

ST. LUCIE COUNTY FIRE DISTRICT FIREFIGHTERS' RETIREMENT FUND



Minutes of Meeting Held May 16, 2013

The meeting was called to order at 2:25 P.M. by Chairman, Ronald Parrish.

Those persons present were:

TRUSTEES PRESENT Paul Raymond

Ronald Parrish
George (Buddy) Emerson
Anthony (Tony) Napolitano
Ignatius (Nate) Spera

TRUSTEES ABSENT None

OTHERS PRESENT

Scott Baur, Denise McNeill & Rachel Valdez; Resource Center
Bonni Jensen; Law Office of Perry & Jensen
Burgess Chambers; Burgess Chambers & Assoc.
Jay McBee; DiBartolomeo, McBee, Hartley & Barnes, P.A.
Mark Lebovitch & Jeremy Friedman; Bernstein, Litowitz,
Berger & Grossman
Jonathan Davidson; Kessler, Topaz, Meltzer & Check

PUBLIC COMMENTARY

There were no public comments at this time.

MINUTES

The minutes from the March 21, 2013 meeting were presented to the Board.

- Tony Napolitano made a motion to approve the minutes as presented. The motion received a second from Buddy Emerson and was approved by the Trustees 5-0.

DISBURSEMENTS

The disbursement listing was presented to the Board in their meeting packets. Denise McNeill noted the disbursements included a DROP distribution. Due to the size of the requested distribution, the DROP distribution had been reviewed by the actuary to ensure it would be allowable under the IRS Section 415 limits. The request was found to be within the allowable distribution amount.

- Nate Spera made a motion to approve the disbursements as presented. The motion received a second from Paul Raymond and was approved by the Trustees 5-0.

AUDITED FINANCIAL STATEMENT REPORT

Jay McBee appeared before the Board to present the audited financial statement report for fiscal year ending September 30, 2012. Mr. McBee reported the assets increased the past year to \$157 Million in net assets as of the fiscal year end compared to \$132 Million the prior year. He noted it was a great year for the Plan. There was a discussion in regards to the over contribution made by the Fire District for their employer contributions. Mr. McBee stated the actual dollar amounts are reflected in the report. Mr. McBee reviewed the report further in detail. Mr. McBee responded to various questions from the Trustees.

- Paul Raymond made a motion to approve the report as presented. The motion received a second from Tony Napolitano and was approved by the Trustees 5-0.

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INVESTMENT CONSULTANT REPORT

Burgess Chambers appeared before the Board to present the quarterly investment performance report for the period ending March 31, 2013. Burgess Chambers noted his firm reached a milestone this year with its 25th anniversary. He wanted to thank the board for their support and business over the years. Mr. Chambers explained he went forward with a business model with no broker ties and it took a long time to make the approach work. He noted that there is now much more transparency in the industry that was not there previously. He provided the board with a handout from Atlanta Capital; the Plan's large cap growth manager. The report reflected that lower quality companies out performed higher quality companies in the market in 2012. Mr. Chambers explained he began the process a couple years ago to reduce Beta in the Plan and in doing so, has introduced private real estate, convertible bonds and hedge funds. Mr. Chambers then reviewed the quarterly report in detail. He noted the Plan's four year average was 13.5%. He explained the Plan was up 4.7% for the quarter and 7.0% for the fiscal year. He noted the plan was up 9% year to date through the current week. He explained that he expects the plan to earn double digits for the fiscal year. Discussion followed regarding the specifics of the asset allocation and Mr. Chambers responded to various questions from the Trustees. He explained the Vanguard ETF is the high risk portion of International asset, focused solely on emerging markets; which has been a high performing asset until the recent quarter. Mr. Chambers explained that long term emerging markets is a good alternative; however recent matters in Europe and China have had a negative impact on the asset. Mr. Chambers reported the market has been crazy, up 14%-19% in 7.5 months which is unsustainable. Mr. Baur inquired into the Vanguard emerging market investment and the tracking errors with Vanguard. Mr. Chambers reported that he will provide more detail of the emerging market asset in the next report. Mr. Chambers then addressed the MLP's explaining he would like to invite a couple of firms to present to the Board at the September meeting. The Trustees agreed to hear MLP presentations in September. Mr. Chambers then reminded the Trustees that the goal is not to hit the ball out of the park but instead to consistently meet and exceed the Plan's assumed rate of return while keeping costs low. He then addressed Westwood noting their numbers are improving on a relative basis; however they are not meeting their goal. He noted their style has not been in favor in recent periods and he feels their style will transition back into favor. Overall, he noted the Plan is saving approximately \$800,000 per year in fees. Mr. Chambers will continue to review the plan's investments and will rebalance according to the asset allocation in the investment policy as needed.

