

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING

November 15, 2018

Chairman Leo Nunez called the meeting to order at 8:07 A.M. in the Meeting Room of Fire Station 100 located at 2800 SW 184th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

Leo Nunez, Chairman
Cliff Ricketts, Secretary
Patricia Barry, Trustee
James Estep, Advisory Comm (9:10)

OTHERS PRESENT

Denise McNeill; Resource Center; Admin
Bonni Jensen; Klausner, Kaufman, Jensen & Levinson; Attorney
Greg McNeillie; Dahab & Assoc; Consultant
Peter Haggood; Intercontinental
Daren Kleis; Principal
Don Dulaney; Dulaney & Co; Actuary
Ian Thomas; City of Miramar (8:50)
Barbara Calderbank (9:38)
Members of the Plan

TRUSTEES ABSENT

Susan Finn, Trustee
Ulises Carmona, Trustee
Manuel Esparza, Advisory Comm
Noel Marti, Advisory Comm
Jason Swaidan, Advisory Comm

PUBLIC COMMENTARY

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

MINUTES

The September 2018 minutes were presented for review.

- Cliff Ricketts made a motion to approve the minutes for September 2018 as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

INVESTMENT MANAGER REPORT – PRINCIPAL

Darren Kleis of Principal appeared before the Board to present the quarterly report for the period ending September 30, 2018. Mr. Kleis provided a portfolio update noting the leverage ratio is 18%, down slightly from the past few quarters with a 93% occupancy rate. He reviewed the geographic allocation noting they are overweight in the south and west and they did not have any asset close to the fires in California. They are seeing a flattening of appreciation and are looking to reduce risk in the portfolio. Since office space is the most volatile, they have reduced that class slightly transitioning to multi-family. The development part of the portfolio was reviewed noting they are currently working with Amazon to lease the new warehouse property in Orlando. Discussion followed regarding construction costs. The retail assets held are all grocery anchors (no malls). The overbuilding of apartments has stabilized recently and will have positive tax benefits in the multifamily sector. The overweight to industrial has also been good for the portfolio. Mr. Kleis reviewed the top ten assets. He then reviewed their performance explaining they are expecting 8.9% for 2018, 7.6% 2019 and 15.3% 2020 due to the leasing schedules in the portfolio. Discussion followed regarding rising interest rates and the impact on the portfolio.

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They expect a slow interest rate increase which should not be an issue; however quick and high increases to the interest rate could be an issue for highly leveraged investors. Most of the debt held in their portfolio is fixed and they have already paid off their more expensive debt. The leverage summary was reviewed with the board. Darren Kleis exited the meeting at 8:29 A.M.

INVESTMENT MANAGER REPORT – PETER HAPGOOD

Peter Hapgood of Intercontinental US Real Estate appeared before the Board to present the quarterly report for the period ending September 30, 2018. He explained they are a core plus manager and agrees with Mr. Kleis' market update. Their leverage allows up to 50%; however they have reduced it to 34.7% of the portfolio currently. The leverage is diversified as Intercontinental uses a different approach. He reviewed the Fund noting they are currently in the NCREIF index and they will need to keep it below 40% to remain in the index. The creation of the open ended fund has been a benefit to institutional investors. They like health facilities and dependent care for which they manage the property. All properties are appraised quarterly. The Plan is fully invested and has no pending capital to be called. Properties in disaster areas are fine so far and the assets are protected as best as can be insurance wise. The top ten holdings were reviewed. Industrial buildings are a hot spot at the moment and are difficult to find. Their core buildings are leased out to 2035. Mr. Hapgood described specific holdings in the portfolio and reviewed the acquisition activity. Currently, ground up development is 7-8% of the portfolio. Higher interest rates can be good for the appreciation in the portfolio on existing properties. Mr. Hapgood responded to several questions from the trustees. They expect appreciation on the total performance; however it is a relative number and not actual until the property is sold. Due to the market transition, they do not expect double digit returns going forward. They do not expect more appreciation and the money earned going forward will be on the income. Of the leverage held, 81% is fixed and 19% is variable. They have a strategy to ensure they can sell at any time, should the need arise. Pete Hapgood exited the meeting at 9:00 A.M.

