

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING HELD

May 20, 2010

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
Manuel Esparza, Secretary
James Estep

Leo Nunez; Advisory Board

OTHERS PRESENT

Bonni Jensen; Perry & Jensen; Counsel
Denise McNeill; Resource Center; Administrator
Don Dulaney; Dulaney & Company; Actuary
Greg McNeillie; Dahab Associates; Consultant
Dawn George; City of Miramar
Chris Armstrong
Members of the Plan

TRUSTEES ABSENT

Susan Finn, Trustee
Andrew Soterakis; Trustee

INVESTMENT MONITOR

Greg McNeillie appeared before the Board on behalf of Dahab Associates to present the portfolio's performance report for the quarter ending March 31, 2010. Mr. McNeillie reported that all investment managers had responded to the scrutinized investment inquiry, however no response had been received from Northern Trust. He expressed his frustration at Northern's lack of response to the multiple requests. Mr. McNeillie reviewed the quarterly report in detail. He noted the plan reflected the best results he has seen for the fiscal year, mostly due to the asset allocation. Mr. McNeillie reported the fund was up 8.9% fiscal year to date beating the policies which were up 8.8% and 8.7%. He explained that international investments have not done well due to issues in Europe and real estate is not doing well mainly due to the way investments are priced. Mr. McNeillie explained that real estate is priced by the deal flow and even the "vulture" offers are considered in the pricing process which causes the perceived value to be lower than it should be. He reported that, as transactions begin to be properly valued, the value in the real estate portfolio should increase accordingly. The Principal fund still has an exit queue at this time. He explained that most open ended funds closed due to lack of liquidity. He advised that he would not recommend additional funds be placed into real estate at this time. Mr. McNeillie advised he will follow up on the status of the queue for the Board. Instead of increasing the investment with Principal, he would like the Board to consider investing in timber if they are interested in further diversification. Mr. McNeillie described timber investments advising they are long term (10 to 15 years) and the expected total return is 12% to 15%. He advised there are six timber products currently open. If the Board is interested, he recommended a more "vanilla" product such as pine as it has approximately 95% of the timber demand. He explained that timing is important. He explained revenues are created when timber is cut however there are other sources of income from hunting licenses and such. There is typically a \$1M minimum investment required. He explained the fund's fees are recognized when there is an acquisition to purchase land. He further explained that once the client recognized a 9% gain, the fund takes half of each percent over the 9%. Limitations to such an investment were discussed and it was noted that natural issues such as fire, insects, hurricanes and extreme wet or dry weather have an impact on the fund. Mr.

McNeillie advised that the fund raises capital first, then closes the investment at a certain time and calls for the funding by each investor. He explained that timing depends on the market and competition for land purchase. Mr. McNeillie recommended if the Board is interested in timber, the funding should come from the initial real estate investment target. The Board discussed their current liquidity. Mr. McNeillie continued reviewing the quarterly report. He noted his disappointment with the fixed income portfolio advising the 6.1% was an underperformance and he would rather have the Board in a more traditional product. He reported the total fund was up 4.9% for the quarter, beating the policies which were up 4.6% & 4.7%; ranking the portfolio in the top 6% of the public ranking. He noted that he is beginning to see the active products in the portfolio add alpha to the overall Plan. Mr. McNeillie reviewed the sector weightings in the portfolio noting that smaller regional finance investments have done well. He advised that Rushmore was underweight in finance. He explained that Lee Munder has a high quality portfolio and such portfolios tend to capture less of the upside in the market however they also tend to have less of a loss in a down market. As such, he had expected Lee Munder to underperform in the recent market. Discussion followed regarding the asset allocation. Bonni Jensen inquired into the Ishares held in the portfolio and Mr. McNeillie explained he allows managers to hold Ishares instead of cash if they prefer as the ETF (Ishares) allow for liquidity while still doing something with the cash. Mr. McNeillie then explained his frustration with Northern Trust. He noted that after several requests, they still have not responded regarding scrutinized funds held in the portfolio. He advised that when considering all of the issues the Board has experienced with Northern, he recommends the Board consider changing custodians. Mr. McNeillie recommended the Board invest in timber, increase their international exposure and if the Board replaces Northern Trust, he will recommend additional changes to the fixed income. He explained that currently, Northern Trust is not charging separately for some of the custody services such as accounts payable and benefit check processing, however such items can be handled by the administrator locally and may not need to be processed by the custodian. After lengthy discussion, the Board instructed Mr. McNeillie to process multiple searches for a new custodian, a timber investment and possibly a bond manager.

