

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

March 31, 2023

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, March 31, 2023, at 10:30 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

D. Strauss, Chairperson, C. Marano, Board Secretary, P. Laskowski, J. Schweighardt¹, J. Marano, C. Boyd, M. Djokic.

Also present were Laurette Jean – City of Hollywood, Finance Department; Mark Juelis – Brandywine Global; Bryant VanCronkhite², CFA & Dann Smith -Allspring Global Investments; Todd Green & Zack Smith, Board Actuary – Cavanaugh Macdonland Consulting; Brendon Vavrica, AndCo Consulting; Stuart Kaufman³, Legal Counsel - Klausner, Kaufman, Jensen & Levinson; David M. Williams, Plan Administrator.

PUBLIC COMMENT

No Comments.

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 FEBRUARY 17, 2023 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the February 17, 2023 pension board meeting. Mr. Djokic made a motion to approve the Minutes of the February 17, 2023 pension board meeting, which was seconded by Mr. Laskowski. All board members voted yes⁴.

ATTORNEY'S REPORT

Mr. Kaufman cited the action taken by the authority of the Chairman related to the VISA Matter. A complaint was filed to compel VISA to produce Books and Records inspection. VISA has failed to produce records pursuant to Section 220 and as such a Complaint was filed. After review, Mr. Laskowski made a motion to support and affirm the action taken as detailed, a motion seconded by Mrs. Marano. All board members voted yes⁵.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

¹ Arrived 10:41 AM.

² Attended Remotely.

³ Attended Remotely.

⁴ As J. Schweighardt was off the dais, motion passed 6-0.

⁵ As J. Schweighardt was off the dais, motion passed 6-0.

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Return of Pension Contributions: Mr. Williams provided the request of former member Mr. Michael Duncan who asked for a refund of pension contributions. Mr. Boyd made a motion to approve the foregoing, which was seconded by Mr. Laskowski. All board members voted yes.

DROP Entry: Mr. Williams cited the following member's entry into the DROP Program.

- Gina Aud 02-28-2023
- Karrie Sabillon 02-28-2023

Mr. Djokic made a motion to approve the foregoing, which was seconded by Mr. Boyd. All board members voted yes.

DROP Liquidation: Mr. T. Mc Kenna (deceased) drop account to cited beneficiary. Mr. Djokic made a motion to approve the foregoing, which was seconded by Mr. Boyd. All board members voted yes.

PRESENTATION OF ACTUARIAL VALUATION REPORT OF OCTOBER 1, 2022

Representatives cited why the Plan needs an Actuary.

- Develop a strategy to systematically fund the promised benefits of the system.
- Measure assets and liabilities (future benefit payments).
- Determine actuarial contribution rates.
- Analyze experience (actual vs. expected).
- Report on trends, risks, accounting, etc.

The Basic Retirement Funding Formula was outlined as follows:

- C = Contributions
- I = Investment Income
- B = Benefits Paid
- E = Expense

It was reported that for a defined benefit pension plan, the ultimate value of future cash flows cannot be predicted with certainty. To estimate the probability and the likely cost of a future event such as disability, retirement, or death, actuaries need to make assumptions.

KNOWN at valuation date:

1. age
2. salary
3. gender
4. service to date
5. membership group

ASSUMED at valuation date:

1. future salary increases
2. retirement date(s)
3. death rates before and after
4. disability rates
5. other termination rates

Actuarial Assumptions

Turnover: Will an employee work long enough to vest and qualify for monthly benefits?

Retirement: When will the employee retire and start collecting benefits?

Mortality: How long will monthly benefits be paid?

Salary Increases: How will salaries grow in future years for each employee?

Discount Rate: What is the present value of all of those future benefits in terms of today's dollars?

If we put money aside today, what rate of return can we expect to earn on it?

Based on the foregoing the representatives cited the following:

The October 1, 2022 Valuation determines the employer contribution for the 2023/2024 fiscal year.

