

FIRE PENSION BOARD MINUTES
Wednesday, February 17, 2016 – 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairman Terry Zokvic; Members: Kent Middleton and Henry Losey **Also Present:** Heather McCarty, Records Retention Specialist

1. CALL TO ORDER

The Chairman called the meeting to order at 10:00 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

None

3. APPROVAL OF MINUTES

A) November 18, 2015

Mr. Losey made a motion to approve the November 18, 2015 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

A) Highland Capital Management

Note: This item was discussed after item 5-B).

Mr. Grant McMurry, with Highland Capital Management, handed out a chart showing what the volume has been in the market (on file in the City Clerk's office). He said he is not too concerned with what is going on in the market place because a downturn in the market can be associated with low volume. He pointed out they are more concerned with the long term rather than the short term. He talked about the attractiveness of stocks versus bonds. He pointed out that the ability to get in and out of the treasury market is much simpler than corporate bonds.

Mr. McMurry went to page 6, Total Return Summary, in their Investment Review report for the period ending December 31, 2015 (on file in the City Clerk's office). He said that over the past quarter, the portfolio was up 3.77%. He went over page 7, Performance Returns for Various Periods. On page 8, he reviewed the chart Domestic Equity Sector

Allocation vs. R1000V. He pointed out they were a little under exposed to financials. He said the big gain came from Materials, where they were a little overweight. He commented that they are starting to buy some energy stocks and some more of the oil stocks.

B) Salem Trust

1. Class Action Report

Mrs. Karen Russo was present for today's meeting. She introduced Ms. Mindy Johnson who joined their firm last year as the Assistant Vice President of Relations. She referred to their Class Action Report for the period October 1, 2015 through December 31, 2015 (on file in the City Clerk's office). She reported that they filed one class action on behalf of the Plan during the period and also received a class action settlement in the amount of \$2,522.00 from Bank of America.

Mrs. Russo referred to the Signature Authorization form (on file in the City Clerk's office). She said that every three years they like to get an updated form. She provided them a blank one to sign.

The Board approved signing the blank authorization.

2. GlobeTax Information

Ms. Johnson explained that GlobeTax specializes in the recovery of taxes that have been withheld in foreign markets. She said that Salem Trust has partnered with GlobeTax to assist in these tax recoveries for their clients. She said it doesn't affect their plan that much. They have identified approximately \$670 they could reclaim for them. She added they are also proposing these services to the Police Pension Board, who've they identified approximately \$26,000 for that Board. She pointed out there is nothing out of pocket. They do have a fee of 20% of what is recovered and in addition to that, they have a \$200 annual account maintenance fee once they've started to recover.

Mrs. Russo pointed out this is on the ADR securities. She added that Salem Trust also takes a 5% administration fee.

Ms. Johnson said the current look back analysis goes back to 2013. They are working on a newer analysis that will go back to 2009.

Mr. Zokvic asked how many of her clients have this service. Ms. Johnson answered that about 95% of her clients have signed up. She said while the fees are high, there is never an out of pocket fee. If there is no recovery, there are no fees.

Mr. Middleton asked about the \$200 a year fee. Ms. Johnson said the only time they pay that is once collections have reached \$400. She said if they are under the same tax ID as the Police Pension plan, which is the City's ID, then they would just need to complete one certificate of residency, which would cover both plans.

Ms. Lawson said if this is under the City's tax ID, then someone from the City, either the City Finance Director or the City Manager, would have to sign the forms.

Ms. Johnson agreed that whoever the tax ID is registered with is the person who needs to sign the form.

Mrs. Lawson said it would be appropriate if the Board wanted to pursue this with the Police Pension Board to put it on the City Council agenda saying that both Boards have voted unanimously to pursue this and please give the City Manager and the City Finance Director the authorization to execute these forms so both plans can take advantage of this.

Mr. Losey made a motion to approve using GlobeTax and when the Police Pension Board approves it, send it to City Council for approval. Mr. Middleton seconded the motion and it passed unanimously.

C) Bogdahn Consulting

Mr. Dave West, with Bogdahn Consulting, talked about what's been going on in the market during the last quarter through January. He said it was a really mixed quarter and a very difficult time for managers to outperform.

Mr. West referred to Bogdahn's Investment Performance Review report for the 4th Quarter of 2015 (on file in the City Clerk's office). He reviewed the Quarter Performance chart on page 2, Major Market Index Performance.

