

ST. LUCIE COUNTY FIRE DISTRICT FIREFIGHTERS' RETIREMENT FUND



Minutes of Meeting July 19, 2018

Chairman Anthony Napolitano called the meeting to order at 2:32 P.M.

Those persons present included:

TRUSTEES PRESENT

Chief Spera
Anthony (Tony) Napolitano
Anthony Hood
Jeffery Lee
Brian Blizzard

TRUSTEES ABSENT

N/A

OTHERS PRESENT

Denise McNeill; Resource Centers
Bonni Jensen; Klausner, Kaufman, Jensen & Levinson
Burgess Chambers & Mitchell Brennan; Burgess Chambers & Assoc
Fire Board Member Mark Gotz
Fire District Employees & Members of the Plan
Tracy Sheik & Nancy Kulesa; Levi Korsinsky

PUBLIC COMMENTS

There were no public comments.

MINUTES

The Minutes from the April and May meetings had been presented to the Trustees in their meeting packets.

- Chief Spera made a motion to approve the April and May 2018 minutes as presented. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.

DISBURSEMENTS

The disbursement listing was presented to the Board in their meeting packets. Mrs. McNeill reviewed the disbursements noting special DROP distributions made for members exiting the DROP.

- Jeff Lee made a motion to approve the disbursements as presented. The motion received a second from Tony Hood and was approved by the Trustees 5-0.

2017 AUDITED FINANCIAL STATEMENT REPORT

Jay McBee of DiBartolomeo, McBee, Hartley & Barnes appeared before the Board to present the audited financial statement for the plan year ending September 30, 2017. He reported the financial statements are fairly represented and he is offering a clean, unqualified opinion. Mr. McBee reviewed the balance sheet reporting total assets of \$230,575,364. Mr. McBee reviewed the Plan's administrative expenses noting the Plan is being run economically at a low cost. Discussion followed regarding the net pension liability and the requirement to show earnings at 7% and 9% respectively. Mr. McBee explained the point of the comparison is to show the importance of the actuarial rate of return and the Plan must review and verify if their assumed rate of return is appropriate for the Plan. He further explained over one-third of the report relates to actuarial disclosures. Discussion followed regarding the reporting comparisons and the plan's funded ratio. Mrs. Jensen explained the actuary is required to report the ratio in two different ways while the auditor is required to report differently resulting in three different ratios. Mr. McBee reminded the Board that the projection of covered payroll is an estimate which is different from the prior year's actual amount. Lengthy discussion followed regarding the funded ratio and the multiple ways of reporting

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it. Mr. McBee explained a 70% funded ratio is good for a larger public plan. Mrs. Jensen explained all ratios are reported to the State. Discussion continued regarding the reporting requirements.

- Jeff Lee made a motion to accept the 2017 Audited Financial Statement as presented. The motion received a second from Chief Spera and was approved by the Trustees 5-0.

INVESTMENT CONSULTANT REPORT

Burgess Chambers and Mitchell Brennan of Burgess Chambers & Associates appeared before the Board to address the Plan's asset allocation. Mr. Chambers explained that after the FPPTA conference, they did another review of the asset allocation. He reviewed the assets explaining they are trying to acquire more return without additional risk. Mr. Brennan presented a Plan Analysis and reviewed the results in detail with the Trustees. He began with reviewing all changes to the portfolio over the past two years noting the change to Cohen & Steers and Lazard has been a good change for the Plan. He reviewed "risk on" and "risk off" assets and provided suggestions for changes to the asset allocation. Mr. Brennan reviewed bonds along with the short term and long term rate expectations. He then reviewed the "Monte Carlo Simulation" which was a comparison of what the Plan would have earned had the allocation been in place over the past five and ten years. The recommended changes were: 22% large cap stocks, 20% small and mid-cap stocks, 12% convertibles, 12% International, 4% infrastructure, 0% REITS, 6% private real estate, 10% intermediate bonds, 8% short term bonds, 5% high yield bonds, 0% tips and 1% cash. Mr. Chambers explained the simulation of the new asset allocation reflect better than 50% probability of meeting the 8% ARR in the 3, 5, 7 and 10 year views. Mr. Chambers explained Richmond Capital can create a new account to address the new allocation for short term bonds. Discussion followed regarding the recommended changes to the Investment Policy with the maximum caps which would allow assets to increase in a particular category if they chose to do so without triggering a mandatory rebalance. Mr. Chambers noted if they wish to make more return, they will need to have more in equities increasing their risk. Mr. Chambers explained if approved, most of the changes can be made in line with the current policy and the remainder can be done after 31 days to meet the policy filing requirements. Mrs. Jensen will need to review the new Richmond agreement for the short term bond structure.

