

# City of Miramar Firefighters' Retirement Plan

## MINUTES OF MEETING

May 13, 2015

James Estep called the meeting to order at 9:05 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  
Manuel Esparza, Secretary  
Orlando Segarra, Trustee  
Susan Finn, Trustee

Jason Swaidan, Advisory Comm  
Leo Nunez, Advisory Comm (10:00)

### TRUSTEES ABSENT

Andrew Tomchik, Trustee  
Ulises Carmona, Advisory Comm

### OTHERS PRESENT

Denise McNeill & Vanessa Rodriguez;  
Resource Center; Administrator  
Bonni Jensen; Perry & Jensen; Attorney  
Don Dulaney; Dulaney & Co; Actuary  
Members of the Plan

### 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 February 11 and February 20, 2015 meetings were presented in the Trustee packets for review. Sue Finn inquired into the meeting with the City regarding the payroll.

- Susan Finn made a motion to approve the February 11, 2015 minutes as presented. The motion received a second by Manny Esparza and was approved by the Trustees 4-0.
- Manny Esparza made a motion to approve the February 20, 2015 minutes as presented. The motion received a second by Susan Finn and was approved by the Trustees 4-0.

### DISBURSEMENTS

Denise McNeill presented the disbursement report for approval from the April 17, 2015 workshop as well as the updated disbursement listing dated May 13, 2015.

- Susan Finn made a motion to approve the April 17, 2015 disbursements as presented. The motion received a second by Manny Esparza and was approved by the Trustees 4-0.
- Orlando Segarra made a motion to approve the May 13, 2015 disbursements as presented. The motion received a second by Manny Esparza and was approved by the Trustees 4-0.

Discussion followed regarding the Interim Financial Statements. Mrs. McNeill noted the Molpus information was missing from the report as the detail had not been received in time for the report processing.

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### INVESTMENT CONSULTANT

Greg McNeillie of Dahab & Associates appeared before the Board to present the quarterly report for the period ending March 31, 2015. Mr. McNeillie reported the Plan ended the quarter up 2.6% for the quarter and 5.1% fiscal year to date, ranking the plan in the top 31<sup>st</sup> percentile of the public fund ranking. Mr. McNeillie reviewed each manager in detail noting he is not concerned about Herndon at this time as they had a good April and May to date and it appears their style is coming back into favor. He noted the report reflected the first full quarter with the new managers, DFA and PNC which are both SMID products with different styles. Mr. McNeillie reported on each asset class in relation to their indexes; domestic equity was up 3.2% beating the index of 1.8%, large cap equity was up 2.2%, MID cap was up 4.9% beating the index of 3.9%, SMID cap equity was up 5.3% beating the index of 5.2%, small cap was up 5.8% beating the index of 5.3%, foreign equity was up 3.2%, real assets were up 2.0% and fixed income was up 1.7% beating the relative indexes. He reported Molpus information had not been received in time for this report so the final report will be copied to all of the Trustees inclusive of the Molpus detail. Mr. McNeillie explained the Plan is healthy as far as cash flow and while it is below 8% due to the poor year of 2008; the Plan has done well since 2009.

### REAL ESTATE MANAGER PRESENTATIONS

Mr. McNeillie addressed the three real estate companies presenting to the trustees explaining while American Realty and Principal are similar in core plus they have different debt in their portfolios. He reminded the Trustees higher debt has a negative impact to the portfolio when interest rates rise. He noted American Realty has a newer portfolio; however it is not as diversified as Principal. Mr. McNeillie explained Principal will be presenting a sister product to the one the Plan already has with that company. He explained Intercontinental will have a core plus with value added and a bit more debt. He reported all three portfolios are good; otherwise they would not have made it to the short list for an interview.

