

# City of Miramar Firefighters' Retirement Plan

## MINUTES OF MEETING

May 23, 2014

James Estep called the workshop to order at 9:00 A.M. in the Meeting Room of Fire Station 100 located at 2800 SW 184<sup>th</sup> Avenue, Miramar, FL. Those persons present were:

### TRUSTEES PRESENT

James Estep, Chairman  
Orlando Segarra, Trustee  
Manuel Esparza, Secretary  
Susan Finn, Trustee

Leonardo Nunez, Advisory Comm

### OTHERS PRESENT

Denise McNeill; Resource Center; Administrator  
Bonni Jensen; Perry & Jensen; Attorney  
Don Dulaney; Dulaney & Co; Actuary  
Steve Roth; Dahab & Associates  
Members of the Plan

### TRUSTEES ABSENT

Andrew Tomchick, Trustee

Jason Swaidan, Advisory Comm  
Ulises Carmona, Advisory Comm

### PUBLIC COMMENTARY

James Estep invited those present to address the Board with public comments. There were no comments at this time.

### MINUTES

Minutes of the April 10, 2014 meeting were presented in the Trustee packets for review.

- Manny Esparza made a motion to approve the April 10, 2014 minutes as presented. The motion received a second by Sue Finn and was approved by the Trustees 4-0.

### DISBURSEMENTS

Denise McNeill presented a disbursement report for approval with additional payments to Orlando Segarra for the meeting expenses.

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

### HERNDON CAPITAL MANAGEMENT

Randall Cain and Marc Reid appeared before the Board to present an update of Herndon Capital Management. Mr. Cain explained they have added a few more Florida clients since Miramar Fire joined in 2010 then he provided a staff update. Steve Roth inquired into a specific holding of United Therapeutics and Herndon's sell discipline. Mr. Cain explained that company was down 17% in first quarter and Herndon pulled back on that specific holding; however they have since re-purchased back into the healthcare sector. He explained energy stocks have done well causing an overweight so funds were moved from energy to healthcare. Mr. Cain went on to review specific holdings in detail. He explained utilities, telecom and financials have been the lowest sectors; however in the recent quarter the sectors did well. Mr. Cain reported unemployment is down, interest rates are expected to rise and it will be negative for bonds. He addressed the market transition and the duration of holdings. Mr. Cain responded to various questions from the Trustees related to under-performance and future expectations. He further explained the fund underperformed for five consecutive quarters (second quarter 2012 through

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second quarter 2013) which had never happened to the portfolio before. He explained the market concern of the global economy caused a massive sell-off which affected the portfolio; their sell discipline caused the sell-off of a few stocks that ended up turning around and doing much better. Mr. Cain noted the issues were company specific and the volatility related to a compressed period of time. He advised he has managed the portfolio since 1997 and there had been only three periods of under-performance until 2012. Mr. Cain thanked the Board for their trust explaining he feels Herndon has added value and believes the anomalous period is behind the manager. He addressed the company growth reporting they have grown from \$1.5B to \$10B and a staff of four to fifty employees in the past five years. They expect a soft close at \$12.5B and a full close at \$15B. Mr. Cain explained the soft close would allow current clients to add additional funds but no new clients would be accepted. Randall Cain and Marc Reid departed the meeting at 9:39 AM. Mr. Roth confirmed their growth in assets may have had an impact on the portfolio as well.

### INVESTMENT CONSULTANT REPORT

Steve Roth of Dahab Associates appeared before the Board to present the quarterly portfolio review for the quarter ending March 31, 2014. He reported March, April and May have been good for the market. Mr. Roth reported a possible 4% GDP was expected for the quarter. He explained the industrial capacity is up slightly and the index numbers for the quarter hid the massive transition happening below the surface. He feels the market is now more in line to reflect a more normal growth. Mr. Roth went on to review the quarterly report in detail. He noted the Plan was up 1.4% for the quarter, mostly due to domestic equities. Domestic equities were up 1.6% below the index of 2.0%; large cap equities were up 1.3%, SMID cap equities were up 2.1% below the index of 2.3%; international was up 0.9%, real assets were up 1.3% and fixed income was up 1.7%. Mr. Roth noted the Plan was up 9.7% fiscal year to date ranking the Plan third in the public fund universe. Discussion followed regarding the Plan's asset allocation and options available if interest rates rise. Mr. Roth explained there is much cash sitting overseas and some companies are using it to float bonds. He noted in 2008 company's management realized they could not rely on banks and began to raise their own cash. Many of those companies are beginning to use the cash investing into their own company in various ways. Mr. Roth reported he is looking into agriculture and has another Florida client who recently invested. He advised the asset produces an income stream and capital appreciation; however there is much less liquidation than real estate. Mr. Roth described the agricultural process. He noted due do farm aid issues in the 80's, many farmers stopped using banks and began raising their own cash therefore many local farmers are cash rich. He explained there are not many agriculture funds. Mr. Roth addressed TIA CREF explaining the property is leased to farmers and the Fund is responsible for irrigation. He explained lease default is the primary risk in that particular case. Mr. Roth explained he would like for the Fund to further diversify; however there are still concerns with alternatives such as infrastructure. Discussion followed regarding the timing of Molpus' reporting and how the information is not available for the normal quarterly report schedule. The Trustees offered to change the consultant's quarterly report timing to the last month of each quarter. Mr. Roth will address with Mr. McNeillie to see if the schedule should be changed for future reporting.

