

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

February 22, 2019

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, February 22, 2019, 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, V. Szeto, R. Wise, C. Boyd & P. Laskowski (arrived 10:43 AM)

Excused Absence: R. Brickman.

Also present were Eugene "Mac" Champion, City of Hollywood; Eric Leventhal & Jeovany Rodriguez, Kabat, Schertzer, De La Torre, Taraboulos & Co., LLC.; Mr. Todd Green and Mr. Joey Walls, Cavanaugh Macdonald Consulting; LLC John McCann, AndCo Consulting; John Rochford & Robert Maddock, III of Inverness Counsel; Janna Hamilton of Garcia Hamilton; Stuart Kaufman, Legal Counsel - Klausner, Kaufman, Jensen & Levinson; David M. Williams, Plan Administrator.

PUBLIC COMMENT

Mr. Gregg Rossman, Attorney for ten retired members made a passionate plea to the Board to restore his clients benefits due to the passage of the city ordinance on February 20, 2019. Mr. Kaufman did not want the Board to take unilateral action due to the City of Miami restoration case. He felt prudent action would be to have the actuary identify the parties, value the impact and meet with Mr. George Keller of the City of Hollywood. Mr. Strauss offered to act as the liaison in this matter. Once the actuary has valued the impact a meeting will be sought accordingly.

Mrs. Stephanie Szeto offered her thanks on behalf of herself and the retirees who cannot attend the pension meetings. Mr. Kaufman replied the Board was doing its fiduciary duty.

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 JANUARY 25, 2019 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the January 25, 2019 pension board meeting. Mr. Szeto made a motion to approve the Minutes of the January 25, 2019 pension board meeting, which was seconded by Mr. Boyd. All board members voted yes. (Mr. Laskowski off dais).

ATTORNEY'S REPORT

Mr. Kaufman said that he and his office is working with Mr. Williams and the actuary in an effort to restore the benefits as a result of the ordinance unanimously passing on February 20, 2019.

Mr. Kaufman advised that the LaFrance disability matter is still in the discovery phase as his office is gathering the final medical records so an independent medical examination (IME) can be conducted. He hoped to have the informal hearing in April.

Mr. Kaufman cited a Bill filed (HB 265) where under public comments if a legal opinion is sought by a member of the public, a response must be given within ten days. The member of the public would not be responsible for the fees of the attorney.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

BENEFIT ELECTION: The Board of Trustees held a pension benefit election in compliance with City of Hollywood - Ordinance 33.138(A). The election was open to all active (non-dropped) members. The election dates were February 7th – 13th, 2019.

The certified results are as follows: 281 eligible voting members, 274 voted to approve the changes proposed, 2 voted to not approve the changes proposed. The official results were also filed with the city clerk's office.

Mr. Szeto made a motion to accept the results, which was seconded by Mr. Laskowski. All board members voted yes.

Notice to city clerk may be viewed at:

<http://hollywoodpolicepensionfund.com/docs/announcements/Benefit%20Election%20Results%2002-13-2019.pdf>

TRUSTEE NOMINATION/ELECTION: Mr. Williams reported the results of the self-nomination process. At the close of the process, Mr. Strauss, Mr. Szeto and Mr. Boyd were the only nominations received, therefore no election was required. Notice was provided to the city clerk and posted to the website. Motion to accept the nomination results by Mr. Laskowski and seconded by Mrs. Marano. All board members voted yes.

Notice to city clerk may be viewed at:

<http://hollywoodpolicepensionfund.com/docs/announcements/Nomination%20Results%2002-11-2019.pdf>

RETURN OF PENSION CONTRIBUTIONS: Mr. Williams indicated that former members Daniel Williams & Terrence Butler requested a return of their contributions made to the Plan. The required documents were complete.

Motion by Mr. Laskowski to approve the return of the member's pension contributions of Daniel Williams & Terrence Butler. Motion seconded by Mr. Boyd. All board members voted yes.

DROP/PRB Loan: Mr. Williams cited a 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 presented. This motion was seconded by Mr. Szeto. All board members voted yes.

ACTUARIAL IMPACT - Cavanaugh Macdonald Consulting, LLC.

