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

April 26, 2024

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, April 26, 2024, at 10:30 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

D. Strauss, Chairman, P. Laskowski, Board Secretary, J. Schweighardt, J. Marano, C. Boyd, M. Djokic[1].

Also present were Jonathan Antista[2] – City of Hollywood, Finance Department; Nick Vician & Jamie Lane, TerraCap Partners; William Lloyd & Mark Gertzof, TCW Direct Lending; Brendon Vavrica[3], Mariner Institutional; Robert Klausner, 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 MARCH 29, 2024 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the March 29, 2024 pension board meeting. Mr. Schweighardt made a motion to approve the Minutes of the March 29, 2024 pension board meeting, which was seconded by Mr. Marano. All board members voted yes[4].

ATTORNEY'S REPORT

Mr. Klausner stated that he spoke with the city and the union, and all are in agreement with the proposed death benefit ordinance, which was provided to all Board Members. Once the impact statement has been finalized and the pension election is complete, the ordinance may proceed to the city commission. Mr. Williams will hold the pension election and have the results for the next monthly meeting.

Mr. Kaufman distributed an IRS ruling on disability income. Going forward, Orders will cite the taxable and untaxable income accordingly for 1099R reporting purposes.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

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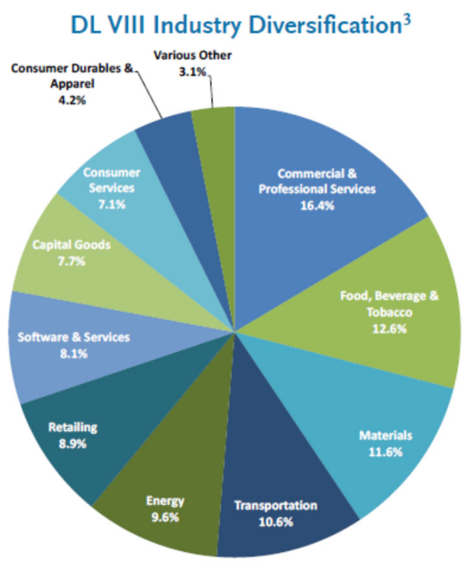
[1] Attended Remotely.
[2] Attended Remotely.
[3] Attended Remotely.
[4] M. Djokic not in attendance.

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

QUARTERLY REPORT

TCW: Mr. William Lloyd & Mr. Mark Gertzof reported that it is early in the process for the Plan's investment. The representatives provided an investor capital statement and portfolio metrics for Q4-2023.



Recent investment activity was also detailed for informational purposes. Portfolio loan review was also provided.

TerraCap: Mr. Nick Vician & Mr. Jamie Lane provided a portfolio commentary. Real estate has been challenged by the rapid run-up in interest rates that has occurred in the past 24 months. Interest rates have increased over 5% in less than two years. The pace at which the interest rates have increased is one of the fastest in the Federal Reserve's history, and many industries have been impacted, including commercial real estate. At TerraCap, any property level floating rate debt that we have is protected from increased interest rates using either interest rate caps or interest rate swaps. Even with this interest rate protection, interest rates (and subsequently the interest payment) on real estate loans have effectively doubled in the past two years. Property level income has decreased due to the increased interest rates, and this also impacts investor returns on a quarterly basis since the Partner's Capital is impacted by the property level cash flow, as well as non-cash items such as depreciation of the buildings and fair market valuations of the properties (i.e., appraisals). We are fortunate that due to the growth of the markets where we have invested, we have been able to offset some of the impacts of the interest rate increases through positive rent growth in the portfolio.

Even with positive rent growth in our portfolio, it is nearly impossible to offset all of the effects of the interest rate increases. Office has been a particularly challenged asset class, and lenders have been least willing to negotiate on office assets. Fund IV has significant exposure to office, and we will continue to do our best to complete the business plans and sell these assets. TerraCap as a whole began to transition away from office three years ago, which is shown by Fund V's allocation to multifamily and industrial, which account for 87% of the Fund's assets.

In 2023 and early 2024, we sold several properties in Funds IV & V to ensure that each Fund had the appropriate level of reserves to continue executing on our property-specific business plans, as well as to pay property and Fund level expenses that were not covered by property level cash flow. Our goal is to sell the minimum number of properties possible while the interest rates remain elevated, and to resume property sales once interest rates decrease. Even in this elevated interest rate environment that has limited commercial real estate lending, which by extension limits the amount investors can pay for properties, we were able to sell properties at a profit in both Funds, however a couple of properties were sold slightly below the purchase price in order to generate the liquidity needed at the Fund level.

