

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

June 24, 2016
10:30 AM

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, June 24, 2016, at 10:30 AM, in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT: D. Strauss, Chairman; Chris O'Brien, P. Laskowski, R. Brickman, and V. Szeto.

Excused Absence: M. Pollak & C. Marano.

Also present were Kee Eng, City of Hollywood; Janna Hamilton, Garcia Hamilton; Bryan Schneider & Mark Guariglia, EnTrust Permal; Jose Fernandez, Cavanaugh Macdonald (via conference call) and David M. Williams, Plan Administrator.

PUBLIC COMMENT

Mr. Williams informed the Board that Trustee Pollak was ill and asked them to keep him in their thoughts and prayers.

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 APRIL 29, 2016 MEETING

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

ATTORNEY'S REPORT

No Report

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

DROP/PRB Loans: Mr. Williams cited the respective member(s) loan request. He outlined that each member(s) have the funds in his/her personal DROP/PRB account to cover the loan(s) 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. Szeto made a motion to approve the loans as noted, which was seconded by Mr. O'Brien. All board members present voted yes.

R-PRB Approval: Mr. Williams cited the entry date, benefit and option selected by the Members cited below.

- Michael McKinney
- John Kidd

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

Return of Pension Contributions: Mr. Williams cited the member below requested a return of the pension contributions.

- Shana Freund-Gavilondo
- Joseph Kelly
- Armando Rodriguez

Mr. Szeto made a motion to approve the foregoing as noted, which was seconded by Mr. Laskowski. All board members present voted yes.

It was noted that due to the change in the ordinance that members contribute to the system now instead of after completion of their probation. As a result refunds will be more common going forward.

Summary Plan Description (SPD): Mr. Williams provided copies of the 2016 SPD for the Trustees to review and comment on. No action taken.

2016-17 Budget: Mr. Williams provided copies of the 2016-17 Budget for the Trustees to review and comment on. No action taken.

QUARTERLY INVESTMENT REPORT

Garcia Hamilton

Mrs. Hamilton provided a market review by citing the following:

- Stocks posted their largest intra-quarter rally since the 1930s, finishing with a 1.4% gain including dividends for the S&P 500 Index. On February 10, the S&P 500 was down 10.5%. The Russell 1000 Growth Index rose 0.7% for the quarter.
- Markets recovered once crude oil prices began to firm and as the U.S. Federal Reserve backed away from its intention to raise interest rates four times during 2016, citing international risks.
- Earnings estimate cuts continued, reflecting persistent weakness in the global economy. First quarter earnings now look to be 9.4% below year ago levels, marking the fourth consecutive quarter of lower year-to-year profits. Full year 2016 earnings are projected essentially flat relative to 2015.
- Market valuations at 17.3x forward earnings are back to the upper end of historical ranges.

In terms of the portfolio Mrs. Hamilton reported:

- Portfolio gained 1.6% in the quarter, 81 basis points ahead of the benchmark Russell 1000 Growth Index.
- The portfolio's quality positioning accounted for most of the outperformance, as high quality stocks held up quite well during the turbulence of the first half of the quarter.
- Market outlook remains somewhat cautious, with U.S. Federal Reserve dictating stock market direction near term.
- Portfolio remains conservatively positioned with a meaningful overweight in high-quality stocks.

As of March 31, 2016, the equities returned as cited 1.6% (gross) compared to the benchmark (Russell 100 Growth) return of 0.7%. All other reporting periods lagged the benchmark. The equity portfolio was valued at \$35,204,312.76 as of March 31, 2016.

It was conveyed that the equity portfolio remains significantly overweight high-quality stocks anticipated to produce superior earnings growth over the course of an economic cycle. In an environment of declining profits, companies able to provide near term positive earnings surprises are increasingly difficult to identify. Holdings rated "A+" or "A" by S&P Earnings and Dividend Quality Rankings comprise 45% of the portfolio, nearly double the benchmark's weighting.

