

ST. LUCIE COUNTY FIRE DISTRICT
FIREFIGHTERS' RETIREMENT FUND
GENERAL EMPLOYEES' RETIREMENT FUND



Minutes of Meeting September 15, 2016

Chairman Nate Spera called the meeting to order at 11:37 AM.

Those persons present included:

TRUSTEES PRESENT Ignatius (Nate) Spera
Paul Raymond
Jeffery Lee
Anthony (Tony) Napolitano
George (Buddy) Emerson

TRUSTEES ABSENT None

OTHERS PRESENT Denise McNeill; Resource Centers
Bonni Jensen; Law Office of Klausner, Kaufman, Jensen & Levinson
Burgess Chambers; Burgess Chambers & Associates
Leon Palandjian & Peter Hapgood of Intercontinental
Several Fire District Employees

MINUTES

The Minutes from the May, June and July meetings were presented to the Board in their meeting packets.

- Tony Napolitano made a motion to approve the May, June and July minutes as presented. The motion received a second from Paul Raymond 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 disbursements in addition to the specialty DROP distributions scheduled for October 1st.

- Tony Napolitano made a motion to approve the Disbursements for September 2016 as presented. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.
- Paul Raymond made a motion to accept the interim financial statements as presented. The motion received a second from Tony Napolitano and was approved by the Trustees 5-0.

INVESTMENT MANAGER REPORT – INTERCONTINENTAL

Peter Hapgood and Leon Palandjian appeared before the Board to present an update of the investments held with Intercontinental. Peter Hapgood advised he has been discussing sponsoring a pre-retirement presentation for employees with Human Resources. He explained they could also pay Dee Lee to do an educational session as part of the process.

REAL ESTATE: Mr. Hapgood provided an update on the firm and the real estate portfolio. He explained the portfolio is 43.8% leveraged and although they can go as high as 50%, they are currently working the leverage down. He noted dividends have averaged 6% since established and their overall goal is 10% earnings annually. He explained they have been below the bench in the past few quarters due to interest rates and when the Fed increases interest rates, they expect for it to have a positive impact on the portfolio. Mr. Hapgood went on to review the fund strategy, acquisitions and dispositions; noting the dispositions were sold as they believed they had received the most out of the properties potential and they were preparing for a downturn in the market. Mr. Hapgood then reviewed the ground up

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development deals explaining they are value add properties which can be moved to core. He reviewed the investment highlights and portfolio diversification. Discussion followed regarding retail centers and Mr. Hapgood explained they do not feel retail is a hot spot due to internet sales so they typically own grocery market type properties. He reported their lease renewals are spread over the next ten years and vacancies have improved with property management teams working with tenants to keep space occupied by signing longer leases. Mr. Hapgood noted they are only getting involved in new building projects if it is a good opportunity to do so. Discussion followed regarding the recently called capital and Mr. Chambers noted the timing worked out well for the Pension Plan.

HEDGE FUND: Leon Palandjian reported performance has lagged in the past 18 months; however they are optimistic on the status of the portfolio currently. He reported the cumulative net was 11.2% and the initial investment with Intercontinental was on the eve of the financial crisis. He explained the investment is a Fund of Funds and it has been a very difficult period. He explained the goal is to capture less of the downside when the market is declining and they do not expect as much return in a bull market. Mr. Palandjian reviewed their investment strategy explaining they look for funds with plain strategies that avoid market timing. He explained that although hedge funds are separate from real estate; they are deeply integrated. He reviewed the allocations in detail reporting distressed debt benefits from trouble in the financial market. Mr. Palandjian then reviewed the portfolio structure explaining that while they are invested in North America, they are also well diversified internationally. He explained the recent underperformance has been due to 1) market factors related to asset class (hedges are not worth anything in a bull market); 2) portfolio bias and 3) manager specific holdings. Mr. Palandjian explained much of the earnings in the market have been from ETF's and they are not invested in that allocation. He further explained value and fundamentals have not benefited in the recent market; noting two of their best managers had performance glitches early in the first half of the year and have since improved in the past couple of months. Mr. Palandjian explained they have confidence in their managers and are not pulling assets at this time. He then reviewed the types of managers, specific holdings and the strategy used by each manager. Burgess Chambers explained to the Trustees the reason why the strategy was implemented in the Plan; for further diversification with low correlation to equities. He explained many of their peers have also struggled. Mr. Palandjian explained hedge funds are supposed to protect against the downside and in a market that is steadily rising, there is little opportunity for a hedge fund to do well. He also noted the environment has not been rewarding individual stock selections. Mr. Chambers explained up until the past 18 months, the investment had done well. Mr. Palandjian explained typically, after a performance glitch would be the wrong time to change stripes; they feel confident in the strategy, some decline represents embedded value in the portfolio and they expect their returns to look much better 18 months from now. Mr. Chambers explained the strategy is 4% of the total portfolio and the Plan has the overall assets for further diversification.