Mr. Green and Mr. Walls of Cavanaugh Macdonald Consulting, LLC reviewed the impact statement as a result of the restoration ordinance approved on February 20, 2019. Mr. Green understood the Board approved a change to the funding assumption for this ordinance revision only. For purposes of this funding base only, the method will be created on the "level percentage of payroll" and not "level dollar of payroll".

In review, the matter arose due to the payroll growth assumption used by Nyhart (City Actuary) and that of Cavanaugh Macdonald (Plan Actuary). Cavanaugh Macdonald used the Board adopted approach of "level dollar of pay", where Nyhart used the "level percentage of pay" approach. Mr. Green and Mr. Walls did not object to this change as cited as the city's actuary developed it.

Mr. Strauss mentioned that City Manager, Wazir Ismael, commented during the passing of the Police Officer's Pension restoration ordinance on February 20, 2019, that he hopes the Board does not go back on their word and change the way this benefit is funded. Mr. Strauss advised Mr. Green and Mr. Walls of Cavanaugh Mcdonald Consulting, LLC, moving forward that the Board only wants to use "level percentage of payroll" for this benefit bargained during the 2019-2021 CBA/Pension Ordinance and implores that future Boards do not change the funding assumption for this ordinance revision.

To reinforce the action taken at the emergency meeting of February 20, 2019, the Board elected to reaffirm their action. Mr. Szeto made the motion, to adopt the Nyhart Method of Assumption - "level percentage of pay" for restoration purposes. The motion was seconded by Mr. Boyd. All board members voted yes.

PRESENTATION OF SEPTEMBER 30, 2018 FINANCIAL STATEMENTS
Kabat, Schertzer, De La Torre, Taraboulos & Co., LLC.

Mr. Eric Leventhal appeared before the Board and presented the September 30, 2018 Financial Statements. Mr. Leventhal indicated that his firm audited the accompanying financial statements of the City of Hollywood Police Officers Retirement System, which comprise the statement of fiduciary net position as of September 30, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements. The representatives of the firm conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion: In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Hollywood Police Officers Retirement System as of September 30, 2018, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Financial Highlights:

The Plan's net results from operations for fiscal year 2018 reflected the following financial activities:

- Total net position restricted for pensions was \$306,028,992, which was 9% greater than 2017 total net position restricted for pensions.

- Total contributions for the year were \$21,255,019 which was 13% greater than the 2017 contributions. The amount of employer contributions varies from year to year and is actuarially determined. Participant contributions were 8.0% of compensation for police officers on their first 27 years of continuous service. Police officers electing the Reformed Plan Retirement Benefit Option 2 shall contribute 0.5% of their earnings.
- Total interest and dividend income was \$6,971,566 which was 4% greater than the 2017 income.
- Net investment income was \$33,082,120 which was 7% greater than the 2017 income.
- Benefits paid were \$23,952,027, which was 6% greater than the benefits paid during 2017.

Statement of Fiduciary Net Position: The following condensed comparative statement of fiduciary net position is a snap shot of account balances at the fiscal year end of the Plan. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the financial statement date. The resulting net asset value, or assets minus liabilities, represents the value of assets held in trust for Plan benefits.

The Plan continues to be evaluated for actuarial soundness by the actuary of the Plan. It should be noted that retirement system funding is based on a long-term perspective and that temporary fluctuations in the market are to be expected.

- Net position restricted for pensions at September 30, 2018 was \$306,028,992, a 9% increase from the net position at September 30, 2017.
- Total investments at September 30, 2018 were \$297,046,544, an 8% increase from the investments at September 30, 2017.

The table below presents condensed comparative statements of fiduciary net position as of September 30:

	2018	2017	% Change
Receivables	\$ 6,739,639	\$ 4,367,174	54%
Prepaid expense	2,308,677	2,157,488	7%
Investments, at fair value	297,046,544	274,293,949	8%
Total assets	306,094,860	280,818,611	9%
Total liabilities	65,868	333,942	(80%)
Net position restricted for pensions	\$ 306,028,992	\$ 280,484,669	9%

Statement of Changes in Fiduciary Net Position: The statement of changes in fiduciary net position presents the effect of Plan's transactions that occurred during the fiscal year. On the statement, additions to the Plan minus deductions from the Plan equal the net increase or decrease in fiduciary net position.

