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

April 25, 2014
10:30 A.M.

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, April 25, 2014, at 10:44 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT: D. Strauss, Chairman, Chris O'Brien, P. Laskowski, R. Brickman, M. Pollak and V. Szeto (departed at 10:55 AM).

Excused Absence: Cathleen Marano

Also present were Kee Eng, City of Hollywood; Marisa DeMato, Labaton Sucharow; Jose Fernandez & Todd Green, Cavanaugh Macdonald Consulting; Edward Rick & Todd McCallister, Eagle Asset Management; Steve Cypen, Board Attorney of Cypen & Cypen, and 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 MARCH 28, 2014 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of March 28, 2014. Mr. Van Szeto asked Mr. Cypen to prepare a Letter of Guidance to avoid the issue that took place at the conclusion of the March 28, 2014 meeting by Mr. Pollak. With that amendment, Mr. Szeto made a motion to approve the Minutes of March 28, 2014 which was seconded by Mr. Laskowski. All board members voted yes.

ATTORNEY'S REPORT

No formal report offered by Mr. Cypen.

A draft copy of the Planned Retirement Benefit Policy (PRB) was distributed for the Trustees to review.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

Drop Loans: Mr. Williams cited respective member's loan requests. 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. O'Brien. All board members voted yes.

SECURITY MONITORING PRESENTATION, Marisa DeMato, Labaton Sucharow

Ms. DeMato, Attorney for Labaton Sucharow appeared before the Board of Trustees for a security portfolio monitoring presentation.

Ms. DeMato distributed and highlighted what was described as "Distinguishing Features of Our Service."

Labaton Sucharow's Portfolio Monitoring Service combines the exceptional talent of our Client Services Team with technology solutions, resulting in substantial benefits to our clients.

Our dedicated team of experienced, highly-trained individuals, with backgrounds in economics and accounting, is focused on the servicing of our institutional investor client base.

We have invested significant resources to build and maintain an infrastructure that allows us to immediately respond to our clients' requests and evaluate their financial interest in a variety of situations.

We developed LPAS, a unique and proprietary database management and software application, that allows us to match new case situations and settlements with our clients' data and analyze their financial exposure, using court-approved evaluation models.

We have relationships with all of the major custodial banks in the U.S. and have handled multiple systems when retrieving our clients' data. These relationships have been helpful when establishing new contacts with European custodians.

Our team members have worked with the principals of the U.S. claims administrator firms. These relationships allow us to communicate directly with them on behalf of our clients.

We monitor cases that have been filed outside of the U.S., and we have developed a methodology for reviewing the perceived risks or benefits that may arise if our clients join an action filed in a jurisdiction outside of the U.S.

We have several long-standing relationships with reputable and experienced counsel outside of the U.S. who provide us with legal expertise and assistance that we use to inform our review of cases filed outside of the U.S.

We provide an audit of past settlements to identify opportunities for recovery that may have been missed, and where possible, we negotiate with the claims administrator to accept filings that are past the deadline.

We have developed a reporting mechanism that will suit the needs or requirements of our clients to keep them fully informed of the actions we take on their behalf.

The presentation was opened for Q&A. Mr. Cypen outlined his requirements to Ms. DeMato in order to bring a case to the Board to consider. Mr. Cypen asked about insurance limits and litigation history. Ms. DeMato deferred until she could get confirmation from the firm.

After considering the benefit of the services & noting there is no fee to the System, Mr. Brickman made a motion to engage the portfolio monitoring services of Labaton Sucharow, contingent upon successful negotiation of a contract with Mr. Cypen.

This motion was seconded by Mr. Szeto. All board members voted yes. Ms. DeMato thanked the Board and stated she was looking forward to working with the Board and its administration.

Mr. Szeto departed the meeting.

ACTUARIAL VALUATION REPORT

Mr. Todd Green & Mr. Jose Fernandez, Board Actuary's of Cavanaugh Macdonald Consulting, LLC presented and reviewed the October 1, 2013 Actuarial Valuation Results. The findings of this report are to be paid in the fiscal year October 1, 2014 through September 30, 2015.

