

# ST. LUCIE COUNTY FIRE DISTRICT FIREFIGHTERS' RETIREMENT FUND



## Minutes of Meeting January 17, 2019

Chairman Anthony Napolitano called the meeting to order at 2:41 P.M.

Those persons present included:

### TRUSTEES PRESENT

Tony Napolitano  
Nate Spera  
Brian Blizzard  
Tony Hood  
Jeff Lee

### TRUSTEES ABSENT

N/A

### OTHERS PRESENT

Denise McNeill & AC Lovingood; Resource Centers  
Bonni Jensen; Klausner, Kaufman, Jensen & Levinson  
Burgess Chambers & Frank Wan; Burgess Chambers & Assoc  
Nicholas Coburn & Jason Jarjosa; Bloomfield Capital  
Orlando Mendoza, Jason Rottenberg, John Trbovich & Chris  
Fountas; Arsenal  
Members of the Plan

### PUBLIC COMMENTS

There were no public comments.

### MINUTES

The Minutes from the November 2018 meeting were presented for approval.

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

### DISBURSEMENTS

The disbursement listing was presented for approval.

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

The Interim Financial Statements through December were presented for informational purposes.

### INVESTMENT CONSULTANT REPORT

Burgess Chambers and Frank Wan of Burgess Chambers & Associates appeared before the Board to present private equity. Mr. Wan addressed boutique private equity firms. He explained Arsenal has experience in companies with strong governmental clients, focusing on medium-sized deals and looking to help companies grow. Bloomfield Capital is at the other end of the arena. Bloomfield has been able to loan money where banks have not been able to or not willing to loan.

### INVESTMENT MANAGER PRESENTATION - BLOOMFIELD PRIVATE EQUITY

Nicholas Coburn and Jason Jarjosa appeared before the board to present their management services. Mrs. Jensen explained their report states confidential; however all Plan information is

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public record and therefore it cannot be kept confidential. Mr. Coburn and Mr. Jarjosa recognized the public record rules and confirmed they understand. They then presented the following information about Bloomfield: The firm is in the business of making loans. They have 30 institutional investors. Their goal is to deliver returns in cash quarterly. They are currently on Fund V and thirteen of their investors in Fund V have been invested since Fund II. Real estate is cyclical and they receive many requests for loans within two to three weeks. In 2018 they processed only 19 transactions out of over four thousand requests evaluated. They reviewed the market opportunity, strategy and process. The firm looks for illusive opportunities in the \$2M to \$15M range as there is a shrinking amount of small bank lenders in the field. Real estate loans have safeguards in that they can recover against the asset itself due to the property being used as collateral. They have much experience buying bank loans. The market for such loans was quiet for a few years however has increased the past year. Since banks do not want to be seen selling loans at a discount, they often have direct deals. 2010-2013 they had several deals with client banks who had taken back properties. The assets go down in quality due to not being kept up or improved. Bloomfield will pay off the bank side on the current value, renovate the units and refinance out at a higher level. The property can be held if necessary and they have the assets to do so which is important since holding high leverage is difficult in a down economy and companies can be forced to sell the asset to raise cash. Loans are not marked to market and they do not mark loans up. The firm feels the strategy is good in volatile environments when real estate is softening. They reviewed the geographical area and the importance of knowing the real estate market in those areas. They make a lot of small, short period loans for 18 months. The investment priority was reviewed noting 40-75% are first priority which is the least amount of risk. They reviewed Funds I through IV noting the strategy is the same and generally produce 9-11% net of fees. Three of the Funds are actively investing and when they do deals, they will spread across the Funds, depending upon the cash availability and allocation. Mr. Coburn reviewed specific holdings and the related process in detail with the trustees. They consider the cash availability of each Fund and if there is too much allocation to a particular borrower, they adjust accordingly. They tend to have many repeat borrowers with about 30% being repeat borrowers in 2018, willing to pay more for the short period in order to take advantage of a quick deal. Overall their business plan works which is why they tend to have a high amount of repeat business. Mr. Coburn explained on bigger deals they will use leverage; however that is limited as they feel when the market is down, the higher leverage is too risky. Technically the investment is illiquid while the investments are short in return. Discussion followed regarding the fees of 1.5% for the management fee and an additional servicing fee of 1%. The additional servicing fee is due to the management and oversight of smaller deals which have an intensive and costly process. They grow slowly and carefully as they want to remain a smaller firm dealing in smaller loans.

