HOLLYWOOD POLICE OFFICERS' RETIREMENT SYSTEM
Office of Retirement
4205 Hollywood Blvd., Suite 4
Hollywood, Florida 33021

November 16, 2012

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, November 16, 2012, at 10:30 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

C. Marano, Secretary, R. Brickman, L. Wiener, C. O'Brien, V. Szeto and P. Laskowski.

Also present were Kee Eng, City of Hollywood; John McCann & Brendon Vavrica of Thistle Asset Consulting; Henry Renard, John Rockford & Robert Maddock, III of Inverness Counsel; Denise D'Entremont, RhumbLine Advisers (Telephonically); Steve Cypen, Board Attorney and Dave Williams, Plan Administrator.

READING OF THE WARRANTS

The warrants since the last meeting were reviewed and executed by the Board of Trustees.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 28, 2012 MEETING

Mrs. Marano asked if there were any additions or corrections to the Minutes of the September 28, 2012 pension board meeting. Mr. Szeto made a motion to approve the Minutes of the September 28, 2012 pension board meeting, which was seconded by Mr. Laskowski. All board members voted yes.

ATTORNEY'S REPORT

Mr. Cypen briefly stated that oral arguments continued before the Honorable Judge Eade. We await the Judge's rulings.

Mr. Cypen reflected that Mrs. Bieler reviewed the agreement between the Board and Intercontinental Real Estate and the final documents are prepared for execution. Mr. Szeto made a motion to authorize and direct the Chairman (Acting Chairperson, Cathleen Marano) to execute any and all documents related to the agreement cited. Further, to authorize and direct the Administrator to transfer the funds accordingly when in the best interest of the Fund. The motion was seconded by Mr. O'Brien. All board members voted yes.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

Approval of Disability Calculation: Mr. Williams presented the final benefit calculation/selection (Single Life Annuity) of Ivette Buoni to the Board to consider. This is the first prepared under the new ordinance. For that reason, Mr. Williams wanted to take the time to carefully review the methodology.

Mr. Williams indicated that the benefit will be paid in two pieces by our custodian. The first piece is based on time accrued prior to October 1, 2011. This portion of the benefit will be subject to the cost of living that was enacted prior to October 1, 2011. The second piece is for the time accrued thereafter. The second piece also reflects a supplement payment that will continue until the member reaches age 62. The foregoing was also reviewed/calculated by the Board Actuary. Mr. Williams hopes that the steps taken now will alleviate potential problems in the future for the Board, the member and the Administrator. Mr. Laskowski moved to approve the method as presented, the benefit amount and type of benefit selected by Mrs. Buoni. This motion was seconded by Mr. O'Brien. All board members voted yes.

Return of Pension Contributions: Mr. Williams reflected that non-vested member Derek Cormier terminated May 14, 2012 and requested a refund of his contributions. All the required forms were executed accordingly. Mr. Szeto made a motion to approve the distribution that was outlined within the warrant, which was seconded by Mr. Laskowski. All board members voted yes.

Drop Loans: Mr. Williams cited the respective member's loan requests. Mr. Williams outlined that the members have the funds in their personal DROP accounts to cover the loans and they have all been participants in the DROP plan for the required amount of time. No conflict exists with the 12-month rule. Mr. Brickman made a motion to approve the DROP loans as noted, which was seconded by Mr. Laskowski. All board members voted yes.

Administrative Assistant Review: Mr. Williams reflected that the staff (two-part time administrative assistants) have not received any increase since December 2010. Although this was a difficult time by all, Mr. Williams asked the Board to consider a one time performance payment in lieu of a permanent pay increase.

Among other accolades, Mr. Williams outlined the recent member survey for the Board to consider:

1. How would you rate the courtesy & respect you receive from our staff? *Results: 99% Very Good to Excellent Rating*

2. What would you rate the accuracy of the reports and documents received from the staff? *Results: 99% Very Good to Excellent Rating*

3. How does the staff listen to you and understand your needs? *Results: 98% Very Good to Excellent Rating*

4. How would you rate staff, in terms of being responsive to your requests and completing your objectives in a timely manner? Results: 98% Very Good to Excellent Rating

5. How would you rate the overall performance of the staff? *Results: 98% Very Good to Excellent Rating*

Mr. Williams indicated that this would equate to a one time expenditure of $2,880.60, and was based on the hours worked by each assistant.

After a discussion, Mr. Brickman made a motion to approve the foregoing; this was seconded by Mr. Laskowski. All board members voted yes. Mr. Williams thanked the Board members.

<u>QUARTERLY INVESTMENT REPORTS</u>

<u>RhumbLine Advisers</u>

Mrs. Denise D'Entremont, appeared telephonically before the Board to review the S&P 400 Pooled Index Fund, which is the Mid Cap Core component of the portfolio.

