

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING HELD

February 19, 2009

Alan Park called the meeting to order at 9:05 AM in the Conference Room of Fire Station 100 located at 2800 SW 184th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

Alan Park, Chairman
S. Robert Rubin, Trustee
Noel Marti, Trustee

James Estep; Advisory Board
Steven Wells; Advisory Board

OTHERS PRESENT

Bonni Jensen; Hanson, Perry & Jensen; Counsel
Denise McNeill; Resource Center; Administrator
Don Dulaney; Dulaney & Company; Actuary
Greg McNeillie; Dahab Associates; Consultant
Ian Thomas & Dawn George; City of Miramar
Clement Johns & Lawrence Elmer; GSK, Auditor
Amit Dalal, David Smith & Bob Vernielle; Northern
Trust; Custodian
Jamie DuPont & Charles Glovsky; Independence
Other members of the Plan

TRUSTEES ABSENT

Jay Gillette, Secretary
Susan Finn, Trustee
Leo Nunez; Advisory Board

GOLDSTEIN SCHECHTER KOCH

Clement Johns and Larry Elmer appeared before the Board to present the fiscal year ending September 30, 2008 draft audit report. Mr. Elmer reported a reduction in net assets of \$7.2 Million (reduction of 18%), primarily due to the depreciation of assets. Mr. Elmer explained it is their audit opinion that the statements presented, clearly represent the assets of the Plan. He further explained that there have been significant changes required to accounting policies due to GASB 50 and while there was no direct financial impact to the Plan from the most recent changes, the report is required to reflect additional disclosures that were not required in the past. Mr. Elmer noted the Plan's funded ratio of 57%. Don Dulaney explained that as of October 1, 2007, the Plan's funded ratio was based on only \$39M of assets while the Plan actually held \$47M. He explained the difference was due to the Plan's smoothing method, therefore an additional \$8M of assets had not been recognized. Mr. Elmer reminded the Trustees that the report related to the end of the prior fiscal year (9/30/08) and significant changes had taken place in the market since that time. It was noted that the information regarding the post retirement subsidy had been added to the report as per the request from the Board at the prior year's audit presentation.

- Bob Rubin made a motion to accept the audit report as presented. The motion received a second by Noel Marti and was approved by the Trustees 3-0.

Final reports will be provided to the administrator for distribution to the Board. Clement Johns & Larry Elmer departed the meeting at 9:16 AM.

INDEPENDENCE INVESTMENTS

Charles Glovsky and James DuPont appeared before the Board to present Independent's Small/Mid Cap Strategy Review. Mr. Glovsky reported that Mark Lapman

has chosen to retire, however he will remain on the Board until his replacement has been determined. Mr. Glovsky explained that the process used by Independence has not changed. He explained that 2008 was a very challenging year for the indexes as well as Independence. Mr. Glovsky advised that it was the most unusual and difficult year in his 30-year career. He explained that there was much speculation and fear causing redemptions, liquidating higher quality equities that normally would not have been liquidated. He explained that the top two performing sectors in the first half of 2008 were different than the top two performers in the second half of 2008. Mr. Glovsky explained that while Independence is attempting to continue with their existing process for stock selection, they are focusing on companies with less volatility and more trade ability. Mr. DuPont reported to date for the current fiscal year, the Plan is down approximately -30% and the index is down -26%. Mr. Glovsky reviewed the list of specific holdings and the reason for holding each company. He explained that all are strong companies and he feels that at some point, the market will shift back to focus on companies with strong fundamentals. Greg McNeillie inquired into the assets held, noting the top five holdings are insurance related companies. Mr. Glovsky explained that they are currently holding two banks and for the most part, they are avoiding banks and brokerage firms. He then explained that while he expects some short term increase in the market, he feels that overall, the market may not improve until 2010. When asked how the current environment affects the SMID Cap companies, Mr. Glovsky explained that Independence focuses on companies who will not need to go into the credit market. Mr. McNeillie advised that typically SMID Cap investments bounce back quickly. Lengthy discussion followed regarding the housing market and the economy. Mr. Park explained that the Board has discussed the performance of Independence with the consultant and Mr. McNeillie has recommended that due to the market, the Board allow more time for Independence to show improvement. Mr. Park advised that he has spent much time discussing the situation with Independence directly and it appears that Independence continues to work hard for their clients.

Charles Glovsky and James DuPont departed the meeting at 9:47 AM.

