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

**January 31, 2014**

# MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, January 31, 2014, at 10:30 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

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

Also present were Kee Eng, City of Hollywood; Clement Johns, GSK; Alan Ashworth, Eagle Asset Management; John McCann, Thistle Asset; Steve Cypen, Board Attorney; David M. Williams, Plan Administrator.

## PUBLIC COMMENT

No public comments presented

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 DECEMBER 20, 2013 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the December 20, 2013 pension board meeting. Mr. Szeto made a motion to approve the Minutes of the December 20, 2013 pension board meeting, which was seconded by Mr. Brickman. All board members voted yes. Mr. Cypen read into the record the 8B Form filed by Mr. Strauss.

ATTORNEY'S REPORT

Mr. Cypen advised that a written response was provided by him to Mr. Keith Brinkman, Bureau Chief of the Bureau of Local Retirement Systems. This was due to a letter written to Mr. Keith Brinkman, by Mr. Alan Fallik, Deputy City Attorney on November 21, 2013 regarding the supplemental distribution.

Mr. Cypen cited the 4$^{th}$ DCA Ruling of January 8, 2014 regarding Hollywood Fire Fighters, Local 1375, IAFF, Inc. v. City of Hollywood. Mr. Cypen asked the Board to authorize our legal counsel to file a Brief in the matter. Mr. Brickman placed the foregoing in the form of a motion, which was seconded by Mr. Laskowski. All board members voted yes.

Mr. Cypen reflected that information was recently received that ConvergEx, one of our current recapture agents was found guilty of SEC violations. The information potentially causes alarm. Mr. Cypen felt that until further clarity is provided, the Board should suspend participating in the ConvergEx recapture program. Mr. Szeto concurred and placed the foregoing in the form of a motion, which was seconded by Mr. Laskowski. Mr. Williams advised he will notify the managers at once, and attempt to gather additional information from ConvergEx for a future meeting.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

DROP LOAN: Mr. Williams cited the respective member's loan request. Mr. Williams outlined that the member has the funds in his personal DROP account to cover the loan and he has been a participant in the DROP plan for the required amount of time. No conflict exists with the 12-month rule. Mr. Laskowski made a motion to approve the DROP loan as noted, which was seconded by Mr. Brickman. All board members voted yes.

INDEPENDENT AUDIT PRESENTATION

Financial Statements September 30, 2013 - Goldstein Schechter Koch

Mr. Clement Johns, Goldstein Schechter Koch appeared before the Board. Mr. Johns stated that his firm has issued a clean unqualified opinion on the *pension system*, as well as the *DROP* & *Share Plans*.

Mr. Johns provided a detailed report to the Board to consider. The following are the highlights of the report:

- The Fund's assets exceeded its liabilities at the close of fiscal years ended September 30, 2013 and 2012 by $178,504,887 and $173,635,358, respectively (reported as net position held in trust for pension benefits). Net position represents funds available to pay current and future benefit payments. The increases of $4,869,529 and $21,146,106, of the respective years have resulted primarily from the changes in the fair value of the Fund's investments due to volatile financial markets.

- The Fund's funded ratio, a comparison of the actuarial value of assets to the actuarial accrued pension liability, changed from 60.7% as of the October 1, 2010 to 56.4% as of the October 1, 2011 actuarial valuations and 54.7% as of the October 1, 2012 valuation.

- Receivables at September 30, 2013 decreased by $382,398 (or 14.47%) primarily due to a decrease in the receivable for securities sold.

  Receivables at September 30, 2012 increased by $1,152,395 (or 77.32%) primarily due to an increase in State contributions receivable.

- For the fiscal year ended September 30, 2013, liabilities increased by $4,901,381 (or 8.41%) primarily due to an increase in the Deferred Retirement Option Plan Payable.

  For the fiscal year ended September 30, 2012, liabilities increased by $7,490,167 (or 14.76%) primarily due to an increase in the Deferred Retirement Option Plan Payable and a decrease in prepaid City contributions for the fiscal year ended September 30, 2013 received in advance.

- For the fiscal year ended September 30, 2013, employer (City) contributions to the Fund increased $505,658 (or 5.58%) based on the actuarial calculation. Actual employer contributions were $9,573,932 and $9,068,274 for 2013 and 2012, respectively.

