

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

**November 18, 2016**  
**10:30 AM**

**MINUTES**

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, November 18, 2016, at 10:35 AM, in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT: D. Strauss, Chairman, C. Marano, Secretary, P. Laskowski, C. O'Brien, R. Wise and V. Szeto. With no objection and having a quorum present, R. Brickman – attended via conference call at 10:47 AM.

Also present were Richard Allen, Allen Siegel, Frank McGarry, George Keller & Kee Eng, City of Hollywood; John McCann & Brendon Vavrica, Bogdahn Group; Janna Hamilton, Garcia Hamilton; John Rockford & Robert Maddock, Inverness Counsel; Steve Cypen, Board Attorney - Cypen & Cypen; Stuart Kaufman, Counsel - Klausner, Kaufman, Jensen & Levinson and David M. Williams, Plan Administrator.

CALL TO ORDER - SHADE MEETING

The public meeting was called to order and subsequently adjourned to a closed Attorney - Client meeting at 10:36 AM for the Trustees (D. Strauss, Chairman, C. Marano, Secretary, C. O'Brien, R. Wise, V. Szeto and P. Laskowski) to meet with the legal counsel (Stuart Kaufman & Steve Cypen) pursuant to 286.011 Florida Statute that was read into the record by Mr. Strauss. The Attorney - Client meeting concluded and the public meeting reconvened at 10:45 AM.

Upon the meeting reconvening, Mr. Szeto made the motion to adopt the recommendation(s) of counsel offered during the shade meeting. This motion was seconded by Mr. O'Brien. All board members voted yes.

PUBLIC COMMENT

Mr. Richard Allen wanted the Board to understand the DROP issue is extremely concerning and that they should expect a large turnout for the proposed December 1, 2016 special meeting. He would hope that the Trustees allow ample time for the rank and file to speak. The Trustees fully supported allowing all the time needed for this matter.

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 October 28, 2016 MEETINGS

Mr. Strauss asked if there were any additions or corrections to the Minutes of the October 28, 2016 pension board meeting. Mr. Szeto made a motion to approve the Minutes of October 28, 2016, which was seconded by Mr. Laskowski. All board members voted yes.

### ATTORNEY'S REPORT

- Does the Board have to abide by the language in the ordinance: 33.128 - A DROP plan is to be created and administered by the Board of Trustees of the Police Officer's Retirement System at no cost and with no liability to the city, or as it predates the assumed guarantee option, it does not apply?

Mr. Kaufman opined that this provision must be looked at long term 20-25-30 years. The Actuary at the time of passage assumed no impact, which is a long-term horizon. The city and the union agreed to the benefit and the ordinance was subsequently changed. The Board is charged with following the ordinance. The city would be disingenuous at best to take a position otherwise. Mr. Cypen also felt it would be "bad faith".

Mr. Brickman (via conference call) stated that he was the designee who negotiated the benefit with the city on behalf of the PBA. The original language "created and administered by the Board of Trustees of the Police Officer's Retirement System at no cost and with no liability to the city" was limited to the administrative costs such as investments. Mr. Brickman believes that investment fee can be assessed for the affected members.

Mr. Kaufman reflected that considering the totality of circumstances, the Board should not take a contrary position.

Mr. O'Brien asked Mr. Kaufman if the Board was following the ordinance. Mr. Kaufman replied "To a T".

Mr. Brickman asked Mr. Kaufman that if a large group of members wanted to take less than 8% can that be done. Mr. Kaufman indicated yes – if all the parties agreed independently. Mr. Kaufman felt that it would be incumbent upon the city to raise the issue in the Pension Task Force Meetings.

Mr. Brickman asked if this could be tied to the mediation of the supplemental distribution. Mr. Kaufman stated "No".