INVESTMENT CONSULTANT QUARTERLY REPORT

Burgess Chambers of Burgess Chambers & Associates appeared before the Board to present the quarterly investment performance report for the period ending June 30, 2016. Mr. Chambers explained in the past ten years, the best strategy has been 60% S&P 500 and 40% bonds noting that strategy has outperformed 95% of the past ten years. He further explained for the past 30 years, the industry has taught to diversify with the best asset options. Mr. Chambers explained 10-12 years ago many pension funds went heavy into hedge funds with as much as 15% of their assets and many have been affected by the decision. He feels in the long run, this Plan will do fine with the current diversity. He explained as in any market cycle, the S&P will fade and other diverse assets will do well again. Mr. Chambers addressed the real estate for both private and the REITS. He explained the allocation to private real estate combined earned 13% and the REITS averaged 12.7% per year; both of which were four times better than bonds which confirms the additional diversification has paid off for the Plan. He further noted the program has shown improvement with volatility down 32%. Mr. Chambers reviewed the international market noting US companies have been unable to compete on international costs. He then reviewed the

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Total Funds Investment Summary noting the Plan was up 2.6% versus the model of 2.8% for the quarter and up 5.7% for the fiscal year; equities were up 3.4%, domestic equities were up 3.7%, MLP's were up 15.8%, convertibles were up 2.0%, international equities were down -0.4%, REITs were up 3.8%, private real estate was up 1.6%, fixed income was up 1.5% and the hedge fund was up 0.9%. He noted the plan ranked in the top twelfth percentile of public funds for the quarter. Mr. Chambers went on to review each manager in detail. Lengthy discussion followed regarding asset allocation. Mr. Chambers explained that real estate has reached what he believes is a cap for returns even while the fundamental demand is still there. Mrs. Jensen explained she had heard about a presentation given at the FPPTA regarding the negative impact of online shopping and working from home on the retail sector of real estate. Mr. Haggood addressed the allocation of real estate noting the retail locations built around multi-family locales remains strong. Mr. Chambers explained there are groups actively studying things such as what to do with parking garages twenty years from now. Lengthy discussion followed regarding the transition of real estate over the past thirty years.

ATTORNEY REPORT

Bonni Jensen explained the General Employees meeting was scheduled to begin soon and she requested authorization to overlap the meeting for the actuary and attorney discussion for both Plans. The Trustees agreed to handle both of those items under a joint meeting.

SECURITIES LITIGATION UPDATE: Mrs. Jensen reported the Cobalt litigation was moving forward. She then reported of a request received from Scott & Scott regarding Southwestern explaining the Plan managers purchased directly in the initial offering. She reviewed the dynamics of the matter noting that Scott & Scott are requesting the Plan become part of the Southwestern litigation.

- Tony Napolitano made a motion for the Plan to become part of the Southwestern litigation. The motion received a second from Paul Raymond and was approved by the Trustees 5-0.

Mrs. Jensen then reported on the Steris litigation explaining the settlement was approved and the attorney fees are now in the process of approval with the court.

ADMINISTRATORS REPORT

BENEFIT APPROVALS: Benefit approvals had been presented in the Trustee packets for consideration. Mrs. McNeill explained the adjusted pension date for Mr. Noble included one year of time purchased back in 2014.

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

Mrs. Jensen noted the securities litigation reports in the packet are informational reflecting different cases that have been files and/or settled.

PUBLIC COMMENTS

Chairman Nate Spera invited those present to address the Board. There were no public comments made.

OLD BUSINESS

Mrs. McNeill reported the payroll data reports are still in progress and they have not received data since the files in October 2015 from the old system.

