

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING HELD

August 16, 2012

James Estep called the meeting to order at 9:09 AM in the Public Meeting Room of the Police Substation located at 2611 SW 186th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

James Estep, Chairman
Manuel Esparza, Secretary
Orlando Segarra; Trustee
Andrew Soterakis; Trustee (9:15)

Jason Swaidan; Advisory Comm

OTHERS PRESENT

Denise McNeill; Resource Center; Administrator
Bonni Jensen; Perry & Jensen; Counsel
Don Dulaney; Dulaney & Company; Actuary
Greg McNeillie; Dahab & Associates, Consultant
Todd Bulot & Jonathan Schiffer; Rushmore
Members of the Plan

ATTORNEY REPORT

LEGAL UPDATES: Mrs. Jensen reported that due to the recent changes in HB401, she had sent a notice to the Human Resource Department requesting a revised beneficiary form be sent to membership with open enrollment. She noted that a letter can be sent to retirees advising if they have divorced after retirement, the member should contact the administrator to address the change. Mr. Estep advised that he can help distribute the notice to active member personnel.

PRE-APPROVED IPAD APPLICATIONS: Mrs. Jensen presented a list of pre-approved IPAD applications for discussion. It was noted that a few of the application names needed to be amended.

- Manuel Esparza made a motion to approve the IPAD application list as amended. The motion received a second by Orlando Segarra for discussion. Mr. Segarra noted there were a couple more applications he would like to have added to the list. The motion was withdrawn. Mr. Segarra will provide the updated information to Mrs. Jensen for the next meeting.

Mrs. Jensen then presented the Dahab & Associates contract addendum for execution. She noted the addendum reflected the revised fee as approved by the Board at the prior meeting.

- Manuel Esparza made a motion to execute the contract addendum with Dahab & Associates accordingly. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

Mrs. Jensen reported receiving a Canadian tax document from Comerica. She noted that previously, one international tax form could be completed; however going forward, one may be required for each country. Mrs. Jensen advised the forms will be completed as needed.

IRS – TAX TREATMENT ON DROP ACCOUNTS: Mrs. Jensen addressed recent communication received from a tax consultant regarding the tax treatment on rollovers into the DROP. The notice from Tarcza advised that rollovers into the DROP should be treated as defined contributions (DC) while the rest of the DROP is treated as a defined benefit (DB) account. She explained the retiree could essentially have three separate accounts in the Plan. Discussion followed regarding the process. Mrs. Jensen noted she feels we will see some new rules coming from the IRS related to the treatment of DROP accounts. She noted the Board may need to add IRS language to the Plan at some point. She will continue to monitor the situation for the Board. Discussion followed regarding the process and how the

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actuary may need to track and report. Don Dulaney explained he may be able to add the information as a line item in the DROP statement similar to how he tracks the unused leave transfer and accumulated interest. It was noted that a member may contribute the IRS maximum (currently \$50,000) for their rollover with no need to worry about the sick and vacation rollover affecting their continued contributions to the account. The administrator will follow up with the City regarding James Dragon's contributions to the DROP. Mrs. Jensen noted a copy of the letter had been forwarded to the City accordingly.

MERRILL LYNCH CLASS ACTION: Bonni Jensen previously reported on a Class Action suit filed by the Defined Benefit Plans in the City of Lake Worth against Merrill Lynch. She explained the suit settled for over \$8M and she explained the net settlement amount is in pro-rata basis in proportion to the fees paid to Merrill Lynch by each Plan.

- Manuel Esparza made a motion to enter into the class action settlement against Merrill Lynch. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

ACTUARY REPORT

Mr. Dulaney reported on recent communication from the State of Florida allowing for municipalities to pay contributions as a percentage of payroll. He explained that historically, most municipalities funded specific dollar amounts into the pension plans; however a couple years ago, the State had changed that instruction requesting municipalities pay as a percentage of payroll instead of the prior fixed dollar amount. The State felt that the pattern of dollar funding caused continued actuarial loss. Mr. Dulaney explained the State has realized the process caused delays in municipalities being able to accommodate the varying percentages. He advised the State is now allowing the Plan to select a method that best fits the funding requirements of the Plan (either fixed dollar or percentage of payroll) and to stay with that funding process. Discussion followed regarding the process. Mr. Dulaney noted the percentage of payroll creates much volatility and adjustments throughout the year. He reported in the case of the Firefighters, there was a 1.08% difference of expected funding for 2011.

