing very well.

BOARD DISCUSSION:

The Trustees had a very lengthy discussion in regards to both presentations; the DISCO II Fund and the Tac Ops Fund. They discussed the DISCO II product that they are currently in and how long they want to stay in it. They concurred that they will stay in the DISCO II fund until another investment vehicle identified within the next 2 years. Mr. Johnson noted that he is still remains very comfortable with this fund. Ms. Jensen stated that she has some concerns regarding the Tac Ops fund as she would need to research more where it fits into the Plan's investment policy guidelines. The Trustees tabled the discussion regarding the Tac Ops Fund until the next meeting.

INVESTMENT CONSULTANTS REPORT: THE BOGDAHN GROUP (PRESENTED BY: DAN JOHNSON)

Mr. Johnson updated the Board on some firm changed within the Bogdahn Group. He explained that they will be inquiring Thistle Asset Consulting effective April 1, 2016, which is a big gain for both firms overall. Thistle Assets has 3 employees that will be moving over to Bogdahn.

Mr. Johnson discussed the recent market environment and reviewed some charts that reflected the S&P500 total return index history as well as the long term global markets index performance. Overall, the best place to be invested in over the last 5 years was the top Russell 200, and the worst place was the MSCI Emerging markets.

Mr. Johnson reviewed the performance report for the quarter ending December 31, 2015. The total fund net of fees was just about in line with the index net of fees at 3.71% versus 3.70%, which was a gain of \$6,470,825 for the quarter (this does include all City contributions as well). Mr. Johnson reviewed the Plan's asset allocation by sector and manager. He noted that the Plan is in line with their respective targets and therefore he does not have a recommendation at this point for rebalancing. The Plan's assets have increased to \$183.3M, which is up from the last quarter at \$172.3M. Mr. Johnson discussed each manager's performance during the quarter and commented that the domestic equity managers performed the best, but overall all the managers did well this quarter despite the market environment. Mr. Johnson has no other recommendations at this time.

Mr. Johnson briefly reviewed the Plan's preliminary flash performance report as of January 31, 2016. It has not been the best month as they are down -3.9%, and for the fiscal year to date they are also slightly negative at -0.4%. This brings the Plan's total assets back down to \$175.2M as of January 31, 2016. Domestic equity took a big hit in January, as well as International equity. Real Estate remains flat and the only positive sector was fixed income.

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APPROVAL OF MINUTES

The Board reviewed the minutes of the regular meeting held on January 7, 2016.

A motion was made by Brian Walker to approve the minutes of the regular meeting held on January 7, 2016 as amended. The motion was seconded by Ron Frano and carried 5-0.

DISBURSEMENTS

The Board reviewed the disbursements presented for approval by the Administrator.

A motion was made by Brian Walker to approve the disbursements that were presented by the Administrator. The motion was seconded by Ron Frano and carried 5-0.

BENEFIT APPROVALS

The Board reviewed the benefit approval list presented for approval by the Administrator dated February 4, 2016 (3 applications for retirement, 3 applications for distribution from DROP account for 4/1/2016, and 1 application for distribution from Share account for 4/1/2016).

A motion was made by Ron Frano to approve the 3 applications for retirement, 3 applications for distribution from DROP account for 4/1/2016, and 1 application for distribution from Share account for 4/1/2016. The motion was seconded by Mark Parks and carried 5-0.

FINANCIAL STATEMENTS

Ms. Ross presented the Board with the statement of income and expense and the balance sheet through the end of December 2015.

The Board received and filed the financial statements through the end of December 2015.

ATTORNEY'S REPORT: KKJ&L (PRESENTED BY: BONNI JENSEN)

Ms. Jensen discussed the Plan's current policy in regards to accumulated leave/mustering out money being transferred to the pension plan after a member retires. Currently the Plan states that the first \$53K of a members mustering out money (the amount is based off the IRS Section 415 Limits, which applies to defined contribution plans as well) is automatically transferred over to the pension (either DROP or Share account) when a member retires. If a member has any amount over the \$53K, than it is paid out to them directly through the City with their last payroll check. Ms. Jensen explained that there has been some discussion recently with the IRS on this money and how it is being treated. The IRS recently ruled that they do not consider DROP and Share accounts as a defined contribution component of the pension, so therefore the IRS Section 415 limit should not apply to those accounts and the total amount/all of the members mustering out money should come to the pension plan. Ms. Jensen stated that she recently went through this with another client of hers and that Board hired a tax attorney to review this situation and give their advice and opinion on how to move forward with this. She is recommending that this Plan do the same. Ms. Jensen recommended that same firm, Gray Robinson, for this Plan as well.

A motion was made by Ron Frano to hire the tax firm Gray Robinson. The motion was seconded by Brian Walker and carried 5-0.

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Ms. Jensen updated the Board on Franklin Templeton challenge to the City of Stockton bankruptcy and their challenge of payments to our on behalf of retirees. She stated that Templeton has dropped their challenge and they will no proceed.

Ms. Jensen provided the Board with the portable electronic device policy in which she reviewed at the last meeting. The Trustees reviewed the list of allowable apps and removes some apps that did not apply.

A motion was made by Brian Walker to approve the portable electronic device policy as amended to remove the reference to the apps list. The motion was seconded by Guy Montante and carried 5-0.

ADMINISTRATOR REPORT: RESOURCE CENTERS (PRESENTED BY: AUDREY ROSS)

Ms. Ross stated that she received letters from 2 new hires asking for an extension on returning their new hire waiver and acknowledgement. They would like to either provide additional documents or they would like to get a second opinion. Ms. Jensen stated that this is not really an appeal, but rather it would just be allowing the members to have more time to gather information that they would like to have on file just in case something does happened later on down the road.

A motion was made by Brian Walker to allow and approve for new hires to have 30 days after completing their training to respond to their waiver or provide any additional documents if an extension is requested, The motion was seconded by Guy Montante and carried 5-0.

OTHER BUSINESS

N/A

PUBLIC COMMENTS

N/A

There being no further business and the next Pension Board meeting having been scheduled for Thursday, March 3, 2016 @ 1:30PM, the meeting adjourned at 5PM.

Brian Walker, Secretary