American Realty: Richelle Hayes and Jeff Miller of American Realty appeared before the Board to present their real estate portfolio. Ms. Hayes introduced herself and Mr. Miller and provided details about their firm, reviewing key people in the organization. She explained they have 151 properties, they are US only and they have 350 institutional investors. She reviewed their philosophy and process explaining they look where job growth is strong and they look for assets that may be undervalued or distressed owners who need rescue capital. She reported there is no need for the company to use leverage to get returns. Ms. Hayes explained it is an open ended (may exit with one quarter notice), comingled fund. She reported 47.3% leverage in the portfolio and noted it is 77.8% leased. She explained there is no debt on the company balance sheet as the debt is held at the property level. She noted they pay dividends on the fund averaging 4% annually. Fees are 125 basis points under \$10M and there is an incentive share of returns. She reported net returns since inception have been 13.88% and March 31, 2015 was up 5.61%. Jeff Miller explained he spends most of his time sourcing new properties for added value and much homework and research is done before determining an additional investment. He reviewed their strategy noting for apartments they look for urban "in-fill", walkable to shops, restaurants, transportation, retail, etc. He explained industrial has had tremendous growth with a high demand for warehouse space. Mr. Miller reviewed additional details regarding their process and reviewed specific properties held in the portfolio in detail, explaining how they rate the buildings. He responded to questions from the trustees. He confirmed they expect money from good deals as well as selling the asset into the core portfolio for higher quality. Discussion followed regarding the impact of interest rates and Mr. Miller explained with long term rates he does not see a significant difference; however they may have owners who need revenue and they can add equity interest. Bonni Jensen inquired into the acquisition fee and Ms. Hayes explained it does not happen on each deal and the cost would be so minute that it has little to no impact on the

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return. Mr. Miller confirmed American Realty does not participate in the portfolio's returns until they have earned over the 10% Plan commitment threshold. Richelle Hayes and Jeff Miller departed the meeting at 10:20 AM.

Principal Real Estate Investors: Paul Stover and Doug Baran appeared before the Board to present their real estate portfolio. Mr. Baran provided a corporate update of Principal. He noted the Pension Fund currently has assets in their core product and feels the core plus would be a good compliment. Mr. Stover explained the fund being presented is an open-ended, comingled fund. He reviewed the team members explaining they have been in the market for a long time and have many relationships in the field. Mr. Stover reviewed their committee-based approach explaining the management is dedicated solely to this fund. He reported their leverage target is 40-50% He reviewed their investment themes and noted much of their growth has been contractually set for 2015, 2016 and 2017. Mr. Stover explained they have 50% US assets and 50% non-US; which they feel has less risk for the herd mentality. Mr. Stover explained the more diversified an existing investor base is, the better off the Plan is which helps to alleviate the herd mentality (I.E. the varying difference in the cash needs between the US and Europe). Mr. Stover confirmed the current waiting queue is expected to be called at the end of 2015 or early 2016 and the waiting queue begins when the contracts are signed. Mr. Baran explained the Plan could do a US REIT product quickly; however rising interest rates could be a detriment to the REIT. He noted leverage is currently at 35% due to the sale of assets; however he expects the leverage amount to increase. He reviewed the fund's sector weights and specific holdings in the portfolio in detail. Mr. Stover addressed the 2015 transaction and development activity. He reported their returns; since inception 8.08%, last quarter 3.35%, 10.04% one year and 6.68% three year. He noted the target dividend is 4-6% and the higher amount reported for the last year was an anomaly due to a specific sale. Discussion followed regarding the debt in the portfolio and Mr. Baran explained 70% of the debt is currently fixed with no debt beyond 10 years. Fees are 130 basis points for \$5M-\$10M and there are additional incentive fees. Mr. Baran explained there are no other fees or expenses as the fund bears the cost of acquisitions which vary depending upon the type of property purchased. Mr. Stover and Mr. Baran responded to several questions from the trustees. Mr. Stover explained both portfolio teams are completely separate and the core plus doesn't sell to the core; instead they independently sell outside of Principal funds. Mr. Stover explained the research team works for the corporation and not specifically for a portfolio. Mr. Baran explained the employees own retirement money is also in PEPF and the Core portfolios. Mr. Stover explained the outlook is not calling for another sharp correction and rising interest rates could affect the fund. Mr. Baran explained he expects the Fed to raise rates this year and it should be viewed as positive as long as it is done slowly. He explained average expected dividend yield is 5% annually. Mr. Baran and Mr. Stover departed the meeting at 11:03 AM.