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NEW BUSINESS

Mrs. McNeill then addressed a request received from the Fire District to remove the pension boxes from the closet in the HR Department. She explained the files were moved there from the prior location in Finance. Chief Emerson explained there is no physical space available on site for the records to be stored. Discussion followed regarding other potential options to store the records and the dynamics of electronic storage. The Trustees instructed the administrator to research storage options for discussion at the next meeting. It was confirmed the boxes will need to remain in the HR closet for the time being.

Paul Raymond reported that he will be resigning from the Board upon his retirement.

Mrs. Jensen requested permission of the General Employees Chairman, Ken Crooks, to coordinate the couple of items that relate to both boards as a combined meeting. Mr. Crooks confirmed that would be acceptable.

The Firefighters Pension meeting continued at 1:30 PM after a short break.

The General Employees Pension Board meeting was called to order by Chairman, Kenneth Crooks at 1:30 PM.

TRUSTEES PRESENT

*Kenneth Crooks
Carl Trabulsy
Linda Gaskill
Allison Roy*

TRUSTEES ABSENT

April Maya

It was agreed that the GE agenda would be reordered to address the Experience Study and Plan Document updates in conjunction with the Fire Pension meeting.

Doug Lozen appeared before both Boards to address the Experience Study reports. He began by explaining if there is a mismatch in assumptions versus their actual experience, they will have a divergence and the cost will creep up over time. He reviewed the process explaining this was the second experience study completed since they have worked for the Plans. Mr. Lozen explained they review to match the reality from the past five to ten years while the mortality table change is a new Statute requirement. He referred to the last page of each report which reflected the summary of the costs for each change. For Fire, he explained the District contribution of \$11,600,161 for the current assumptions considers a lump sum payment at the beginning of the year and it also reflects the state money which has gone down this year. For GE the cost with the current assumptions was \$899,965 and also considers a lump sum payment at the beginning of the year. Mr. Lozen explained all of the assumptions being used are from the prior Fort Pierce Plan and not representative of the Plan's experience over the past ten years. He explained there is some discretion with the investment return explaining they studied 7.75% since the trend is to lower; however they are not necessarily recommending the Board lower the rate. He explained the State is currently at 7.75% and the national average is 7.75% as well. Mr. Lozen explained the mortality rate change is mandated by Statute and it assumes a longer life expectancy which will increase the Plans cost on their 2016 report. He explained the mortality table change alone increases Fire's cost by \$1.1M and GE's cost by \$86K. Mr. Lozen explained the withdrawal (turnover) rate noting that Fire is close to their assumption while GE would increase by \$42K. He noted reducing the retirement rate would reduce Fire slightly; however in GE the retirements are occurring sooner than expected and would increase their cost. Overall, all changes with the same 8% ARR for Fire would be \$12.4M and for GE would be \$968,703. Mr. Lozen explained if the Boards adopt a new salary, then the State will expect to lower the funding requirement since both are economic related and actuaries expect both to correlate.

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Discussion followed regarding the State's expectations. Mr. Lozen explained the State has been amenable to phasing in lowering the ARR. Mr. Lozen explained this would ideally begin with the 10/01/16 valuation which will not be done until March of 2017. Lengthy discussion followed regarding each of the assumptions and the dynamics of the mortality table assumptions. Mr. Lozen explained he is not aware of anyone challenging the blue collar adjustment at the State level on the mortality table. Mr. Lozen explained the five year smooth should be pretty close to 8% this year and he does not expect much difference on the gain or loss. He confirmed the ARR would be the only change that could be phased in. Mr. Crooks explained they will be renegotiating the entire contract in 2017 and Mr. Lozen explained they may wish to wait on the salary piece until the next contract is negotiated; however a summer contract will not allow much time for the valuation reports. Ken Crooks explained he is not ready to take action and would like to discuss the study again at the next GE meeting. Mr. Lozen explained that he plans to deliver the valuations at the March meetings so he would need to know the Board's decisions in January. It was agreed the studies will be discussed again at the November meetings.