Mrs. D'Entremont advised that for the quarter that ended September 30, 2012, the RhumbLine Advisers portfolio returned 5.38%. For the last twelve months through September 30, 2012, the RhumbLine Advisers portfolio returned 28.44%. For the last three years through September 30, 2012 the return was valued at 14.27%. The net investment was valued at $11,763,342. The account was valued at $16,260,225 as of October 31, 2012. Top holdings, sector weighting were reviewed for the Board. A firm overview was also presented by Mrs. D'Entremont.

<u>Thistle Asset Consulting</u>

An Aggregate Equity Analysis was distributed and reviewed by Mr. McCann and Mr. Vavrica for the period ending September 30, 2012.

Mr. McCann advised that as of September 30, 2012 the system had 51.8% in equities, 45.4% in fixed income, and the balance is held in cash. As of September 30, 2012, Inverness Counsel (Large Cap Core & Fixed) held 62.3% of the portfolio, Garcia Hamilton (Large Cap Growth & Fixed Income) had 16.2%, Eagle (Small Cap) had 5.9%, Rhumbline (Mid Cap 400 Index) had 7.1%, Buckhead (Large Cap Value) had 7.9%, and the Israel Bonds were at 0.6%.

The total assets were valued at $230,332,000. For the quarter, Mr. McCann stated that the total fund returned 4.83% vs. 3.73% compared to the target index. This return placed the fund in the TOP 7th percentile of the investment universe.

For the rolling one-year period, the fund return was a bulletproof 17.16% (net) vs. 16.93%. In the longer term (*three year period*), the fund ranked in the 61st percentile returning 8.99% vs. 9.69%, a stellar number exceeding the assumption rate of return.

The equity portion of the portfolio was reviewed further. The equity return for the quarter was 7.58%vs. 6.05% for the benchmark. That ranked the fund in the TOP 1st percentile of the investment universe. For the year, the rate of return for the equities was 30.41% vs. 29.97% for the benchmark. For that time period the fund ranked in the TOP 7th percentile of the investment universe. Mr. McCann confirmed that an independent review is made by his firm to ensure compliance with regard to not holding scrutinized companies in the portfolio.

The fixed income portion of the portfolio was reviewed further. The fixed income return for the quarter was 2.33%vs. 1.55% for the benchmark. For the year, the rate of return for the fixed income was 6.79% vs. 4.95% for the benchmark. For that time period the fund ranked exceeded the benchmark return by 184 basis points.

Mr. McCann presented amended investment guidelines to the Board for consideration. The changes were already reviewed and approved by the Board Attorney. The changes were as a result of the real estate component being added to the account. After reviewing the document, Mr. Laskowski made a motion to approve, and further directed the Administrator to file accordingly with the City of Hollywood and the State of Florida. This motion was seconded by Mr. Brickman. All board members voted yes.

Inverness Counsel

Mr. Maddock & Mr. Renard advised that for the quarter that ended September 30, 2012, the Inverness portfolio returned 9.45% for the equities and 2.20% for fixed income. For the last twelve months, the Inverness portfolio returned 34.89% for the equities, in comparison to the S&P 500 which returned 30.20%. The fixed assets for the last year returned 6.44%, compared to the target of 5.03%. The account was valued at $143,519,000 as of September 30, 2012.

Mr. Maddock provided the following information for the Board to consider: During the quarter, equity markets reached new highs for the year as the prospects for increased government stimulus became a reality. However, the underlying fundamentals continue to be mixed. Ultimately, we think that an acceleration in economic conditions will be required to support further near-term equity market appreciation.

The S&P 500 gained 6.4% for the quarter and is up 16.4% year-to-date. On a total-return basis (including dividends), the S&P 500 has now surpassed its prior October 2007 peak. From a sector perspective, growth- oriented sectors (Technology and Consumer Discretionary) led the way, with the Energy sector generating the strongest returns during the quarter as oil prices rebounded from their June lows. Defensive sectors (Consumer Staples and Utilities) underperformed the broader index.

Since midsummer, equity markets have appreciated as the prospects for additional government liquidity increased. The U.S. Federal Reserve, the European Central Bank, the Bank of Japan, and The People's Bank of China have all increased their government-sponsored capital deployment programs in an effort to stimulate their respective economies. Central banks across the world are coordinating their actions in order to provide a highly accommodative economic environment.

In the U.S., although the unemployment rate has declined to 8.1% from its October 2009 peak of 10%, job formations as a percentage of the total population remain stagnant. As indicated in Figure 2, the number of people unemployed or underemployed has yet to show improvement, and these individuals are becoming increasingly frustrated with current job market prospects. The Federal Reserve's latest quantitative easing action (QE3) is a clear signal that job creation is now its top priority and that it will likely delay any rate increases until the economy has demonstrated sustainable job creation.

