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

February 19, 2016

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, February 19, 2016, 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; C. O'Brien; M. Pollak; P. Laskowski and V. Szeto

Excused Absence: R. Brickman

Also present were Kee Eng, City of Hollywood; Clement Johns, GSK; John McCann & Brendon Vavrica of Thistle Asset Consulting; Janna Hamilton of Garcia Hamilton; Henry Renard, John Rochford & Robert Maddock, III of Inverness Counsel; Steve Cypen, Board Attorney and Dave 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 JANUARY 29, 2016 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the January 29, 2016 pension board meeting. Mr. Laskowski made a motion to approve the Minutes of the January 29, 2016 pension board meeting, which was seconded by Mr. Szeto. All board members voted yes.

ATTORNEY'S REPORT

Mr. Cypen reported that Mr. Robert Friedman of Holland & Knight filed the required documents relative to the IRS – Letter of Determination.

ADMINISTRATIVE REPORT

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. Mr. O'Brien made a motion to approve the loans as noted, which was seconded by Mr. Szeto. All board members present voted yes.

INDEPENDENT AUDIT PRESENTATION

Financial Statements September 30, 2015 - Goldstein Schechter Koch

Mr. Clement Johns, Goldstein Schechter Koch appeared before the Board. Mr. Johns stated 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, 2015 and 2014, and the related statements of changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mr. Johns provided a detailed report to the Board to consider. The following are the highlights of the report:

The Fund's assets exceeded its liabilities at the close of fiscal years ended September 30, 2015 and 2014 by $245,410,242 and $251,192,893 respectively (reported as net position restricted for pensions). The Fund's net position is held in trust to meet future benefit payments. The decrease of $5,782,650 and increase of $13,020,015 of the respective years have resulted primarily from the changes in the fair value of the Fund's investments due to volatile financial markets.

Receivables at September 30, 2015 decreased by $272,069 (or 7.0%) primarily due to a decrease in the State contribution receivable. Receivables at September 30, 2014 increased by $737,069 (or 23.2%) primarily due to an increase of deferred retirement option plan's loans receivable.

For the fiscal year ended September 30, 2015, liabilities decreased by $2,391,221 (or 90.0%) primarily due to a decrease in prepaid city contributions. For the fiscal year ended September 30, 2014, liabilities decreased by $1,737,622 (or 39.5%) primarily due to a decrease in benefits payable.

For the fiscal year ended September 30, 2015, employer (City) contributions to the Fund increased $2,216,260 (19.8%) based on the actuarial calculation. Actual employer contributions were $13,425,807 and $11,209,547 for 2015 and 2014, respectively. For the fiscal year ended September 30, 2014, employer (City) contributions to the Fund increased $1,635,215 (17.1%) based on the actuarial calculation. Actual employer contributions were $11,209,547 and $9,573,932 for 2014 and 2013, respectively.

<u>For the fiscal year ended September 30, 2015, State contributions to the Fund decreased $1,269,750 (or 100%). Actual state contributions were $0[1] and $1,269,750 for 2015 and 2014, respectively.</u> For the fiscal year ended September 30, 2014, state contributions to the Fund increased $19,607 (or 1.6%). Actual state contributions were $1,269,750 and $1,250,143 for 2014 and 2013, respectively.

For the fiscal year ended September 30, 2015, employee contributions including buybacks increased by $101,296 (or 7.4%). Actual employee contributions and buybacks were $1,470,396 and $1,369,100 for 2015 and 2014, 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, 2014, employee contributions including buybacks increased by $45,078 (or 3.4%). Actual employee contributions and buybacks were $1,369,100 and $1,324,022 for 2014 and 2013, respectively. Employee contributions have fluctuated from year to year, based on the number of active members and changes in the rate of employee contributions.

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[1] As a direct result of the city administration challenging the Board's long standing position of the supplemental distribution with the State of Florida – Division of Retirement. The city is now responsible to make up this deficit.

For the fiscal year ended September 30, 2015, net investment loss and investment income decreased by $18,562,841. Actual results were $218,637 and $18,344,204 of net depreciation and appreciation in fair value of investments for 2015 and 2014, respectively, and $6,228,080 and $5,801,920 of income from interest and dividends for 2015 and 2014, respectively. Investment expenses increased by $160,519 or (13.7%). For the fiscal year ended September 30, 2014, net investment income increased by $400,469.

Actual results were $18,344,204 and $17,413,256 of net appreciation in fair value of investments for 2014 and 2013, respectively, and $5,801,920 and $6,220,770 of income from interest and dividends for 2014 and 2013, respectively. Investment expenses increased by $111,359 or (10.5%).

For the fiscal year ended September 30, 2015, benefit payments and participants' contributions refunded increased by $1,775,134 (or 7.7%) primarily due to new retirees. For the fiscal year ended September 30, 2014, benefit payments and participants' contributions refunded decreased by $1,045,720 (or 4.3%) primarily due to a decrease in 13th check distributions.