The funding objective is to meet long-term obligations and fund all Plan benefits.

- Revenues (additions to fiduciary net position) for the Plan were \$54,380,989, which was made up of total contributions of \$21,255,019 plus net investment income of \$33,082,120 and other income of \$43,850.

- Expenses (deductions from fiduciary net position) increased from \$28,329,537 during 2017 to \$28,836,666 during 2018.

The table below presents a condensed comparative of the changes in fiduciary net position for the year ended September 30:

	2018	2017	% Change
Total contributions	\$ 21,255,019	\$ 18,776,017	13%
Net investment income	33,082,120	30,856,527	7%
Other income	43,850	18,854	133%
Total additions	54,380,989	49,651,398	10%
Total deductions	28,836,666	28,329,537	2%
Net increase	25,544,323	21,321,861	20%
Net position restricted for pensions – beginning	280,484,669	259,162,808	8%
Net position restricted for pensions – ending	\$ 306,028,992	\$ 280,484,669	9%

Asset Allocation: The table below indicates the Plan's investment policy limitations and actual asset allocations as of September 30, 2018:

Type of Investment	Investment Policy	Actual Allocation
Equity securities	45% to 65%	63.50%
Alternative investments	0% to 5%	2.27%
Fixed income	22% to 60%	22.40%
Real estate	0% to 15%	10.57%
Cash and cash equivalents	0% to 5%	1.26%

The investment guidelines provide for the appropriate diversification of the portfolio. Investments have been diversified to the extent practicable to control risk of loss resulting from over-concentration of a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold.

The Board recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's financial condition enables the Board to adopt long-term investment perspective.

Investment Activities: Investment income is vital to the Plan for current and future financial stability. The Board has a fiduciary responsibility to act prudently when making plan investment decisions. To assist the Board in this area, the Board retains investment managers who supervise and direct the investment of the assets. The Board also retains an investment monitor to evaluate and report on quarterly basis compliance by the investment managers with the investment policy of the Board and investment performance of the Plan. The investment policy statement was last amended during November 2017.

The Board and its investment consultant reviews the portfolio performance, which is in compliance with the investment policy statement quarterly. Performance is evaluated both individually by money manager style and collectively by investment type and for the aggregate portfolio.

Please continue.....

**CITY OF HOLLYWOOD
 POLICE OFFICERS RETIREMENT SYSTEM**

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2018
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
RECEIVABLES:		
City contributions	\$ 4,736,140	\$ 2,590,418
Participant contributions	133,972	63,033
Accrued investment income	570,775	554,511
Accounts receivable - sale of investments	4,962	31,074
DROP loans receivable	<u>1,293,790</u>	<u>1,128,138</u>
TOTAL RECEIVABLES	<u>6,739,639</u>	<u>4,367,174</u>
PREPAID EXPENSE	<u>2,308,677</u>	<u>2,157,488</u>
INVESTMENTS, AT FAIR VALUE:		
Money market funds	3,759,898	5,115,595
Equity securities	188,611,765	166,530,081
Domestic corporate bonds	46,454,415	45,638,903
Foreign corporate bonds	1,530,320	1,578,125
Real estate funds	31,387,374	28,700,465
Government securities	18,549,590	21,725,509
Hedge fund	<u>6,753,182</u>	<u>5,005,271</u>
TOTAL INVESTMENTS, AT FAIR VALUE	<u>297,046,544</u>	<u>274,293,949</u>
TOTAL ASSETS	<u>306,094,860</u>	<u>280,818,611</u>
LIABILITIES		
ACCOUNTS PAYABLE	65,868	105,130
ACCOUNTS PAYABLE - DROP BENEFITS	-	137,695
ACCOUNTS PAYABLE - PURCHASE OF INVESTMENTS	<u>-</u>	<u>91,117</u>
TOTAL LIABILITIES	<u>65,868</u>	<u>333,942</u>
NET POSITION RESTRICTED FOR PENSIONS		
NET POSITION RESTRICTED FOR PENSIONS:		
Net position restricted for defined benefits	211,623,323	192,866,380
Net position restricted for DROP benefits	80,798,757	77,157,590
Net position restricted for reformed plan retirement benefits	9,836,516	7,004,296
Net position restricted for share benefits	<u>3,770,396</u>	<u>3,456,403</u>
TOTAL NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 306,028,992</u>	<u>\$ 280,484,669</u>