The fixed income report started with a market commentary: There was quite a bit of volatility in risk assets during the second half of the quarter. Forgotten and pushed aside are the concerns of a hard landing in China and slowing global economic growth which sent stocks lower and corporate bond spreads wider in the first six weeks of the year.

The fixed income portfolio returned 3.0% for the quarter ending March 31, 2016. That return surpassed that of the Barclays Capital benchmark return of 2.3% for the same period. The portfolio returns on all other time periods reported exceeded that of the benchmark. The fixed income portfolio was valued at \$13,529,943.30 as of March 31, 2016.

EnTrustPermal

The representatives provided a firm update and outlined the transition to EnTrustPermal. EnTrustPermal is now one of the world's largest global hedge fund businesses.

EnTrustPermal combines the best investment, management and operational talent, drawing equally from both organizations.

- The Global Investment Committee is chaired by Gregg S. Hymowitz and comprised of senior investment professionals from both organizations.
- EnTrustPermal is 65% owned by Legg Mason and 35% by Mr. Hymowitz, who will reinvest a material amount of the after-tax consideration from the combination into EnTrustPermal investment funds.

EnTrustPermal will retain its owner-level attention and boutique approach while benefitting from the support and infrastructure of Legg Mason.

Mr. Hymowitz and senior employees from both organizations have committed to employment agreements.

The portfolio is invested in is the EnTrustGlobal Activist Fund SPC. The Fund seeks to earn a return of 200bps to 400bps over the MSCI World Index with 75% of the volatility over a market cycle. The Fund provides a balanced and diversified equity portfolio investing in over 200 securities, with the largest position size under 4%. Each manager has been selected to provide diversification among its activist style, ranging from constructivism to aggressive activism. The Fund is broadly diversified across market capitalizations including large-cap names, mid-cap and small cap (57%, 32%, 11%). The portfolio positions are actively managed to maximize risk-adjusted returns based on market conditions.

The inception of this investment was August 1, 2015. The initial investment was valued at \$5,000,000.00. During that short time horizon (through May 31, 2016), the return was valued at -10.58%. The net performance was (\$529,054).

ACTUARIAL VALUATION REPORT

Mr. Jose Fernandez of Cavanaugh Macdonald joined the meeting via conference call.

Mr. Jose Fernandez reported that he sought and gained state approval for the pre-funding of the supplemental distribution. This is now a state requirement due to the city's failure to properly fund on a post cost basis as they have been doing since the passage of the ordinance.

The following chart outlines the contribution requirements based on the October 1, 2015 Actuarial Valuation:

	Fiscal Year 2015/2016 Contribution	Fiscal Year 2016/2017 Contribution			
	10/1/2014 Valuation	10/1/2015 Valuation No Changes	10/1/2015 Valuation Benefit Changes	Pre-funding Supp. Distribution / No State Moneys	Pre-funding Supp. Distribution / With State Moneys *
	(1)	(2)	(3)	(4)	(5)
Required City/State Contribution	\$14,376,618	\$15,353,074	\$15,786,413	\$18,274,755	\$18,274,755
State Contribution	\$0	\$0	\$0	\$0	\$1,308,509
Required City Contribution	\$14,376,618	\$15,353,074	\$15,786,413	\$18,274,755	\$16,966,246
Increase in Required City Contribution vs. Previous Column		\$976,456	\$433,339	\$2,488,342	(\$1,308,509)

To pre-fund the supplemental distribution (13th check) we have decreased the System's interest rate assumption to 7% annually to reflect the estimated loss of future investment income due to the payment of 13th check distributions in years with market asset returns exceeding 8%. We have used 20-year amortization of the increase in the unfunded actuarial accrued liability.

* Assumes \$1,308,509 of State money will be received and used to offset the City's contribution. According to the State's October 2, 2015 letter this would require that the City also deposit a lump sum payment of approximately \$4.1 million for the total 2014 and 2015 Supplemental Distributions.