  For the fiscal year ended September 30, 2012, employer (City) contributions to the Fund decreased $2,849,051 (or 23.91%) based on the actuarial calculation. Actual employer contributions were $9,068,274 and $11,917,325 for 2012 and 2011, respectively.

- For the fiscal year ended September 30, 2013, state contributions to the Fund increased $138,503 (or 12.46%). Actual state contributions were $1,250,143 and $1,111,640 for 2013 and 2012, respectively.

  For the fiscal year ended September 30, 2012, state contributions to the Fund increased $58,755 (or 5.6%). Actual state contributions were $1,111,640 and $1,052,885 for 2012 and 2011, respectively.

- For the fiscal year ended September 30, 2013, employee contributions including buybacks decreased by $40,956 (or 3.00%). Actual employee contributions and buybacks were $1,324,022 and $0 and $1,364,978 and $11,744, for 2013 and 2012, respectively. Employee contributions have fluctuated from year to year, based on the number of active members and changes in the rate of employee contributions.

For the fiscal year ended September 30, 2012, employee contributions including buybacks decreased by $329,821 (or 19.33%). Actual employee contributions and buybacks were $1,364,978 and $11,744 and $1,592,450 and $114,093, for 2012 and 2011, respectively. Employee contributions have fluctuated from year to year, based on the number of active members and changes in the rate of employee contributions.

- For the fiscal year ended September 30, 2013, net investment income decreased by $12,702,354. Actual results were $17,413,256 and $29,172,204 of net appreciation in fair value of investments for 2013 and 2012, respectively, and $6,220,770 and $6,392,846 of income from interest and dividends for 2013 and 2012, respectively. Deferred Retirement Option Plan participants' earnings were $4,391,584 and $3,701,275 for 2013 and 2012, respectively. Investment expenses increased by $81,291 or (8.32%).

  For the fiscal year ended September 30, 2012, net investment income increased by $31,846,197. Actual results were $29,172,204 and ($2,282,216) of net appreciation (depreciation) in fair value of investments for 2012 and 2011, respectively, and $6,392,846 and $5,781,480 of income from interest and dividends for 2012 and 2011, respectively. Deferred Retirement Option Plan participants' earnings were $3,701,275 and $3,434,750 for 2012 and 2011, respectively. Investment expenses decreased by $46,936 or (4.58%).

- For the fiscal year ended September 30, 2013, benefit payments and participants' contributions refunded increased by $4,078,290 (or 19.68%) primarily due to a distribution of a 13th check.

  For the fiscal year ended September 30, 2012, benefit payments and participants' contributions refunded decreased by $895,657 (or 4.14%) primarily due to no 13th check distribution.

***Plan Highlights***

For the fiscal year ended September 30, 2013, the return of the portfolio, net of fees was 9.95% for the trailing year and ranked in the top 83rd percentile. Actual net investment income in 2013 was $18,184,251 compared with a net investment income of $30,886,605 in 2012.

For the fiscal year ended September 30, 2012, the return of the portfolio, net of fees was 17.16% for the trailing year and ranked in the top 64th percentile. Actual net investment income in 2012 was $30,886,605 compared with a net investment loss of $959,592 in 2011.

***Statements of Plan Net Position***

The table below reflects condensed comparative statements of plan net position of the Fund as of September 30:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Cash and cash equivalents | **$ 3,692,603** | $ 6,534,757 | $ 4,759,663 |
| Receivables | **2,260,452** | 2,642,850 | 1,490,455 |
| Prepaid expenses | **25,728** | - | - |
| Investments | **235,676,119** | 222,706,385 | 196,997,601 |
| Total assets | **241,654,902** | 231,883,992 | 203,247,719 |
| Liabilities | **63,150,015** | 58,248,634 | 50,758,467 |
| Net position held in trust for pension benefits | **$178,504,887** | $ 173,635,358 | $ 152,489,252 |