- Can the Board apply FRR/VRR option during active employment only (up to 360 months of active service) prospectively?
- Can the Board apply VRR\* Only Post Employment prospectively?
- Apply the assumed rate of return on the DROP balance based on deposits, not the interest balance prospectively?
- Is a benefit option provided to a member after entering the DROP or retiring and maintaining (his/her) account the same as a benefit in place when a member enters the DROP. The fixed rate of return option was implemented in 2002 and it was applied as an option to ALL DROP members. Those who were still employed, those entering the DROP and those who were retired DROP where the accounts were still being held by the system?

Mr. Kaufman felt that any Board change would be considered an impairment of contract which cannot be divested. Mr. Kaufman stated that once you become eligible to cross the finish line, benefits are constitutionally protected. Mr. Kaufman spoke of the way the interest is factored and the Board considering a change in that method. Mr. Brickman interjected the intent was to compound.

After so many years of this practice it would be difficult to justify a change. Mr. Kaufman said that was correct being that was the intent and long term application.

Mr. O'Brien opined that due to the discussion as a whole and the advice received, he sees no point of the special meeting on December 1<sup>st</sup>. Mr. Strauss advised that there is a cost now. As such he thought the Board should hear from the Board Actuary – Mr. Fernandez. Mr. Williams attempted to contact Mr. Fernandez, but was unsuccessful. Mr. Kaufman advised that he would not want the Board to rely upon the advice of an actuary for legal issues. The foregoing is the best legal advice he can give the Board. Mr. Brickman felt a promise made is a promise kept, such as the supplemental distribution.

Mr. Williams offered his position that the City of Hollywood closed the DROP Plan in 2011. It is a closed group and is only getting smaller due to mortality. If the VRR was initiated, the city would never recoup the costs as the member would receive all the interest. While the study was pending from the actuary, the return was 9.5% this fiscal year which certainly helps offset the prior cost, which is ultimately the long term goal.

Mr. Brickman made a motion to cancel the meeting of December 1<sup>st</sup>, which was seconded by Mr. O'Brien. All board members voted yes. Mr. Williams will notify the respective parties.

At this juncture of the meeting, Mr. Brickman ended his participation.

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

*-Claudio Loveras*

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

- Return of Pension Contributions – Jonathan Sosa and Chase Zandick: Mr. Williams reflected that former members requested a return of their pension contributions. All required forms for distribution were received. Mr. Szeto made a motion to approve the foregoing as noted, which was seconded by Mr. Laskowski. All board members present voted yes.
- DROP Liquidations – Mr. Williams cited that due to the decisions made here today, he wished to table the liquidation requests. No formal opposition.

- As our plan did not meet the standards, Mr. Williams stated that sadly he did not apply for the 2016 Public Pension Coordinating Council - Public Pension Standards Award for funding and administration. The award is presented to pension plans in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards. The Public Pension Coordinating Council, a confederation of National Association of State Retirement Administrators (NASRA), National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).
- The inaugural pension task force meeting is going to be held on November 29, 2016 at 9:00 AM.

#### 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.

Mrs. Hamilton advised for the quarter that ended September 30, 2016, the equity portfolio returned 4.0%, which is a solid return, but underperformed in comparison to the Russell 1000 Growth Index return of 4.6%. For the last twelve months, equities returned 12.8%, in comparison to the Russell 1000 Growth Index return of 13.8%. On a three & five year look back, equities returned 10.1% & 13.8% respectively in comparison to the benchmark return of 11.9% & 16.6%. Since inception (February 9, 2000), the annualized return was 3.6% vs the benchmark of 2.7%.

A detailed equity market commentary was provided to the Board by Mrs. Hamilton. Stocks finished with decent returns during a low-volatility quarter. Strangely, low-quality and small-capitalization stocks led, even while mega-cap technology stocks (Apple, Microsoft, Google) posted strong gains. For the quarter, the S&P 500 Index increased 3.9% including dividends. The Russell 1000 Growth Index rose 4.6%. Global growth remains anemic. The U.S. Federal Reserve is walking a tight line: deferring a second interest rate hike, yet trying to convince the public that economic improvement is underway. Earnings estimate cuts continued, reflecting the disappointing global economy. Third quarter earnings might be 1.9% below year ago levels, marking the sixth consecutive quarter of lower year-to-year profits. In all likelihood, full year earnings will decline for the first time since the financial crisis, with 2016 estimates 1.5% below 2015.