ATTORNEY REPORT

PLAN DOCUMENT UPDATE: Bonni Jensen addressed the Plan Document Updates noting the legislative versions were included in the Trustee packets for review. She reviewed each of the changes in detail; pensionable wages, percentage increased; notation that it includes the DROP members (for which their 2% goes toward paying down the unfunded liability in the Plan) and the Fire District is no longer capped at 28%. Mrs. Jensen explained the format of forfeitures was clarified and she added the update from 2008 regarding specified event. She explained they were not necessarily substantial changes to the operations but to the formatting. She confirmed the sixty month DROP eligibility is reduced by one month for each month after someone reaches 27 years and all leave service at 32 years. She then noted an allowance that referenced the early DROP members had another period where they could elect the interest earnings which would not normally be allowed a second time. Jeff Lee confirmed that he was certain the election can only be made one time and the additional reference must be a scrivener's error. Ken Crooks confirmed the final Resolution has been sent out to the Fire Board members. Doug Lozen inquired into the unused State funds and Mrs. Jensen confirmed they can have mutual consent.

- Paul Raymond made a motion to approve the Firefighters Pension Resolution contingent upon confirmation from the Union that the additional option to change the earnings was a scrivener's error and should be removed from the Resolution. The motion received a second from Buddy Emerson for discussion. After additional discussion, the motion was approved by the Trustees 5-0.
- Linda Gaskill made a motion to approve the General Employees Resolution contingent upon confirmation from the Union that the additional option to change the earnings was a scrivener's error and should be removed from the Resolution. The motion received a second from Allison Roy and was approved by the Trustees 4-0.

Chief Emerson explained the Fire District and the Union attempted to mirror what other Plans do for specific percentages of payroll.

Denise McNeill explained they need the specific breakdown for the percentage of payroll for buyback calculations effective October 1, 2016. Mr. Lozen explained he will put the information into the impact statement when he processes the AIS for the pending Resolution Change. Paul Raymond inquired into the real cost for service purchase calculations. It was noted the Firefighters carried over the process from Fort Pierce. Lengthy discussion followed regarding whether or not the 175 funds were partially used to offset the cost of the service purchase. Discussion followed regarding the process. Mrs. Jensen explained the Board had very specific discussion of not wanting to lower any benefits after the transition from Fort Pierce initially.

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Nate Spera thanked Paul Raymond for his years of service to the Pension Board and the members of the Plan.

- Buddy Emerson made a motion to adjourn the meeting at 2:40 PM. The motion received a second from Tony Napolitano and was approved by the Trustees 5-0.

The Fire Pension Trustees departed and the General Employees' Pension meeting continued.

MINUTES

The Trustees reviewed the Minutes for the meeting held June and July 2016.

- Linda Gaskill made a motion to approve the June and July 2016 minutes as presented. The Motion received a second from Allison Roy and was approved by the Trustees 4-0.

DISBURSEMENTS

The Trustees reviewed the updated Disbursements along with the interim financial statements. Mrs. McNeill noted the refund of contributions paid to an employee no longer with the Fire District. She explained this is the beginning of a new process now that the GE Plan members contribute to the Pension.

- Linda Gaskill made a motion to approve the Disbursements as presented. The Motion received a second from Carl Trabulsy and was approved by the Trustees 4-0.

INVESTMENT MANAGER REPORT – INTERCONTINENTAL

Peter Hapgood and Leon Palandjian appeared before the Board to present an update of the investments held with Intercontinental.

REAL ESTATE: Mr. Hapgood provided an update on the firm and the real estate portfolio. He explained the portfolio is 43.8% leveraged and although they can go as high as 50%, they are currently working the leverage down. He noted dividends have averaged 6% since established and their overall goal is 10% earnings annually. He explained they have been below the bench in the past few quarters due to interest rates and when the Fed increased interest rates, they expect for it to have a positive impact on the portfolio. Mr. Hapgood went on to review the fund strategy, acquisitions and dispositions; noting the dispositions were sold as they believed they had gotten the most out of the properties and they were preparing for a downturn in the market. Mr. Hapgood then reviewed the ground up development deals explaining they are value add properties which can be moved to core. He reviewed the investment highlights and portfolio diversification. He explained in summary, the Fund is in great shape and the diversity allows them access to all core, core plus and value properties. Mr. Hapgood confirmed they value all properties quarterly. Mr. Chambers inquired into the waiting queue for entry and exit. Mr. Hapgood explained the inflow is currently one quarter and they try to do withdrawals sooner than the standard 90-day contract allowance.