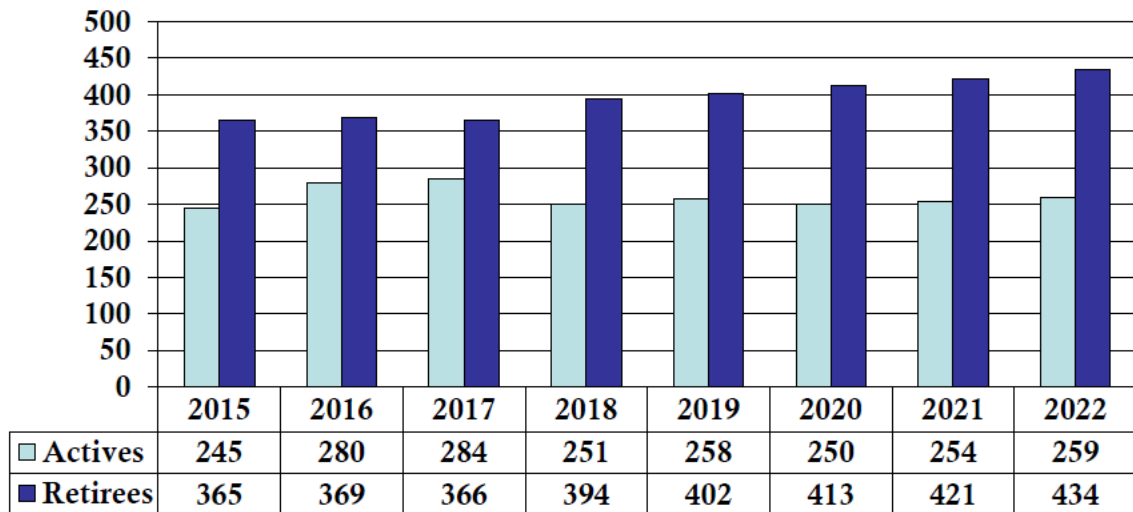
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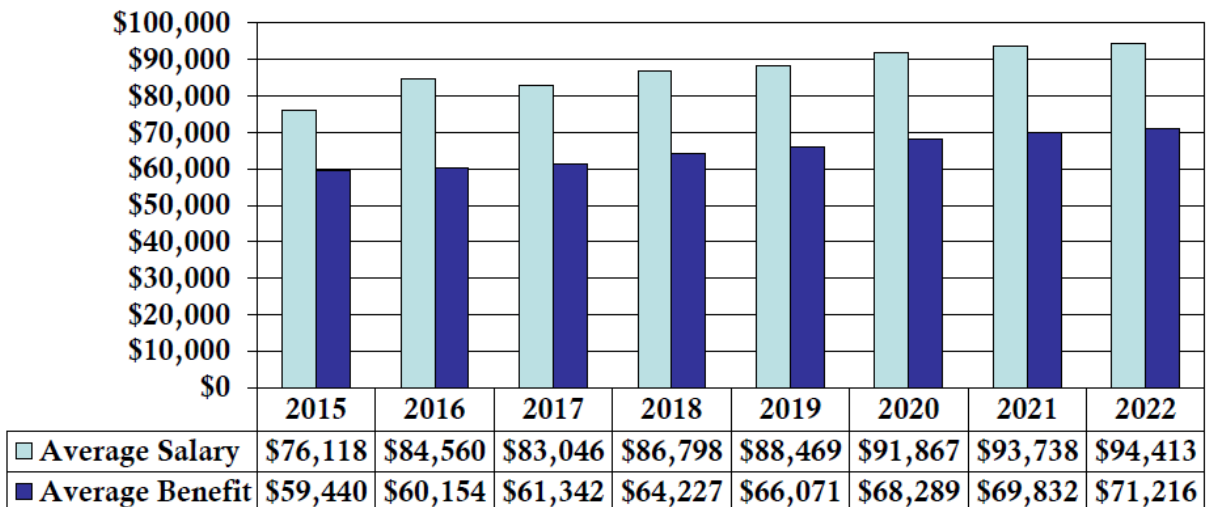
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- **Asset Returns**
 1. Market asset return on non-DROP funds (18.93%) vs. 8.00% expected return (26.93% less than expected).
 2. Actuarial asset return (0.92%) vs. 8.00% expected (8.92% less than expected).
- **Salary Increases**
 1. Average salary increased 4.7% vs. 5.6% expected.
 2. Unfunded Liability Bases are Amortized over closed 20 years.
 3. \$22.6 Million of unrecognized asset losses to be recognized over the next 4 years.

Active & Retired Membership was detailed as follows:



Average Active Salary and Benefits were detailed as follows:



3.1% annual increase for average salary since 2015; 0.7% increase for 2022

2.6% annual increase for average benefits since 2015; 2.0% increase for 2022

Results of the Valuation

	October 1, 2021 Valuation (FY 2022/2023 Contributions)	October 1, 2022 Valuation (FY 2023/2024 Contributions)
Total Normal Cost Including Expenses	\$7,482,451	\$7,652,174
Less Expected Member Contribution	<u>2,341,071</u>	<u>2,404,337</u>
Employer Normal Cost	\$5,141,380	\$5,247,837
Interest Adjustment	1,091,784	1,271,827
Amount to Amortize UAL	<u>21,680,116</u>	<u>26,319,496</u>
Total Required City/State Contribution	\$27,913,280	\$32,839,160
Prepaid City Contribution	0	0
Expected Chapter 185 Monies	<u>1,632,350</u>	<u>1,817,654</u>
Required Employer Contribution	\$26,280,930	\$31,021,506
Unfunded Accrued Liability	\$220,913,043	\$254,329,366
Funded Ratio	54.1%	49.4%