The portfolio gained 3.9% in the quarter, 70 basis points shy of the benchmark Russell 1000 Growth Index. The shortfall is attributable to 177 basis points of low-quality headwinds as stocks rated "A+" or "A" actually declined during the period. Stock selection was good, providing 216 basis points of positive performance. The portfolio remains conservatively positioned with a meaningful overweight in high-quality stocks.

Mrs. Hamilton indicated that for the quarter that ended September 30, 2016, the fixed income portfolio returned 0.4%, which was in-line with the Barclays Capital Intermediate Aggregate benchmark return of 0.3%. On a one year basis, the fixed income portfolio returned 4.8% which handedly outpaced the benchmark return of 4.1%. Since the portfolio inception date of June 30, 2011, the fixed income return was 4.5%, compared to the Barclays Capital Intermediate Aggregate return of 2.9%.

Mrs. Hamilton's report advised The Federal Reserve opted to wait for "further evidence" of economic improvement and decided to keep the federal funds rate unchanged at the FOMC meeting in September. Despite the lack of action, the FOMC statement appeared to send a message that the probability of a rate hike this year has increased.

The press release indicated that the risks to economic growth are now "roughly balanced," and the majority of committee members projected at least one rate hike by the end of the year.

In the economy, measures of core inflation continued to inch higher, and the Consumer Confidence Index hit a nine-year high on optimism about the labor market. The 10-year treasury yield increased 11 basis points to end the quarter at 1.60%. The 2-year yield rose 17 basis points to 0.76% while the yield of the 30-year treasury increased 2 basis points to 2.33%. These moves caused the 2-30 year yield spread to flatten to 157 basis points. With the marginal rise in rates, the bond market had only a modest positive return this quarter with a return of 0.46% for the Barclays Capital Aggregate Index and a return on the Barclays Capital Intermediate Government Credit Index of 0.16%.

GHA maintained a marginally shorter duration than the benchmark index in anticipation of a rise in short-to-intermediate rates. In the near term, we expect short-to-intermediate term rates to rise leading to a flatter yield curve.

#### Inverness Counsel, Inc.

Mr. Maddock & Mr. Rockford provided the Board with a performance review of the quarter which ended September 30, 2016. Equity sector weightings were detailed, as were Bond attributes.

#### Highlights of the presentation cited:

During the quarter, equity markets recovered from the volatility driven by the United Kingdom's unexpected vote to leave the European Union (Brexit), and the S&P 500 ended the period with a positive return. This rebound, along with stable economic data points, puts a Federal Reserve rate increase back on the table for later this year. Despite having bounced off of record-low levels, negative rates in Europe and Japan continue to be a major factor. Global investors' focus on yield has driven a good portion of the returns this year, and some pockets of excess are developing. The U.S. economy continues to expand at a slower pace than expected, and the rebound in the industrial segment of the economy has been bumpy. Housing remains a bright spot. Low borrowing costs and healthy employment statistics should support further improvement and, by extension, greater consumer spending. Consumer confidence has reached levels not seen since 2007. The results of Election Day will be critical for various investment and financial planning considerations. In general, the first year of a presidential term has not been positive for the stock market or the economy. For now, we position portfolios for modest economic growth, although volatility may increase as November 8th nears.

Equities: Mr. Maddock advised for the quarter that ended September 30, 2016, the equity portfolio returned 5.12%, which outperformed in comparison to the S&P 500 Index return of 3.85%. For the last twelve months, equities returned 11.49%, in comparison to the S&P 500 Index return of 15.43%.

On a three & five year look back, equities returned 9.74% & 16.76% respectively in comparison to the benchmark return of 11.16% & 16.37%. The account was valued at \$51,018,111 as of September 30, 2016.