Intercontinental: Peter Hapgood and Peter Palandjan appeared before the Board to present their real estate portfolio. Mr. Hapgood introduced himself and Mr. Palandjan providing details about their firm explaining they began as a construction company over 50 years ago. He explained they will be holding an annual investor meeting in Florida the beginning of December. Mr. Hapgood explained they have a separate vehicle doing construction in NJ only and this portfolio is strictly real estate. He described their investment process noting the investment committee meets at least monthly. Mr. Hapgood explained most members of their advisory board co-invest in the fund; the investment team is invested in the fund and pays the same fees as all client funds. He explained redemption is typically a 90 day process and while they have never had an exit queue; it could happen. Mr. Palandjan explained the construction was in-house in the first fund which created a conflict in the public pension world so they are no longer doing the construction and are instead managing the construction which is done by someone else. He reported 5.7% dividends paid since inception. Mr. Palandjan then reviewed the fund details and the debt summary explaining all primary mortgages are fixed and they match the debt to the style of the deal to ensure on any given year they will not have too much debt rollover. He reviewed their lease

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expiration advising they put much emphasis on keeping tenants. He reported low to mid 5% is expected from income. Mr. Palandjan then reviewed the property diversification and geographic diversification explaining apartments follow population while commercial rents tend to follow jobs. He then reviewed specific portfolio holdings, buys and sells explaining the new properties cannot be valued and updated until they have been held for a year. Mr. Palandjan explained they have an appropriations clause in the contracts although they have never exercised the clause. The fees were discussed inclusive of a revenue share over 8% with a two year wait and a high water mark provision; fees are also taken for mortgage finance and acquisitions as needed; however Mr. Palandjan assured the Trustees the costs are always less than what the market would pay. Mr. Palandjan responded to several questions from the trustees. Mr. Hapgood and Mr. Palandjan departed the meeting at 11:50 AM.

Lengthy discussion followed regarding the presentations; leverage, fees, style and returns. Greg McNeillie reminded the Trustees the recommended investment is \$5M. James Estep explained he had attended an Intercontinental investor meeting noting they appear to be very team oriented. Each trustee addressed their preferences related to the details provided.

- Susan Finn made a motion to enter into an agreement with Intercontinental for core plus real estate with an investment amount of \$5M. The motion received a second by Manny Esparza and was approved by the Trustees 4-0.

Greg McNeillie recommended funding the investment from a combination of available cash and the passive large cap accounts. He then explained he may recommend agriculture as an additional allocation at some point in the future. Discussion followed regarding hedge funds and Mr. McNeillie explained he has avoided them due to transparency issues. Discussion returned to manager performance and Mr. McNeillie reported there were no specific manager concerns at this time.

### ACTUARY REPORT

Don Dulaney presented an assumption review inclusive of the assumed rate of return (ARR), annual salary increases and turnover rates. Lengthy discussion followed regarding the probabilities versus the actual activity and the impact the differences have on the pension plan funding. It was noted the state requested the fund reduce their ARR and it would be ideal if it can be decreased without increasing cost to the City. Mr. McNeillie explained the ARR is more of a budgeting tool and the Plan can justify 8.5%. It was noted the lower ARR would help to increase the Plan's funded ratio; however discounting benefits at a lower rate creates an increase to the initial cost. Mr. Dulaney advised the Miramar Fire Plan is one of only ten public pension funds across the state with an ARR over 8%.