Our historical practice has been to value properties held for at least one year by utilizing third-party appraisals that are conducted annually. Although third-party appraisals were especially challenged in 2023 due to forced sellers in the capital markets and increased interest rates that negatively impacted debt financing costs and cap rates, we felt it to be most fair and accountable to value our properties using valuation principles consistent with our historical return figures. Appraisers rely on imperfect methodologies to value commercial real estate, and in the case of the 2023 appraisals, they were performed in Q4 at a time when the 10-year Treasury (a bond that determines the pricing for most commercial real estate loans) was at its peak of nearly 5% and properties were selling at lower valuations due to high interest rates on debt. Given the overall uncertainty in the current real estate capital markets, we did not feel it appropriate to adjust our valuation methodology, and we relied on the third-party appraisal valuations. This decision did negatively impact the returns, however we believe it was the fairest course of action, even though we do not intend to sell most of our properties at these valuations. While the appraisals negatively impacted returns, if we look at Fund V as an example, the total appraised values in 2023 vs. 2022 decreased 8.40%. To put that in perspective, the NCREIF ODCE decreased 12.73% in 2023, which was 4.33% more than the Fund V portfolio values decreased.

This investment is a closed-ended Fund, and realized gains or losses are only incurred once a property is sold. Until that time, any gains or losses are considered unrealized. Our team has been focused on implementing the business plans at the remaining properties owned by the Fund, and our intent is to hold the properties and sell them in a lower interest rate environment, which has historically allowed investors to pay more for the properties since debt costs are cheaper when interest rates are lower. It is our belief, in addition to many economists, and employees/governors at the Federal Reserve, that interest rates will begin to decrease in 2024. The current Fed Funds Rate has a target range of 5.25%-5.50%. According to the St. Louis Federal Reserve projections of the Fed Funds Rate as forecasted by the Federal Open Market Committee members as of the date of this letter, the median estimate of the Fed members is that 2024 will end with a Fed Funds Rate of 4.6%, 2025 will end with a Fed Funds Rate of 3.6%, and 2026 will end with a Fed Funds Rate of 2.9%. One positive result of the increased interest rates over the past two years is that speculative new development has declined significantly in most markets from prior years, and in 2025 and beyond, that could create a shortage of some property types including multifamily and industrial, especially in growth markets such as those where TerraCap invests. We believe that selling in 2025 and beyond will be beneficial due to the lower interest rates, continued in-migration into the TerraCap markets, and a lack of new supply coming online in the next two to four years.

While 2023 was a challenging year due to the interest rate increases and fewer buyers in the capital markets, we believe that late 2024 will mark a positive turnaround and that 2025 and beyond will be a good time to be an active seller.

INVESTMENT CONSULTANT REPORT – Mariner Institutional

Mr. Vavrica provided a flash report for the quarter ending March 31, 2024.

Asset Allocation & Performance

	Allocation		Performance(%)								
	Market Value $	%	MTH	QTD	YTD	FYTD	1 YR	3 YR	5 YR	Inception	Inception Date
Total Fund Composite (Gross)	456,616,298	100.0	2.80	6.37	6.37	14.66	18.11	6.66	9.63	8.21	10/01/1992
Total Policy			2.74	6.69	6.69	16.46	18.39	6.25	9.51	7.62	

Mr. Vavrica cited that the Entrust - Blue Ocean 4Impact LP is seeking consent related to the "Final Closing Date" of the portfolio. Mr. Vavrica reflected this does not affect the end date and he was no opposed to the Board's consent. Mr. Williams cited Mr. Kaufman reviewed and had no opposition to the consent. After hearing the foregoing, Mr. Schweighardt made the motion to consent to extend the Final Closing Date through February 28, 2025. Mr. Marano seconded the motion. All board members voted yes.

NEW BUSINESS

Mr. Strauss cited Bloomfield will present at the May 17, 2024, meeting.

Mr. Strauss advised the presentation of the service provider of the year will take place at the May 17, 2024, meeting.

OPEN DISCUSSION

For informational purposes, Mr. Marano has separated from Entrust. As such, having no ties, will be able to vote on matters as they come before the Board without abstaining.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 11:42 A.M.

The next scheduled meeting is May 17, 2024 at 10:30 A.M.

Respectfully submitted, APPROVED:

P. Laskowski, Secretary D. Strauss, Chairperson