- Jeff Lee made a motion to adopt the Investment Policy Statement changes as presented. The motion received a second from Chief Spera and was approved by the Trustees 5-0.
- Jeff Lee made a motion to rebalance the portfolio with the new allocation in mind up to the limitations of the existing Investment Policy. The motion received a second from Chief Spera and was approved by the Trustees 5-0.
- Chief Spera made a motion to hire Richmond Capital to manage the new short term bond portfolio. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.
- Chief Spera made a motion instructing once the new Investment Policy is in place, for the consultant to rebalance the remaining pieces in line with the new policy. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.

The meeting continued at 2:29 after a five minute break.

PORTFOLIO MONITORING PRESENTATION

Tracy Sheik and Nancy Kulesa of Levi Korsinsky appeared before the board to present portfolio monitoring services for the Plan. Ms. Sheik explained their role is to identify opportunities where suits have not been filed as well as looking at all cases filed to see if any such matters have an impact on the Plan. Ms. Kulesa explained records reflect it has a positive impact on the results when a pension plan is

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the lead plaintiff; citing a 2013 study by Duke University which reflects average recovery of \$23M when lead by a pension plan versus \$3M recovery when led by any other entity or individual. She went into detail on a few specific cases describing the violation and the funds recovered. She then explained their firm is not in a hurry to settle cases which has resulted in a much higher recovery rate. Ms. Kulesa explained the service is of no cost to the Plan and if the case goes to litigation, the cost would come out of the assets recovered. She explained the law allows up to 33% of the recovery for their firm; however they feel that is high and they can tier their fee so the higher the recovery, the lower the fee. Ms. Sheik and Ms. Kulesa departed the meeting at 3:40 PM.

Mrs. Jensen explained the Plan has a number of monitoring firms and there is no issue with having one more.

- Chief Spera made a motion to retain the services of Levi Korsinsky for monitoring services. The motion received a second from Tony Hood and was approved by the Trustees 5-0.

ATTORNEY REPORT

Mrs. Jensen noted they had received confirmation from Intercontinental that the final hedge fund asset was being distributed to the plan in the coming week.

SOUTHWEST ENERGY LITIGATION UPDATE: Mrs. Jensen explained they had received a letter from Scott & Scott regarding Southwest Energy's motion to dismiss; however they feel the case will go forward. She explained they have been in the procedural mode since 2016. She explained it was an asset held in the convertible portfolio.

Mrs. Jensen had also spoken with the actuary regarding the current funding allowance and the timing of payments being made by the Fire District. The current rate was determined with quarterly payments from the Fire District; however the Fire District has inquired of the savings if they pay the full balance sooner than quarterly. Chief Spera explained he feels they can pay half of the total before the end of December and the remaining balance early in 2019. It was already determined that the amount paid in one lump sum on October 1st would result in a savings of \$600,000. Mrs. Jensen explained the Board can direct the actuary to do a revised calculation if the Fire District contacts the actuary and wants the lump sum amount recalculated with the two step payments.

- Jeff Lee made a motion to allow the actuary to provide a revised calculation to the Fire District of the employer cost with specific lump sum payment dates, should the Fire District request it. The motion received a second from Tony Hood and was approved by the Trustees 5-0.

Mrs. Jensen explained she had discussed investment loans and promissory notes with Mr. Chambers. Discussion followed regarding capital funding. Chief Spera explained the Fire District would be paying 3% interest on a loan to a bank and he was wondering if they could do the loan with the Plan; guaranteeing 3% back to the Plan. Mrs. Jensen feels the loan would need to be collateralized. Mrs. Jensen explained other Pension Funds have loaned money; however not to the Plan sponsor. It was noted they have heard of investment managers doing local infrastructure. Mr. Chambers feels it is a good idea and he can look into the matter and evaluate further.

ADMINISTRATORS REPORT

PAYROLL DATA UPDATE: Mrs. McNeill reported the payroll data had been loaded to date; however there is an issue with how the accumulator is totaling the year to date in the report and the District has not been able to identify what is causing the problem. Upon DROP entry, the administrator will need to verify the amounts processed for each new DROP member and manually review against the data received to ensure the proper payroll is captured and reported for the benefit calculation.

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BENEFIT APPROVALS: Benefit approvals were presented for consideration. Mrs. McNeill reviewed the benefit requests.

- Chief Spera made a motion to approve the benefits as presented. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.