NORTHERN TRUST

Amit Dalal, David Smith and Bob Vernielle appeared before the Board to present an update from the custodian, Northern Trust. Mr. Smith is from the investment side of Northern Trust and had met the Board at a previous meeting. Mr. Vernielle explained that Northern Trust is not a typical bank and explained their history. He noted that 73% of their income is from fee related revenue and Northern Trust has over \$3T in assets under custody. Mr. Vernielle explained that although Northern Trust did not receive bail out money from the government, they did receive \$1.576B in TARP funds. He advised that Northern Trust was eligible to receive the funds and it seemed to make good business sense for them to do so. He further explained that Northern Trust has increased their loans; however they are being conservative with lending. Mr. Vernielle reported that from a financial perspective, 2008 was a challenging year; however Northern Trust still reported strong returns. Amit Dalal reviewed the services provided to the Pension Fund. The Board discussed class action suits and how they relate to the indexed funds with Northern Trust. Mr. Dalal advised that Northern Trust collected over \$3M in class action funds on behalf of all indexed clients. Such funds are received and included back into the indexed pool therefore increasing the overall asset.

David Smith reviewed the indexed fund assets. Discussion followed regarding securities lending and the losses associated with such lending in 2008. Mr. Smith explained that the 2008 loss is offset by the long term benefit of the process. He then provided a detailed explanation of the lending process. He explained that Northern Trust does have non-lending funds, however the Pension Plan is currently invested in the indexed funds with the securities lending feature. Mr. Smith explained that liquidity has become a

problem therefore Northern is allowing investors to redeem up to 15% per month to rebalance. It was noted that such a low withdrawal limit will take several months to remove all funds from the securities lending investments. Mr. McNeillie explained that, given a choice, he would not recommend the Pension Plan participate in funds using securities lending as he feels it is an unnecessary risk on short term investments. David Smith confirmed there would be no cost or fees to the Plan associated with transferring the assets from a fund with securities lending to another fund without such lending. Mr. McNeillie explained that theoretically, indexed funds will always underperform the index due to fees and the lending income can help offset the fees which bring the Plan closer to the index. Mr. McNeillie will provide the Board with a list of all security lending funds currently held so that the Board may begin a transition of the assets when ready. Northern Trust will provide the liquidation deadlines to Mr. McNeillie. Discussion followed regarding the stocks held in the Wilshire 4500 index. Mrs. Jensen explained that it would be reasonable for the Trustees to know what assets are available in the index. Mr. McNeillie explained that Wilshire is a competitor and does not typically release the detail of the stocks held. The Board asked Northern to provide the detail of the stocks held in the Wilshire 4500. Mr. Smith will look into the matter. Mr. McNeillie inquired into the large amount of cash held in the portfolio as it appears it is not being invested. Mrs. McNeill explained that she believes Northern should be automatically rebalancing the portfolio monthly according to the agreement. Mr. Smith and Mr. Dalal will look into the matter and report back to Mr. McNeillie.

Alan Park addressed the services provided by Amit Dalal, noting that the service has improved substantially in the past few months since Mr. Dalal has been assigned to the account. Both Mr. Park and Denise McNeill thanked Mr. Dalal for being responsive, knowledgeable and helpful. Mrs. Jensen reported that the payment sent to her office for the IRS Determination Letter filing had initially been paid out of the wrong client's account. As soon as the error was brought to Mr. Dalal's attention, he was able to immediately resolve the matter. Amit Dalal, David Smith and Bob Vernielle departed the meeting at 11:00 AM.

Ian Thomas inquired into the monthly statements received from Northern. Mrs. McNeill will begin sending the Board's disbursement lists to Robert Gast in the Finance Department so that he may properly record the general ledger information.

INVESTMENT MONITOR

Greg McNeillie appeared before the Board on behalf of Dahab Associates to present the portfolio's performance report for the quarter ending December 31, 2008. Mr. McNeillie advised that Northern Trust is handling the custody for the Wilshire 4500 and while they should release information to the client regarding the potential assets held in the Wilshire 4500, it is not typically released. Mrs. McNeill advised that the quarterly books had not been received for distribution at the meeting. Mr. McNeillie will follow up with his office to determine where the reports were sent. Mr. McNeillie went on to review the quarterly report. He reported the Plan was down -18.7%, ranking the Plan 97% in the public plan universe comparison. He further noted that equities were down -25.6% (vs. the index of -23.5%), international was down -19.96% (vs. the index of -19.9%), real estate was down -11% (vs. the index of -8.3%) and the fixed income was up 6.5% (vs. the index of 4.6%). Mr. McNeillie explained that he expects negative returns to continue for the next three to four quarters. Mr. McNeillie addressed the real estate portfolio noting that real estate is not immune to down-turns in the economy and Principal does not appear to have any more issues than their peers. He noted that while Principal has slightly more leverage (debt), he is not concerned with the stability of the company. Mr. McNeillie advised that he does not recommend the Plan queue out of real estate investment as the depreciated value of the properties will result in a depreciated value of the portfolio.

