

City of Miramar Firefighters' Retirement Plan

MINUTES OF WORKSHOP

February 20, 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 184th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

James Estep, Chairman
Orlando Segarra' Trustee

Leonardo Nunez, Advisory Comm (9:40 AM)

TRUSTEES ABSENT

Manuel Esparza, Secretary
Susan Finn, Trustee
Andrew Tomchick, Trustee

Jason Swaidan, Advisory Comm
Ulises Carmona, Advisory Comm

OTHERS PRESENT

Denise McNeill; Resource Center; Administrator
Bonni Jensen; Perry & Jensen; Attorney
Don Dulaney; Dulaney & Co; Actuary
Greg McNeillie; Dahab Assoc; Consultant
Cindy Naraine; City of Miramar HR
Phil Dever; Lee Munder
Edgar Marshall; Molpus Woodlands
Members of the Plan

MINUTES

Minutes were tabled until the next meeting as no action can be taken in the workshop.

DISBURSEMENTS

Disbursements were tabled until the next meeting as no action can be taken in the workshop.

LEE MUNDER - INVESTMENT MANAGER REPORT

Phil Dever appeared before the Board to present an update for Lee Munder Capital Group. He reported the firm hasn't had any changes in the past three years in their key areas; however they have experienced much growth in the SMID and International. Mr. Dever then reviewed the team dynamics and explained their process has been in place since 2008. He then reviewed their investment process, valuation, analysis and portfolio construction in detail with the Trustees. He reviewed the SMID core strategy noting they maintain similar characteristics to the Russell 2500 Index. Mr. Dever explained the value portion of the portfolio is underweight in financials (REIT area while each of the three strategies had a modest overweight in tech. He then reviewed the difference between SMID core and MID core with Small Cap Value removed. It was noted there is a slight overlap from one portfolio to the other with ten similar holdings in Small cap and MID Cap and four similar holdings in value to growth. Mr. Dever confirmed both portfolios are disciplined to their valuation metrics for the equities held. Mr. Dever then explained that the issues with the SMID cap portfolio have been due to the small cap portion. He explained the team has been with the firm since 2002 and the strategy has been in place longer. He advised that the ability of highly levered companies to restructure their leverage with low interest rates has been a factor causing company valuations to be different in the recent period. Mr. Dever noted in 2011, with the downgrade of debt, the value portion of the portfolio should have done well, but instead lost ground. He reported the recent issue; stock selection has been sub-par; however their strategy has not changed. Mr. Dever reviewed the Small Cap performance in detail noting they have not protected to the downside in the recent period as they have in prior years. Discussion followed regarding the Small Cap value's negative impact on the portfolio. Mr. Dever explained if the market returns to a period where valuation matters and fundamentals drive stock prices, he feels they will outperform for clients. Mr. Dever reported their outlook does not include

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any changes to their strategy as they feel the strategy is time tested and will outperform again in the future. He further explained they believe the macro environment in the recent period has been very different (Fed's influence, interest rates low, the ability of highly indebted companies to re-finance at very low rates). Mr. Nunez noted the environment does not appear to be changing any time soon and he is concerned with the process if their strategy remains in place. Mr. Dever advised Lee Munder is standing their ground on their strategy and feels it is important not to change their approach. Mr. McNeillie noted they have already adjusted the portfolio somewhat by removing the minutia holdings and that change was fortuitous. Mr. Dever departed the meeting at 9:57 AM.

MOLPUS WOODLANDS - INVESTMENT MANAGER REPORT

Edgar Marshall appeared before the Board to present a portfolio update. Greg McNeillie reviewed the current asset allocation advising there is currently 4% in timber. He explained there is currently \$1.6MM in Molpus III (which is now a closed fund) and the Plan has \$1.4MM available to put into Molpus IV. Mr. Marshall explained they currently have much capital pending to be called. Mr. Marshall reported on the Molpus III Fund explaining 97% of the committed capital has been invested. He reported they have already returned much of the capital; however they can recall the principal only prior to the end of the investment period which ends May 2014. Mr. Marshall explained Fund III has performed exceptionally well and the target return has well exceeded, only a few years into the Fund. He noted the cash flow and market have been good, all properties were appraised using an outside appraiser and all have gained, leaving the portfolio currently at 10-11% which is 3-4% over index. Mr. McNeillie explained timber is a good asset class in rising interest rates. Mr. Marshall addressed the firm noting they have hired 20 new employees, they are still fully independent, they are vertically integrated and they spent \$13MM of their own firm money on Fund III and all purchases have come from direct purchases versus auctions. He explained they have been able to source properties at very good discounts. Mr. Marshall reported competition has changed; where there were previously 13 firms, there are now only three. He noted much capital is being focused internationally with other firms while Molpus remains predominantly US with little property in Canada. Mr. Marshall then reviewed the Fund's performance noting the underwriting model is static; they are modeling real price growth; it is very conservative and 7%-8% core trees only. He then reviewed the market opportunities; homes were under-built, housing is doubling, exports to Europe have increased; 30 new facilities have opened in the Southeast to produce pellets that are being shipped to Europe of which 13% of exports are going to emerging markets. Mr. Marshall reviewed specific holdings in the portfolio. He explained many unexpected items contain pulp, such as diapers. Lengthy discussion followed regarding the wood management and what various types of wood are used for. Mr. Marshall then reviewed the dynamics of the investment and the scarcity of land. He explained British Columbia is the largest importer of wood due to a massive natural catastrophe where they lost 60-70% of their wood to beetles. Mr. Marshall then reviewed the terms of Fund IV in detail with the Trustees. He explained that although they did not use leverage for Funds I, II and III, they may decide to do so with Fund IV since rates are so low. He noted they have a team of finance people who understand the use of leverage well and are able to advise on the matter accordingly. Mr. Marshall noted they typically hold an Investor Day in the summer in upstate New York. Edgar Marshall departed the meeting at 10:55 AM.