Mr. McNeillie then addressed recommended revisions to the investment policy. The Trustees had received a revised draft for review, however Mr. McNeillie recommended also increasing international to 15% and to invest 5% into emerging markets.

- Manuel Esparza made a motion to adopt the revised investment policy with the additional changes to increase international to 15% and to add 5% for emerging markets. The motion received a second by James Estep and was approved by the Trustees 3-0.

Mr. McNeillie will provide a final revised version to be signed by the Board.

The Board discussed the assumed rate of return. Mr. McNeillie advised that he can confirm a long term assumed rate of return of 8.66% is acceptable for this Plan. While it may be easier to meet a lower assumption rate, a lower rate will require more funding by contributions to the Plan.

ACTUARY REPORT

Don Dulaney reported the DROP account and statement through March 31, 2010 had been completed for Mr. Kunz. He explained there had been some confusion related to his contributions made by the City in 2010 however the City confirmed the payroll funds were related to deposits that should have been made in 2009 for 2009 payroll. It was noted that Mr. Kunz chose to rollover his unused leave at the beginning of the DROP

therefore no further contributions should be made for the remainder of 2010 since he has now met his maximum allowable contribution limit for 2010 according to IRS rules.

Mr. Dulaney then reported that the State had inquired into page 6a of the annual report requesting further explanation on the 175 interest. Mr. Dulaney advised that he provided a detailed explanation to the Division of Retirement regarding the matter.

Mr. Dulaney explained the State had requested additional information on the recent impact statement. They requested more detail reflecting the amounts allocated in the first distribution. Mr. Park signed the revised impact statement and Mr. Dulaney will submit the revision accordingly.

Mr. Dulaney presented the final share account statements. The active member Trustees will distribute the statements throughout the department and to some of the local retirees. The administrator will mail a packet of information along with election forms to the rest of the retired membership. Mrs. McNeill will research information on Mr. Murray's beneficiary who passed away. If the estate is still open, the payment can be made to the estate on Mr. Murray's behalf.

Mr. Dulaney explained the State requires all Plans review their actuarial assumptions. He presented a historical report reflecting the consumer Price Index – All Urban Consumers (CPI-U) for the past 25 years. He then reviewed a summary of a study reflecting the affects that various assumption changes would have on the Plan. The study reflected information on the assumed rate of return, the assumed salary increase and the assumed CPI. Lengthy discussion followed regarding the impact of the differences in the various assumptions. Mrs. Jensen advised that many plans are discussing if the salary assumptions, as based upon the past 20 years, are truly reflective of the next 20 years. Mr. Dulaney noted the actual turnover has been less than the expectations used in the assumptions. Mr. Dulaney advised that while all combinations reflected are reasonable, he feels the turnover and salary should be reduced. Lengthy discussion followed regarding the potential outcome depending upon changes made. Mrs. Jensen advised that lowering the assumed rate of return would be prudent in order for the Board to meet State expectations, however it was noted that such a change alone would increase the City's required contribution to the Plan. Discussion then followed regarding the appropriate effective date for such changes. Mr. Dulaney recommended making the change effective for the 2009 valuation report.

- Manuel Esparza made a motion to change the Plan's assumptions rates; the assumed rate of return will be changed from 8.66% down to 8.5%, the assumed salary increases will be changed from 2% down to 1.25% and the CPI assumption will be changed from 3.5% down to 3.25%. Additionally the 2009 valuation report will include the new assumptions. The motion received a second by James Estep and was approved by the Trustees 3-0.

The assumption changes should result in an overall savings to the City for contributions.

It was noted that the reduction in the assumed rate of return will also impact the Share and DROP accounts by .16% as well. Effective July 1, 2010, the new rate to be credited to the accounts will be 7% (new assumed rate of return of 8.5% less 1.5% for administrative cost).

Alan Park reminded the Trustees that the administrator will process a notice for all vested and retired Share account members allowing them to elect their earnings effective October 1, 2010. Mrs. McNeill noted the mailer will be processed the end of July allowing August as the "enrollment" month to elect changes.

OLD BUSINESS

ADVISORY BOARD OPEN SEATS: Denise McNeill updated the Board on the recent posting for the open seats on the Advisory Board. Only one response had been received prior to the deadline. The remaining vacancies are being posted again this week. As such, Mrs. McNeill advised that a resume was in each Trustee packet for Orlando Segarra, to be considered for the Advisory Board.