Mr. McNeillie explained that when building a portfolio, he looks to add value and build alpha. He explained that part of the issue with the loss of Independence relates to the timing of when the investment was initiated. He explained that typically when a Plan purchases or hires a new manager, they will select a manager who is at their peak which was the result with Independence, due to the turn in the market. Mr. McNeillie explained this Plan has little alpha capability and is bound to the index. Mr. McNeillie advised that he typically looks for a manager with positive alpha in relation to their fees and a manager who outperforms 60% of the time. Lengthy discussion followed regarding fees. Mr. McNeillie presented a recommendation for the Board to consider further asset allocation into large cap value, explaining that most long term return is from the large cap market. Mr. McNeillie advised that the Plan could add 45-50 bp by further diversifying the portfolio. He feels that ultimately, the Plan should have three additional managers. Mr. McNeillie explained that he would like to see 30% in large cap containing 10% in growth, 10% in value and 10% passive. Currently the large cap is all passive.

- Bob Rubin made a motion for the consultant to amend the investment policy as per the consultant's recommendation. The motion received a second by Noel Marti and was approved by the Trustees 3-0.
- Bob Rubin made a motion for the consultant to initiate an active manager search for large cap growth and large cap value managers. The motion received a second by Noel Marti and was approved by the Trustees 3-0.

Mr. McNeillie will process the manager search. He explained they will accept 60-70 responses and will evaluate each, narrowing down to the top 10 for Board review and discussion. Mr. McNeillie explained that Dahab has four research staff that keeps tabs on all of their managers and they do onsite visits to the managers as well. Mr. McNeillie advised that Dahab meets with over 400 managers annually. Mr. McNeillie departed the meeting at 12:18 PM.

MINUTES

- Noel Marti made a motion to approve the minutes of December 2008 as presented. The motion received a second by Bob Rubin and was approved by the Trustees 3-0.

OLD BUSINESS

DROP: Alan Park advised all DROP processing is currently up to date. Mrs. McNeill reported the DROP statements are now accessible for the members online through the administrator's website. Mr. Dulaney will provide .pdf reports for the 12/31/07 quarterly reports to be posted (all other statements are currently up to date).

PAYROLL DATA: Mrs. McNeill confirmed that ADP had corrected the payroll report in December to reflect all Plan members receiving payroll. Previously, members with no pension contributions were not being reflected on the report. Mr. Park reported that the three participants eligible to receive upgrade pay (paycode 113) are all currently in the DROP plan (Park, Gurdak and Harrington). The administrator will continue to request their quarterly pay information for posting into the DROP accounts.

FPPTA TRUSTEE SCHOOL: Mr. Park reported that he had attended the FPPTA Trustee School. He explained that two significant matters were discussed. The first relates to House Bill 5 (changes to 175 and 185 increasing the allowance from 10% to 20% for foreign investment) and trustee term increases from two years to four years.

The second topic related to a Federal Bill, HR 710 proposed January 27, 2009; the Federal Government will pursue allowing public pension funds to invest money in federal banks and the government will guarantee an 8% return. There will be a maximum allowance on this investment.

NEW BUSINESS

175 FUNDS: Mr. Park reported that he recently had extensive discussion with Mr. Dulaney regarding the accumulated 175 funds. Mr. Park invited Eric Dodge to the meeting to discuss the matter with the Board. Mr. Dodge explained that the Union had presented a proposal to the City which reflected a savings over the existing payroll. Mr. Dodge explained the City has rejected the proposal and bargaining begins in February. Discussion followed regarding the creation of Share accounts to utilize the accumulated 175 funds. Lengthy discussion followed regarding the matter. Mr. Dodge advised that he will meet with the City to discuss options.

ATTORNEY REPORT

ORDINANCE AMENDMENT: Bonni Jensen reported that she had provided an updated Ordinance amendment to the City as instructed by the Board at the last meeting. Eric Dodge noted that the pending ordinance included the small group of retirees not currently receiving the COLA and he inquired into the reason for including those members. Mrs. Jensen explained that in this case, the Pension Board is requesting the Union agree to use a small portion of the existing 175 funds to purchase the benefit.