## INVESTMENT MANAGER PRESENTATION - ARSENAL

Orlando Mendoza, Jason Rottenberg, John Trbovich and Chris Fountas of Arsenal appeared before the board to present their management services. They explained the following: Arsenal invests in companies that have roughly \$5M in revenue and need capital to get to the next level. Their goal is to move the company from \$5M in revenue to \$20-25M in five years and sell into the mass market. They reviewed their client history reflecting their partnership with many companies doing business with governmental agencies and they only invest in deals where they think there is a governmental overlay. The Government is trying to purchase more and more from the regular market place and they are investing a large amount of money into software (enterprise, commerce logistics and healthcare IT). They are currently raising funds for Fund III. They reviewed their risk mitigation

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strategy noting the general partners do not participate in the up side until the fund performs. Fund II's portfolio and earnings were presented; there are 23 companies in that portfolio and they expect 23-25 investments in the next Fund. They reviewed Fund III's current holdings and the investment rationale behind specific companies held. They described specific scenarios where Arsenal provides the capital as well as the hands on management to get them to the next level. They reviewed their strategy; going into companies, reviewing them from top to bottom and then making recommendations (such as bringing in a new sales manager, adding CEO positions, possibly help set up a Board) where such changes could provide an introduction to other companies and increase the revenue stream. They have much intel before meeting with the company initially. They do have some cross selling amongst the clients; however most of the clients would be targeting Fortune 500 companies. They expect 1/3 to perform better, 1/3 to perform as expected and 1/3 will not meet expectations. The employee morale is typically positive and the employees see the management assistance as an opportunity to work with the management team. They often have great founders; however not the right lead person to take the company to the next level. The company's voting structure tends to remain with the prior setup with an additional contract regarding the arrangement with Arsenal. It is like a marriage; they do not go in and fire a lot of people, they advise on a continual basis, it is personal and typically takes five to seven years on average. The money goes toward growth and not fixing company issues. Their team has been doing this strategy since 1999. Discussion followed regarding the government shut down and the impact on any companies held in the portfolio. The team explained such matters can affect different companies held in the portfolio, mostly by slowing down sales process; however the companies are diversified so they do not expect a strong impact overall. Mrs. Jensen explained she will need to review their documents and carefully review their valuation methods. It was noted FRS has invested with them and is okay with their process. Their valuation method was reviewed noting it is a formal process that is GAAP compliant with annual audits. The valuation is done quarterly. They reviewed the details of Fund II noting they have good IRR (21% net of fees) with a 4% loss ratio.

### INVESTMENT CONSULTANT REPORT - Continued

Frank Wan presented an index fund review reporting new fee reductions from Fidelity. He reviewed the summary of potential savings on currently indexed assets. The consultant recommended moving the large cap, mid-cap and iShares to the corresponding lower fee investments with Fidelity.

- Tony Hood made a motion to move the indexed large cap, mid-cap and iShares to the corresponding lower fee investments with Fidelity as recommended by the consultant. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.

Mr. Chambers explained he wants the buys and sells to be done on the same day if possible. His office will provide the instruction accordingly for the administrator to process.