- Manny Esparza made a motion to accept Alternate 3; reducing the ARR down to 8.25%, adjusting the annual salary increase down to 9.18% per year for the first six years of service and 4.03% per year thereafter and a 10% reduction in the assumed turnover rate. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

Mr. Dulaney then addressed an email he had received from the City requesting an estimated cost related to the potential legislative changes on the required mortality table change. He explained such a change typically costs and additional 3% of payroll; however it depends upon the specific demographics. He feels they should wait until they are forced to make the change and he noted the Plan is currently using GAM83. Bonni Jensen reviewed the language associated with the Bill reporting the Plan must choose based upon their specific demographics.

Mr. Dulaney presented a fee renewal for consideration. Discussion followed regarding the current agreement done in 2012 that was guaranteed for three years ending 2015.

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- Sue Finn made a motion to accept the fee renewal effective October 1, 2015 as presented. The motion received a second by Manny Esparza and was approved by the Trustees 4-0.

### ATTORNEY REPORT

FICA UPDATE: Mrs. Jensen advised there has been no response from the City. She will follow up with Ian Thomas accordingly.

IRS DETERMINATION UPDATE: Mrs. Jensen explained the IRS has determined DROP plans with a variable rate are definitely determinable; however they want Plans to provide a formula that would provide a rate for the members. She explained the IRS letters from the first round are expiring and she hopes this Plan's letter, when approved, will extend beyond the January 2016 date.

FORM 1 FILING: Mrs. Jensen advised the Form 1 filing is due by July 1<sup>st</sup>. She requested the trustees keep proof of their filing or send it to her office and they will file it for the trustee. She reviewed the rules regarding the filing and comparative threshold, reminding the trustees to report any DROP, 457 and Florida prepaid account information. She explained the form is intended to determine if the trustee has any interest (potential conflict) in relation to potential providers. Mrs. Jensen noted many trustees just include a copy of their 457 statement with their personal information redacted.

LEGAL UPDATES: Mrs. Jensen addressed the new rules regarding the Share Plans explaining Share Plans created after December 1, 2000 are to use the new frozen amount for the year 2002. Since this Share Plan was created in 2007, the new frozen amount will be the 2002 number. She explained they can opt out of the Bill by mutually consenting with the City in a CBA.

The meeting continued after a short break.

Mrs. Jensen reviewed the remaining changes from HB1309 and SB172. She explained the new rule requires the Plan sponsor and the Plan provide information in their budget and on their website. She further explained the Plan must post the actuarial report and audited financial report on the website as well. Mrs. Jensen explained she has a cover memo (for the report being posted by the actuary) to help explain what the report is for in an effort to help the general public understand more clearly. She explained the investment consultant will also need to provide a chart of earnings for 2013 and 2014 in comparison to the assumed rate of return. Mrs. Jensen then reported a Bill passed requiring the Plan use the FRS mortality table effective January 1, 2016 and at the moment it is not expected to be vetoed. She explained there will be a cost for the change and it is an unfunded mandate. Additionally, the Board will have to create a budget for administrative expenses and provide the budget to the Fire District as well as make it available to the members. Mrs. Jensen explained they will use expenses from the prior year's audited financial statement and increase by a reasonable amount. She noted much of the new reporting requirements fall on the actuary. The administrator will bring a proposed budget to the next meeting for review.

Mrs. Jensen presented the updated "State of the Pension Plan" brochure noting they have been charged for the last set of changes. They will have the raw file for the Plan records and the brochure is ready to be distributed to members.

Orlando Segarra and Greg McNeillie departed the meeting at 1:52 PM.

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SUMMARY PLAN DESCRIPTION: Revised SPD was presented for review. The changes included the Post Retirement Supplement change as well as language clarifications.

- Manny Esparza made a motion to approve the Summary Plan Description as presented. The motion received a second by Sue Finn and was approved by the Trustees 3-0.