BENEFICIARY CHANGES: Mrs. Jensen reported that a question arose between meetings about a retiree's ability to change beneficiaries after retirement. Mrs. Jensen advised that the State Statute allows beneficiaries to be changed twice. Mrs. Jensen further explained that currently, if the member has joint and survivor, the Plan does allow for a change. While the member cannot change how it is being paid (Joint & Survivor 100%, Joint & Survivor 50%, etc.), the member may pay the actuarial cost to have the benefit recalculated for a different beneficiary and the Plan may adjust the benefit accordingly. Mrs. Jensen confirmed that the beneficiary change must be a spouse if originally initiated for a spouse.

Eric Dodge and James Estep departed the meeting at 1:00 PM.

DROP ROLLOVER: Mrs. Jensen reported of an inquiry received regarding a recent DROP member who had initiated his DROP to begin in 2008. Due to delays in processing his rollover of unused leave, his benefit was not paid until January 2009 and his 2009 4% deductions have been stopped for the remainder of the calendar year. Mrs. Jensen advised that the Board may treat the funds as thought they were received upon the initial DROP entry 12/01/08. The administrator will follow up with the payroll department to ensure the regular payroll contributions are reinstated and the actuary will process the transaction as though received in 2008.

MERRILL LYNCH UPDATE: Mrs. Jensen informed the Board of a letter received from Michael Callaway, previously of Merrill Lynch, regarding the SEC settlement. While Merrill Lynch has chosen to settle with the SEC, Mr. Callaway has chosen not to settle and he explained his position regarding the matter in the letter. Mrs. McNeill advised the letter was also provided to the Board in the meeting packet.

FORM 1 FILING: Mrs. Jensen reported that Noel Marti had been fined \$1500 for not filing a Form 1 timely. Mr. Marti's filing had been sent via certified receipt and since he

had proof the filing had been handled timely, the fine was removed. She reminded the Trustees of the need to keep proof of filing.

COORDINATION OF BENEFITS IN THE CITY OF MIRAMAR: Mrs. Jensen informed the Trustees that she had communicated with the City regarding the coordination of benefits and it appeared the GE Plan's attorney had the same interpretation she had expressed. She will continue to follow up on the matter.

ADMINISTRATIVE AGREEMENT: Mrs. Jensen advised that she had drafted a revised administrative agreement to incorporate the company name change for Tegrin Plan Administrators, however she noticed a fee change proposal in the packet therefore she will table the agreement change to the next meeting.

Mrs. Jensen advised that the July 9, 2009 meeting date conflicts with her schedule. Mr. Park advised that the administrator had reported the same issue therefore he will address finding an alternate date for the July meeting.

ACTUARY REPORT

DROP STATEMENTS: Don Dulaney provided the December 31, 2008 DROP statements for distribution. He advised that electronic copies will be forwarded to the administrator for posting to the website.

FIVE YEAR CITY FUNDING PROJECTION: Mr. Dulaney advised that, as per the Board's instruction at the prior meeting, he had completed a five year cost projection for the City. Mr. Dulaney presented the information and reviewed the detail with the Trustees. He noted that the funding projection reflected a contribution increase of .8% effective October 1, 2009.

COLA STUDY: Mr. Dulaney presented a cost projection to extend the 3.0% COLA to six members (the existing three 75% Purchase Power members as well as three vested/terminated members). Based on the October 1, 2008 valuation, the cost would be \$212,714. Mr. Park will provide the information to the Union.

Bonni Jensen & Don Dulaney departed the meeting at 1:25 PM.

DISBURSEMENTS

Denise McNeill presented a disbursement report for approval.

- Bob Rubin made a motion to approve the disbursements. The motion received a second by Noel Marti and was approved by the Trustees 3-0.

ADMINISTRATIVE REPORT

PORTFOLIO MONITORING REPORTS: Mrs. McNeill advised that the latest portfolio monitoring reports were provided in the Trustee packets for December 2008 and January 2009. No action is necessary.

FIFTH (APPOINTED) TRUSTEE SEAT: Mrs. McNeill reported that a notice has been posted advising of the Fifth Trustee Seat Term expiring. Resumes will be presented to the Board at the next meeting.

BENEFITS OUTSOURCE: Mrs. McNeill reported the City had recently outsourced the insurance processing and premiums are now being processed through an outside

vendor. Mrs. McNeill is making arrangements for the insurance premiums to be paid to the new vendor accordingly.

ADMINISTRATIVE FEE INCREASE: Mrs. McNeill addressed the fee proposal included in the Trustee packets. Mr. Park requested the matter be tabled to the next meeting.

ADJOURNMENT

There being no further business,

- Bob Rubin made a motion to adjourn the meeting at 1:35 P.M. The motion received a second by Noel Marti and was approved by the Trustees 3-0.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jay Gillette". The signature is written in a cursive, flowing style.

Jay Gillette, Secretary