

ST. LUCIE COUNTY FIRE DISTRICT FIREFIGHTERS' RETIREMENT FUND



Minutes of Meeting Held March 19, 2015

Chairman Ronald Parrish called the meeting to order at 2:15 PM.

Those persons present included:

TRUSTEES PRESENT

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

OTHERS PRESENT

*Denise McNeill & Kerry Dutton; Resource Centers
Bonni Jensen; Law Office Bonni Jensen
Burgess Chambers; Burgess Chambers & Associates
Peter Hapgood; Intercontinental
Court Reporter (Requested by Dana Beach)
Members of the Plan*

PUBLIC COMMENTARY

There were no public comments at this time.

MINUTES

Minutes were presented to the Trustees for the January and February 2015 meetings.

- Paul Raymond made a motion to approve the January and February 2015 minutes as presented. The motion received a second from Nate Spera and was approved by the Trustees 5-0.*

DISBURSEMENTS

The disbursement listing and financial statements were presented to the Board in their meeting packets. Denise McNeill reviewed the list that included several DROP withdrawal requests for April 1, 2015 and she addressed special payments related to medical records requests for a pending disability application in progress.

- Nate Spera made a motion to approve the Disbursements for March 19, 2015 as presented. The motion received a second from Tony Napolitano and was approved by the Trustees 5-0.*

INVESTMENT MANAGER REPORT

Peter Hapgood of Intercontinental Real Estate Corp appeared before the Board to present an updated report through the period ending December 31, 2014. Mr. Hapgood described the initial role of real estate and their evolution into public pension plans. He explained since the NCREIF index initiated in 1979, they have experienced only four down years due to depreciated property values. Mr. Hapgood reported the average annual dividend paid by Intercontinental was 6% and they even paid a dividend in the down year of 2009. He explained as of March, 2015, the Plan is fully invested with no remaining funds to be called. He reported their strategy is to provide 6% to 8% cash yield and while returns are currently quite high, he expects returns to lower back to the expected yield range accordingly. He reported that real estate lags the market and the rental market is expected to increase by 3% to 6%. Mr. Hapgood then reviewed the portfolio details reporting leverage is currently at 43.7%; however the target is 50%. He explained the debt is part of their performance and as interest rates rise, the portfolio increases. He reported Intercontinental has beat their bench in the three year view; however they are slightly behind the bench since inception. He reported the Plan held 25 properties when initially hired in 2010 and they

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are now approaching 80 properties and he went on to provide an overview of the properties held. Mr. Hapgood explained the fund is well diversified among multi-family, retail, industrial and more; and while they follow the indicies, they are not lead by them. Mr. Hapgood addressed specific properties explaining they like health science and many of the properties owned in Boston are health science related. He reported they have also purchased nine properties in assisted living. Mr. Hapgood explained that they are a fixed rate shop with possibly 5% to 8% rollover on loans on single owner properties so they feel very good about the position of the portfolio. He explained in the down market, their management people were tasked with making sure tenants were happy and the strategy was successful in keeping the tenants in place. He advised value added properties take a little more time and effort to see the value returned. He reported almost \$20MM in the fund is from firm employees. Mr. Hapgood noted while 2015 is expected to have double digit returns; that should taper down in the following years. Mr. Hapgood invited the Trustees to an upcoming client meeting to be held at PGA National in Palm Beach Gardens on December 2nd and 3rd. He explained acquisition people will be available and there will be specific discussion related to the portfolio. Mr. Hapgood departed the meeting at 2:37 PM.