HEDGE FUND: Leon Palandjian reported performance has lagged in the past 18 months; however they are optimistic on the status of the portfolio currently. He reported the cumulative net was 11.2% and the initial investment with Intercontinental was on the eve of the financial crisis. He explained the investment is a Fund of Funds and it has been a very difficult period. He explained the goal is to capture less of the downside when the market is declining and they do not expect as much return in a bull market. Mr. Palandjian reviewed their investment strategy explaining they look for funds with plain strategies that avoid market timing. He explained that although hedge funds are separate from real estate; they are deeply integrated. He reviewed the allocations in detail reporting distressed debt benefits from trouble in the financial market. Mr. Palandjian then reviewed the portfolio structure explaining that while they are

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invested in North America, they are also well diversified internationally. He explained the recent underperformance has been due to 1) market factors related to asset class (hedges are not worth anything in a bull market); 2) portfolio bias and 3) manager specific holdings. Mr. Palandjian explained much of the earnings in the market have been from ETF's and they are not invested in that allocation. He further explained value and fundamentals have not benefited in the recent market; noting two of their best managers had performance glitches early in the first half of the year and have since improved in the past couple of months. Mr. Palandjian explained they have confidence in their managers and are not pulling assets at this time. He then reviewed the types of managers, specific holdings and the strategy used by each manager. Burgess Chambers explained to the Trustees the reason why the strategy was implemented in the Plan; for further diversification with low correlation to equities. He explained many of their peers have also struggled. Mr. Chambers explained up until the past 18 months, the investment had done well for the Pension Plan.

Peter Hapgood advised he has been discussing sponsoring a pre-retirement presentation for employees with April Maya. He explained they could also pay Dee Lee to do an educational session as part of the process.

Leon Palandjian and Peter Hapgood departed the meeting at 3:27 PM.

INVESTMENT CONSULTANT QUARTERLY REPORT

Burgess Chambers of Burgess Chambers & Associates appeared before the Board to present the quarterly investment performance report for the period ending June 30, 2016. Mr. Chambers explained there is a tendency to replicate what just did well; however that is not a good idea. He reported international banks are busted so low, it brought down the cost of product markets. He explained in the past ten years, the best strategy has been 60% S&P 500 and 40% bonds noting that strategy has outperformed 95% of the past ten years. He further explained for the past 30 years, the industry has taught to diversify with the best asset options. Mr. Chambers explained 10-12 years ago many pension funds went heavy into hedge funds with as much as 15% of their assets and many have been affected by the decision. He feels in the long run, this Plan will do fine with the current diversity. He explained as in any market cycle, the S&P will fade and other diverse assets will do well again. He then reviewed the Total Funds Investment Summary noting the Plan was up 2.9% versus the model of 3.0% for the quarter and up 6.3% for the fiscal year; equities were up 3.6%, domestic equities were up 3.7%, MLP's were up 15.8%, convertibles were up 2.0%, international equities were up 0.1%, REITs were up 5.5%, private real estate was up 1.6%, fixed income was up 2.2% and the hedge fund was up 0.9%. He noted the plan ranked in the top seventh percentile of public funds for the quarter. Discussion followed regarding the MLP's. Mr. Chambers explained they are still pumping about 900,000 barrels today, less than what was being pumped in 2014. He reported that due to train accidents, rail has lost transportation business to pipelines. Mr. Chambers reported real estate was the top three performers for the Plan in the recent period. Mr. Chambers reviewed the international market. He recommended no changes to the portfolio at this time and he will review the real estate further at the November meeting. Carl Trabulsy reported he had toured Burgess Chambers' offices when he was in Orlando. Burgess Chambers departed the meeting at 3:55 PM.

OLD BUSINESS

Mrs. McNeill reported the payroll data reports are still in progress and they have not received data since the files in October 2015 from the old system.

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NEW BUSINESS

Mrs. McNeill then addressed a request received from the Fire District to remove the pension boxes from the closet in the HR Department. She explained the files were moved there from the prior location in Finance. She explained that Chief Emerson had advised at the Firefighters meeting there is no physical space available on site for the records to be stored and the Firefighters Pension Board instructed her to research storage options for discussion at the next meeting. She explained the boxes will need to remain in the HR closet for the time being.

There being no further business to discuss, it was noted the next regular meeting was scheduled for November 17, 2016;

- Linda Gaskill made a motion to adjourn the meeting at 4:02 PM. The motion received a second from Allison Roy and was approved by the Trustees 4-0.*

Respectfully submitted,

*Nate Spera, Chairman
Firefighters Pension*

Respectfully submitted,

*Linda Gaskill, Secretary
General Employees Pension*