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

**CITY OF HOLLYWOOD
 POLICE OFFICERS RETIREMENT SYSTEM**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED SEPTEMBER 30, 2018
 (WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
ADDITIONS:		
Contributions:		
City	\$ 19,492,251	\$ 17,005,579
Participant	1,714,922	1,625,263
Buyback	47,846	57,026
Rollover	-	88,149
Total contributions	<u>21,255,019</u>	<u>18,776,017</u>
Investment income:		
Net appreciation in fair value of investments	27,489,860	25,602,965
Interest and dividend income	<u>6,971,566</u>	<u>6,698,664</u>
Total investment income	34,461,426	32,301,629
Less: investment expenses	<u>1,379,306</u>	<u>1,445,102</u>
Net investment income	<u>33,082,120</u>	<u>30,856,527</u>
Other income	<u>43,850</u>	<u>18,854</u>
TOTAL ADDITIONS	<u>54,380,989</u>	<u>49,651,398</u>
DEDUCTIONS:		
Benefit payments	23,952,027	22,666,416
DROP distributions	3,332,868	3,946,790
RPRB distributions	683,555	675,917
Share distributions	221,570	293,310
Refunds of contributions	53,956	20,298
Administrative expenses	<u>592,690</u>	<u>726,806</u>
TOTAL DEDUCTIONS	<u>28,836,666</u>	<u>28,329,537</u>
NET INCREASE IN NET POSITION RESTRICTED FOR PENSIONS	25,544,323	21,321,861
NET POSITION RESTRICTED FOR PENSIONS - BEGINNING	<u>280,484,669</u>	<u>259,162,808</u>
NET POSITION RESTRICTED FOR PENSIONS - ENDING	<u>\$ 306,028,992</u>	<u>\$ 280,484,669</u>

Mr. Eric Leventhal concluded by reviewing the administrative expenses of the Plan. Mr. Eric Leventhal felt that 19 basis points (in fact decreased by 7 basis points this year) was very reasonable.

At the conclusion of the presentation, Mr. Laskowski made the motion to accept the report as presented, which was seconded by Mr. Szeto. All board members voted yes.

Note: Mr. Stuart Kaufman, Board Attorney reviewed the financial statements and the representation letter, prior to the meeting. Mr. Klausner found the statements and notes appropriate for adoption.

QUARTERLY INVESTMENT PRESENTATIONS

INVERNESS COUNSEL

Mr. Maddock¹ and Mr. Rochford provided the following investment report:

Equity Observations:

Cash raised in early October 2018 to protect capital, and then selectively re-invested throughout the quarter. Portfolio returns during 2018 were driven by favorable security selection, with sector allocation detracting. Strongest relative sector returns for 2018 were from the Industrial and Technology sectors.

Strongest relative security returns over 2018 (in order of relative attribution return):

- Progressive: Online, data-driven, personal lines insurer focused on auto and expanding into homeowners' segment.
- IAC/Interactive Corp: Internet brands generate user fees and ad revenue: Match, Tinder, HomeAdvisor, Angie's List.
- Union Pacific Corp: Largest U.S. railroad, benefits from energy transportation, lack of truck drivers, optimization plan.
- Adobe Systems: Dominant in graphic design software and digital advertising measurement/optimization.
- Roper: Industrial technology including medical and scientific imaging, controls, sensors, communication.
- Microsoft: #2 cloud computing, transitioning Office to subscription model, E-sports and gaming.

Fixed Income Observations:

- Portfolio maintained a short duration position in 2017 & 2018 given the rising interest rate environment.
- The Federal Reserve is now close to its target interest rate, and we have started to extend portfolio duration.
- Equity market volatility in Q4 2018 resulted in a sharp interest rate decline that may be temporary.

¹ Robert is a Senior Vice President and a member of the Investment Committee. In addition to managing client portfolios, he conducts fundamental research on energy stocks. Prior to joining Inverness in 1993, Robert was with White Oak Capital Management and the Bank of New York. Robert earned a BA from the University of Utah and an MBA from New York University.

