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

January 30, 2015

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, January 30, 2015, at 10:40 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

D. Strauss, Chairman, C. Marano, Secretary, C. O'Brien, R. Brickman, M. Pollak, P. Laskowski and V. Szeto

Also present were Kee Eng, City of Hollywood; Ed Rick, Eagle Asset Management; Steve Cypen, Board Attorney; 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 DECEMBER 19, 2014 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the December 19, 2014 pension board meeting. Mr. Laskowski made a motion to approve the Minutes of the December 19, 2014 pension board meeting, which was seconded by Mr. Szeto. All board members voted yes. Mr. Cypen read into the record the 8B Form filed by Mr. Strauss.

ATTORNEY'S REPORT

Mr. Cypen provided an update on a recent IRS ruling on DROP Accounts. That finding was made part of this record and is attached hereto.

Mr. Cypen cited that Mr. Chad Poppell of the Department of Management Services sent out letters to 19 pension plans that were less than 50 percent funded. To be clear our Fund was not affected.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

DROP/PRB Loans: Mr. Williams cited the respective member's loan requests. He outlined that each member has the funds in his/her personal DROP/PRB account to cover the loans and he/she 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 loans as noted, which was seconded by Mr. O'Brien. All board members present voted yes.

SUPPLEMENTAL DISTRIBUTION: Mr. Williams outlined the supplemental distribution report by Mr. Jose Fernandez of Cavanaugh Macdonald, dated January 29, 2015.

The distribution is based on Section 33.136(N) of the plan document. It is triggered 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. The Supplemental Distribution will be funded in accordance with the letter dated July 3, 2014 from Mr. Keith Brinkman of Florida's Bureau of Local Retirement Systems.

As determined 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 9.92% (net of investment management expenses) as reported by the investment monitor for the year ending September 30, 2014 represents a total of 1.92% in excess of the assumed rate of 8%. Based on the method used by the System's investment monitor for the previous distributions, Cavanaugh Macdonald calculated the distribution amount of $2,170,838 for the 2014 Plan year. The calculation is detailed in the table below.

(a)	**Return in excess of 8% (maximum of 2%)**	**1.92%**
(b)	**Dollar amount of excess return**	$2,170,838
(c)	**Present value of Retiree and Beneficiary Liability**	$259,064,708
(d)	**(a) x (c)**	$4,974,042
(e)	**Distribution Amount [Lesser of (b) or (d)]**	$2,170,838

Mr. O'Brien made a motion to approve the foregoing based on compliance with all applicable ordinances and laws for an April 1, 2015 distribution. Mr. Szeto seconded the motion. All board members voted yes.

Mr. Williams advised a formal request for payment towit: in the form of a Warrant will follow for final approval to the custodian.

BUCKHEAD CAPITAL: Mr. Williams advised the Board that Mr. David Griffin, Portfolio Manager is leaving the firm. Mr. McCann will bring his recommendation to the next meting for the Board to consider. Mr. McCann advised Mr. Williams that the portfolio is still being actively invested, so no urgency exists at this juncture.

PRR: Mr. Williams advised he received a public records request (PRR) from Ms. Raquel Elejabarrieta, Director, City of Hollywood - Office of Labor Relations. The PRR data requested dates back 15 years. Mr. Williams indicated that he believes in a spirit of cooperation and transparency with all, particularly the plan sponsor. However, this request is extremely time consuming, as the Plan Archives will have to be searched. Mr. Cypen recommended that going forward the Board adopt a policy. Mr. Cypen will present a draft at the next meeting.

<u>INDEPENDENT AUDIT PRESENTATION</u>

Financial Statements September 30, 2014 - Goldstein Schechter Koch
Tabled – Mr. Williams indicated that the GASB 67 requirement has delayed the report.

<u>QUARTERLY PRESENTATION BY EAGLE ASSET MANAGEMENT</u>

Mr. Rick briefed the Board about the Eagle Small Cap Core – Investment Team.

Mr. Rick appeared before the Board and stated the market value of Eagle Account was at $19,665,935 as of December 31, 2014. Since inception (*01-08-03*) the Eagle Small Cap Account realized an annualized gross return of 11.31%, compared to the Russell 2000 of 11.16%. For the quarter ending December 31, 2014, Eagle Small Cap Account returned 8.52%, compared to 9.73% for the Russell 2000. On a one year rolling basis, the portfolio returned 6.87% compared to the benchmark of 4.89%. The 3 & 5 Year returns were valued at 18.21% & 15.87% in comparison to the benchmark returns of 19.21% & 15.55% respectively.