- Manuel Esparza made a motion to appoint Orlando Segarra to the Advisory Board's firefighter position. The motion received a second by James Estep and was approved by the Trustees 3-0.

CONFERENCE ATTENDANCE: Alan Park advised that he had attended a recent NCPERS conference. He noted the main topics were retiree member trusts (similar to their current VEBA); market volatility; unfunded liabilities and different methods of smoothing; and tiered pension plans. Mrs. Jensen advised that while some states do not require it, the State of Florida requires all pension funds be actuarially sound and properly funded and it is interesting that FRS has recently decided not to fund their unfunded liability this year. It was noted that Manny Esparza is planning to attend the FPPTA Trustees School and James Estep and Leo Nunez will be attending the FPPTA conference. Mr. McNeillie advised that any Trustees interested in attending the Dahab conference at the end of June should register before mid June.

NEW BUSINESS

FORM 1 FILING: Alan Park reminded all Trustees that their Form 1 filing must be completed before July 1st. Mrs. Jensen will have her office follow up on a final filing for both James Gillette and Robert Rubin.

BENEFICIARY CHANGE: Alan Park presented a request to change beneficiary received from DROP member, James Gillette. The change request will be submitted to the actuary for processing.

ATTORNEY REPORT

ORDINANCE FILING: Bonni Jensen reported she had finally received a signed copy of the recent Ordinance from the City and it has been filed with the State accordingly.

REVISED SUMMARY PLAN DESCRIPTION: Mrs. Jensen advised the revised Summary Plan Description had been submitted to all Trustees electronically for review. Mr. Park advised he will have the document posted throughout the department. Mrs. McNeill will post the revised document on the web site as well.

Mrs. Jensen explained that she is still awaiting communication from the City of Mr. Cabrera's job description.

LITIGATION UPDATE: Mrs. Jensen advised the Plan was not appointed as lead plaintiff in the Motorola suit. She explained that the City of Marysville was appointed lead; however they have exceeded their allowance as lead in suits. The matter has been argued before magistrate and will be argued before the judge.

LEGAL UPDATE: Mrs. Jensen reported there were no changes to government pension plans in the recent legislative session however there were changes made to FRS. She explained that they expect changes at the State level in the next session.

ADMINISTRATIVE REPORT

FINANCIAL STATEMENTS: Denise McNeill advised of a recent request received from the City requesting all pension boards address having their own interim financial reporting handled internally. As such, the City has requested that the Board consider hiring either their administrator or another separate accounting firm to provide the financial documentation. Mrs. McNeill referred to a proposal provided by the Resource Center which would amend the current administrative agreement to include financial reporting. An additional proposal was also included for the administrator to process benefit payments and accounts payable, should the Board decide to have payments handled locally instead of through the custodian. Mr. Park suggested holding off on discussion of the accounts payable and benefit payments at this time until Mr. McNeillie completes the custodian review. Discussion followed regarding the financial statements. Mrs. McNeill explained that the effective date has not yet been determined. The City is contemplating if the pension funds should handle the matter retroactively back to October 1, 2009 for the current fiscal year or prospectively to October 1, 2010 for the next fiscal year.

- Manuel Esparza made a motion to engage the Resource Center to process the interim monthly financial statements for an additional cost of \$400 monthly. The motion received a second by James Estep and was approved by the Trustees 3-0.
- Manuel Esparza made a motion to engage the Resource Center to process the interim monthly financial statements and the effective date to be contingent upon the City's transition date. The motion received a second by James Estep and was approved by the Trustees 3-0.

DISBURSEMENTS

Denise McNeill presented a disbursement report for approval with the addition of manual notes to reimburse Trustees for expenses.

- James Estep made a motion to approve the disbursements inclusive of the new reimbursements. The motion received a second by Manuel Esparza and was approved by the Trustees 3-0.

Leo Nunez expressed his interest in attending the Dahab conference at the end of June.

- James Estep made a motion to approve for Leo Nunez to attend the conference. The motion received a second by Manuel Esparza and was approved by the Trustees 3-0.

ADJOURNMENT

The Trustees discussed the next meeting date currently set for July 7, 2010. After discussion of schedules, the Trustees decided to change the date of the next meeting to July 13, 2010.

There being no further business,

- James Estep made a motion to adjourn the meeting at 12:15 P.M. The motion received a second by Manuel Esparza and was approved by the Trustees 3-0.

Respectfully submitted,

Manuel Esparza, Secretary