Even though the economy failed to flourish under previous monetary programs, time will tell whether QE3 is truly able to have a positive impact on employment or keep interest rates at or near current historic low levels. However, unlike each of the prior two quantitative easing programs initiated by the Federal Reserve, QE3 is "open-ended" with no official end date or total capital deployment restriction.

Equity markets continued to appreciate as speculation of additional easing started to build. Following the formal announcement of QE3 on September 13th, the S&P 500 has since declined as we think equity markets are waiting for confirmation that the program is beginning to meet its desired goals.

We think prior expectations for an acceleration in global economic growth through the end of the year could prove difficult to fulfill. Although the U.S. remains on the road to recovery, Europe continues to contract and has yet to show signs of bottoming, while China seems to be slowing further despite recent government stimulus.

In the U.S., underlying economic data continue to paint a mixed picture, with consumer confidence and service-oriented business improving while broader manufacturing activity tapers off and job creation remains lackluster. As we look forward to next year, the domestic economy faces multiple hurdles, including the looming "fiscal cliff" and potential global economic slowdown.

On the positive side, the housing market has turned out to be one of the bright spots in the U.S. As Figure 3 indicates, housing starts are beginning to show improvement but are still well below their historical average. Home prices have started to rebound in some areas, and refinancing activity has also been quite strong as existing home owners take advantage of historically low mortgage rates.

Conversely, the environment overseas does not appear to be improving. In Europe, austerity measures continue to weigh on economic activity in the peripheral countries. Although interest rates have declined for these nations, sovereign debt balances are still exceedingly high and could still prove to be unsustainable. Eurozone unemployment now exceeds 11% (it is as high as 25% in Spain) and is expected to increase to over 12% by the end of 2013 as capital continues to exit the region.

In China, manufacturing activity is at its lowest level since 2009. Internal demand for goods and services has markedly slowed, with total import activity actually declining 3% on a year-over-year basis in August. Initial government stimulus measures provided earlier in the year could prove to be insufficient to reaccelerate growth.

As Election Day approaches, all eyes are focusing on the U.S. presidential race and the potential implications of either a second term for President Obama or a Romney victory. In addition, the outcome of the congressional elections (one-third of the Senate seats are up for election and all 435 seats in the House of Representatives are up for reelection) will likely determine the balance of power in Washington.

Beginning in 2013 we could see a considerable increase in current tax rates, as the "Bush-era tax cuts" are set to expire at the end of this year. The top income tax bracket would increase by 4.6%, the tax rate on long-term capital gains would increase by 5%, the qualified dividend tax rate would increase by 24.6%, and new surtaxes (as part of the 2010 health care act) could add an additional 4.7% in taxes to the top income brackets.

Meaningful increases in tax rates on dividends could change their appeal to investors and ultimately have an impact on how companies return capital to their shareholders.

Management teams could begin to seek alternative means to increase returns on capital, resulting in accelerated share repurchases, special one-time dividends, or increased merger and acquisition activity.

Since the market correction in the summer of 2011, portfolios have benefitted from our significant shift towards Consumer Discretionary, Industrial, and Energy stocks. With equity markets up sharply since then, we have rotated portfolios to a more balanced approach with less exposure to these areas and increased exposure to Health Care, Consumer Staples, and Utilities.

We continue to seek to identify investments in secular growth trends that are more insulated from the current macroeconomic volatility. Areas we think could offer compelling long-term opportunities include the renaissance in American manufacturing, the downstream implications of record cash balances, the emergence of a global middle class, and the implications of living in a constantly connected world.

The advent of new communication devices (smartphones) and applications (Facebook & Twitter) has dramatically increased the amount of available information and transformed the way in which that information is accessed. Today's mobile devices have more computing power than desktop PCs had just two to three years ago. Tasks such as accessing corporate data, searching for a new restaurant, or posting photos can all be done instantly from almost anywhere. This capability in turn has resulted in increased demand for information security and storage, as well as networking infrastructure to support the latest applications, which require robust data transfer speeds. Ultimately, we think mobile innovation is only beginning and should continue to expand globally over the next decade.

<u>OPEN DISCUSSION</u>

Mr. Williams advised that for the 6th continuous year, the Fund was a successful recipient of the Public Pension Standards Award. However, effective this year the fund was no longer eligible for the Administration portion of the award due to the pension referendum.

<u>MEETING ADJOURNED</u>

There being no further business, the meeting was adjourned at 11:19 A.M.

The next scheduled meeting is December 21, 2012 at 10:30 AM.

Respectfully submitted, APPROVED:

C. Marano, Secretary D. Strauss, Chairperson