**The 2022/2023 Fiscal Year Contribution Breakdown for the City
 (Depending On Payment Method)**

Employer contribution payable October 1, 2023	\$29,749,679
Interest for bi-weekly payment during 2023/2024 fiscal year	<u>\$1,271,827</u>
Employer contribution payable in bi-weekly installments	\$31,021,506

Employer Contribution is net of expected State monies

Historical Accrued liability and funded ratio was outlined.

Mr. Green cited the assumption rate the Board adopted relative to other Plans. He noted that he and the Plan Consultant support the assumption, but the State of Florida may intervene at some point. While this was no call to action, Mr. Green and Mr. Kaufman endorsed taking baby steps in future report(s) to lower the assumption rate.

Mr. Green also cited a new requirement for future reports entitled - ASOP No. 4, which provides guidance to actuaries when performing actuarial services with respect to measuring obligations under a defined benefit pension plan and determining periodic costs or actuarially determined contributions for such plans.

Mr. Green cited the valuation report provided did not consider the city ordinance that passed on first reading on March 15, 2023 as a result of a collective bargaining agreement⁶. The passage of the ordinance would require the report to be re-stated. As the ordinance did not pass on second reading as of yet, the Board elected to table the approval pending passage and review of an updated valuation report. Note - once approved, the file may be accessed at:

<http://hollywoodpolicepensionfund.com/modules/stateDocs/index.asp>

QUARTERLY INVESTMENT PRESENTATIONS

Allspring

The representatives cited reviewed the portfolio and advised the following:

- After contracting in the third quarter, equity markets rallied for the first two months of the quarter in anticipation of the Federal Reserve (Fed) slowing the pace of interest rate increases. The month of December saw stocks pull back slightly as Fed Chair Jerome Powell indicated that although it was time to slow the pace of coming interest rate hikes, he also signaled a protracted economic adjustment to a world where borrowing costs will remain high and inflation comes down slowly as the U.S. remains chronically short of workers.
- Large-cap value stocks outperformed their large-cap growth peers for the quarter and year and led for both time periods among all of the nine Russell style boxes. For the quarter, the energy, industrials, and materials sectors were the best performers within the Russell 1000 Value Index, while the communication services and real estate sectors were the worst- performing sectors within the index.
- Rather than try to predict Fed policy or time when these macro headwinds will subside, we look to invest in companies that can control their destiny via their financial flexibility. Many companies have been forced to take defensive measures as inflation and interest rates have moved higher. While our companies are certainly not immune from these factors, their financial flexibility and competitive advantages allow them to navigate the current environment and be strategic as opportunities arise. The changing interest rate dynamic will continue to affect the economy going forward. Assessing how the rising cost of capital affects a company's financial flexibility is a key part of our process and something that we believe will prove to be a valuable differentiator in today's volatile interest rate environment.
- The portfolio outperformed its benchmark and peers for the quarter, driven by stock selection. Our portfolio construction process is designed to isolate security selection as the primary driver of returns and allow the defensive characteristics of our holdings to protect capital during market drawdowns. We continue to invest in attractive long-term reward/risk opportunities where companies can control their destiny via accretive capital deployment. Our process is designed to win across a complete market cycle. However, the process tends to do best in the middle to late innings of a market cycle when macro headlines begin to lessen their impact and companies with sustainable free cash flow are sought after and can use their financial flexibility to grow long-term shareholder value.

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⁶ Impact statement provided to the Board of Trustees.

Performance overview

As of December 31, 2022

Performance (%)

	4Q22	1 year	3 years	5 years	10 years	Since inception (5/12/15)
Portfolio – gross	15.60	-5.03	7.87	9.36	N/A	8.79
Portfolio – net	15.46	-5.50	7.33	8.82	N/A	8.25
Russell 1000 Value Index	12.42	-7.54	5.96	6.67	N/A	7.61

The Board was pleased that Allspring has outperformed the benchmark over the last 5 years by 269 basis points⁷.

