

WEST PALM BEACH FIREFIGHTERS' PENSION FUND

MINUTES OF MEETING HELD

MARCH 2, 2017

Chairman Dave Merrell called the meeting to order at 1:30P.M. in the Conference Room at Station 1, 3rd Floor; 500 North Dixie Highway, West Palm Beach, Florida. Those persons present were:

TRUSTEES

Dave Merrell, Chairman
Brian Walker, Secretary
Guy Montante
Mark Parks
Ron Frano

OTHERS

Audrey Ross, Resource Centers
Bonni Jensen, KKJ&L
Dan Johnson, The Bogdahn Group
Jeanine Bittinger, DJC
Brad Armstrong, GRS
David Kaplan, Baron Capital
Rick Dorey, retired plan member
Rick Roberts, retired plan member

9/30/2016 AUDITED FINANCIAL STATEMENTS: DJC (PRESENTED BY: JEANINE BITTINGER)

Ms. Bittinger apologized on behalf of Mr. Cristini as he was unable to make it today's meeting. She started off by saying it was a great year for the Plan overall as it grew a lot, the most out of all their clients. The Plan assets increased from \$176M in 2015 to \$188.7M in 2016. Ms. Bittinger briefly reviewed the statement of changes and noted that both the employee and employer contributions increased during the fiscal year and the State money decreased. The benefit payments increased due to more retirees, but the refund of contributions and admin expenses decreased. Overall for the fiscal year the Plan had a net increase of \$125M versus a net loss last year of \$877,482 the prior year. She reviewed the census data and the new GASB 72 requirements which were implemented this year and this is also why the report took longer to complete. The new GASB 72 does not change any of the actual numbers or reporting, it just requires more investment detail in which she reviewed and explained to the Board. Lastly Ms. Bittinger reviewed the DROP and Share assets as well as the DROP loans and their maturity dates. Ms. Bittinger confirmed that a clean opinion was issued and that there were no issues with management or no material weaknesses were found while performing the audit.

- ***A motion was made by Ron Frano to approve the 9/30/2016 audited financial statements as presented. The motion received a second from Mark Parks and carried 5-0.***

Ms. Bittinger explained that due to the new GASB 72 requirements and all the additional unexpected work they had to do for it, she is proposing a one-time fee increase to the Board of \$2K. The Trustees discussed the additional work and the proposed increase.

- ***A motion was made by Ron Frano to approve the auditor's (DJC) proposed one-time fee increase of \$2K due to the additional work GASB 72 created. The motion received a second from Mark Parks and carried 5-0.***

INVESTMENT MANAGER REPORT: BARON CAPITAL (PRESENTED BY: DAVID KAPLAN)

Mr. Kaplan stated that there have been no firm changes since they last met. Baron Capital remains strong with a total of 146 employees and 36 of those are investment

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professionals. They have been steadily adding about 8 employees per year to their firm and they have never laid anybody off. Mr. Kaplan reviewed the fund's performance as of December 31, 2016 and for the calendar year to date they were behind the index at 4.66% versus 11.32%. He briefly discussed the market environment during the quarter and what led to their underperformance such as energy. Energy had a huge outperformance this quarter and that is not a sector that they usually have a lot invested in. Financials added value to the portfolio this quarter, even though it was volatile compared to the index. Mr. Kaplan briefly discussed the Under Armour holding and also Sports Authority which went bankrupt. He reminded the Trustees what his firm looks for when investing in a company such as cash flows, long term growth, less leverage, and consistent growth with lower BETA. This portfolio is doing well and it is reflected in their long term performance as they are getting a better return with taking less risks. Mr. Walker questioned the difference between this actively managed fund and the index funds because to his understanding index funds are getting the same returns with less fees. Mr. Kaplan explained that historically active managed funds have outperformed the index by at least 2% each year overall, but more recently the index funds have been doing well too. Baron has always looked at the long term and historical data that reflects that managed funds have outperformed the index funds net of fees.

ACTUARY REPORT: GRS (PRESENTED BY: BRAD ARMSTRONG)

Mr. Armstrong stated that he was here today to discuss the Plan's assumed rate of return which is currently at 8%. He commented that he thinks it is high compared to other Plan's and he would recommend to the Board to lower it. The Board needs to start the reviewing process now because if they decide to change it then it will require a Special Act change and therefore we would need to get everything filed for the 2018 Legislative session. The Board had a very lengthy discussion on reducing the assumed rate of return without increasing the costs. Mr. Armstrong commented that the implementation of the required FRS mortality table change will have an impact on this year's report as well. Mr. Johnson reviewed a chart that he handed out reflecting that a majority of pension plans are lowering their assumed rate of return down towards 7%-7.5%. He commented that those ranges are reasonable and likeable to AndCo. from an investment point of view. Mr. Armstrong explained that the governmental accounting standards are starting to push to lower assumed rates of returns and they also think 8% is too high now as well. The Trustees continued their lengthy discussion on lowering the assumed rate of return although their portfolio has been constructed around that number and long term they have achieved 8%. Ms. Jensen noted that if the Plan lowers their assumed rate of return then it will also lower the Plan's multiplier because they are tied together. The Trustees stated that they would look to their Actuary for a recommendation on what to lower their assumed rate of return to and how to keep the cost down when doing so. They will continue this discussion at future meetings. Lastly the Trustees discussed the 13th check and noted that the last one was issued in 2007 and that there will not be one this year either due to the 2015 returns in which we are still recognizing.

