

FIRE PENSION BOARD MINUTES
Wednesday, May 18, 2016 – 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

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

Excused absence: Duane Bluemke

1. CALL TO ORDER

Today's meeting was called to order at 10:00 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

None

3. APPROVAL OF MINUTES

A) February 17, 2016

Mr. Losey made a motion to approve the February 17, 2016 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

A) Highland Capital Management

Mr. Grant McMurry with Highland Capital Management was present for today's meeting and provided the Board members with a copy of their report for the period ending March 31, 2016 (on file in the City Clerk's office). He briefly went through the report, going over the total return summary and the asset allocation. He talked about some of the current trends going on in the market.

Mr. Zokvic asked about page 6 and the amount of cash that the report showed for the end of March.

Mr. McMurry said that was cash that was pulled out of fixed income to go into the international marketplace, which has happened now.

B) Salem Trust

Mrs. Karen Russo went over their Class Action report for the period January 1, 2016 through March 31, 2016 (on file in the City Clerk's office). She reported that they filed one class action on behalf of the plan with Baxter Information and the plan received no class action settlements during the period.

Mrs. Russo said that on an annual basis they like to do a confirmation of the statement recipients. She provided the Board with a list of who receives what type of statements for them to review and update.

Mrs. Russo gave an update on Globe Tax, which they approved at their last meeting. She explained that because their plan uses the same Tax I.D. as the City, the City has to fill out some paperwork and so does their plan. She spoke with the Finance Director and she will be speaking with the City Attorney about the documents they need to sign.

Mr. Zokvic thinks the Board should have the Pension Board's Attorney review the documents so that he is aware of what's going on.

Mrs. Russo explained there is a form 8802, which is an application to show they're in the United States. She said that form needs to be filed every year so if they have a limited power of attorney, Globe Tax can do that for them every year. She said they also need to provide copies of their letter of determination and their plan documents.

Mr. Zokvic made a motion to approve their Attorney reviewing Globe Tax and handling it for the Board. Mr. Losey seconded the motion and it passed unanimously.

Mrs. Russo said she would forward all the documents that need to be signed to Mr. Adam Levinson, Board's Attorney and give him a call.

Mrs. Russo said that at the FPPTA conference in June, Salem Trust would be having a function on Tuesday night and invited them to stop by their booth.

C) Bogdahn Consulting

Mr. West said they did not get their revised Investment Policy Statement (IPS) completed as desired. He said the compliance group at Highland Capital came back and said they need to use a different benchmark for the international equity allocation. So he presented them with a revised policy for their approval. He said there is a master policy and a sub-policy for each of the strategies. He said the only thing he is changing is the international equity benchmark, which is being changed from the MSCI EAFE to the All Country World Ex. U.S. Stock Index. He requested Board approval of the revised IPS. He explained the All Country World Ex. U.S. is a much broader all inclusive benchmark.

Mr. McMurry said they have a lot more opportunities to invest internationally than they did before. He explained this gives them a little more discretion to invest broader. He pointed out that they aren't going to change any strategies. He explained if the index is broader that they are going to be measured against, they want to make sure that they are able to take advantage of those companies that are in that broader index.

Mr. West said they will still fall within all State and local requirements. He said they are comfortable with the change from their perspective.

Mr. Chatam asked what the purpose of going this route was. Mr. West said that that it increases their opportunities.

Mr. Losey made a motion to approve the revised Investment Policy Statement as it is written. Mr. Chatam seconded the motion and it passed unanimously.

Mr. West began going through their Investment Performance Review report for the period ending March 31, 2016 (on file in the City Clerk's office). He reviewed the chart on page 2. He explained that this was one of the worst periods for active managers and very few managers outperformed. He added that they did have a nice bond market rally.

Mr. Zokvic asked about page 10, Asset Allocation Summary. He asked about the difference in the amount of cash. Mr. West said that cash equivalent includes the movement of funds in the R&D accounts that they are using to make pensions or distributions and pay bills. He said the cash equivalent at the beginning of the quarter was \$439,223 and at the end of the quarter, they were at \$724,989.

Mr. Zokvic said in January, he signed an approval for \$400,000 to be transferred. Also at their last meeting they had a discussion about realigning the accounts to meet the investment policy. He asked if that was part of this difference. Mr. West answered yes. He referred him to page 15, Financial Reconciliation Quarter to Date, and the net transfer line which showed the move of \$400,000 out the Highland fixed income. He said that \$300,000 went in to the International and \$100,000 went in to the R&D to help pay for pensions and investments.

Mr. West reviewed the cash flow shown on page 15. He reported that for their total fund, they opened the quarter with \$7,334,181 and ended on March 31, 2016 with \$7,230,480. He reviewed page 16, Financial Reconciliation Fiscal Year To Date and page 19, Comparative Performance Trailing Returns. He pointed out that the total fund (net) was up 1.06%. Their total fiscal year to date (FYTD) is at 4.75%. He reviewed the one, three and five year numbers shown in the chart. He said the total fund growth for the quarter was at 1.21% (36th percentile). He pointed out the average total fund median return for all public plans was at 0.96%. He said their asset allocation decision has been the biggest component to drive their return and help them out. He reviewed the performance numbers shown on pages 19 through 21 for each of the different accounts. He pointed out that their most stable investments in the portfolio continue to be real estate investments. He went back to the chart on page 12, Asset Allocation vs. Target Allocation. He said their real estate portfolio has done so well, but they are likely going to have to put in a redemption request to bring some of that real estate money back in to the portfolio. He explained they are set up to follow a 5% rebalancing rule. He said if anything goes over 5%, it will automatically trigger a rebalancing of the portfolio. He said they are at 4.9% so he is not recommending it this quarter, but it is highly likely they will be out of policy ranges by the next quarter. So at their next meeting, it is highly likely that he is going to recommend that they rebalance the real estate portfolio.

Mr. Chatam asked if it would be a penalty to put more into that. Mr. West explained how they set their policy targets and ranges around those targets and they want to make sure that they are maintaining appropriate limits.

Mr. Zokvic explained the 5% was picked because they are a closed and conservative plan.

Mr. West said they have to consider all the scenarios. He talked about 2009 when all of these real estate funds closed their doors to redemptions. Since this is a closed fund and very cash flow intensive, they need to make sure that the vast majority of their assets are liquid.

Mr. Zokvic referred to the compliance checklist on page 38. He said the total fund compliance shows 6.75% and it should be 6.25%. He asked if the computer is basing the managers' check off marks on the 6.75% or on the 6.25% that they are using.

Mr. West said that items one through four are based on 6.75%. He said that needs to be updated and he will get it changed.

6. NEW BUSINESS

None

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Zokvic stated at their August meeting they are going to have to come with another budget for the next fiscal year and he will work on getting it prepared.

9. MEMBER'S MATTERS

The Board approved a blanket approval for their new member to attend schools.

10. ADJOURNMENT

Today's meeting adjourned at 11:33 a.m.

/hm