SURPLUS EQUIPMENT BILL OF SALE: Mrs. Jensen presented the revised "Bill of Sale" notice for old equipment.

- Sue Finn made a motion to approve the Surplus Equipment Bill of Sale as presented. The motion received a second by Manny Esparza and was approved by the Trustees 3-0.

The trade in amount for the iPads was reviewed online during the meeting and the amount was found to be \$20.

Bonni Jensen reported of a class action law suit regarding lending funds and Northern Trust would be filing on behalf of the Board.

She then reported there has been no update on the In-Service Distributions requested of the City.

Mrs. Jensen then reported Rebecca Katz has departed the portfolio monitoring firm she was with and had requested consideration to contract with the new firm. Discussion followed regarding the portfolio monitoring.

Discussion followed regarding the City's request for OPEB data. Mr. Dulaney advised he has responded to the City and Mrs. McNeill confirmed she will also respond accordingly.

### OLD BUSINESS

PAYROLL DATA UPDATE: Discussion followed regarding the payroll data matter and the electronic files to be reviewed by SI Gordon & Company with each bi-weekly payroll process. Mrs. McNeill reported they are still awaiting the necessary files for the auditor to review.

### ADMINISTRATOR REPORT

BENEFIT APPROVAL: Benefit Approvals for DROP entry for Scott Pratt and Richard Hofberg were presented for consideration.

- Manny Esparza made a motion to approve the Benefit Approvals as presented. The motion received a second by Sue Finn and was approved by the Trustees 3-0.

### NEW BUSINESS

TRUSTEE SEATS: Denise McNeill explained Orlando Segarra had expressed his interest to remain in the Fifth Seat and requested Board consideration. She then explained the seats for both James Estep and Manuel Esparza are up for renewal and a notice is being posted for the open seats.

Discussion then followed regarding the Share Account interest and the language in the policy. It was noted the policy is not in line with the Ordinance and will need to be updated as the Share account interest was not posted correctly in the most recent batch. Discussion followed regarding clarifying the language to be used.

- Sue Finn made a motion to change the policy to accurately reflect the Ordinance language of the 0% floor and 8% ceiling and for the interest to be determined in the same

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*manner as the DROP accounts for the non-grandfathered DROP members. The motion received a second by Manny Esparza and was approved by the Trustees 3-0.*

*Lengthy discussion followed regarding the effective date. Mrs. McNeill explained they had applied the fund rate versus the floor/ceiling (collared) rate for the thirty non-vested members. Mrs. Jensen explained much focus was given initially on the DROP policy and the Share account policy change was done after the fact. It was noted the Share account error was a "reporting error" and should be corrected.*

- *Sue Finn made a motion to amend the Share policy to reflect the Ordinance language that all non-grandfathered active members would have the collared rate retroactively effective October 1, 2013. The motion received a second by Manny Esparza and was approved by the Trustees 3-0.*

*It was noted the change would impact non-vested members who were initially given the Plan earnings. Mrs. Jensen requested a detailed report reflecting the differences for each member. The administrator will provide that detail for the Board at the next meeting and will do a notice regarding the change to the membership. The Trustees instructed for the statements to be removed from the online access until the accounts have been corrected.*

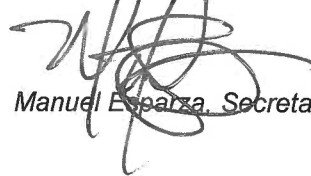
*Sue Finn reported she had attended the Klausner Kaufman Jensen & Levine conference and found it to be very informative.*

*Mrs. McNeill reported on the pending disability application noting the process has not begun as they are still waiting for the physician listing from the member. Mrs. Jensen cautioned the Trustees the process can take six to twelve months and she reviewed the disability process.*

### **ADJOURNMENT**

*The Trustees acknowledged their next meeting date was set for August 20, 2015. The meeting was adjourned at 3:07 P.M.*

*Respectfully submitted,*



*Manuel Esparza, Secretary*