

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING HELD

February 21, 2013

Manuel Esparza called the meeting to order at 9:02 AM in the Meeting Room of Fire Station 100 located at 2800 SW 184th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

James Estep, Chairman (9:20 AM)
Manuel Esparza, Secretary
Orlando Segarra; Trustee
Andrew Soterakis; Trustee

Leonardo Nunez; Advisory Comm
Christopher Armstrong; Advisory Comm

OTHERS PRESENT

Denise McNeill; Resource Center; Administrator
Bonni Jensen; Perry & Jensen; Counsel
Don Dulaney; Dulaney & Co; Actuary (9:26 AM)
Greg McNeillie; Dahab & Associates
Ken Grimes; Herndon Capital; Inv Manager
Ian Thomas; City of Miramar (9:35 AM)
Rebecca Katz; Motley Rice
Members of the Plan

TRUSTEES ABSENT

Andrew Tomchick; Trustee
Jason Swaidan; Advisory Comm
Susan Finn; Advisory Comm

MINUTES

Minutes of the January 10, 2013 meeting were presented in the Trustee packets for review.

- Orlando Segarra made a motion to approve the January 10, 2013 minutes as presented. The motion received a second by Andrew Soterakis and was approved by the Trustees 4-0.

DISBURSEMENTS

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

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

HERNDON CAPITAL

Kenneth Grimes of Herndon Capital appeared before the Board to present an updated report. He provided an overview of the company structure noting there are currently 40 employees and they are managing nearly \$8B in assets. He explained they have experienced much growth working with banking institutions. Large cap strategy equates to 90% of their assets under management and 39% are Public Funds. Mr. Grimes explained their Executive Committee owns almost half of the firm. He reported the return of 12.5% annualized over the three years. He explained there are a few items which drove the growth; 1) Corporate profits (many companies are back to pre-crisis revenue numbers), 2) Employment numbers are improving and 3) the landscape for US companies is strong versus the European companies. Mr. Grimes responded to various questions from the Trustees noting that Herndon will continue their strategy of bottoms up stock selection process. He explained the risks are with Europe becoming more negative, housing development could stall more and another big bank hit could have a negative impact. Mr. Grimes reviewed the sector weights in detail. Discussion followed regarding large cap value versus large cap growth and Mr. Grimes explained that over the long term, dividends are part of the income and value companies tend to pay more dividends than growth companies. He noted they are happy with how the portfolio is designed. Mr. McNeillie agreed that over time value tends to

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outperform growth however growth has outperformed value over the past ten years by 10 basis points. Mr. Grimes noted the market was up 6-6.5% through January and Herndon is trailing the market slightly at this time. He explained housing stocks and Bank of America did very well the prior year while the portfolio did not hold any of those big names and still outperformed the market. Mr. Grimes departed the meeting at 9:30 AM.

INVESTMENT CONSULTANT REPORT

Greg McNeillie of Dahab Associates appeared before the Board to present the quarterly portfolio review for the quarter ending December 31, 2012. He reported of changes in their organization noting the changes will not affect the Pension Fund. David Lee will be President taking over more of the internal controls and the transition will be transparent. Steve Roth will be Greg McNeillie's backup going forward. Greg McNeillie will be Vice Chair working on client service and retention for the firm.

Mr. McNeillie went on to review the quarterly report in detail. He noted the Plan was up 1.3% for the quarter below the index which was up 1.4%, ranking the Plan in the 63rd percentile of the public fund universe. Domestic equities were up 0.6% beating the index of 0.3%; large cap equities were down -0.9%, SMID cap equities were up 3.3% beating the index of 3.1%; international was up 6.3%, real assets were up 2.4% and fixed income was up 0.6%. Mr. McNeillie noted both Herndon and Rushmore underperformed in large cap. He noted the Molpus information was not available in time for the report however timber was up overall. Mr. McNeillie reviewed the asset allocation noting the Plan is mostly close to the targets. He then explained there is a large accumulation of cash due to the State money received the prior quarter and he recommended moving \$1M to international. He explained that asset class is slightly underweight due to market movement and no money has been moved to international in the past year.

- Manuel Esparza made a motion to move \$1M from cash to Northern Trust's Foreign Equity account. The motion received a second by Andrew Soterakis and was approved by the Trustees 4-0.

Discussion followed regarding Rushmore. Mr. McNeillie noted any manager can have a period of underperformance; however he does not feel it is out of the question to research alternatives in case Rushmore's numbers do not improve. Mr. McNeillie presented two charts reflecting the large cap manager results along with a comparison to the manager's peers. He noted Rushmore has been improving in the recent period. Mr. McNeillie reviewed a performance chart inclusive of seven other large cap growth managers. Lengthy discussion followed regarding the large cap. The Trustees instructed Mr. McNeillie to continue to monitor Rushmore and review alternatives.