Discussion followed regarding the private equity presentations. Mr. Wan reported the following: both firms have a niche in the market and they complement each other. He reviewed private equity versus the recent market repricing noting that in light of negative news, people are finally looking for proof of company valuations. They originally expected four interest rate hikes in 2019 and now are only expecting one. The goal is to mitigate on the downside. Mr. Chambers explained he feels Bloomfield is simple; they address a cash shortfall over an 18 month duration which is a safe way to generate a nice return. It was noted that, if they end up with the collateral, they can manage it, upgrade it and then sell it. Mr. Wan explained they are not expecting such a hard and fast real estate drop as experienced last time. Mr. Chambers explained \$12M can be moved into private

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equity. Mr. Wan explained with Bloomfield, traditionally there is a five year lock; however after two years the board can tell them to pause and they will begin winding down the note. Bloomfield is expected to call capital sooner than Arsenal. Discussion followed regarding Bloomfield Fund's returns. Mr. Chambers explained he likes the asset and the timing. He addressed a Bloomfield client who paid back the loan early and had to pay an additional fee for early payoff. They can expect to earn 7% versus 2% in the bond market. Bloomfield has a \$1M minimum and they are willing to give BCA clients the FRS rate if certain investment levels are met. Arsenal has a \$3M minimum. Mr. Chambers explained the funds would be moved from bonds to private equity. Mrs. Jensen addressed the subjectivity of Arsenal's valuation process, expressing concern with the practicality standpoint of the valuation. The attorney would need to review the documents and the IPS would need to be revised. Mr. Chambers recommended moving \$5M to Bloomfield. Mr. Wan explained TerraCap is another alternative; dealing with distressed properties. He provided a couple of examples of such distressed property deals in the mid-market.

- Nate Spera made a motion to invest \$6M in Bloomfield contingent upon the attorney's review of the agreements and the adoption of the revised Investment Policy. The motion received a second from Jeff Lee and was approved by the Trustees 5-0.

Discussion followed regarding Arsenal and the other option with TerraCap. Mr. Chambers will invite both to the March meeting. Nate Spera instructed the consultant to get additional valuation details from Arsenal for the attorney to review. The attorney will review the Arsenal and Bloomfield documents accordingly.

CEREDEX SMALL CAP VALUE CHANGE: Mr. Chambers addressed the notice from Ceredex of their bench change due to the equity market capitalization gravitating upward in recent years. They now consider the Russell 2000 Index to be an appropriate investment capitalization range for comparison. Mrs. Jensen explained she does not believe it is necessary to change the Investment Policy.

- Nate Spera made a motion to acknowledge the change in market capitalization for Ceredex to the Russell 2000 Index accordingly. The motion received a second from Jeff Lee and was approved by the Trustees 4-0 (Brian Blizzard temporarily stepped out of the meeting).

SSI INVESTMENT MANAGEMENT ASSIGNMENT OF ADVISORY AGREEMENT: The Board received a letter from SSI of a strategic alliance with Resolute Investment Managers and requesting an assignment of their advisory agreement to Resolute. Discussion followed regarding the change. Mr. Chambers explained he has no issue with the SSI change to Resolute.

- Jeff Lee made a motion to approve the assignment of advisory agreement to Resolute Investment Managers. The motion received a second from Nate Spera and was approved by the Trustees 5-0.

SSI INVESTMENT MANAGEMENT FEE REDUCTION: SSI had also sent a letter advising of a fee reduction. The Board confirmed receipt of the notice. Mrs. Jensen will work on the fee change and assignment documents for the Board.

## ATTORNEY REPORT

POWER OF ATTORNEY UPDATE: Mrs. Jensen presented a memo regarding the change to Power of Attorney rules per FS 709. She reviewed the details explaining it is mostly directed toward the administrator. The Florida Law changed substantially in 2011 requiring a listing of what the powers

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are and if the POA is executed in another state, the POA must comply with that state's law in existence on its date of execution. Additionally, under certain circumstances, a Board may be given a Durable Power of Attorney (DPOA); however the authority granted in the DPOA is not terminated by a participant's subsequent incapacitation. The Board is required by law to reject a POA or DPOA within a reasonable time so the matter is time sensitive. The administrator confirmed all such requests are sent to the Plan's attorney for review and will continue to do so.

