

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

March 31, 2017

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, March 31, 2017 at 9:39 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

D. Strauss, Chairman, C. Marano, Secretary, C. Boyd, R. Brickman and R. Wise. Being there was a quorum present at the meeting, the Trustees authorized V. Szeto to attend & participate via conference call.

Excused Absence: P. Laskowski.

Also present were Robert Schiano, Plan Member, Frank McGarry & Lance Moore, Retired Members; Kee Eng, City of Hollywood (arrived 10:40 AM); Brian O'Sullivan & Tom Galfano, Wells Capital Management; Chris Greco & Marty LaPrade, Sawgrass Asset Management; Jordan Loh & Robert Zimmer, Clarivest Asset Management; Damon Ficlin & Jim Haymes, Polen Capital; Clement Johns & Vince Carrodegua, BDO; John McCann – AndCo Consulting; Stuart Kaufman, Legal Counsel - Klausner, Kaufman, Jensen & Levinson (departed at 10:53 AM); David M. Williams, Plan Administrator.

PUBLIC COMMENT

Mr. Robert Schiano appeared before the Board and reinforced his position of March 17, 2017. Whereas members similarly situated like him should receive the supplemental distribution this year and made whole for past years as well. Mr. Schiano felt that past years should come to members in his class from this year's payment and the payment to the retirees who left prior to October 1, 2011 should be reduced to pay members like him. Mr. Kaufman indicated that public comments was not intended to be an exchange between the speakers and the Board, but he would address the issue. Mr. Kaufman made it clear that his position has not changed since March 17, 2017 on all the issues raised by the speaker. Mr. Schiano closed by saying he presented the plan administrator with DROP Investment Return forms for several members who are enrolled in the R-PRB Program.

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 17, 2017 MEETING

Minutes tabled

SUPPLEMENTAL DISTRIBUTION – Revision

Mr. Williams recapped the Board's direction of March 17, 2017 whereas the actuary was tasked with identifying and including all the retired members of the plan to include (R-PRB) with a supplemental distribution for the fiscal year ending September 30, 2016, payable April 1, 2017. Further the actuary was asked to identify all the retired members of the plan to include (R-PRB) with a supplemental distribution for all prior fiscal years since September 30, 2011.

Mr. Williams reflected that the total amount of the distribution did not change, so this action did not impact the city any further. The pool of membership was expanded, as such it will dampen the amount previously derived.

If approved, a letter will go out to all concerned members announcing the updated amount and the reason for the recalculation. The expanded pool of the membership added will also receive the notice cited and advised that their funds are being held aside until this matter has formally concluded. Mr. Kaufman agreed with the revised list and the impending action. Mrs. Marano made the motion to accept the expanded list prepared by the actuary, to set aside the funds for the affected members who retired or entered the R-PRB post September 30, 2011 and to communicate in written form with all members letting them know the reason(s)¹ for the change of the distribution amount. Motion seconded by Mr. Brickman. All board members voted yes.

ATTORNEY'S REPORT

Mr. Kaufman provided an update on pending court action in the Headley Matter. Surpeme Court Mandate (dated March 24, 2017) & City of Miami Motion to Remand (dated March 24, 2017).

Documents cited may be viewed:

http://hollywoodpensionfund.com/docs/announcements/2013-1882_mandate_7522.pdf#zoom=100

<http://hollywoodpensionfund.com/docs/announcements/City%20of%20Miami's%20Motion%20for%20Remand%20to%20Public%20Employees.pdf#zoom=100>