Based on a state letter of October 2, 2015 the following chart outlines the city required contributions with and without the lump sum payment of \$4.1 million.

		With City Lump Sum Payment of \$4.1 Million (State Compliant)	Without City Lump Sum Payment of \$4.1 Million (Not State Compliant)
(1)	City lump sum payment to meet State requirement 10/2/2015 letter	\$4,104,375	\$0
(2)	Unpaid City contribution as of June 1, 2016 for installment payments for 30-year amortization of 13 th check distributions	\$441,042 ¹	\$569,982 ²
(3)	Release of August 2015 (\$1,308,509) and estimated August 2016 (\$1,308,509) State premium tax distributions	\$2,617,018	\$0
(4)	Due from City before fiscal year 2017 contribution [(1) + (2) - (3)]	\$1,928,399	\$569,982
(5)	City/State Contribution Requirement for fiscal year 2017 with 13 th check pre-funding		
(5)	Required City/State contribution	\$18,274,755	\$18,274,755
(6)	Estimated State contribution August 2017	\$1,308,509	\$0
(7)	City contribution for fiscal year 2017 [(5) - (6)]	\$16,966,246	\$18,274,755
(8)	Total City contribution [(4) + (7)]	\$18,894,645	\$18,844,737

¹ Installment payments for fiscal years 2015 and 2016 with annual 8% interest for 30-year amortization of 13th check distribution in 2013.

² Installment payments for fiscal years 2015 and 2016 with annual 8% interest for 30-year amortization of 13th check distribution in 2013 and for 13th check distribution in 2014 (payment due only for fiscal year 2016).

Amounts may require interest adjustment depending on payment date and adjustments for actual State distributions in 2016 and 2017.

If the City pays the required lump sum payment of \$4.1 million:

- City complies with State requirements.
- City receives future premium tax distributions (about \$1.3 million per year) to reduce pension costs.
- Total City contribution (including \$4.1 million lump sum) to comply through fiscal year 2017 is \$18.9 million.

If the City fails to pay the required lump sum payment of \$4.1 million:

- City does not comply with State requirements.
- City does not receive future premium tax distributions (loss to the City of about \$1.3 million per year).
- City still has to pay \$18.8 million in contributions through fiscal year 2017

Note: The cost to the City through fiscal year 2017 to pay the lump sum and comply with the State is approximately the same as if the City does not pay lump sum and loses future State moneys. By complying with the State, future City costs will be reduced by State premium tax distributions (currently about \$1.3 million per year).

The Trustees and Mr. Fernandez actively discussed the pre-funding method. The Trustees by consensus asked Mr. Fernandez to revisit the capital market assumptions in an effort to reduce costs, while still maintaining the mandate from the state as the result of the city's action.

Mr. Brickman acknowledged the city needs to prepare the budget for 2016-17, and made a motion to accept the report presented today as the October 1, 2015 Actuarial Valuation; with the understanding the matter would be revisited if required. The motion was seconded by Mr. O'Brien. All board members present voted yes.

OPEN BOARD DISCUSSION

Mr. Williams informed the Board that he and Mr. Strauss was asked to attend a meeting recently with Assistant City Managers G. Keller and M. Stanley.

At that meeting Mr. Keller indicated the city (as a stakeholder) would be more active in the future. Mr. Keller was advised that this Board welcomes the city's input. That we as a Board have been and will remain transparent with all. Relative reports and presentations are shared with the city representative (Mr. Eng) whenever possible in advance of the meetings.

Additionally a historical culmination of records were provided to Mr. Keller and Mr. Stanley regarding the supplemental distribution.

Finally, the fact that the city is pursuing a case in the 4th DCA against drop members was also raised.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 12:15 PM.

Respectfully submitted,

C. Marano, Secretary

APPROVED:

D. Strauss, Chairman