PUBLIC RECORDS UPDATE: In reviewing a matter for another client, she noticed the Palm Beach County Sheriff's Office had a checklist of all items that needed to be redacted. She thought the checklist was a good idea and provided the detail in the memo for informational purposes. Additionally a public records exemption law passed in the last session related to victims of mass incidents and any portion of a meeting revealing fire safety system plans.

CLASS ACTION UPDATES: Mrs. Jensen reported the following: Southwest Energy class action is moving forward to litigation, Stericycle settled for a total suit of \$45M and Cobalt has settled. For the Cobalt case, the fund will be entitled to a reimbursement of expenses.

### ADMINISTRATORS REPORT

PAYROLL DATA UPDATE: Mrs. McNeill reported the payroll data reports for the 2018 fiscal year were received, processed and submitted to the actuary and auditor accordingly. The current year reports remain an issue and have not been provided to the administrator. Nate Spera instructed the administrator to follow up with HR on the payroll report matter as Mrs. Fauntleroy is now overseeing payroll.

2018 AUDIT ENGAGEMENT: Mrs. McNeill presented the audit engagement letter for 2018 from DiBartolomeo, McBee, Hartley and Barnes for the same rate as 2017 \$9,800.

- Jeff Lee made a motion to accept the audit engagement with DiBartolomeo, McBee, Hartley and Barnes for \$9,800 as presented. The motion received a second from Brian Blizzard and was approved by the Trustees 5-0.

BENEFIT APPROVALS: Benefit approvals were presented for consideration. A typo was noted on the title which referenced Beneficiary Change and DROP Entry however it was only a DROP Entry.

- Nate Spera made a motion to approve the DROP entry for John Kayda as presented. The motion received a second from Brian Blizzard and was approved by the Trustees 5-0.

CYBER LIABILITY POLICY: Mrs. McNeill explained the cyber policy for the Fire Plan without the RHIT and GE Pension Plans is pending and is expected for the next meeting.

### ADDITIONAL REPORTS

Portfolio monitoring reports from KTMC were included in the trustee packets for review.

### FORBES DISABILITY UPDATE

Mrs. Jensen provided an Order describing the matter and the denial for review. She explained she has been contacted by the member's workers compensation attorney regarding the denial. Discussion followed regarding the reason for the denial and the language in the Order. Mr. Lee

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explained the issue is that they still do not see any correlation to the original injury as work related and even if there is a deficit, they do not feel the Schmorls Node condition is work related. Mrs. Jensen will add specific language to the document accordingly advising that based on the IME there is no direct correlation to the injury being caused by a work related incident.

- Jeff Lee made a motion to approve the Order as amended. The motion received a second from Nate Spera and was approved by the Trustees 5-0.

### NEW BUSINESS

FIRE DISTRICT FISCAL YEAR FUNDING: Mrs. McNeill reported the Fire District prefunded the employer contributions into both Pension Plans in December.

ACTUARY REQUEST FOR PROPOSAL: As instructed at the prior meeting an RFP for actuarial services had been provided for the Board's consideration. Mrs. McNeill requested the Trustees review the document and the list of potential actuaries and let her know if they have any changes. She will hold the document for another week to allow the Trustees time to advise of any comments or changes accordingly.

ON-SITE PENSION ADMINISTRATION: Nate Spera requested the administrator consider doing on-site visits with the Fire District either a half day or one full day, one day per month. He explained they have room available for the administrator to meet with members in private as they did in the past; however this time they would only come with advanced scheduled appointments and if no appointments were scheduled for the administrator for that day, then there would be no need for them to come to the Fire District. Mrs. McNeill will look into the matter and address a potential schedule for the Board.

### OLD BUSINESS

There were no Old Business items for discussion.

There being no further business to discuss and with the date for the next regular meeting having previously been scheduled for March 14, 2019;

- Jeff Lee made a motion to adjourn the meeting at 4:54 PM. The Motion received a second from Brian Blizzard and was approved by the Trustees 5-0.

Respectfully submitted,

Brian Blizzard, Secretary