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

Pension Task Force Meeting: Mr. Williams reported that there was a meeting held at city hall on March 21, 2017. Mr. Szeto covered Mr. Brickman's position due to his excused absence. Mr. Jose Fernandez, Board Actuary also attended via conference call. There was a fair number of retirees present which is a positive thing. The city representatives were Assistant City Managers - Mr. George Keller and Mr. Mel Standley. During the meeting the CRA's were again identified as a revenue source for the General Fund. During the meeting the unfunded mandates were discussed such as the required change to mirror the FRS morality tables. Another issue raised was the supplemental distribution litigation. Mr. Williams indicated that a timeline could be created to argue the case with the state in the hope of them releasing the funds (approx. 3 million dollars). Mr. George Keller fully endorsed that action and asked that he be provided a copy. Mr. Williams worked with Mr. Fernandez to create an outline of the events, detailing how they took place over a period of years and how actions initiated by the city led to the withholding of the state funds. There is a clear and convincing argument that can be fashioned for one of the two payments with the state. Basically, the state authorized the Board's action. With that on-going confirmation, the Board released a supplemental distribution. It was not until several months later when the state changed their method of payment from post to pre-funding. The timeline was clear and concise based on the difficult subject and all the moving parts. Trustees by consensus agreed to proceed with the effort to have the funds released.

¹ <http://www.floridasupremecourt.org/decisions/2017/sc13-1882.pdf>

However, the Trustees wanted assurances that the city would not make any claim that we were interfering with the lawsuit, that one of the two payments would continue to be post funded, and the last state payment would be released if the city concedes to pay in full the supplemental distribution paid after the state's position changed. Mr. Williams understood the parameters, sought and received assurance from Mr. Kaufman that there should be no legal issue raised on interference with the existing litigation.

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

Return of Pension Contribution (Lamart Barrett): Mr. Williams cited the respective member's request for a refund of his pension contributions via a qualified rollover. Mrs. Marano made a motion to approve the loan as noted, which was seconded by Mr. Boyd. All board members present voted yes.

Vested Member – Conversion to Normal Retirement (Zimbalist Chalk): Mr. Williams provided the required documentation to exhibit Mr. Chalk's ability to begin his pension based on the age requirement. Mr. Brickman made a motion to approve the normal retirement as noted, which was seconded by Mrs. Marano. All board members present voted yes.

Change of Meeting Date: Mr. Williams cited that the Sun Credit Union was having a large membership meeting on April 28, 2017 and suggested moving our regular meeting to April 21, 2017. By consensus all Trustees agreed. Public Notice will be provided accordingly.

QUARTERLY INVESTMENT REPORT - WELLS CAPITAL MANAGEMENT

Mr. Brian O'Sullivan & Mr. Tom Galfano, Wells Fargo Asset Management appeared before the Board to review recent investment results. Mr. Galfano reviewed the MetWest Capital Equity Team and the promotion of Mr. Jean-Baptiste Nadal to Team leader – Senior Portfolio Manager.

The Performance history was reviewed and the reason(s) for the underperformance outlined. Mr. O'Sullivan also cited recent improvements in performance as a positive sign.

Performance history (%)		As of December 31, 2016		
	YTD through 28-Feb-17	4Q16	1 year	Since inception 12-May-15
Portfolio - Gross	4.11	3.82	7.97	2.48
Russell 1000 Value Index	4.33	6.68	17.34	6.93

Market Highlights provided:

- Equity market conditions continued to improve significantly.
- Shift towards a rise in interest rate expectations.
- Notable rotation in sector returns away from defensive, high-yielding securities.

Hollywood Police Officers' Retirement Board - Minutes

March 31, 2017

Page 4

- U.S. economic gauges indicating strength with growth in jobs, wages, household income, and personal consumption.
- Market psychology switched from deflation concerns to growth/inflation prospects and a potential acceleration of U.S. interest rates rising after positive economic news and results of U.S. presidential election.

Portfolio

- Performance shortfall year to date 2017 and for the full year 2016 versus the Russell 1000 Value Index.

YTD ended February 28, 2017

- 4 out of 11 sectors contributed to performance shortfall.
- Stock selection in Information Technology, Consumer Staples, and Materials detracted.
- Underweight in Energy and stock selection in Energy and Consumer Discretionary contributed.