INVESTMENT CONSULTANT REPORT

Greg McNeillie of Dahab & Associates appeared before the Board to present the quarterly report for the period ending September 30, 2018. Mr. McNeillie reported fiscal year end returns of the following: the Fund was up 9.9% (net of fees) below the bench of 12.1% and 10.3%; domestic equities were up 16.2% below the bench of 17.6%; large cap equity was up 18.7%, mid cap equity was up 12.1% below the bench of 14%; small cap equity was up 15.4% beating the bench of 15.2%; foreign equity was up 1.2% below the bench of 1.8% and 2.7%, real assets were up 8% and fixed income was down at -0.6%; all of which resulted in the Plan being in the top 18th percentile of the public fund universe. Total returns for the ten years are in the top half of the public fund universe. Each manager was reviewed in detail. Parametric (Eaton Vance) has not measured up to the index as they did not hold some of the large specific assets with a higher allocation. Discussion followed regarding the Lee Munder index. Mr. McNeillie explained they are transitioning from the R2500 to the RMidCap and they are taking time to transition using a blended rate from each index. The Plan has been in the top percentile of public funds while increasing non-equity assets to 30% of the portfolio. They have stepped up the return with real assets (real estate and timber). Hancock reported no direct impact on Fund XI; however timber pricing can become soft. Molpus reported a similar situation with no direct impact to Fund IV. Mr. McNeillie reminded the Trustees that salvaged wood can still be brought to mills. Mr. McNeillie reviewed the asset allocation noting they are in target ranges overall. In the short term, they are underweight to emerging markets; however that underweight has been good for the Plan. Mrs. Jensen inquired into the fees. She explained of a recent study explaining how fees are not always transparent and understated in the audits. She would like to see auditors on board with more clearly identifying fees; however they are not clearly and easily identifiable in many cases.

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Mrs. Jensen would like to see more disclosure and more detail related to the fees in portfolios noting the issue relates more with mutual funds, real estate and timber. The Plan beat the assumed rate of return for the year.

EMERGING MARKET MANAGER SEARCH

Mr. McNeillie presented an emerging market manager search. He explained that he does not want the Plan out of the asset class entirely. He explained Parametric is the pseudo-index. He reviewed the detailed process of how the search was short-listed and how the consultant came to the recommendation of the final three; Fidelity, Putnam and Wellington. All of which have under 100 holdings. Discussion followed regarding the asset class and each of the managers in the short list from the search.

- Cliff Ricketts made a motion to invite Fidelity, Putnam and Wellington to present at the next meeting. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

Mrs. Jensen explained the January date is Dr. Martin Luther King, Jr Day so she requested the administrator check with the City to see if the meeting can be held on that day.

ACTUARY REPORT

Don Dulaney presented the Post Retirement Supplement calculation reflecting an increase from the current amount of \$255.16 to \$263.53 effective January 1, 2019.

- Cliff Ricketts made a motion to approve the Post Retirement Supplement of \$263.53 effective January 1, 2019. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

Mr. Dulaney presented the final 2017 Actuarial Valuation report inclusive of the State's requirement of the payroll assumptions. As per the Board's previous discussion, the Plan's attorney had sent an appeal to the State's actuary regarding the assumptions and the appeal was denied. As such, the City made the additional contribution of \$451,591 to the Plan on September 28, 2018. The final report reflects a payroll assumption of 1.78% instead of the 3.5% used previously. Mr. Dulaney reviewed the current amortization process adopted from the prior actuary which begins lower and increases over time. The prior year amortization cost was \$3.9M and has increased to \$4.3M in the current report. Changing to the level dollar amortization would increase the cost initially; however it would be level going forward. Mr. Nunez explained the Union contract was approved and there is a pending Ordinance change to allow the City to use the 175 funds received in October this year. Mrs. Jensen explained now that the 2017 valuation is completed, the actuary will need to do an impact statement and it should be sent to the City with a cover letter informing them their contribution will be reduced by the amount agreed upon with the Union. Discussion followed regarding the process with Ian Thomas and the Trustees.