INVESTMENT CONSULTANT QUARTERLY REPORT

Burgess Chambers appeared before the Board to present the quarterly investment performance report for the period ending December 31, 2014. He began by addressing real estate explaining that it has done well for the Plan. He explained 30 to 40 years ago, the majority of defined benefit plan assets were in mortgages owned by big insurance companies. He described how the mortgages were held, there was no volatility and no concern regarding defined benefit (DB) plans. Mr. Chambers explained that much of the attack on DB plans today is due to the volatility in the marketplace. He further explained after ERISA was enacted in 1974, attorneys told trustees they were fiduciaries to their plans and insurance companies refused to accept fiduciary responsibility; therefore the insurance carriers have essentially departed the industry. Burgess Chambers then reviewed the report in detail beginning with an economic update. He addressed the issue of oil prices due to the Plan having MLP's and he explained that while the pipeline companies are not immune to the sentiment, he believes they will be fine even with the drop in oil prices. Mr. Chambers then reviewed the Total Funds Investment Summary, which reflected the Plan earned 1.6% for the quarter and 10.6% for the three year view. He reviewed the asset allocation and each manager in detail noting the private real estate did well. He reported the American Realty and Intercontinental capital calls have been completed. Mr. Chambers addressed Westwood and Atlanta Capital explaining that neither has been tested in the Bear market since they were hired in the Plan and he will see how they perform in the coming period. He noted 85% of public pension funds have not achieved their bench. Mr. Chambers then reviewed the Plan's risk versus reward noting the international was the biggest detractor in the Plan; however it is currently up 6.5%. He reviewed the asset allocation noting that over time, the program in place will beat a 60/40 portfolio with more diversification. He reported MLP's are new in the Plan and it was a negative quarter; however he feels that the physical delivery of the product is a good asset and will recover. Mr. Chambers advised he expects US companies will become a big provider of natural gas to Europe and Asia. Discussion followed regarding the Intercontinental hedge fund and Mr. Chambers explained he still feels it is good investment for the Plan. Mr. Chambers reported the Federal Reserve announced that due to the weakness in the labor market, they will hold on Federal interest rate increases. He reported the fund is going well and he has no recommendation for changes at this time.

WHV FEE REDUCTION: Bonni Jensen explained WHV has requested the Plan remove the provision in the contract that excludes them from offering a better fee to someone else (AKA most favored nations' clause) and in place of the change, WHV is offering to reduce the current fees related to the first \$10 MM from the current 1% down to 85 basis points. Mr. Chambers recommended the Board accept the

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addendum and he will monitor the fees and inform the Board if he hears of lower fees for any other comparable plan.

- Paul Raymond made a motion to approve the addendum to WHV reducing the fee and removing the most favored nations' clause. The motion received a second from Tony Napolitano and was approved by the Trustees 5-0.

ATTORNEY REPORT (BONNI JENSEN)

STERIS CORPORATION SHAREHOLDER LITIGATION: Bonni Jensen reported that Steris has rescheduled the vote of shareholders from March 12th to May 12, 2015. Jonathan Davidson of KTMC will keep the Board up to date on the Steris matter.

GREAT LAKES LITIGATION UPDATE: Mrs. Jensen addressed a revised settlement proposal discussed at the special meeting in February.

- Tony Napolitano made a motion to approve the revised settlement proposal. The motion received a second from Paul Raymond and was approved by the Trustees 5-0.

DROP PLANS AND IRS REVIEW: Bonni Jensen then addressed recent information released from the IRS regarding DROP accounts. She explained the question now is whether the benefit is definitely determinable and she believes that it is since it is based on a set formula (number of months X monthly amount X interest rate). She reported a recent email from a tax attorney reflects that the IRS is appearing to be more amendable to the DROP.

SUMMARY PLAN DESCRIPTION: Mrs. Jensen presented an updated Summary Plan Description for review. She reviewed the language regarding base pay and shared a recommendation from April Maya to adjust the payroll language to "applicable" pay since not all GE employees are covered by the Collective Bargaining Agreement. Nate Spera advised that there are approximately ten members in the Fire Plan who are also not governed by the CBA. Discussion followed regarding how to amend the document.

- Nate Spera made a motion to approve the revised Summary Plan Description as amended. The motion received a second from Paul Raymond and was approved by the Trustees 5-0.

ADMINISTRATOR REPORT

BENEFIT APPROVALS: A benefit approval was presented for Michael Matthy (175), Gary Key (175), Arthur Poolt (175), Gary Hazellief (175), Michael Jenkins (175), Kenneth Mayr (175), James Mincey (175), Robert Norvell Sr (175), Michael Rizzello (175), Thomas Neiman (175) and vested deferred Bruce Brannen (175). It was noted that Bruce Brannen's original pension approval was adjusted to properly reflect 100% J&S benefit.

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

DROP INTEREST CHANGE REQUEST: The Trustees reviewed a request received from Chris Bushman requesting authorization to rescind his election for the reduced interest rate which in turn rescinds the allowance for his spouse to keep DROP proceeds in the Plan. The letter from Mr. Bushman explained that he was not aware his interest reduction would take effect now and he only thought the reduction would be in place upon his death. It was noted that this request from Mr. Bushman is the only one that had been received. Lengthy discussion followed regarding the historical discussion of the process and the initial documents mailed to members in November 2014. It was noted that fourteen members elected the reduced interest rate to allow for their spouse or minor children beneficiaries to keep the funds in the

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Plan. Mrs. Jensen recommended if the Board is considering the change, then it should be offered to all fourteen members and they should require a signed release form from the member confirming that they understand the spouse cannot come back to the Plan upon the death of the member and argue the benefit otherwise. Discussion followed regarding the dynamics and the rules related to the offer. After discussion, the Trustees confirmed that they felt the cover letter may not have been clear and a one-time offer should be made to all fourteen members who had elected the reduced interest rate and that the change would be done prospectively with a future quarter end and not retrospectively back to the December 31, 2014 period.