Discussion followed regarding the use of leverage in a portfolio. Greg McNeillie explained that the use of leverage when rates are very low increases the value of the portfolio as interest rates increase. He informed the Trustees he is not concerned with the leverage if Molpus chooses to utilize it in Fund IV. Brief discussion followed regarding agriculture Funds. Mr. McNeillie

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explained he can be available via telephone for the next meeting scheduled for February 27th. He presented an asset allocation review sheet in addition to the quarterly report. It was noted the fees listed for Northern Trust were not accurate on the form as the actual cost is eight (8) basis points and not 20 as listed. He reported the timber numbers were not available when the 12/31/13 report was produced so the earnings are listed as 0%; however the actual return was 10-11% so the Plan's earnings were actually higher than initially reported. He recommended the Board fund additional timber assets and commit \$1.5MM to Molpus IV. Discussion then followed regarding Lee Munder, Mr. Dever's presentation, the portfolio and the company's decision not to change their strategy. Mr. McNeillie recommended stripping out the Small Cap piece from Lee Munder. He will review the allocation details and provide a small cap search for the May meeting. He explained that he does not feel the assets are in danger and there is no need to rush to move the funds. Discussion then followed regarding Eaton Vance. Mr. McNeillie recommended transferring \$1.7MM from Northern Trust's S&P 500 Large Cap into Eaton Vance's emerging markets. He explained Eaton Vance has had a positive return in a very difficult market. Mr. McNeillie reported much of the poor performance has been due to perception versus actual ability and available cash. Mr. McNeillie then reviewed the rest of the Plan's asset allocation and the performance of each asset class. He explained private equity may be something for the Plan to consider at some point in the future. Mr. McNeillie reported that Polen had requested allowance of up to 10% in cash and offered a discount for any cash held over 5%; therefore Mr. McNeillie had agreed to Polen's request. He continued reviewing each manager in detail noting the Plan is beginning to see a positive impact of active management and further diversification.

ATTORNEY REPORT

ORDINANCE CHANGE – DROP AND SHARE ACCOUNT INTEREST ACCUMULATION: Don Dulaney addressed the recent Ordinance change. He explained that he can make the change mid quarter, beginning with December 1, 2013 as the Board had requested from the prior meeting. Discussion followed regarding membership and it was noted the choice for the fixed rate of return has been eliminated except for any grand-fathered members who may still elect the fixed for the Share account only since the DROP is a one-time irrevocable election. All active members must be on the variable for the Share accounts as well as all new DROP accounts. Discussion followed regarding any grand-fathered members. Mr. Dulaney will review and provide a list to the Board and the administrator of those who are eligible to change. Greg McNeillie departed the meeting at 12:06 PM.

SICK AND VACATION DROP FUNDING

Denise McNeill and James Estep addressed a recent matter that occurred when a DROP member who had elected to roll his unused leave at the end of his DROP attempted to have the City roll his funds into the VEBA instead. Mrs. McNeill had confirmed for HR that the member had a written agreement with the Pension Fund and therefore the funds must be paid to the DROP plan first up to the maximum allowable IRS limit (currently \$51,000), then any amount over the allowable maximum may be paid into the VEBA for the member. Lengthy discussion followed regarding the matter. Mrs. Jensen explained that she believes the member must fund the pension first no matter what the circumstances and that the member may not take the unused leave in cash. She recommended the Board seek a tax opinion on the matter. It was noted that the language in the CBA allows for the member to make the choice and Mrs. Jensen explained that is conflicting language and there cannot be a choice. The matter will be tabled until the meeting scheduled for February 27, 2014.

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ACTUARY REPORT

Don Dulaney reported that the recent Ordinance impacts four members; Greene, Reger, Armstrong and Keys. Mr. Dulaney expects he will need to adjust to variable effective December 1, 2013 accordingly. The matter was tabled for further discussion at the next meeting. Mr. Dulaney then addressed the DROP and Share Roll Forward Reports provided to the auditor. The DROP account contribution amount credited to the accounts was less than what the City's Finance Dept had reported. Mrs. McNeill explained the difference was not enough to be a problem for the audit as the difference was considered minimal; however it will have an impact on the Annual Report. Mr. Dulaney will address the difference in the reported DROP contributions with the City.

ADMINISTRATOR REPORT

Denise McNeill will hold the items for discussion until the next meeting.

NEW BUSINESS

James Estep advised he would like to consider holding pension workshops for membership. Mrs. McNeill requested such meetings be scheduled for the summer. Further discussion on the matter was tabled until the next meeting.

ADJOURNMENT

James Estep acknowledged that a special meeting date had been set for February 27, 2014 for the presentation of the audit. There being no further business, the workshop adjourned at 12:40 PM.

Respectfully submitted,

Manuel Esparza, Secretary