- Manuel Esparza made a motion for the actuary to use the fixed dollar method moving forward. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

Mr. Dulaney explained he will send an explanation to the City accordingly.

RUSHMORE INVESTMENT ADVISORS

Todd Bulot and Jonathan Schiffer of Rushmore Investment Advisors appeared before the Board to introduce themselves and present a quarterly report. Mr. Schiffer reviewed the current market scenario. He noted that 50% of the movement of stock is relative to peer movement and the division between the winners and losers is compressing in the market. He explained many company balance sheets have increased and companies are positioned for recovery holding much cash. He noted if growth continues to expand, we should begin to see better returns. Mr. Schiffer advised that the political environment will have a strong influence in the market. He explained Rushmore has taken profits and has become more sector neutral for preparation of the presidential election year. He reviewed the portfolio holdings in detail noting there is currently no industrial exposure. James Estep inquired if Rushmore has a strategy in place to address another crisis such as August 2011. Mr. Schiffer explained they have addressed the matter by moving sector allocations to a more neutral stand in order to avoid over exposure in any particular sector. He advised that

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Rushmore has further diversified within each sector and they adjust regularly to reap profits in a more rapid fashion. Mr. Schiffer noted this process has helped in the current quarter. He explained the list of buys and sells for the prior quarter is the longest list of activity in quite some time. Greg McNeillie had several questions for Mr. Schiffer. Mr. Schiffer confirmed the lack of movement relates mostly to the uncertainty with the pending presidential election. He noted substantial issues are pending with major economic impact. Mr. Schiffer confirmed they have had internal discussion of which President is elected and their internal investment strategy that Rushmore will take depending upon who is elected. He reviewed the current quarter noting the portfolio was up 2.52% in July versus the bench which was up 2.13% and the portfolio is up 18% fiscal year to date. Alan Park explained that he does not see Rushmore adding alpha to the Plan versus the index. Mr. Schiffer confirmed active management has generally not outperformed the index since 2008; however he expects active management to come back into favor the next few years in a period of PE expansion. He explained active management will go through periods of being out of favor and urged the Board to research carefully before making a decision to revert the account back to passive indexed funds. Mr. McNeillie reminded the Trustees that every manager will have market shifts. He reminded them that Herndon had a huge underperformance, then shifted and significantly over-performed. Mr. McNeillie will continue to carefully monitor Rushmore's performance. Mr. McNeillie explained passive management still represents a large piece of the portfolio. Discussion followed of how long to keep a manager if they are not performing to expectation. Mr. McNeillie explained it is typically three to five years; however many managers have experienced difficulty in the recent period. He advised that high quality growth managers have performed better in the past 12 months however they may not perform as well in the next 12 months. Lengthy discussion followed regarding active versus passive management.

Bonni Jensen departed the meeting at 10:27 A.M.

Todd Bulot and Jonathan Schiffer departed the meeting at 10:30 A.M.

The meeting continued at 10:36 A.M. after a short break.

INVESTMENT CONSULTANT REPORT

Greg McNeillie appeared before the Board on behalf of Dahab & Associates to present the portfolio's performance report for the quarter ending June 30, 2012. Mr. McNeillie noted that the Plan has added value through active management. Mr. Park expressed his concern that Rushmore has not met the alpha need. Mr. McNeillie will monitor accordingly. He reported the Plan was up 15% for the fiscal year; however they were down -3.7% for the quarter. He reported the current period has been slightly positive. Mr. McNeillie went on to review the quarter explaining the large cap equity portfolio was down -4.7%, below the S&P 500 Index of -2.8%; domestic equities were down -4.7% below the index of -3.1%; SMID cap equities were down -4.7% below the index of -4.1%; international was down -7.1%, real assets were up 2.9% and fixed income was up 1.8%. Mr. McNeillie reviewed the individual managers noting Lee Munder has improved over the past year. He noted the emerging markets is doing well versus the index and has added 110 basis points for the fiscal year. Mr. McNeillie reported the Plan is earning money in the lending piece of the international investment. He reported Principal Real Estate is coming back strong this past year. He reviewed the recent timber funding and the move of an additional \$1M to Herndon and Rushmore. Mr. McNeillie advised that he is researching other areas for fixed income options to further insulate returns. Discussion followed regarding puts and calls. It was noted calls increase in value when the security that supports it is going up and puts increase when the securities go down. He explained they would be simple, straight forward and transparent. Mr. McNeillie reviewed