Brandywine Global

The represented cited provided a portfolio update, outlining Traditional Fundamental Factors that were identified as:

Valuation

Price-to-book
 Price-to-earnings

Quality

Return on Equity (ROE)
 ROE Growth
 Share Buyback
 Book Growth

Sentiment

Price Momentum
 Price Trend
 Price Volatility

Dynamic Large Cap Value

December 31, 2022

Performance Summary

	Fourth Quarter	Since Inception (2/25/2022)
Hollywood Police Pension System (Gross)	14.23%	-3.18%
Russell 1000 Value	12.42%	-4.71%

Although the history is limited, Brandywine has outpaced the benchmark return by 181 basis points.

AndCo Consulting - Flash Report February 28, 2023:

Asset Allocation & Performance
 Total Fund Composite (Net)
 As of February 28, 2023

Asset Allocation & Performance	Allocation		Performance(%)								
	Market Value \$	%	MTH	QTD	YTD	FYTD	1 YR	3 YR	5 YR	Inception	Inception Date
Total Fund Composite (Gross)	391,616,654	100.0	-1.47	3.30	3.30	7.85	-4.38	8.11	7.33	7.90	10/01/1992
Total Policy			-1.76	3.40	3.40	8.37	-7.47	10.13	7.25	7.30	

Mr. Vavrica stated the Capital Call Account may need to be replenished before the next meeting. After review and discussion Mr. Laskowski made a motion to liquidate 2 million dollars from Garcia Hamilton if required and transfer to the VTSAX Fund for capital calls. Seconded by Mr. Boyd. All board members voted yes.

NEW BUSINESS

- Lazard Global Listed Infrastructure – Investment Presentation – No further action warranted at this juncture.

⁷ One basis point is equal to 1/100th of 1%, or 0.01%. In decimal form, one basis point appears as 0.0001 (0.01/100). Basis points (BPS) are used to show the change in the value or rate of a financial instrument, such as 1% change equals a change of 100 basis points and 0.01% change equals one basis point.

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- Farmland Fund – Investment Presentation – No further action warranted at this juncture.
- Bookkeeper Engagement: Mr. Williams provided an updated multi-year engagement for Mr. Michael Mangan – Bookkeeping Services. Mr. Kaufman advised he would have to revise the engagement. Motion by Mr. Marano to approve the engagement once Mr. Kaufman makes the necessary adjustments. Seconded by Mr. Laskowski. All board members voted yes.
- IRS 941 Issue – Mr. Williams cited that the IRS wrote a letter indicating that our Fund is not paying payroll taxes on a bi-weekly basis. Mr. Williams reflected that staff are paid monthly and the taxes are in fact being paid simultaneously by FTIS. Mr. Williams advised he wrote to the IRS and provided written proof of the timing of the monthly payments and the timing the taxes are being paid. Subsequently the IRS sent a late notice for the same reason. At this juncture Mr. Williams contacted the payroll tax department of the auditor to pursue the matter on behalf of the Fund. Mr. David Holcombe, from KSDT e-mailed Mr. Williams with the status report.
- “I spoke to an agent with the IRS earlier today regarding the payroll penalties. Based on this discussion, the following actions have been taken:
Prepared a letter explaining the situation and mailed this to the IRS with proof of tax payments and other supporting documents. Placed a ninety day hold on the account. This should prevent any collection attempts and notices from the IRS while we sort out this problem. We will now have to wait for the IRS to process the package we sent them. Based on the advice of the IRS agent, we will call them again in six weeks to check on the status”. Mr. Williams will advise the Board as warranted.
- Request to Amend Beneficiary – Mr. Williams presented a request to amend beneficiary from retiree Mr. Joel Harris. An actuarial review was conducted accordingly to ensure no impact to the Fund. Motion to approve by Mr. Marano, seconded by Mr. Djokic. All board members voted yes.
- Buy Back Policy & Forms: Mr. Kaufman reviewed the proposed policy due to the pending ordinance change. Minor suggestions were recommended and were noted by Mr. Kaufman. Motion to approve as amended by Mr. Laskowski. Seconded by Mr. Schweighardt. All board members voted yes.
- Manager Schedule – Update provided to Board Members. In a spirit of transparency, the list may be viewed at:
<http://hollywoodpolicepensionfund.com/docs/boardMeetings/2023%20Hollywood%20Meeting%20Dates.pdf#zoom=100>
- Benefit Election – Results provided by Mr. Williams to the Board of Trustees. Motion by Mr. Schweighardt to accept the results. Seconded by Mr. Djokic. All board members voted yes.
<http://hollywoodpolicepensionfund.com/docs/announcements/Benefit%20Election%20Results%2003-29-2023.pdf>

OPEN DISCUSSION

No open discussion ensued.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 12:05 P.M.

The next scheduled meeting is April 28, 2023 at 10:30 A.M.

Respectfully submitted,

APPROVED:

C. Marano, Secretary

D. Strauss, Chairperson