Mr. McNeillie then continued to review the quarterly report addressing each manager individually. He noted the Plan's ten year view reflected 7.5% ranking the fund 32nd in the public fund universe. Mr. McNeillie then explained the next asset class being discussed in the market is agriculture which he feels makes more sense than infrastructure. He explained the land is mainly privately owned in agriculture while most timber is owned by pension plans and investment institutions. He explained with agriculture, the Plan or Fund owns the land, and then the farmer runs and earns profits from the farm. He explained it is a fixed income alternative due to the income stream, which is currently 8-9%. Mr. McNeillie reported the real estate is under weight due to the pending Hancock funding. He explained once the cash is fully invested, any further cash need will be taken from large cap. It was noted this current fiscal year is an important one with the 2008 loss dropping out of the five year smoothing. Mr. McNeillie reminded the Trustees the 8.5% assumed rate of return is attainable over the long term; however he expects short term fluctuation. Greg McNeillie will bring large cap manager search information to the May meeting and he will forward the Molpus information to the Board upon receipt.

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ATTORNEY REPORT

MERRILL LYNCH: Bonni Jensen reported the Merrill Lynch Class Action has been processed and the Plan should receive the funds at the end of February. She noted the expected amount is \$39,094.25.

IN SERVICE DISTRIBUTIONS: Mrs. Jensen reported that she had spoken with Lowell Rogers of Gray Robinson (tax attorney) regarding in service distributions. He quoted the cost of \$325 per hour and he will be able to issue an opinion letter for the Plan if the Board is so inclined. Mrs. Jensen explained she had also spoken with the City's attorney and explained why the Board is implementing 401A 36 Provisions. Discussion followed regarding the situation and potential ramifications for the Pension Plan. The Trustees discussed if the Plan should seek a Private Letter Ruling from the IRS. Mrs. Jensen explained many cities are re-hiring members who are in retirement pay status and it puts the pension boards in a tough situation of needing to address the matter further and determine what process will need to be followed. James Estep explained that he is receiving feedback from members that they feel the Board is trying to address the matter too early and that the Board is taking too conservative of an approach. Mrs. Jensen explained that prior to 2006; pension plans could not make pension payments to active employees for any reason. Lengthy discussion followed regarding the matter. Mrs. Jensen explained if an employee truly retires from employment and then is brought back at a much later date, then that is one matter; however it appears people may be retiring from the City and immediately coming back to work which would indicate it was not a true and clear retirement. Mrs. Jensen explained it was clear there was full intent that one particular person retiring from the Pension Plan would be going back to work immediately in the City therefore it was not a bona-fide separation. Bonni Jensen agreed with Ian Thomas that it was an area the IRS was not specifically addressing; however recent private letter rulings now state otherwise. Mrs. Jensen explained there is an actual situation currently placed before the Board and the matter should be addressed. She noted that other pension plans have stopped payments to retirees due to the rehire matter.

- Manuel Esparza made a motion to engage Gray Robinson, the tax attorney firm, to provide advice on the Pension Funds two current issues; the Ordinance change regarding in service distributions and the current matter of rehired retirees; and for the cost not to exceed \$7,500. The motion received a second by Orlando Segarra and was approved by the Trustees 3-1. Andrew Soterakis voted nay.

It was noted that retirees in pay status have been rehired by the City. Mrs. Jensen feels strongly that the matter must be addressed in order to provide clear direction for the Board since at this time the IRS code is clear and there are currently no in-service distributions allowed for the Plan. Discussion followed regarding the process and what may happen if the Board receives an opinion from Gray Robinson and if the Board is unable to make the recommended change. Mrs. Jensen explained if the IRS were to charge the Plan in the future the Board will have evidence that they attempted to self-correct.

- Manuel Esparza made a motion for the Chairman and Secretary to sign the Gray Robinson agreement between meetings. The motion received a second by Orlando Segarra and was approved by the Trustees 3-1. Andrew Soterakis voted nay.

ACTUARY REPORT

Don Dulaney addressed the current status of the valuation report explaining that he still needs additional data information from the City in order to finish the Share Account allocation for the auditor. James Estep explained that the City had been expecting the audit report to be presented at this meeting and the City felt the auditor did not need additional information from the actuary to

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finish the audit report since it was not needed for the Police and GE pension plans. Mr. Dulaney noted the GE and Police plans do not have Share accounts and therefore the audit requirement is slightly different. Mr. Dulaney believes he can finish the Share report within a week of receiving the final information from the City (number of payroll periods, the new hire dates and termination dates). Ian Thomas explained an email had been sent the prior evening with additional information and the actuary may be able to piece together the information needed to finish the report. Mr. Dulaney then reminded the Trustees that the State had insisted the actuary revise the amortization schedule. He explained that it was the schedule he had inherited from the prior actuary and he is trying to transition the Plan away from that method when it is cost appropriate to do so. He then referred to a letter he had written to the Board on May 17, 2012 regarding the funding method of a fixed dollar amount versus a percent of payroll. In August of 2012, the Board had agreed to return to the fixed dollar amount. The auditor is asking that the Board confirm and clarify the effective date of when they will be using the fixed dollar amount. In review of the prior year, the auditor found the City will have over-contributed either \$84,000 if using the fixed dollar amount or \$92,000 if using the percent of payroll method.