Discussion followed regarding Herndon Capital. Mr. Roth explained their asset growth had to have an impact on their portfolio and process; noting when the majority of the assets are doing well, it is not an issue; however when portfolio changes are required, it becomes more of a challenge when the Fund has grown to such a size. Overall, Mr. Roth advised that he believes Herndon Capital is still okay for the Plan at this time.

POLEN CAPITAL IPS REVISION: Mr. Roth explained Polen has requested a change to the Investment Policy Statement (IPS). He explained they are requesting authorization to allow over

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the counter (OTC) trades. Mrs. Jensen inquired if such a change would allow them to purchase beyond the Board's expectation and have unintended consequences. Mr. Roth explained he feels due to the size of the Fund, it could be an impact if the Plan were to limit OTC trades. He explained there is a slight counter-party risk to how the purchase is made; however he feels the issue is minimal.

- Manuel Esparza made a motion to approve adding over the counter allowances to Polen's transaction process and for the Investment Policy Statement to be executed accordingly. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

### SMALL CAP EQUITY SEARCH

Steve Roth presented the Small Cap Equity Manager Search Report. He reviewed the original full list of managers and explained the process used to eliminate companies. Lengthy discussion followed regarding the process. Mr. Roth explained that some companies made it through the process and were removed due to their style being passive. Since the Plan currently has a significant amount of passive equities, that style is not being considered by the consultant. Sue Finn expressed her concern of Funds that are bank affiliated and she addressed the issue the Board had with Northern Trust's securities lending in prior years. Mr. Roth explained securities lending is typically an issue with indexed funds while mutual funds use very limited securities lending since the assets must be more liquid. Discussion followed regarding the final companies selected for review. Mr. Roth provided considerations for each of the companies listed. SSgA was noted as having 90% small cap with a quantitative style; however there was concern of rapid growth from \$8MM the end of the prior year to \$68MM currently. Lengthy discussion followed regarding the batting averages and the investment style of each manager. The Trustees discussed sale and purchase rules as well as separate accounts versus mutual funds.

It was noted the next meeting is scheduled for August and the valuation is scheduled to be presented. The Trustees agreed to change their next meeting date from August to September 11<sup>th</sup> and for the entire day to be booked to deal with the full meeting agenda as well as manager interviews.

Discussion returned to the small cap manager search.

- Manuel Esparza made a motion to invite PNC Capital Advisors, RBC Global Asset Management and Dimensional Fund Advisors to the September meeting to present to the Board. The motion received a second by Susan Finn and was approved by the Trustees 4-0.

### ATTORNEY REPORT

**FORM 1 FILING:** Mrs. Jensen reminded the Trustees the Form 1 Filing is due by July 1<sup>st</sup>. She reviewed the form changes noting provisions have been added allowing for an attorney or accountant to file on the Trustee's behalf and she cautioned the Trustees of where to sign.

**SB246:** Bonni Jensen reported SB246 did not pass in the recent legislative session noting it seemed to fall apart in the last two days of the session. She explained the Senate decided they wanted to tie the change to FRS, however the move was not supported.

**ORDINANCE CHANGE UPDATE:** Bonni Jensen explained she had sent an Ordinance Request to the City in January to revive the In-Service Distribution language to clarify the matter for the Plan records. She explained she received an email back that the attorney is no longer with the firm and Mrs. Jensen will need to communicate with the newly appointed attorney, Mr. Schneider. She will communicate with him accordingly.

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**FICA WITHHOLDING:** Mrs. Jensen explained she has had much communication with the City regarding the tax withholding being done on the sick and vacation time payouts being transferred to the DROP Plan. The City had responded providing a reference which turns out was Mrs. Jensen's own documents she had initially sent to the City as the back-up as to why the City should not withhold the FICA; only to have the City reference the same attachment stating that is why they are taking the withholding. Mrs. Jensen explained she and the Chairman have a meeting scheduled with the City to discuss. Mr. Estep explained that he has been informed the Police Pension Plan had experienced a similar issue and the City refused to stop the FICA withholding for that Plan as well.

**COMERICA REQUEST:** Mrs. Jensen then addressed a request received from Comerica related to global taxes noting the process is not part of the current fee agreement. Mrs. Jensen explained she has had other Pension Plans who received comments from their auditors for not having a foreign tax recovery process in place. Mr. Roth explained there should not be any non-US securities held in that portion of the portfolio; however they may have that type of asset with the Polen OTC change. Mrs. Jensen explained she has a call in to Comerica to address. She is not certain they can automatically add the cost unless the contract is revised. Mr. Roth explained the matter does not have much relation to this Plan.