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the rates of return and trend. He explained that he expects Rushmore to recover as much as they have under-performed. He wants to protect the Plan from buying high and selling low. He then reviewed the SMID cap performance noting that the management team change in 2010 reflects much improvement and is a good example of how managers can go through cycles. In reviewing the real estate investment, he noted Principal has done well and most of the income will be cash from properties. He noted Herndon is doing well over time; however had under-performed the prior quarter due to news of China. Mr. McNeillie addressed his prior concern of small pieces held in the Lee Munder portfolio. He feels such small holdings create a higher number of trades. He does not want the high number of trades to begin to create more cost for the Plan with the custodian. Mr. McNeillie noted there is currently no additional cost for the trades; however it may become an issue if the number of trades becomes excessive. Mr. McNeillie recommended funding CS McKee with the 175 money when received.

- Manuel Esparza made a motion to transfer the 175 money to CS McKee when received. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

ACTUARY REPORT

Don Dulaney explained that prior to the last meeting, the State had sent a letter regarding the amortization schedule in the 2010 valuation report. Mr. Dulaney had revised the 2010 report and the Board had approved the change at the last meeting. The revised report was subsequently sent to the State. He explained that after further communication, the State has accepted the revised 2010 valuation report. Mr. Dulaney advised that he will have the final 2011 valuation report for presentation at the October meeting. He provided a summary of the 2011 report detail which he will forward to the City so they may have the information needed for funding. He reviewed the summary report with the Trustees noting the actuarial value of assets increased from \$47,812,503 to \$52,354,286. He reviewed the smoothing process and noted the new amount would have been \$49,286,914 under the prior methodology. He explained the current unfunded liability is amortized over 18 years. He advised the costs will be higher now; however the unfunded liability will be paid off sooner with this methodology. Mr. Dulaney explained the underlying reason most funds will have increased cost is due to investment losses. He explained the current amortization method has more liability with less time to pay. He noted if the Plan had not changed methodology, the City and State cost would have increased to 42% of payroll. He noted the City and State cost increased to 40.34%, up from 38.58% in the prior report. He reviewed the methodology being used and noted that the process is okay; however he does not have any other client using that method. Discussion followed regarding employee payroll and the assumptions being used.

- Manuel Esparza made a motion instructing the actuary to inform the City of the expected contribution amount. The motion received a second by Andrew Soterakis and was approved by the Trustees 4-0.

NEW BUSINESS

The Trustees discussed the expected 175 premiums and the decrease from the prior year. James Estep informed the Board of a report done by an outside party for the Delray pension plans. It was noted that discrepancies were found in the City's database which resulted in the Plans receiving less revenue than they should have. Discussion followed regarding the process. Mrs. McNeill explained the City is required to update the communication database and it is used for a few different reasons at the City, two of which are 175 and 185 tax

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receipts. Mr. Estep asked the administrator to look into the matter and confirm how the City synchronizes the address database with the State.

Greg McNeillie reminded the Trustees of Dahab's client conference scheduled for September 13th & 14th.

Denise McNeill reported that there was a delay in processing the Herndon and Rushmore funding transfers. Mr. McNeillie addressed the delay and advised that he feels there are Acts of Commission and Acts of Omission. He sees the administrator's delay as an omission and does not believe there is an issue with this omission. He explained that due to the market, he does not expect any negative impact on the Plan for the delay in this case.

MINUTES

Minutes of the May 17, 2012 meeting were presented in the Trustee packets for review.

- Manuel Esparza made a motion to approve the May 17, 2012 minutes as presented. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

FINANCIAL STATEMENTS

The Financial Statements for the period ending June 30, 2012 were presented in the Trustee packets for review.

DISBURSEMENTS

Denise McNeill presented a disbursement report for approval with an addition of a reimbursement to Orlando Segarra.

- Manuel Esparza made a motion to approve the disbursements as amended. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

ADJOURNMENT

The Trustees acknowledged their next meeting date, previously set for October 5, 2012. There being no further business,

- Orlando Segarra made a motion to adjourn the meeting at 12:25 P.M. The motion received a second by Andrew Soterakis and was approved by the Trustees 4 -0.

Respectfully submitted,

Manuel Esparza, Secretary