***Statements of Changes in Plan Net Position***

The table below reflects a condensed comparative statement summarizing the changes in net position and reflects the activities of the Fund for the fiscal years ended September 30:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Additions: | | | |
| Contributions | | | |
| City | **$ 9,573,932** | $ 9,068,274 | $ 11,917,325 |
| Employee | **1,324,022** | 1,364,978 | 1,592,450 |
| State | **1,250,143** | 1,111,640 | 1,052,885 |
| Buybacks | **-** | 11,744 | 114,093 |
| Total | **12,148,097** | 11,556,636 | 14,676,753 |
| Net investment income | **18,184,251** | 30,886,605 | (959,592) |
| Total additions | **30,332,348** | 42,443,241 | 13,717,161 |
| Deductions: | | | |
| Benefits paid | **24,560,445** | 20,510,999 | 21,599,662 |
| Participants' contributions refunded | **241,759** | 212,915 | 19,909 |
| Administrative expenses | **660,615** | 573,221 | 470,677 |
| Total deductions | **25,462,819** | 21,297,135 | 22,090,248 |
| Net increase (decrease) | **4,869,529** | 21,146,106 | (8,373,087) |
| Net position held in trust for pension benefits at beginning of year | **173,635,358** | 152,489,252 | 160,862,339 |
| Net position held in trust for pension benefits at end of year | **$ 178,504,887** | $ 173,635,358 | $ 152,489,252 |

The Fund's investment activities, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Actual returns for fiscal year 2013 decreased from fiscal year ended September 30, 2012 and increased from fiscal year 2011.

*Asset Allocation*

At the end of the fiscal year September 30, 2013, the domestic equity portion comprised 53.57% ($128,227,152) of the total portfolio. The allocation to fixed income securities was 39.22% ($93,881,331), while cash and cash equivalents comprised 1.54% ($3,692,603). The portion allocated to international equity was 0.74% ($1,776,113). The allocation to real estate was 4.93% ($11,791,523).

At the end of the fiscal year September 30, 2012, the domestic equity portion comprised 51.03% ($116,987,549) of the total portfolio. The allocation to fixed income securities was 45.15% ($103,495,991), while cash and cash equivalents comprised 2.85% ($6,534,757). The portion allocated to international equity was 0.97% ($2,222,845).

The target asset allocation was as follows as of September 30:

| | **2013** | 2012 |
|---|---|---|
| Domestic equity | **50%** | 50% |
| Fixed income | **39%** | 46% |
| Cash | **4%** | 4% |
| Real estate | **7%** | 0% |
| International equity | **0%** | 0% |
| Other | **0%** | 0% |

Mr. Brickman made a motion to accept the Financial Statements for the Plan, for September 30, 2013, which was seconded by Mr. Laskowski. All board members voted yes. (Motion passed 6-0 Mrs. Marano departed the meeting at 10:50 AM, due to official business).

QUARTERLY PRESENTATION BY EAGLE ASSET MANAGEMENT

Mr. Alan Ashworth appeared before the Board and stated the market value of Eagle Account was at $18,390,227 as of December 31, 2013. Since inception (*01-08-03*) the Eagle Small Cap Account realized an annualized gross return of 12.61%, compared to the Russell 2000 of 11.83%. For the quarter ending December 31, 2013, Eagle Small Cap Account returned 9.46%, compared to 8.72% for the Russell 2000. The 3 & 5 Year returns were valued at 14.79% & 18.78% in comparison to the benchmark returns of 15.67% & 20.08% respectively.

Mr. Alan Ashworth provided a market overview that we are entering the sixth year of industrial expansion, yet the market appears to be configured as if we are in the second year. The places for early-cycle names: technology, consumer (excluding retail). Housing recovery should continue, it appears the majority of fiscal drag is over. Eagle expects real GDP growth to surpass previous estimates of 1-2 percent. Eagle continues to believe that owning high-quality companies – and not simply those that are cheap – will be the key to long-term investing success.

Contributors to relative performance: Information technology was a source of outperformance this quarter led by communications equipment and software industries. ARRIS Group was the standout leader. ARRIS Group beat earnings and gave guidance that met analysts' expectations, it is benefitting from a smooth acquisition of Motorola Home which makes cable boxes. PTC was up as it reported revenues and earnings that beat analysts' estimates due to licensing deals and impressive margins. Industrials were also a source of outperformance. AerCap almost doubled this quarter as the company bought ILFC, its larger competitor, from AIG in a highly accretive deal. Enersys beat earnings estimates, gave strong guidance for the next quarter, and saw accelerating orders.

Detractors from relative performance: The healthcare sector underperformed this quarter because of weakness in healthcare technology and life sciences tools. MedAssets was down as December quarter guidance was conservative and management indicated 2014 could be difficult. ICON Plc was down slightly, underperforming the market's performance. The company reported earnings and guidance this quarter that were good, yet the stock sold off. Consumer discretionary was a source of underperformance this quarter due to specialty retail and auto components. Dana Holding traded off when the company lowered its guidance because of a challenging quarter. Penske Automotive was weak as its competitors were cautious in giving 2014 guidance.