For the fiscal year ended September 30, 2015, administrative expenses decreased $27,495 from 2014 (or 7.3%) primarily due to a decrease in legal expenses. For the fiscal year ended September 30, 2014, administrative expenses increased $23,619 from 2013 (or 3.6%) primarily due to an increase in fees for professional services.

Plan Highlights

For the fiscal year ended September 30, 2015, the return of the portfolio, net of fees was 1.34% for the trailing year and ranked in the top 12 percentile. Actual net investment income in 2015 was $4,679,104 compared with a net investment income of $22,976,304 in 2014.

For the fiscal year ended September 30, 2014, the return of the portfolio, net of fees was 9.92% for the trailing year and ranked in the top 45 percentile. Actual net investment income in 2014 was $22,976,304 compared with a net investment income of $22,575,835 in 2013.

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Condensed Statements of Fiduciary Net Position

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

	2015	2014	2013
Cash and cash equivalents	$ 4,480,550	$ 3,051,193	$ 3,692,603
Receivables	3,639,345	3,911,414	3,174,345
Prepaid expenses	26,813	-	25,728
Investments	237,530,608	246,888,581	235,676,119
Total assets	245,677,316	253,851,188	242,568,795
Liabilities	267,074	2,658,295	4,395,917
Net position restricted for pensions	$ 245,410,242	$ 251,192,893	$ 238,172,878

Condensed Statements of Changes in Fiduciary Net Position

The table below reflects a condensed comparative statement summarizing the changes in fiduciary net position and reflects the activities of the Fund for the fiscal years ended September 30:

	2015	2014	2013
Additions:			
Contributions			
City	$ 13,425,807	$ 11,209,547	$ 9,573,932
Employee	1,454,477	1,341,148	1,324,022
Rollovers	194,366	-	-
State	-	1,269,750	1,250,143
Buybacks	15,919	27,952	-
Total	15,090,569	13,848,397	12,148,097
Net investment income	4,679,104	22,976,304	22,575,835
Total additions	19,769,673	36,824,701	34,723,932
Deductions:			
Benefits paid	24,822,158	22,993,671	23,924,413
Participants' contributions refunded	73,428	126,781	241,759
Administrative expenses	656,738	684,234	660,615
Total deductions	25,552,324	23,804,686	24,826,787
Net (decrease) increase	(5,782,651)	13,020,015	9,897,145
Net position restricted for pensions at beginning of year	251,192,893	238,172,878	228,275,733
Net position restricted for pensions at end of year	$ 245,410,242	$ 251,192,893	$ 238,172,878

The Fund's investment activities, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Actual returns for fiscal year 2015 decreased from fiscal year ended September 30, 2014 and increased from fiscal year 2013.

The benefit payments are a function of changing payments to retirees, their beneficiary (if the retiree is deceased) and new retirements during the period.

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Asset Allocation

At the end of the fiscal year September 30, 2015, the domestic equity portion comprised 54.0% ($130,627,206) of the total portfolio. The allocation to fixed income securities was 31.6% ($76,682,665), while cash and cash equivalents comprised 1.9% ($4,480,550). The allocation to real estate and alternative investment were 10.6% ($25,718,933) and 1.9% (4,501,804), respectively.

At the end of the fiscal year September 30, 2014, the domestic equity portion comprised 53.0% ($132,381,769) of the total portfolio. The allocation to fixed income securities was 39.2% ($98,024,996), while cash and cash equivalents comprised 1.2% ($3,051,193). The allocation to real estate was 6.6% ($16,481,816).

The target asset allocation was as follows as of September 30:

	2015	2014
Domestic equity	55%	50%
Fixed income	31%	39%
Cash	4%	4%
Real estate	10%	7%
International equity	0%	0%
Other	0%	0%

Mr. Szeto made a motion to accept the Financial Statements for the Plan for September 30, 2015 with two minor typos identified, which was seconded by Mr. O'Brien. All board members voted yes.

Motion by Mr. Laskowski to authorize the execution of the management representation letter. This motion was seconded by Mr. Szeto. All board members voted yes.

QUARTERLY INVESTMENT PRESENTATIONS

Garcia Hamilton and Associates

Mrs. Hamilton appeared before the Board and discussed the investment return for the Equity and Fixed Income Accounts.

Market Update: Mrs. Hamilton advised for the quarter that ended December 31, 2014, the equity portfolio returned 5.9% for the equities, which outperformed the Russell 1000 Growth Index and the S&P 500. For the last twelve months, equities returned 11.9%, which lagged the benchmarks cited. On a three and five year basis, the GHA Equity portfolio returned 17.6% and 13.8% respectively. Earnings estimate cuts continued, reflecting a slower global economy and a strengthening U.S. dollar. Fourth quarter earnings now look to be 3.8% below year ago levels, while full year 2015 earnings are now projected to be 1.1% below 2014. This would mark the third consecutive quarter of lower year-to-year profits. The U.S. Federal Reserve delivered a much-discussed initial interest rate hike despite most economic data pointing to a slowing economy. Only the controversial unemployment rate indicates an improving economy.