2016 Attribution

- 9 out of 11 sectors contributed to underperformance for the year.
- Stock selection and underweight in Financials, in addition to security selection in Industrials, Health Care, and Consumer Staples detracted.
- Underweight in Real Estate added value.

In the end, Mr. Brickman made it very clear to the representatives, that the underperformance was disappointing at best and if continued further action would follow.

LARGE CAP GROWTH PRESENTATIONS

Mr. McCann advised that the prospective managers were present and prepared to give their presentations. Mr. Chris Greco & Mr. Marty LaPrade, Sawgrass Asset Management; Mr. Jordan Loh & Mr. Robert Zimmer, Clarivest Asset Management; Mr. Damon Ficklin & Mr. Jim Haymes, Polen Capital all appeared before the Board. The representatives provided details about their respective firms, the firm's investment team, experience, philosophy, investment process and history were outlined in vivid detail. All candidates provided thought provoking presentations to the Board of Trustees. No formal decision was taken as the Trustees wanted additional time to review and consider the managers and the active vs. passive mandate.

PRESENTATION OF 09-30-2016 FINANCIAL STATEMENTS - BDO

Tabled February 17, 2017 & March 17, 2017

Mr. Johns presented the plan financial statements of September 30, 2016. BDO was engaged by the Board of Trustees to complete the annual independent audit of the plan. Mr. Johns reflected it was in his firm's opinion, that the financial statements presented fairly, in all material respects, the fiduciary net position of the City of Hollywood Police Officers Retirement System as of September 30, 2016, and the related changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Pronouncement: Mr. Johns stated the plan has adopted the disclosure requirements of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application in 2016. The provisions of the additional disclosure requirements were discussed (see Note 4 to the financial statements).

Management's Discussion and Analysis: The Fund's assets exceeded its liabilities at the close of fiscal years ended September 30, 2016 and 2015 by \$259,162,808 and \$245,410,242 respectively (reported as net position restricted for pensions).

The Fund's net position is held in trust to meet future benefit payments. The increase of \$13,752,566 and decrease of \$5,782,651 of the respective years have resulted primarily from the changes in the fair value of the Fund's investments due to volatile financial markets.

For the fiscal year ended September 30, 2016, employer (City) contributions to the Fund increased \$534,940 (or 4.0%) based on the actuarial calculation. Actual employer contributions were \$13,960,747 and \$13,425,807 for 2016 and 2015, respectively.

One note of contention was that the actual state contributions were \$0 and \$0 for 2016 and 2015, respectively as a result of the city's position relative to the supplemental distribution.

For the fiscal year ended September 30, 2016, employee contributions including buybacks increased by \$341,597 (or 23.2%). Actual employee contributions and buybacks were \$1,811,993 and \$1,470,396 for 2016 and 2015, 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, 2016, net investment income increased by \$18,948,245. Actual results were \$17,748,087 and \$1,722,594 of net appreciation and depreciation in fair value of investments for 2016 and 2015, respectively, and \$5,659,484 and \$6,228,080 of income from interest and dividends for 2016 and 2015, respectively. Investment expenses decreased by \$46,160 or (3.5%).

Fund Highlight: For the fiscal year ended September 30, 2016, the return of the portfolio, net of fees was 9.55% for the trailing year and ranked in the top 12 percentile. Actual net investment income in 2016 was \$22,123,392 compared with a net investment income \$3,175,147 in 2015.

Legal Matter: It was noted that the plan is a party to legal proceedings, investigations, and claims in the ordinary course of operations. The plan is a party to lawsuit filed by the City against the pension plans sponsored by the City. The suit seeks a declaratory judgment alleging that the plan did not have the authority to authorize paying a supplemental pension distribution to its members in the 2014 and 2015 fiscal years. The plan and parties to the lawsuit have filed a motion to dismiss the suit which is currently pending. The plans are vigorously defending the lawsuit. The plan records accrual for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The plan evaluates along with legal counsel, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable the plan does not establish an accrued liability. In the opinion of management the ultimate outcome of the claim and litigation, if any, will not have a material effect on the plan's financial position.