- Cliff Ricketts made a motion to approve the 2017 Actuarial Valuation report as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

At the prior meeting, Mr. Dulaney had been instructed to do an experience study and review the Plan's assumed rate of return (ARR). The Plan's ARR is currently 8.15% which according to the State's actuary; is the highest in the State. Private ERISA Defined Benefit Plans must use 5.9%; however government DB plans have been allowed to use higher ARR's. Mr. Dulaney presented a cost comparison of lowering the ARR; noting each reduction of 0.25% equates to about a 6% increased cost to the City. According to the State's actuary, 7.5% is both the mean and the median. Mr. Dulaney reviewed the difference of each projection in detail. He explained that he

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uses the Entry Age Normal (EAN) for all of his other clients. He recommended the Board consider changing to the EAN process for the October 1, 2018 valuation. Mr. Nunez explained that the City requested for the study to be completed; therefore he requested a formal response from the City of what they would like for the Pension Board to do about the EAN and ARR. Mr. Thomas explained informally he would expect the ARR range to be 7.9% to 7.75% and the City would expect a cost increase related to the change. Mr. Nunez requested Mr. Thomas have the City provide a formal response of what action they would like for the pension board to make on this matter. He wanted the Board to have some guidance on what to instruct the actuary for the 2018 valuation report. Lengthy discussion followed regarding the matter. A typo was noticed on the report from the actuary. Mr. Dulaney will send a revised report accordingly. Discussion followed regarding the GASB 67 and 68 Reports. Mr. Dulaney explained GASB 68 is the City's responsibility and GASB 67 is the Board's responsibility.

ATTORNEY REPORT

PERMISSIVE SERVICE POLICY: Mrs. Jensen presented the revised Permissive Service Policy as amended by the Trustees at the prior meeting.

- Cliff Ricketts made a motion to execute the permissive service purchase policy as amended. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

ORDINANCE AMENDMENT: Mrs. Jensen presented a draft Ordinance Amendment regarding the Union's agreement to allow the City to use \$900,000 of the 175 funds to offset their cost for a new benefit. The allowance is for this year only and the money received in the fall of 2019 returns back to the Share accounts accordingly. Discussion followed regarding the amendment presented.

- Cliff Ricketts made a motion to approve the Ordinance Amendment reflecting the changes related to the Collective Bargaining Agreement. The motion received a second by Patricia Barry and was approved by the Trustees 4-0.

DISBURSEMENTS

Denise McNeill presented the disbursement report and financial statements for review.

- Cliff Ricketts made a motion to approve the disbursements as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

ADMINISTRATOR REPORT

BENEFIT APPROVALS: Tabled to next meeting.

2019 MEETING SCHEDULE: The 2019 meeting schedule was presented in the trustee packets.

FIDUCIARY LIABILITY POLICY: Mrs. McNeill advised the policy had been renewed accordingly.

NCPERS UNINTENDED CONSEQUENCES: Mrs. McNeill had provided an article from NCPERS for informational purposes regarding the unintended consequences of scaling back on public pension plans.

OTHER REPORTS

Mrs. McNeill noted additional reports from Pomerantz and BLBG were included in the meeting packets for informational purpose along with distribution notices from Molpus and Hancock.

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OLD BUSINESS

There were no items for discussion.

NEW BUSINESS

BENEFIT NEGOTIATIONS: The matter had already been discussed under actuary and attorney reports.

CALDERBANK DISABILITY

The administrator had sent an inquiry to City in August asking: 1) Ms. Calderbank's formal termination date from the City, and 2) would the City have had a position to accommodate Ms. Calderbank for the shoulder injury had she not been terminated. The City had provided confirmation of her formal termination date (according to their records); however the response from the City on the position was not clear and therefore remained unanswered. Mr. Nunez explained they needed a more clear response from Ms. McLean at the City. The matter was tabled to the January meeting.

NEW BUSINESS - Continued

Cliff Ricketts inquired into GAME employees and the date of hire related to coordination of benefits between the pension plans. Mrs. Jensen explained the eligibility of this Plan dictates the Fire Pension benefits. The members DROP clock begins to deplete at 25 years.

ADJOURNMENT

The Trustees acknowledged their next meeting date was set for January 21, 2019.

- Cliff Ricketts made a motion to adjourn the meeting at 11:05 AM. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

Respectfully submitted,


Cliff Ricketts, Secretary