Mr. Green indicated that market return was 11.10% vs. the expected 8.00% (3.10% greater than expected). It was pointed out that the DROP Members with the Fixed Rate of Return, rec'd 8.00% vs. 11.10%. The actuarial asset return was 7.78%, which was 0.22% less that expected. It was reported that individual pay increases averaged 8.43% vs. 5.49% expected.

Mr. Green outlined active and retired membership and stated active membership decreased by 1.9% for 2013. Since 2008 the System experienced 2.2% annual decrease in active membership. Mr. Green also advised that retiree membership increased by 2.5% since 2008; and 1.9% for 2013. There are 1.7 retirees per active member now, where there were 1.4 retirees per active member 5 years ago. The average active member is 38.2 years of age; the average member has 10.9 years of active service; the average retiree is 60.0 years of age.

Mr. Green outlined total expected employer's contribution (See exhibit below).

Employer's Contribution	If paid at start of fiscal year	If paid over fiscal year	Savings/(Loss), if paid/not at start of fiscal year
2014/15 Fiscal Year	$12,059,783	$12,603,280	$543,497

Mr. Green expressed the following funding components: The expected member contribution is 8.00% (as per the current collective bargaining agreement) of active member payroll. The expected contribution from the State of Florida (185 funds) is estimated at $1,250,143.

The results of the valuation were outlined as follows:

	October 1, 2012 Valuation (Fiscal Year 2013/2014 Contributions	October 1, 2013 Valuation (Fiscal Year 2014/2015 Contributions
Total Normal Cost Including Expenses	$3,375,043	$3,548,678
Less Expected Member Contribution	1,135,006	1,207,367
Employer Normal Cost	$2,240,037	$2,341,311
Interest Adjustment	504,039	543,497
Amount to Amortize UAL	10,088,310	10,968,615
Total Required City/State Contribution	$12,832,386	$13,853,423
Expected Chapter 185 Monies	1,111,640	1,250,143
Required Employer Contribution	$11,720,746	$12,603,280
Unfunded Accrued Liability	$137,626,290	$146,996,010
Funded Ratio	54.7%	53.0%

During the presentation Mr. Fernandez was asked if the city actuary was in agreement with the various plan assumptions. Mr. Fernandez said he and Mr. Tierney were on the same page.

Mr. Pollak asked about lowering the assumed rate of return. The assumptions and historical returns were discussed and upon the conclusion, Mr. Pollak then felt the assumptions were in fact reasonable. Mr. Fernandez reaffirmed his position on the expected returns for the short and long term and no change was suggested.

Mr. Brickman made a motion to accept the October 1, 2013 Actuarial Valuation Report as presented. Mr. Pollak seconded the motion. All members voted yes.

Mr. Fernandez noted GASB requirements and the Board provided direction to Mr. Fernandez to comply accordingly.

Mr. Fernandez concluded by advising the Board that the Division of Retirement has not approved the October 1, 2012 Actuarial Valuation Report to date. The reason is because of the inquiry by the city (November 2013) regarding the supplemental distribution.

QUARTERLY INVESTMENT REPORT- Eagle Asset

Mr. Edward Rick & Mr. Todd McCallister appeared before the Board to discuss recent personnel changes at Eagle. Mr. McCallister is the Managing Director and Portfolio Manager. Mr. McCallister cited the recent departure of Mr. Alan Ashworth and introduced Mr. Edward Rick as our new account representative.

Ed Rick, CFA — Senior Vice President, Client Portfolio Manager

- Joined Eagle in 2014
- 20 years of investment-industry experience
- B.S. in business administration, University of Richmond (1994)
- Earned his Chartered Financial Analyst designation in 2001

Further, Mr. McCallister disclosed the recent termination of Mr. Nikola Legetic. Mr. McCallister cited internal policy issues, not related to the portfolio.

Mr. McCallister reported that the Russell 2000 Index was up 1.1 percent in the first quarter. In the index, the utilities and energy sectors (both up 5 percent) were the leaders. The consumer discretionary sector (down 3 percent) was the laggard.