- Portfolio maintains a bias toward A-rated bonds given increased supply and other current risks of BBB-rated bonds.

Continuing to anticipate that Fed rate hikes probably have ended for the cycle, and trades include:

- Recent purchases of 10-year bonds: Anheuser-Busch 4.75%, DowDuPont 4.725%, Schlumberger 4.30%, Stanley Black & Decker 4.25%, Wells Fargo 4.15%, Schwab 4.00%.
- Sold 2019 US Treasury bonds.

Inverness Equity portfolio was valued at \$47,172,362 as of December 31, 2018.

Inverness Fixed Income portfolio was valued at \$60,905,714 as of December 31, 2018.

GARCIA HAMILTON

Mrs. Hamilton reflected that as of December 31, 2018, the portfolio was valued at \$14,007,381. Mrs. Hamilton indicated that for the quarter, the fixed income portfolio returned 1.44%², which was outpaced by the Bloomberg Barclays Int. Aggregate benchmark return of 1.80%. On a one-year basis, the fixed income portfolio returned 1.4% vs. the benchmark return of 0.92%. Since the portfolio inception date of June 30, 2011, the fixed income return was 3.18%, compared to the benchmark return of 2.15%.

A brief market commentary was provided. Fear gripped the markets this quarter as the S&P 500 had its worst December since the Great Depression, oil prices sank, and Treasury yields declined across the curve. The ongoing trade tensions were exasperated by the arrest of a Chinese tech giant CFO for sanctions violations, and friction between Democratic and Republican leaders stoked concerns about the length and impact of the looming government shut down. Given the volatility and uncertainty, expectations of a more dovish Fed began to arise. However, the Fed stayed on course and hiked the federal funds rate for a fourth time in 2018 to arrange of 2.25%-2.50%. Following the announcement, Chairman Powell roiled markets at his press conference by implying balance sheet normalization would remain on auto pilot and two more hikes in 2019 were expected. We believe market participants have overreacted and forward rates now appear to be pricing in a recession despite solid economic data. Additionally, market implied probabilities for future Fed rate hikes are significantly lower than estimates provided by the FOMC. With the recent widening of corporate spreads, we are now seeing more value in the sector and have begun to selectively increase our exposure to the sector. In the near term, rates have the bias to move higher and spreads have the bias to tighten as fears of an economic slowdown subside and the Fed continues to hike.