- Paul Raymond made a motion to send a new letter as well as an election form with a release to all fourteen members who elected the reduced interest rate, allowing them a one-time option to change from the reduced (7%) interest rate back to either the variable or the fixed rate of return and for the change to be made effective June 30, 2015. The motion received a second from Buddy Emerson and was approved by the Trustees 5-0.

FIFTH THIRD SERVICE MATTERS: Denise McNeill described member frustration with Fifth Third Bank in processing benefit payments. She explained the error rate has been extremely high noting there were six errors identified in the last batch of twenty-six payment instructions sent to the bank. Discussion followed regarding the types of errors being made and the effect on members. The Board discussed alternative options and it was noted that they could change custody services to another carrier all together or they could leave the custody services with Fifth Third and move the benefit payment processing elsewhere. Mr. Baur advised that they do not recommend changing custodians at this time as there are several quotes for such services in the market currently; however they wanted to make the Board aware of the matter. Mrs. McNeill explained that the Resource Center had a recent conference call with the Fifth Third's management team to address the problems and improvements are yet to be seen. Mrs. McNeill reported that they are not expecting another large group exiting the DROP for several months so hopefully the issues will be resolved in time for the next large group of payment actions.

OLD BUSINESS

Buyback Process: Discussion followed regarding the matter raised from Dana Beach at the January meeting related to the purchase of service time and the 175 benefit. Mr. Beach had applied to purchase service for a second time in 2008 and the Plan adopted their policy separating the purchase cost in 2009; therefore Mr. Beach and his legal representative had requested that the purchase price include the 175 benefit. Bonni Jensen reviewed the historical detail related to service purchase. She advised that she is waiting for a confirmation response from April Maya regarding the purchase calculation. She explained the records were clear that Mr. Beach's initial three year service purchase cost was inclusive of the 175 benefit while the calculation processed for Mr. Beach's second request to purchase one year of service time did not include the 175 benefit. Mrs. Jensen explained the Plan document does allow that the member may elect not to purchase 175 service time and the policy provides that members can elect to purchase one or more times. It was not clear from the documentation if Mr. Beach was clearly informed the service purchase cost was for the pension time only and did not include the 175 benefit. Mr. Baur explained the Board could offer Mr. Beach the option to purchase the time now at the cost relative to the time of his initial request in 2008 since the records are not clear as to the communication originally. Bonni Jensen explained it appears that several people may have been impacted from the service purchase matter and the administrator will need to research several other members at this point. Buddy Emerson explained he will recuse himself from the matter as it relates to him as well since he had a service purchase around the same time and his record will also need to be researched. Denise McNeill explained she found some documentation related to a few other members and will need to research how those were handled.

Tony Napolitano departed the meeting at 3:45 PM.

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Discussion followed regarding the process to determine the 175 benefit and how the 175 benefit is not processed until a person separates from service.

- *Nate Spera made a motion, based on the information available; to offer retiree Dana Beach the option to purchase one year of 175 benefit at the rate it would have been at the time of his initial request in 2008. The motion received a second from Paul Raymond and was approved by the Trustees 3-0 (Buddy Emerson abstained from the vote).*

NEW BUSINESS

Mrs. McNeill then presented a revised audit engagement agreement, amended to include language regarding the new GASB requirements

- *Paul Raymond made a motion to accept and approve the revised audit engagement letter inclusive of the GASB changes. The motion received a second from Nate Spera and was approved by the Trustees 4-0.*

Nate Spera inquired into the status of the pending disability application. Mrs. McNeill explained the current status and explained arrangements are being made with an independent cardiologist to review the records and do an Independent Medical Exam on the member.

There being no further business to discuss, it was noted the next regular meeting was scheduled for May 21, 2015 and a special meeting has been scheduled for April 23, 2015.

- *Nate Spera made a motion to adjourn at 4:02 PM. The motion received a second from Buddy Emerson and was approved by the Trustees 5-0.*

Respectfully submitted,

Ronald Parrish, Chairman