Mr. McCallister began the portfolio review. The Eagle Account was at $18,739,987 as of March 31, 2014. Since inception (01-08-03) the Eagle Small Cap Account realized an annualized gross return of 12.52%, compared to the Russell 2000 of 11.66%. For the quarter ending March 31, 2014, Eagle Small Cap Account returned 2.07%, compared to 1.12% for the Russell 2000. The 3 & 5 Year returns were valued at 12.05% & 22.06% in comparison to the benchmark returns of 13.18% & 24.31% respectively.

The portfolio outperformed (on a gross basis) the benchmark Russell 2000 Index for the quarter primarily due to consumer discretionary and energy. Our telecommunication services and utilities sectors were disappointing.

Consumer discretionary was a source of outperformance, led by the specialty retail; internet and catalog; and auto components industries. In specialty retail, Foot Locker was up on strong same-store sales despite a tough retail environment for many mall-based retailers. In the internet and catalog industry, Liberty Ventures had good results in its two largest holdings – Trip Advisor and Expedia – and announced a stock split.

In the auto components industry, Gentherm had encouraging results and 2014 sales guidance based on continued sales growth of its heated/cooled seating products and improved operating leverage.

Energy outperformed the benchmark while overweight the benchmark. Energy services led the sector. Exterran Holdings beat analysts' earnings estimates and instituted a dividend. The company's limited partnership (Exterran Partners) made an acquisition that we believe will pay off for the parent company. Contract driller Patterson Energy reported a strong quarter and a strong outlook for domestic land rigs.

Eagle underperformed the telecommunication services sector because of weakness in our diversified telecommunications services industry holdings. Lumos is a fiber-based provider of data, voice and internet services. Eagle sold the holding after the company reported disappointing quarterly revenues and profits and also offered weak guidance for 2014. Cogent Communications was down on the news of the Netflix-Comcast deal, which was a surprise given Netflix's prior stance regarding paying internet service-providers for streaming its content. The uncertainty of what that means for content-delivery networks such as Cogent weighed on the stock. A heightened valuation and unclear future led us to sell this long-held position.

Eagle didn't own utilities, which were up 5 percent in the index. Valuations in the group have risen since year-end largely because U.S. Treasury yields have fallen from 3 percent to 2.70 percent. Eagle currently doesn't own utilities due to their elevated valuations but we continue to monitor the sector for those companies that offer the combination of potential growth at a reasonable valuation.

Mr. McCallister reviewed the top and bottom contributors.

Top-five quarterly contributors*

Company name	Ending portfolio weight (%)	Contribution to return
CommScope Holding	1.69	0.39
Exterran Holding	1.07	0.26
Air Lease	1.01	0.20
ICON	0.96	0.20
ARRIS Group	1.09	0.20

Bottom-five quarterly contributors*

Company name	Ending portfolio weight (%)	Contribution to return
TAL International Group	--	-0.20
Gray Television	--	-0.18
Coherent	1.21	-0.18
TriMas	0.80	-0.17
Fair Isaac	1.27	-0.16

Mr. McCallister reviewed recent transactions as well:

Buys
West Pharmaceuticals has – in our view – favorable secular tailwinds, a strong competitive position, longer-term catalysts (e.g., new products and international expansion) and should continue to do well even in the face of macroeconomic uncertainty. It is a market leader in pharmaceutical packaging with a diverse customer base. Its high barriers to entry include manufacturer relationships, a solid track record and scale. The market grows about 5 percent to 6 percent annually with potential for market-share gains via new products.

Swift Transportation is a trucking firm in an industry that appears to be benefiting from a secular trend. Regulatory constraints added over the past few years (e.g., new-truck emission rules, hours-of-service rules and electronic on-board recorder mandates) are constraining supply while a slowly improving domestic economy is increasing demand. The price increases that result from this supply/demand friction should increase margins and earnings even on very modest improvement in demand.

We bought AOL because of what we consider an attractive initiative called AOL ONE. AOL ONE will be a unified advertising platform designed to be at the forefront of a rapidly evolving online-media marketplace. AOL ONE will be an open platform for brands, agencies and publishers. Further, the company is a premium publisher and early mover in online video, particularly with its recent acquisition of Adap.TV.