SECURITIES MONITORING PRESENTATIONS

Mark Lebovitch and Jeremy Friedman of Bernstein, Litowitz, Berger & Grossman appeared before the board to present securities monitoring for the Plan. Mr. Lebovitch introduced himself and Mr. Friedman and provided historical information about their firm. He explained that he had previously represented large corporations and officers and has since transitioned to representing and protecting the shareholders. He explained their firm handles securities litigation and governance litigation. Mr. Lebovitch explained his firm led the \$2.8 Billion case against Bank of America and the have brought in \$5.4 Billion total since the beginning of the onset of the subprime credit crisis. He explained in governance litigation, reputation goes far and the lead is not determined by the size of the loss. He noted that corporate governance challenges companies for rulings on governance which requires quick litigation and immediate action, often before mergers happen. Mr. Friedman presented a list of Florida clients noting they have 22 public plans. Mr. Lebovitch described a situation with Citi Bank and Merrill Lynch where attorneys were pursuing common stock claims and the bonds had been ignored. He explained their firm caught the bond matter and filed before the deadline. Mr. Baur inquired into the need for historical custody reports, explaining the Board's recent change to a new custodian. Mr. Lebovitch explained that they are dealing primarily with corporate governance and therefore they focus on the current information so there is no need to access prior custodian detail. Discussion followed regarding the process. Mrs. Jensen explained services are provided to the Plan at no cost if filed, and then all costs

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are taken from the litigation win. Mrs. Jensen explained her firm would not charge any legal fees to the Plan as her firm would be paid out of the litigation costs. Mr. Baur inquired how the firm handles an impact to the Plan for additional administrative costs and Mr. Lebovitch explained his firm would reimburse the Plan for any expenses incurred to acquire old records as needed. Mark Lebovitch and Jeremy Friedman departed the meeting at 3:38 P.M.

Jonathan Davidson of Kessler, Topaz, Meltzer & Check appeared before the board to present securities monitoring for the Plan. He introduced himself and provided a historical review of his firm. He reported his firm is the largest shareholder litigation firm in the world and they have recovered Billions on behalf of shareholders. Mr. Davidson noted his firm has 35 public plans in Florida and he reviewed their company resources noting they have a premier daily monitoring program in place. He described their process explaining they begin with a two year historical audit. Mr. Davidson addressed international allocation in detail noting they have modified their process to consider rules for international litigation. He explained that 99% of the time their recommendation will be to do nothing and his firm will keep the Plan up to date on the case. Mr. Davidson explained his firm can also file all claim forms on behalf of the Plan, however most custodians handle that process. He reported they have an online system and all Trustees would have their own log in to their system.

After a brief break, the meeting continued at 4:02 P.M.

Mr. Baur inquired into their ability to access information explaining that SunTrust only provided paper reports therefore no historical custody detail would be available electronically. Mr. Davidson had offered to send Fed Ex boxes with return labels; however Mr. Baur explained as the records custodian, the Plan cannot release their only set of originals. Mr. Davidson explained that ideally, they would want files back to 2000. It was noted that the historical record copies will be an issue and that would need to be addressed if the Board chose to move forward with service from his firm. Mr. Davidson explained that he may be able to use the annual composite statements instead of the monthly statements. Jonathan Davidson departed the meeting.

Bonni Jensen reported that the General Pension Board tabled further discussion of hiring additional portfolio monitors to a later date. She further stated that she works with firms that have more than one monitor as there is not a downside to multiple firms monitoring the fund, but she said that six monitors would be excessive. Discussion followed regarding both firms.

- Paul Raymond made a motion to hire both Bernstein, Litowitz, Berger & Grossman and Kessler, Topaz, Meltzer & Check for portfolio monitoring services as long as there is no cost to the Plan for the services. The motion received a second from Nate Spera for discussion. It was noted that Kessler Topaz is farming old cases while Bernstein Litowitz is looking forward for future action. Discussion followed regarding the cost of providing records as far back as 2000. The motion was approved by the Trustees 5-0.

ACTURY DISCUSSION

Scott Baur explained the 2011 and 2012 valuation reports had been approved; however the employer funding had been on a quarterly schedule when the valuations were completed and the Fire District is not receiving the needed credit for prefunding the Plan in the current valuations. The actuary has confirmed it will cost \$1500 each to have the valuations revised to include credit for the actual pre-funding. Mr. Baur explained in the current process, the 2011 funding was short \$29,000 and if the report is revised to account for the pre-funding, the Plan will have a \$241,000 credit. Mr. Perdew confirmed the Fire District plans to pre-fund next year as well. Mr. Baur explained the savings would be greater if the pre-funding was done as early as October.

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- Paul Raymond made a motion to have the valuations revised inclusive of the employer's pre-funding and to include the full pre-funding for the next plan year. The motion received a second from Nate Spera for discussion. Discussion followed regarding the process and who had initially requested the pre-funding amounts be calculated. Buddy Emerson explained he would prefer to hear about the details from the actuary. It was noted that the actuary had been invited; however was unable to attend the meeting. The motion was approved by the Trustees 4-1, with Mr. Emerson voting against.