Mr. Cypen reminded Mr. Ashworth to remove the footer notice on the report that read: Not for Public Distribution.

NEW BUSINESS

PENSION CONTRIBUTION REFUND: Mr. Williams reminded the Trustees that as a result of the collective bargaining agreement, and subsequent ordinance amendment, pension contributions were reduced from 9.25% to 8.0% effective the first full pay period in May 2013. The city did not make the adjustment in payroll until 8/9/2013. As such members are entitled to a refund of 1.25% for the prescribed timeframe.

Mr. Williams contacted the city about the overage paid by the members and the city representatives refused to make any payroll adjustment. Due to the foregoing the matter has now come before the Board for approval.

Mr. Williams prepared a refund list for the Trustees to consider. As outlined, the refunds were required due to overpayment of pension contributions withdrawn by the city between 5/31/2013 through 7/26/2013. The refund report was presented to Mr. Johns, Board Auditor, who concurred with the method used. Refunds will not be provided to members currently in the drop who are still paying a 9.25% pension contribution at this juncture.

Mr. Williams has already made arrangements with the custodian to return the checks to the Office of Retirement. A cover letter will accompany the check and be distributed internally. Further, 1099R's will also be released in the same manner (if applicable).

After considering the report and the presentation provided, Mr. Laskowski made a motion to refund the overage paid by the membership, which was seconded by Mr. O'Brien.

SUPPLEMENTAL DISTRIBUTION: A detailed report was provided to the Board to consider the supplemental distribution. The report outlined that the Supplemental Distribution of $1,933,537 will not be made using excess investment gains. The distribution made under Section 33.136(N) of the plan document triggers a Supplemental Distribution if asset returns are in excess of 8% for the year ended September 30. The City is funding the Supplemental Distribution through payments to amortize the unfunded liability of the plan. All board members voted yes. (Motion passed 6-0 Mrs. Marano not present).

As determined by the Board, the amount distributed is equal to the return in excess of the assumed rate (not to exceed 2%) multiplied by the present value of the liability for retirees and beneficiaries subject to the limitation that it cannot exceed the actual dollar amount of the excess return. The actual asset return rate of 9.95% (net of investment management expenses) reported by the investment monitor for the year ending September 30, 2013 represents a total of 1.95% in excess of the assumed rate of 8%.

The calculation is detailed in the table below.

| | |
|---|---|
| (a) Return in excess of 8% (maximum of 2%) | 1.95% |
| (b) Dollar amount of excess return | $1,933,537 |
| (c) Present value of Retiree and Beneficiary Liability | $256,050,333 |
| (d) (a) x (c) $4,992,981 (e) Distribution Amount [Lesser of (b) or (d)] | $1,933,537 |

Mr. Williams asked for the authority to proceed with formal notice to the membership affected and subsequent distribution on April 1, 2014. Mr. Williams advised a formal request for payment towit: a Warrant will follow for final approval to the custodian. Mr. Szeto approved the supplemental distribution as calculated by the Board Actuary. This motion was seconded by Mr. Laskowski. All board members voted yes. (Motion passed 6-0 Mrs. Marano not present).

INVESTMENT MONITOR

A motion was made to amend the Agenda and add Investment Guidelines by Mr. Szeto. This motion was seconded by Mr. Laskowski. All board members voted yes. (Motion passed 6-0 Mrs. Marano not present).

Mr. McCann thanked the Board for allowing him to appear unannounced. Mr. McCann advised that now that our two real estate managers are fully funded, he would like to change the effective date of the real estate asset allocation to January 1, 2014. Mr. Cypen interjected that proper filing guidelines would still have to be followed. Mr. Szeto made a motion to adjust the real estate allocation to January 1, 2014. This motion was seconded by Mr. Laskowski. All board members voted yes. (Motion passed 6-0 Mrs. Marano not present). Mr. Williams will follow proper filing protocol.

OPEN DISCUSSION

Mr. Williams indicated outlined the notice of nomination & trustee election.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 11:35 A.M.

The next scheduled meeting is February 22, 2014 at 10:30 AM.

Respectfully submitted, APPROVED:

C. Marano, Secretary D. Strauss, Chairperson