Sales
EchoStar's announced deal with DISH Networks will transfer essentially 80 percent of the consumer-broadband business to DISH shareholders. Unfortunately, that was the portion of EchoStar's business most attractive to us. We sold the stock.

We sold Cinemark after a strong run. It was facing tough year-over-year comparisons in 2014. Further, there was emerging-market volatility that we believe will result in significant currency weakness in Latin America, where Cinemark derives about one-quarter of its revenues

ATMI was acquired by another of our holdings, Entegris. We are keeping Entegris because we believe the combined entity makes strategic sense. Entegris sells filtration and purification systems for semiconductor-manufacturing labs and that dovetails nicely with ATMI's business of selling consumable materials to semiconductor manufacturers.

Mr. McCallister provided the following review of the portfolio:

	Portfolio	***Russell 2000 Index***
Forward 12-months median P/E	17.0x	18.0x
Weighted Average ROE	11.1%	6.7%
Weighted-average market cap	$ 2,490 M	$1,856 M
Est. three- to five-year EPS growth	15.4%	15.2%

Mr. McCallister provided an outlook by advising it is time for the market to sink or swim. The deeply undervalued market (with the benefit of hindsight) of the past few years gave two easy sources of outperformance: "risk-on" strategies generally worked very well as did playing large sector moves. It is time that active stock risk should matter with equity-risk premiums at normal ranges.

Credit Suisse published a short study that gives evidence that stock-picking is starting to matter more than in past few quarters than it has thus far in this market cycle. With 100 percent foresight, an investor would have earned a mere 5 percent excess return over the past four quarters going long/short the best 5 and worst 5 sectors. This compares to 12 percent in 2012.

Plus, recent correlations between stocks are low. Some observers have noted that price-to-earnings (P/E) multiples are crowded. That – at first glance – might seem to make stock-picking difficult but we believe it helps quality. If most companies are expected to grow the same rate (as implied by their P/E), then buy high-quality companies because many will not attain their projected growth rates.

This is not to say that the economy will be weak; instead, we simply mean that the easy operating leverage that many companies enjoyed early in the cycle is exhausted. The proverbial tide may not be going out but it is no longer lifting the ones dragging the bottom.

Eagle's current relative outperformance in the past two quarters may be a result of this shift. There is a lot of noise in the markets and in the biotech sector in particular (more on this below) but the sink-or-swim nature of the market is with us.

Last quarter, we mentioned that although European debt problems still linger in the background, the macroeconomic viewpoint still looks fairly bright. The U.S. Bureau of Economic Analysis announced that U.S. gross domestic product (GDP) grew at a 3.2 percent annual rate in the fourth quarter of 2013. This was two quarters in a row of above-average growth and – given recent experience – that sounds pretty good. Of course, swing factors (e.g., oil exports and food exports) helped but the numbers were surprisingly strong given low levels of residential investment and the drag from fiscal and local governments.

Mr. McCallister is encouraged by the European Central Bank (ECB) president's announcement that the ECB is considering large-scale asset purchases to offset deflation fears. We believe quantitative easing would be really effective because the problem debt in Europe is sovereign debt, which presumably would be easy for a central bank to buy. European banks are currently buying this debt so substituting a monetary authority would help ease the balance-sheet problems these banks are bound to have down the road.

One challenge for some investors has been the biotech sector, which has beat the market by double-digit amounts in each year from 2011 to 2013. Through February of this year, the industry was ahead by another 7 percentage points. A problem for traditional/fundamental small-cap investors is that there generally is a lack of earnings in small-cap biotechs and there is evidence that bio-tech companies have come of age. The cheap cost of capital has led to numerous takeovers, the U.S. Food and Drug Administration (FDA) seems less burdensome and science is improving.

We outperformed the healthcare index in the sector's March pull-back. We are underweight in the sector but our stock-picking has been effective with outperformance even before the March meltdown in high-fliers. We obviously believe these long-term trends in biotech will continue and that, despite the skewed returns in the sector, we can still add some value.

The Trustees thanked Mr. McCallister for his detailed and thought provoking presentation.

OPEN BOARD DISCUSSION

No discussion ensued.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 12:25 P.M.

Respectfully submitted,

C. Marano, Secretary

APPROVED:

D. Strauss, Chairman