- Manuel Esparza made a motion to clarify the previous motion to determine the City's minimum funding contribution effective September 30, 2013 as a fixed dollar amount. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

Discussion followed regarding the data items needed by the auditor and actuary to complete their reports. Ian Thomas will have the information sent to the actuary ASAP if it is not in the file sent the prior evening.

James Estep addressed a recent situation that occurred which he was extremely disappointed with how the matter was handled. He explained the Pension Board has been very patient with the City, has done everything they can to help with matters and has always made every effort to accommodate having audits completed early; even to the point of calling special meetings to accommodate. He explained that unfortunately the Fire Chief was called in to Finance and was asked to intercede with the Pension Board as the City felt the Board was not being helpful or cooperative and they even stated they felt the Chairman was intentionally withholding the audit. Lengthy discussion followed regarding the City's tactic as it was seen as being a strong-arm tactic and it was unreasonable and unfair when the actual problem and hold up is with the City itself and not the pension board or its service providers. The Trustees expressed their frustration and disappointment with the City, their data process and their recent behavior. Ian Thomas explained for the last several months Payroll has been trying to work through the transition process to Munis; however several issues have arisen that have bumped the pension plan's data request. Mr. Thomas believes they are close to making the Pension Plan's payroll request a priority. Mr. Thomas requested the Board consider a special meeting in March to approve the audit if it is completed prior to the April meeting. He requested the Board agree to accommodate the City one more time. He explained the March 31st deadline is important to the City. Mr. Thomas explained the actual payroll data is correct; however the report writer is not extracting the correct information which in turn reflects the wrong information. Mr. Estep assured Mr. Thomas the Board will make every effort to approve the report as soon as the audit report is available. Ian Thomas departed the meeting at 11:40 AM. The Trustees requested the actuary follow through and address the completion of the Share Account report information as soon as possible.

ATTORNEY REPORT (CONTINUED)

LEGAL UPDATES: Bonni Jensen reported on the pending HB 458. She noted it has already been changed three times. She reviewed some of the highlights noting that it redefines how the chapter funds will be used and how much of the chapter money can be paid into the Share Accounts. She noted the changes would apply to new money in 2012 making 2012 the new cap. She explained the chapter money cannot be used to purchase new benefits. If a plan is under

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80% funded, then 50% of the new money in excess of 2012 will be used to pay down the unfunded liability, 25% will be used to pay down the base benefits (offsetting the City's cost) and 25% will be paid into Share Accounts. If the plan has a funded ratio over 80% then 50% of the excess will be used to offset the City's contribution and 50% will be paid into the Share Accounts. Mrs. Jensen explained she will put together a written summary for the Board before the session begins.

PORTFOLIO MONITORING – MOTLEY RICE: Bonni Jensen presented a retainer agreement for execution.

- Orlando Segarra made a motion to enter into the agreement with Motley Rice to monitor the portfolio. The motion received a second by Manuel Esparza and was approved by the Trustees 4-0.
- Manuel Esparza made a motion to direct Comerica to allow Motley Rice report access to the portfolio as needed. The motion received a second by Andrew Soterakis and was approved by the Trustees 4-0.

OLD BUSINESS

Orlando Segarra explained there has been no response regarding the pension board shirt order. Discussion followed regarding changing vendors.

ADMINISTRATOR REPORT

FINANCIAL STATEMENTS: Mrs. McNeill reviewed the financial statements in the Trustee packets.

- Manuel Esparza made a motion to receive and accept the financial statements as presented. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

Mrs. McNeill advised the portfolio monitor report from Shepherd, Finkelman, Miller & Shah was included in the Trustee packets for review.

NEW BUSINESS

Chris Armstrong presented a letter of resignation to the Pension Board for the Advisory Committee seat. James Estep thanked him for his time and service to the Plan. It was noted the position will need to be posted accordingly.

ADJOURNMENT

The Trustees acknowledged their next meeting date set for April 4, 2013. There being no further business,

- Manuel Esparza made a motion to adjourn the meeting at 12:08 P.M. The motion received a second by Orlando Segarra and was approved by the Trustees 4 -0.

Respectfully submitted,

Manuel Esparza, Secretary