Mr. Rick provided a market overview: The Russell 2000 Index bounced back for a strong 9.7 percent gain in the fourth quarter and was up 4.9 percent for the full year. During the quarter, numerous sectors in the index were up more than 10 percent.

Healthcare and utilities were up the most: 17.6 and 16.6 percent, respectively. The largest detracting sector in the index was the energy sector, which was down 31.0 percent. U.S. dollar moves vs. other global currencies continue to be substantial.

Contributors to relative performance: Materials holdings were a source of outperformance. Our underweight position in the metals and mining industry helped as it dramatically underperformed the broad index due to concerns about exposure to foreign exchange and oil. In the packaging industry, Berry Plastics exceeded free-cash-flow estimates and said it would have higher free-cash-flow next year. Shares continued to rally on a good outlook for the next year along with falling resin costs (due to lower oil prices). In chemicals, OM Group was up after it beat earnings expectations and announced an acquisition of another battery specialty manufacturer.

Detractors from relative performance: Patterson-UTI Energy underperformed in the quarter, as the roughly 40 percent drop in benchmark U.S. crude-oil prices negatively impacted the entire energy sector. The implication for Patterson is that lower crude prices will negatively impact both of its core businesses – drilling and pressure pumping – in 2015. We agree this is likely but we continue to like Patterson on a relative basis vs. its smaller, more highly levered competitors and believe the current valuation (a discount to tangible book value) represents an attractive price even in a weakening energy environment. Exterran Holdings suffered from the sharp pullback in both crude oil and natural gas prices. We sold Exterran Holdings during the quarter to concentrate on other energy names. SemGroup and Rice Energy were down for similar reasons as Exterran. However, we still own both companies because we view them as relatively attractive investments due to their less-cyclical midstream exposure, conservative balance sheets and relatively attractive assets.

Mr. Rick indicated that Eagle continues to emphasize owning quality within the portfolio by trying to select companies generating strong free-cash-flows and trading at what they view as reasonable valuations.

<u>OPEN DISCUSSION</u>

No Reports

<u>MEETING ADJOURNED</u>

There being no further business, the meeting was adjourned at 11:30 A.M.

The next scheduled meeting is February 20, 2015 at 10:30 AM.

Respectfully submitted, APPROVED:

C. Marano, Secretary D. Strauss, Chairperson

MEMORANDUM

TO: **BOARDS OF TRUSTEES**
PLAN ADMINISTRATORS

FROM: **STEPHEN H. CYPEN, ESQ.** SHC.

DATE: **JANUARY 30, 2015**

RE: **IRS THROWS A CURVE**

We previously advised you that the Internal Revenue Service National Office issued a memorandum indicating that (1) defined contribution deferred retirement option programs are not defined contributions plans for purposes of applying the IRS limit on plan contributions and (2) the annual DROP deposit (that is, the annual sum of the monthly return of benefit adjustments credited to a particular DROP account) are not subject to the annual additions limitation applicable to defined contribution plans.

At the time, we believed the memo resolved all the IRS issues relating to defined contribution DROPs (which refer to DROP accounts that are adjusted for the actual investment performance of a particular investment options). However, according to Florida attorney Rick Burke, the issue has not been completely resolved. Burke says the IRS National Office informed the IRS Cincinnati District Office (which is in charge of the governmental plans favorable determination letter project) that the memo was only intended to address application of the rules relating to the IRS limit on plan contributions/benefits and no other qualification requirement.

Unfortunately, due to the change in position reflected in the memo, the IRS Cincinnati District Office is now uncertain how DC DROP accounts satisfy the definitely determinable benefit requirement. Essentially, this rule requires the level of benefits must be determined from an examination of the plan documents and from factors not within control of the sponsor or employer. Based on this concern, Burke says the Cincinnati District Office intends to request an explanation from representatives of the approximately 75 pending governmental plan favorable determination letter requests containing DC DROPs as to why these arrangements satisfy the definitely containing DC DROPs as to why these arrangements satisfy the definitely determinable benefit rule. We are currently examining various alternatives as to how to proceed with the situation.

Based on the IRS National Office's former position, the definitely determinable benefit rule was not a concern. Thus, Burke says, this new problem stems solely from the change of position contained in the memo. It is very disturbing to receive guidance from the IRS National Office that DC DROPs are not subject to the annual additions limitation applicable to defined contribution plans, only to be subsequently informed that this position raises concerns with the determinable benefit rule!

We suggest that trustees keep informed of the status of the situation and turn to their counsel for individual advice. If we learn anything else, we report it here. Just when you thought it was safe to go back in the water… .