INVESTMENT CONSULTANTS REPORT: ANDCO. CONSULTING (PRESENTED BY: DAN JOHNSON)

Mr. Johnson reviewed the December 31, 2016 performance report. He noted that the election that occurred during the quarter did impact the markets as interest rates rose. He noted that the Treasury yield has been steadily increasing as well, although they still only expect a 0-3% return range for bonds this year. They ended the quarter with \$188.7M in assets, which was a gain of \$2.7M and a return of \$1.50% versus the benchmark at 1.42%. Mr. Johnson stated that real estate added the most

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return during the quarter as fixed income was the largest detractor. He reviewed the Plan's asset allocation and noted that they are in line with the policy targets. The PIMCO DISCO II fund will be redeemed on April 1, 2017 and will be distributed per the Plan's direction. Mr. Johnson briefly reviewed each manager's performance during the quarter and noted that the managers that underperformed are not outperforming since the quarter end. He reminded the Board that they put Brown Advisory on the performance base fee effective January 1, 2017, and since then they are now outperforming. Overall the Plan is doing well and Mr. Johnson does not have any recommendations at this time.

Mr. Johnson briefly reviewed the February 27, 2017 flash performance report. He noted that that the prior day was a strong day in the market which is not reflected in this report, but the Plan continues to do well and add return.

APPROVAL OF MINUTES

Ms. Ross apologized stating that the minutes from the previous meetings are not available yet and therefore asked that the Trustees table them until the next meeting.

DISBURSEMENTS

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

- ***A motion was made by Brian Walker to approve the disbursements presented by the Administrator. The motion received a second from Ron Frano and carried 5-0.***

BENEFIT APPROVALS

The Board reviewed the benefit approval list presented by the Administrator dated March 2, 2017 (5 applications for distributions from Share accounts, 16 applications for distributions from DROP accounts, and 2 applications for a refund of contributions). Ms. Ross stated that one of refund of contributions on today's approval list is for a vested member of the Plan. Ms. Ross reached out to the member to invite him to today's meeting as this has been the Board's past practices for vested members opting to take a refund of their contributions in lieu of their pension benefit and Share account, but the member did not show up today. Ms. Jensen stated that she prepared a waiver for this member to sign prior to releasing any money. Ms. Ross stated that she has also had a conversation with this member explaining what future pension benefits he is forfeiting by taking a refund of his contributions. The Board stated that they would also like Ms. Jensen to prepare a waiver for the member's spouse to sign as well. Lastly the Trustees asked Ms. Ross to double check with the City on the mustering out money amount for this member because they thought he used all of his sick and vacation time up prior to terminating employment with the City.

- ***A motion was made by Ron Frano to approve the 5 applications for distributions from Share accounts, the 16 applications for distributions from DROP accounts and the 1 application for a refund of contribution (non-vested member). The motion received a second from Brian Walker and carried 5-0.***
- ***A motion was made by Brian Walker to approve the 1 application for a refund of contribution (vested member) pending confirmation from the City on his mustering out money amount. The motion received a second from Ron Frano and carried 5-0.***

FINANCIAL STATEMENTS

Ms. Ross provided the statement of income and expense and the balance sheet reports for January 2017. There were no questions from the Trustees.

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

Ms. Jensen explained that retiree Mark Peterson is settling out with workers comp and therefore the City needs to know how much his pension will be offset by and when. The City wants the Plan's Actuary to calculate this for them and they are willing to pay the cost.

- ***A motion was made by Brian Walker to authorize the City to use GRS to compute Mark Peterson's pension and workers comp case, noting that the City will pay the expenses associated with it. The motion received a second from Ron Frano and carried 5-0.***

Ms. Jensen reviewed the policy regarding payment of pension benefits pending forfeiture. She explained that she would like to add this policy into the Special Act when it opens up again.

- ***A motion was made by Ron Frano to approve the policy regarding payment of pension benefits pending forfeiture as presented. The motion received a second from Guy Montante and carried 5-0.***

Ms. Jensen briefly reviewed the proposed Senate Bill 158, Firefighter Cancer Presumption. She explained that this Bill is still pending and she will keep the Board updated as more information becomes available.

Ms. Jensen reviewed the City of Miami Beach fraud case. She explained what happened, how it occurred, and the outcome. She stated that this is for informational purposes only, although this Plan does have a local checking account as well. Ms. Ross stated that her office reconciles all their accounts on a monthly basis. Also the Resource Centers and Salem Trust both have their SAE 16 Audits completed every year documenting and confirming their internal controls and procedures.

Ms. Jensen presented the Board with the Scott & Scott memo regarding the Google case which is still on hold at the moment. She will update the Board as more information becomes available.

Ms. Jensen noted that the online Municode does have this Plan's Special Act incorporated into it.

Mr. Merrell stated that he was recently informed from Saxena White that shortly after he was subpoenaed for the Altisource case it went to a mediator to settle. It will take a couple of months to get the money back into the Plan and Mr. Merrell is not allowed to discuss any dollar amounts with the Board at this time either.

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

Ms. Ross stated that she will try to get someone to attend the next meeting to discuss Cyber Liability insurance coverage or gather more information on it to see if this is something the Board is interested in.

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OTHER BUSINESS

Mr. Walker gave a brief updated on the retirement dinner. He noted that he was able to get the axes cheaper this year and everything else is moving along. Ms. Ross noted that she will get the invites out to the City and service providers as soon as possible as well.

Lastly the Board stated that they would like to do a lunch before the next meeting as previously discussed. Ms. Ross stated that she will coordinate everything and they will do it an hour before their next meeting in April.

PUBLIC COMMENTS

N/A

There being no further business and the next Pension Board meeting having been previously scheduled for Thursday, April 6, 2017 @ 1:30 P.M., the meeting adjourned at 4:30 P.M.

Brian Walker, Secretary