Mr. Zokvic referred to the cash shown on page 10, Asset Allocation Summary. He said their cash equivalent was not the same as what Highland reported. He questioned why the big difference.

Mr. West said it depends on which accounts are holding the cash. They have the R&D account, which holds cash for distributions.

Mr. Zokvic said he just signed a letter to increase that account. He asked if that is reflected in this report or will be in the next quarter. Mr. West said that would show in next quarter's report.

Mr. Zokvic referred to page 6 in Highland Capital's report. Mr. West said they have cash in the R&D account and cash withheld in the Highland Capital account.

Mr. Zokvic said at the end of the year, the cash for Highland was \$227,046, or 4.4%, and their report shows \$439,223, or 6%. He said his point is that he wants to keep the cash invested and not sitting somewhere.

Ms. Lawson pointed out that there are money market funds in the various Highland accounts that show up in their total cash and it is not just cash.

Mr. West said on his agenda today is a rebalancing recommendation and some Investment Policy Statement (IPS) changes. He said when they go through the IPS that will address the current cash balance and how future cash is handled and invested going forward.

Mr. West went over pages 19 and 20, Comparative Performance Trailing Returns. He reported the bottom line for the fund for the quarter was up 3.65%. He reviewed the one, three and five year returns. For the Total Fund (Gross), they were up 3.92% (8th) for the quarter. He pointed out that for the year, they were up 2.12% (6th) versus the benchmark, which was down -0.60% (65th). He said that for the three year and the five year, they are running in the 11th and 13th percentiles. He reviewed the return numbers for Highland Equity and the Vanguard 500 Index. He said the International portion of their portfolio was up 5.34% for the quarter versus the benchmark, which was up 4.75%. He pointed out the Highland Fixed portion of their portfolio was down -0.24% (12th) for the quarter versus the benchmark, which was down -0.57% (71st). He reviewed their one, three and five year numbers shown on page 21. He said everything that happened bad in September completely reversed in October. Without changing anything, Templeton was up 2.29% (1st) versus the benchmark which was down -1.23% (77th). He said PIMCO also snapped back, with returns for the quarter up 0.87% (2nd). Their one year number was 1.25% (1st) versus the benchmark, which was down -0.20% (14th).

Mr. West pointed out that Intercontinental had a huge quarter and were up 5.85% (1st). He said there were great numbers coming out of real estate. One of the reasons that they put this strategy in the portfolio is that in the events that interest rates rise, this fund is going to benefit from that environment. He said it has been a great addition to the policy. He reviewed the cash flow shown on page 16. He reported they opened up the fiscal year with \$7,178,707 and finished on December 31, 2015 with a market value of \$7,334,246. He said that they earned a little over a quarter million dollars from investments.

1. Investment Policy Statements

Mr. West went to page 12 in his report, Asset Allocation vs. Target Allocation. He said they have a total allocation of 6% cash which is more than they need to be operating with. They have had on going discussions with Highland Capital since they have broken out this portfolio. They wanted to put together an IPS that is more consistent and gave

them more precision in their measurement of the progress of the underlying components of the policy.

Mr. West referred to the Master IPS (on file in the City Clerk's office). He said Highland Capital is in agreement with the changes and provisions of the policy. He explained the net change to this document was that they added specific targets to each of the classes. He said this now gives them the opportunity to directly manage what the allocation is to each of these areas. He reviewed the chart on page 2 showing the targets and ranges of each asset class. He said they wanted to set up a very institutional, very objective, systematic approach to maintaining the Portfolio. He explained that what this does is manage the cash allocation for them because it sets up the allocation parameters. He went through Section 3, Investment Performance Objectives. He said the only thing they added in here was the inclusion of the global bond index. He said this gives them a little more precision in their management in tracking how the whole system is doing. He went over Section 4, Investment Guidelines. He said they left the language intact in Item 4, Pooled Funds. The only other issue that needs to be edited is that on page 2 in the draft they received, has the incorrect actuarial earnings assumption and should be 6% to reflect that going forward.

Mr. Losey made a motion to accept the changes to the Investment Policy Statement. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West said with the establishment of the targets, he will transmit the direction that is necessary to get the current investments in line with the policy. He said he will be directing the investment of the cash and rebalancing the international equity portfolio to policy targets.