Discussion then followed regarding the supplemental benefit and early retirement DROP. The Board had not received information from the actuary regarding the study. Mrs. Jensen explained that if the valuations change, then the information related to the supplemental benefit and early retirement DROP may also change. The Board discussed the negotiation process. Mrs. Jensen explained that ultimately, the Board is responsible to approve the final valuations. The Trustees instructed the administrator to follow up on all pending items with the actuary.

ATTORNEY REPORT

Bonni Jensen presented the DROP policy (approved at the March 21, 2013 meeting) for signatures. She also reported that investment manager signature authorizations should be updated to reflect the changes in the Board. The Trustees signed the new forms accordingly. She then provided detailed legal updates noting that the significant pension pieces did not pass. Senate Bill 458 passed the senate and house and then was postponed. Bonni Jensen then reviewed several changes related to recent legislation in detail with the Trustees. Mrs. Jensen reported that the Ethics bill passed and the Form 1 can now be filed on behalf of the Trustee by their personal attorney or accountant. Related to penalties, the State has a large amount of uncollected debt. The legislature also allows for the collection assessment to be garnished from wages. She explained the Form 1 can be filed online in 2015.

Mrs. Jensen stated that two bills have passed, but are not yet law. The first requires that meetings must allow for public comments and it should be posted on the agenda. The second is a reporting requirement that will require more than one actuarial valuation. Beginning after June 1, 2014 there will be significant reporting requirements. The bill mandates the use of the RP2000 mortality table. These reporting requirements will impose more costs to the plan. Mr. Spera inquired into the purpose of the additional valuations. Mrs. Jensen explained one will be used to tell the Fire District the funding requirement while GASB now requires the additional reporting. She then explained that once again, FRS has been exempted from the changes.

Mrs. Jensen reminded the trustees to file the Form 1 by July 1, 2013. She recommended that the trustees file the Form in such a way that is traceable.

ADMINISTRATIVE REPORT

BENEFIT APPROVALS: Benefit approvals were presented in the Board's packet for review.

- Nate Spera made a motion to approve the benefit approvals as presented. The motion received a second from Paul Raymond and was approved by the Trustees 5-0.

DISABILITY APPLICATION: Denise McNeill reported that she has received most of the medical records requested for . She explained she needed direction as to who the Board has used as the medical reviewer. Bonni Jensen stated she will coordinate with Mrs. McNeill to find a local specialist. Discussion followed regarding the process. Mrs. Jensen explained the Board must review the facts as they cannot grant a disability pension benefit without doing so.

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PUBLIC RECORDS MAINTENANCE: Denise McNeill reviewed a request received from the Division of Retirement related to the State keeping confidential records. Bonni Jensen explained the document must be signed by the Fire District. Chief Parrish signed the document accordingly.

FINANCIAL STATEMENTS: Denise McNeill reviewed the financial statements presented in the Trustee packets. There were no questions at this time.

SCOTT & SCOTT SECURITIES LITIGATION REPORT: Denise McNeill presented the report in the Trustee packets.

GREAT LAKES DREDGE & DOCK SECURITIES REPORT: Mrs. Jensen advised there was one litigation in the alert that the Board could participate in. Bonni Jensen noted Scott and Scott has requested the Board consider joining the litigation.

- Tony Napolitano made a motion to retain Scott & Scott in the Great Lakes Dredge litigation. The motion received a second from Nate Spera and was approved by the Trustees 5-0.

Bonni Jensen will communicate the Board's decision to Scott & Scott.

Nate Spera inquired into complaints of many members of the DROP being approached by a Merrill Lynch representative. Denise McNeill reported that she has also received calls and e-mails from the representative. It was noted that Ken Crooks, the Fire Districts attorney, responded to a public records request from the Merrill Lynch representative in regards to DROP participants. Nate Spera further stated it is uncomfortable for members to be approached in this manner.

Buddy Emerson stated that his frustration in the discussions earlier in the meeting pertaining to the actuarial valuations was not related to the performance of the Resource Centers and was instead related to Foster & Foster. He is not pleased with the timeliness of reports, communication with the Board and attendance of meetings. Nate Spera added the Fire District is going through the budget process and the actuarial reports and the pension information are both critical components. Ron Parrish stated he concurs with the Trustee comments and explained those examples are the same reasons why they initially replaced Gabriel Roeder Smith with Foster & Foster in 2011. Mr. Spera expressed concern with the negotiation process if communication continues to be held up by the actuary.

There being no further business to discuss, and with the next meeting previously set for July 18, 2013:

- Tony Napolitano made a motion to adjourn at 4:57 PM. The motion received a second from Nate Spera and was approved by the Trustees 5-0.

Respectfully submitted,

Ronald Parrish, Chairman