2018/2019 BUDGET REVIEW: Mrs. McNeill reviewed the proposed budget. Discussion followed regarding the actuary fee. Mrs. McNeill will look into the actuary fee information billed for the current fiscal year. Further discussion of the budget was tabled to the September meeting.

FORBES DISABILITY REVIEW

Mrs. Jensen explained the disability documents had been made available to the Board through a secure link. She explained an Independent Medical Exam was completed by Dr. Waeltz on behalf of the Board and that report was presented along with the other records. Dr. Waeltz has concluded the member does not have a disability and he did not find any evidence the member suffered a fracture. The member was invited to present his case to the Board. Mr. Forbes described how the injury occurred, the pain, the physical therapy and not being approved to return to work. He reported that he had also been sent for a functional capacity exam and he still was not approved to return to work; therefore he continued physical therapy. He explained his workers comp physician (Dr. Hruska) had advised due to the area of the injury, he would not recommend surgery. Discussion followed regarding the records, Dr. Waeltz's response stating no disability is reflected along with his reference to the Schmorls Node condition which does not appear to be related to an acute injury. Mrs. Jensen explained the Board could request more information or request to send the member for another functional capacity exam. Mr. Lee explained he could not find a fracture in the medical records reviewed either. Mrs. Jensen explained she has another Fire Department client who does pre-hire MRI's and many of their new employees are hired with the Schmorls Node condition. Mr. Lee explained he does not feel comfortable approving or denying the application without another functional capacity exam since the workers comp physician is not releasing the member back to work. It was noted the soft tissue tear and reference to the T4/T5 was related to the past.

- Jeff Lee made a motion to table the application for further clarification from Dr. Waeltz of the origin of the Schmorls Node and whether the condition is related to an acute injury or degenerative condition. The motion received a second from Chief Spera and was approved by the Trustees 5-0. --- Rescinded.

Discussion followed regarding the motion. Mrs. Jensen feels a functional capacity exam can be helpful in such a scenario.

Jeff Lee rescinded his motion and Chief Spera rescinded the second.

Discussion continued related to the process. Mrs. Jensen reminded the Trustees the burden of proof is on the member and the Board then sent for an IME.

- Jeff Lee made a motion to send the member to another physician to complete a functional capacity exam as an independent examination on behalf of the Board. The motion received a second from Chief Spera and was approved by the Trustees 5-0.

The attorney and administrator will work on finding another physician to do the exam. Chief Spera will check with workers comp on the light duty matter. The member exited the meeting at 4:45 PM. Mrs. Jensen explained it is not the weight of the evidence but the believability of the reports that they are dealing with.

Burgess Chambers and Mitchell Brennan departed the meeting at 4:48 PM.

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NEW BUSINESS

Mrs. McNeill explained in the recent audit, it was identified that Fifth Third had accidentally credited a wire for employee contributions to the Fire Plan that actually belonged to the GE Plan. The transaction error occurred in October of 2016; however was not identified until recently in wrapping up the 2017 audit. Mrs. McNeill explained since the administrator was not receiving bi-weekly payroll files, they didn't have anything to reconcile against to have caught the issue sooner. The amount was \$318.14 and was being transferred from the Fire Plan to the GE Plan accordingly.

Mrs. McNeill reported receiving strange requests from the custodian recently requiring the administrator approve specific bond trades being requested by the bond manager. She had explained to Fifth Third that the administrator has no knowledge or authority to approve any such trade and that the matter needs to be resolved with the bond manager directly.

Mrs. McNeill addressed an old item from a few years ago from a retired member requesting to change their beneficiary. She explained the actuary still cannot do the calculation without first seeing the evidence of the member's original calculation and each COLA which then relates to the current amount. Mrs. McNeill explained the issue is with a gap in records between the member's original retirement in 1998 and the COLA documents from 2007. She explained that she had previously requested information from the City and had not received any documentation. She then reached out to the prior actuary and prior custodian, both of which explained the records were destroyed due to only having a seven year record retention. Mrs. McNeill will send another formal written request to the City of Fort Pierce.

Mrs. McNeill then reported the 2017 Annual Report had been filed with the State using the draft Audit upon receipt from Mr. McBee.

Mrs. McNeill inquired about the September meeting date. It was agreed the meeting date would be moved from September 20th to September 27, 2018.

OLD BUSINESS

There being no further business to discuss and with the date for the next regular meeting having been scheduled for September 27, 2018;

- Jeff Lee made a motion to adjourn the meeting at 5:04 PM. The Motion received a second from Chief Spera and was approved by the Trustees 5-0.

Respectfully submitted,

Brian Blizzard, Secretary