Mr. Losey made a motion to give Bogdahn Consulting direction to rebalance the current portfolio allocation as it stands to the policy targets specifically moving the international equity to target using the R&D excess cash balances as the primary source of funds. Mr. Middleton seconded the motion and it passed unanimously.

6. NEW BUSINESS

A) Actuarial Valuation Report – Gabriel, Roeder, Smith

Mr. Jeffrey Amrose, with Gabriel, Roeder, Smith and Company, said that this plan is in very good shape. One reason is the funded ratio is at 87.6%, which is very healthy. The assumptions they are using to determine that are very good. Also, the City's required contributions have ranged from zero dollars up to \$100,000, which is where it is right now.

Mr. Amrose went through the Actuarial Valuation Report as of October 1, 2015 (on file in the City) beginning on page 1, Comparison of Required Employer Contributions. He reviewed that for the fiscal year ending 2015, the State money was \$337,054, with a required employer contribution of \$65,751. For the current fiscal year, he pointed out the amount of money estimated to be coming from the State has decreased to \$231,380 leaving a required employer contribution of \$98,566. He explained why the City's required contribution has increased by around \$33,000. He went over page 2, Revisions in Actuarial Assumptions or Methods. He pointed out that the assumed investment rate of return for this Valuation has been lowered to 6%. He said the Board has taken the responsible steps of lowering the investment assumption. He reviewed the sections Actuarial Experience, Funded Ratio, and 13th Check. He pointed out that there is a cumulative net actuarial loss of \$914,054 and therefore a 13th check is not payable this year. Under the section Variability Future Contribution Rates, he pointed out that next year, two amortization bases totaling approximately \$134,000 will expire. He said that will cause the employer contribution to decrease by approximately \$139,000 and if there are no gains or losses, there would be a zero dollar contribution required by the City. He said that although they have had a bad January and February, their FYTD is not doing too bad and is higher today than it was on September 31, 2015. He explained that the market value of assets is less than the actuarial value of assets by \$11,700. He said next year, there will be a requirement for an updated mortality table to the same one as the Florida Retirement System (FRS).

Mr. Amrose reviewed the chart, Actuarial Confirmation of the Use of State Chapter Money. He explained that currently all State money is being used by the City to fund the plan. After the passing of Senate Bill 172, the new default for how the State money is going to work is \$307,000 of State money goes to the City to fund the plan. Anything over that amount would be a 50/50 split between the City and the retirees. He reviewed the chart, Actuarially Determined Employer Contribution (ADEC) on page 6. He pointed out that Row E, Employer Normal Cost, is the administration expenses that the plan pays per year. He explained the second piece of the contribution is shown in Row D, Annual Payment to Amortize Unfunded Actuarial Liability. He went through page 8, Calculation of Employer Normal Cost and page 9, Liquidation of the Unfunded Actuarial Accrued Liability. He reviewed the chart on page 10, Actuarial Gains and Losses.

Mr. Amrose went over the chart on page 24, Development of Actuarial Value of Assets. He explained the calculation of the smooth value of assets. He referred to pages 27 through 32, which are the GASB 67 requirements and they will go in the required supplementary pages in the City's Comprehensive Annual Financial Report (CAFR). He went over page 27, Schedule of Changes in the Employer's Net Pension Liability and Related Ratios and page 32, Single Discount Rate.

B) Annual Report

Ms. Lawson stated that the annual report numbers tie in with the numbers they saw in the actuarial valuation. She pointed out the two new questions on page 2 of this report relating to the changes in the State laws. She said question eight (8) was regarding a detailed accounting report. She provided the Board a handout listing investment expenses and administrative expenses (on file in the City Clerk's office). She said the other is question nine (9), which referred to the budget they adopted a few months ago.

Mr. Losey made a motion to adopt the Annual Report as presented. Mr. Middleton seconded the motion and it passed unanimously.

C) Expected Annual Rate of Return

Mr. Losey made a motion to approve sending a letter to the State with the 6% expected rate of return. Mr. Middleton seconded the motion and it passed unanimously.

D) Premium Tax Adjustment Clause to the Ordinance

Mr. Zokvic read into the record the additional paragraph added to the Ordinance prepared by their Attorney in regards to the Share Plan (on file in the City Clerk's office).

Mr. Losey made a motion to approve the Ordinance and send it to City Council. Mr. Middleton seconded the motion and it passed unanimously.

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

None

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:42 a.m.

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