### **ACTUARY REPORT**

Don Dulaney explained the questions raised at the last meeting regarding the few members whose payment amounts did not appear accurate are still in question and he will not be able to finish the valuation or annual benefit statements until the fiscal year end payroll data has been finalized with the City. Discussion followed regarding various issues with the payroll data and Mrs. Jensen reminded the Trustees they have a fiduciary responsibility to make sure the benefits are being properly calculated. The Trustees explained there is a new City Manager in place and it was recommended for the Chairman to request a meeting. The Trustees instructed the administrator to request that SI Gordon & Company move forward with the payroll review as previously discussed.

Mr. Dulaney then addressed the revised DROP statements and reviewed the issue related to the tracking of the unused leave. Mrs. Jensen recommended placing the unused leave funds into the member's Share accounts since both are considered 415C funds for IRS tracking purposes. Mrs. Jensen noted there are no separate tax implications, just a requirement by the IRS that the funds be tracked separately. It was noted 415C limits the amount of money that can be deposited into the plan in a given year and 415B limits the amounts that can be withdrawn. Mrs. Jensen explained the State is now insisting Share accounts are DC Plans. Discussion followed regarding the statement format.

### **ATTORNEY REPORT - Continued**

Discussion returned to the Comerica request. Mrs. Jensen feels the matter is related to the contract. She will request details of Comerica on how many such transactions and the cost related.

- Susan Finn made a motion to approve for the Chairman to endorse the Comerica agreement between meetings based upon the attorney's review and approval. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

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### ADMINISTRATOR REPORT

BENEFIT APPROVAL: Denise McNeill presented a benefit approval for Ross Reger's DROP effective October 1, 2013.

- Manuel Esparza made a motion to approve the DROP benefit for Ross Reger as presented. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

### DROP AND SHARE ACCOUNT PROCESSING

James Estep explained there has been much pressure to access the DROP and Share statements online; therefore he had requested the administrator provide a proposal to process the DROP and Share accounts through the Resource Centers. Discussion followed regarding the proposal. Mrs. McNeill explained once activated online, the withdrawal and deposit activity would be immediately available to the members for viewing; however the interest crediting would continue to be done quarterly.

Lengthy discussion followed regarding interest crediting under the new Ordinance requirements. Leo Nunez recommended using a rolling 12 month period with a quarterly maximum and an annual maximum. Discussion followed regarding a quarter loss (or negative Plan impact) would result in 0% earnings for the member. It was noted that Reger and Armstrong will need to be converted to the new rate process.

Discussion followed regarding the overall process and transitioning the DROP and Share account process to the Resource Center.

- Susan Finn made a motion to transition the DROP and Share Account process to the Resource Centers effective October 1, 2013. The motion received a second by Manuel Segarra and was approved by the Trustees 4-0.
- Susan Finn made a motion for the quarterly interest to be calculated on the prior twelve month rolling period with the percentage to be capped at 1.94% with a floor of 0%. The motion received a second by Manuel Esparza and was approved by the Trustees 4-0

### OLD BUSINESS

James Estep reminded the Trustees of the upcoming pension workshops scheduled for June 3<sup>rd</sup> and 4<sup>th</sup> from 9-10 AM.

### NEW BUSINESS

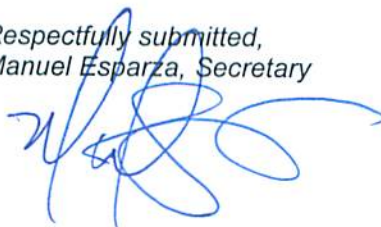
There were no additional New Business items for discussion

### ADJOURNMENT

The Trustees acknowledged their next meeting date changed to September 11, 2014. There being no further business,

- Manuel Esparza made a motion to adjourn the meeting at 1:26 PM. The motion received a second by Susan Finn and was approved by the Trustees 4 -0.

Respectfully submitted,  
Manuel Esparza, Secretary



**MIRAMAR FIREFIGHTERS PENSION FUND**

**MEETING OF MAY 23, 2014**

**BENEFIT APPROVALS**

**APPLICATION FOR DROP**

ROSS REGER	DATE OF RETIREMENT/DROP	10/01/2013
	DATE OF BIRTH	11/09/1956
	DATE OF HIRE	09/24/1992
	SERVICE AT RETIREMENT	25.00 Years
	AGE AT RETIREMENT	56.917 years
	TOTAL MONTHLY BENEFIT	\$6,990.11
	FORM OF BENEFIT	50% J&S

ACTION: Approved

CHAIRMAN: \_\_\_\_\_

SECRETARY: \_\_\_\_\_