As noted above, the city is withholding funding related to the supplemental benefits paid members in fiscal years ended September 30, 2015 and 2014, respectively, pending the outcome of a lawsuit. As a result of the underfunding, State funding in the amounts of \$1,375,501 and \$1,308,509 for the 2015 and 2016 fiscal years is being withheld due to underfunding of the actuarial computed required contribution. Pursuant to Florida Statutes, any funding deficiency will have to be contributed by the City.

The city contributions receivable in the amount of \$585,223 was also pointed out by Mr. Johns as being booked to cover the shortage the city failed to pay due to the supplemental distribution.

Statements of Changes in Fiduciary Net Position		
<i>For the years ended September 30,</i>	2016	2015
Additions:		
Contributions:		
City	\$ 13,960,747	\$ 13,425,807
Employee	1,714,832	1,454,477
Rollovers	201,349	194,366
Buybacks	97,161	15,919
Total contributions	15,974,089	15,090,569
Investment income:		
Net appreciation (depreciation) in fair value of investments	17,748,087	(1,722,594)
Interest and dividends	5,659,484	6,228,080
Total investment income	23,407,571	4,505,486
Less : investment expense	1,284,179	1,330,339
Net investment income from investing activities	22,123,392	3,175,147
Total additions	38,097,481	18,265,716
Deductions:		
Pension benefits paid	23,179,330	23,318,201
Participants' contributions refunded	35,258	73,428
PRB contribution refunded	459,258	-
Administrative expenses	671,069	656,738
Total deductions	24,344,915	24,048,367
Net increase (decrease)	13,752,566	(5,782,651)
Net position restricted for pensions:		
Beginning of year	245,410,242	251,192,893
End of year	\$ 259,162,808	\$ 245,410,242

Statements of Fiduciary Net Position		
September 30,	2016	2015
Assets:		
Cash and cash equivalents	\$ 5,708,358	\$ 4,480,550
Receivables:		
City contributions receivable	585,223	1,564,389
Employee contributions receivable	60,805	59,257
Accrued interest and dividends	590,211	660,409
Receivable for securities sold	776,450	383,859
DROP loans receivable	986,816	971,431
Total receivables	2,999,505	3,639,345
Prepaid expenses	-	26,813
Investments, at fair value:		
Domestic equity securities	122,200,571	108,826,158
Corporate bonds and notes	45,219,901	55,066,788
U.S. government securities	24,328,185	16,282,949
Foreign bonds	2,742,265	5,332,927
Domestic equity funds	25,117,073	21,801,049
Real estate funds	27,271,223	25,718,933
Alternative investment	4,594,088	4,501,804
Total investments, at fair value	251,473,306	237,530,608
Total assets	260,181,169	245,677,316
Liabilities:		
Accounts payable	86,176	264,312
Prepaid City contributions	-	-
Payable for securities purchased	932,185	2,762
Total liabilities	1,018,361	267,074
Net position restricted for pensions	\$ 259,162,808	\$ 245,410,242

The accompanying notes are an integral part of these financial statements.

At the conclusion of the presentation, the Board exchanged questions and observations that were duly noted by Mr. Johns. Mr. Brickman made a motion to accept the financial statements as amended, which was seconded by Mr. Strauss. All board members present voted yes.

The financial statements may be viewed at:
<http://hollywoodpolicepensionfund.com/modules/stateDocs/index.asp>

OPEN DISCUSSION

No open discussion ensued.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 12:45 PM.

The next scheduled meeting is April 21, 2017² at 10:30 AM.

Respectfully submitted,

APPROVED:

C. Marano, Secretary

D. Strauss, Chairperson

² Changed from April 28, 2017