Portfolio Update: Portfolio gained 5.4% in the quarter, 196 basis points behind the benchmark Russell 1000 Growth Index. Over 100 basis points of the underperformance resulted from the portfolio's quality positioning relative to the benchmark. In the rising market, cash represented an additional 37 basis points of negative relative performance. Portfolio remains conservatively positioned with a meaningful overweight in high-quality stocks.

Mrs. Hamilton advised for the quarter that ended December 31, 2015, the equity portfolio returned 5.6%, which underperformed in comparison to the Russell 1000 Growth Index return of 7.3%. For the last twelve months, equities returned 1.3%, in comparison to the Russell 1000 Growth Index return of 5.7%. The S&P 500 for the same period returned 1.4%. On a three & five year look back, equities returned 13.4% & 10.5% respectively in comparison to the benchmark return of 16.8% & 13.5%. Since inception (February 9, 2000), the annualized return was 3.9% vs the benchmark of 2.4%. The account was valued at $34,744,455.91 as of December 31. 2015.

Mrs. Hamilton indicated that for the quarter that ended December 31. 2015, the fixed income portfolio returned -0.8%, which slightly underperformed the Barclays Capital Intermediate Aggregate benchmark return of -0.5%. On a one year basis, the fixed income portfolio returned 1.5% vs. the benchmark return of 1.2%. Since the portfolio inception date of June 30, 2011, the fixed income return was 3.9%, compared to the benchmark return of 2.4%. The account was valued at $13,146,056.31 as of December 31. 2015.

Inverness Counsel, Inc.

Mr. Maddock and Mr. Rochford provided the following investment outlook:

Catalysts - Housing continues to improve, first time home buyers are the key. Healthy balance sheets and lower debt service costs paving way for loan growth. The consumer, which accounts for 70% of the U.S. economy, is employed and getting a raise. Multiple foreign central banks remain committed to low interest rates. Lower fuel and other commodity prices could be a tailwind for the consumer and some companies.

Concerns - We expect volatility to remain elevated in both the equity and fixed income markets. Slowing worldwide economic growth (i.e. China) and geopolitical concerns continue to impede market growth. Future profits may be pressured by rising employment costs and increased interest payments. Fed raised rates for the first time in nine years; possibility of more this year. 2016 U.S. election creating uncertainty,

Inverness Counsel representatives remain optimistic on the U.S. economy in the long term.

Mr. Maddock advised for the quarter that ended December 31, 2015 the equity portfolio returned 7.78% for the equities (ranking in the Top 16%), compared to the S&P 500 which returned 7.04%. For the last twelve months, the account returned 2.97% for the equities, which outpaced the benchmark return of 1.38%. On a longer term basis of 3 years, the account returned 16.28% for the equities, compared to the benchmark return of 15.13%. The account was valued at $54,395,000 as of December 31, 2015.

Mr. Rochford indicated that for the quarter that ended December 31, 2015, the fixed income portfolio returned -0.30%, compared to the Broad Fixed & Intermediate Fixed Benchmark of -0.72%. For the last twelve months, the fixed portfolio returned 1.37% compared to the same policy return of 0.61%. On a longer term basis of 3 years, the account returned 1.38%, in comparison to the policy return 1.16%. The account was valued at $64,912,000 as of December 31, 2015.

Thistle Asset Consulting

Mr. John McCann presented the December 31, 2015 investment report. Mr. McCann advised that as of December 31, 2015 the system had 56.6% in equities, 30.3% in fixed income, and the balance in cash.

As of December 31, 2015, Inverness Counsel held 47.5% of the portfolio, Garcia Hamilton had 18.5%, Eagle had 7.6%, Rhumbline had 8.6%, EnTrust had 1.7%, Snow had 2.4%, Wells had 3.1%, American Realty had 3.4%, Intercontinental Realty had 6.9% and the Israel Bonds were at 0.2%. The total assets were valued at $258,839,000.

For the quarter, Mr. McCann stated that the total fund returned was 2.92% vs. 3.35% compared to the benchmark. The total fund returned 0.93% vs. 1.81% for the last year. For the longer term (*five year period*), the total fund returned 7.18% vs. 7.83% for the benchmark. An overview of the managers was provided to the Board to consider. Snow capital is being monitored.

The Callen Report was also reviewed.

OPEN DISCUSSION

No discussion ensued.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 11:31 AM

The next scheduled meeting is March 25, 2016 at 10:30 AM.

Respectfully submitted, APPROVED:

C. Marano, Secretary D. Strauss, Chairperson