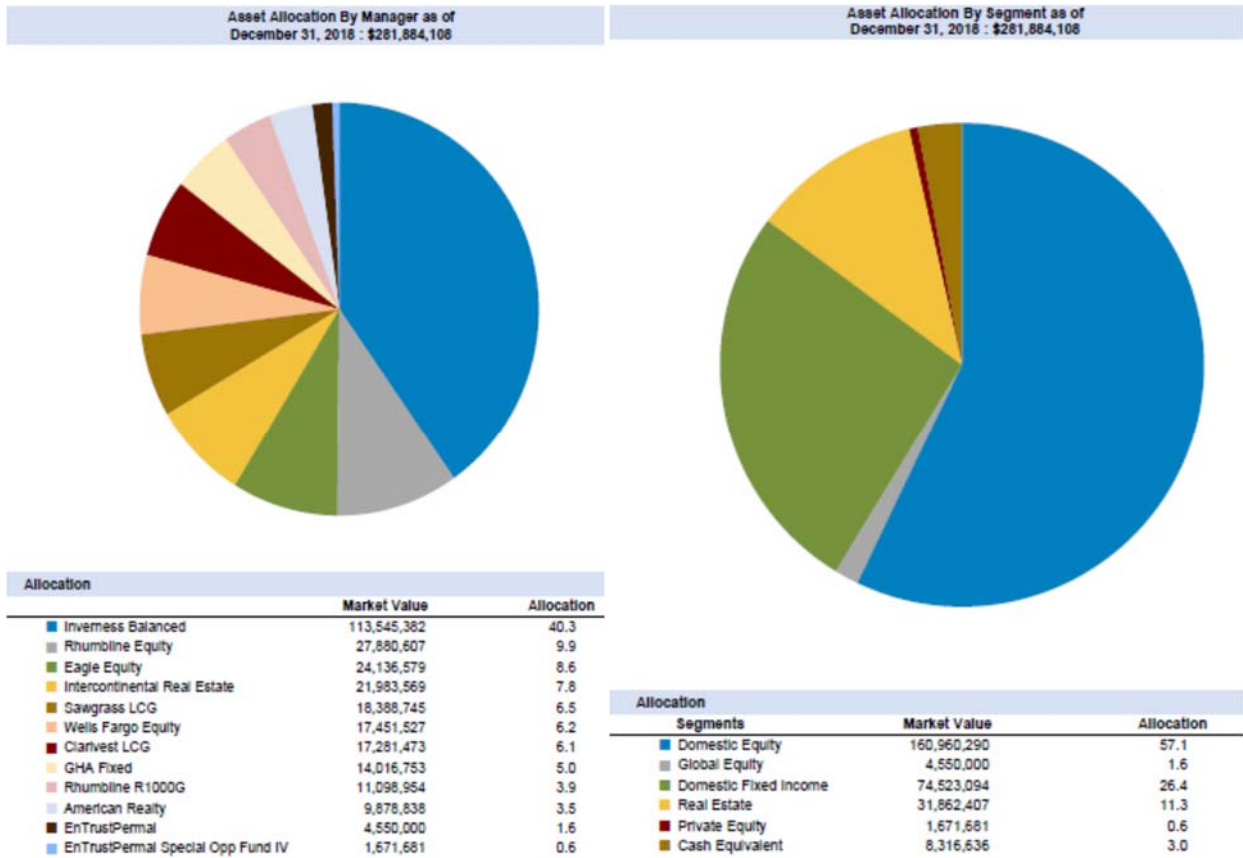
AndCo Consulting

Mr. McCann presented the December 31, 2018 investment report, the portfolio was valued at \$281,884,108. The total fund return was -9.5%³. That quarterly return was outpaced by the benchmark. Mr. McCann advised - All Public Plans Total Fund Median return was -8.35%. Longer term results were also outlined on a 1, 3 and 5-year basis.

Please continue.....

² On a net basis

³ On a gross basis



The entire investment report may be viewed on-line at:
<http://hollywoodpolicepensionfund.com/docs/investments/2018-12-31%20Hollywood%20Police%20Quarterly%20Report.pdf>

SUPPLEMENTAL DISTRIBUTION – Tabled January 25, 2019 meeting

Mr. Williams distributed the Cavanaugh Macdonald Consulting review of the supplemental distribution for the plan year ending September 30, 2018. The distribution made is per Section 33.136(N) of the plan document that triggers a Supplemental Distribution if asset returns are in excess of 8% for the year ended September 30. The Supplemental Distribution will not be made using excess investment gains.

In review, effective with the October 1, 2015 valuation, a pre-funding method was adopted for anticipated Supplemental Distribution payments as required by the State of Florida. As determined prior 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 11.87% (net of investment management expenses) reported to us by the investment monitor for the year ending September 30, 2018 represents a total of 3.87% in excess of the assumed rate of 8%. However, the distribution is capped at 2.00%.

Based on the method used by the System's investment monitor for the previous distributions, Cavanaugh Macdonald Consulting have calculated the distribution amount of \$2,880,008 for the 2018 Plan year. The calculation is detailed in the table below.

(a)	Return in excess of 8% (maximum of 2%)	2.00%
(b)	Dollar amount of excess return	\$2,880,008
(c)	Present value of Retiree and Beneficiary Liability*	\$352,880,565
(d)	(a) x (c)	\$7,057,611
(e)	Distribution Amount [Lesser of (b) or (d)]	\$2,880,008

The Board reviewed the distribution listing along with Counsel. Motion to release the supplemental distribution to all eligible members (holding in trust post September 30, 2011 - members who vested and subsequently began to collect at age, post September 30, 2011 disabled members, post September 30, 2011 death benefit recipients and members who separated service post July 2013 waiver date) by Mr. Szeto, which was seconded by Mrs. Marano. All board members voted yes.

OPEN DISCUSSION

No discussion ensued.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 12:00 P.M.

The next scheduled meeting is March 29, 2019 at 10:30 AM.

Respectfully submitted,

APPROVED:

C. Marano, Secretary

D. Strauss, Chairperson