Fixed Income: Mr. Rockford indicated that for the quarter that ended September 30, 2016, the fixed income portfolio returned 0.23%, compared to the Benchmark of 0.28%. For the fiscal year, the fixed portfolio returned 5.83% compared to the same policy return of 4.68%.

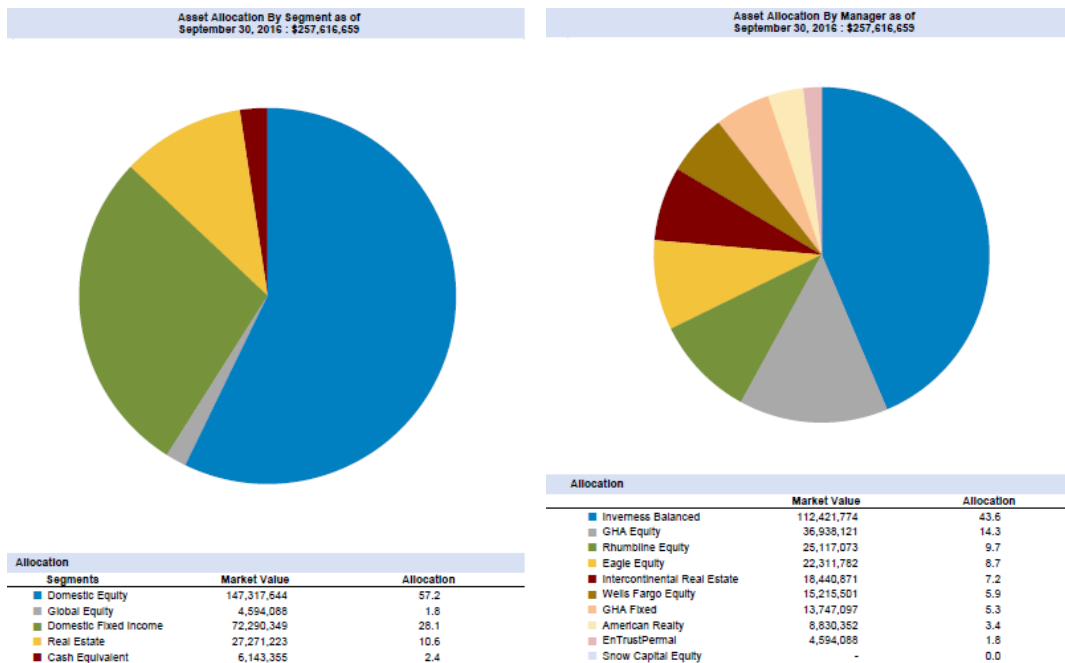
On a three & five year look back, fixed income returned 3.83% & 3.36%. % respectively in comparison to the benchmark return of 3.51% & 2.84%. The account was valued at \$59,485,531 as of September 30, 2016.

The Bogdahn Group

Mr. McCann and Mr. Vavrica presented the quarterly report from The Bogdahn Group.

Mr. McCann reported that as of September 30, 2016, the portfolio was valued at \$257,616,659. The total fund return on a gross basis was 3.31%. That return ranked the Plan in the 49th percentile of the investment universe (on a gross basis). The benchmark was outperformed by the portfolio with a return of 2.82%. Mr. McCann advised - All Public Plans Total Fund Median return was 3.39%. On a fiscal year basis the portfolio returned 9.55% well exceeding the assumed rate of return. Mr. McCann reported that - All Public Plans Total Fund Median return was 9.62% for the same period. Longer term results were also outlined on a 1, 3 and 5 year basis. The returns for those periods cited ranked the Plan in the Top 33rd, 6th and 39th percentile respectively.

Mr. McCann continued his presentation by providing a breakdown of each manager.



An equity aggregate analysis was also provided by Mr. Vavrica for the period ending September 30, 2016. The report confirmed that the system is well diversified across all investment and asset classes.

DROP RULES

Due to the Attorney's Report received, there was no action proposed for this item.

OPEN BOARD DISCUSSION

Mr. Strauss introduced and welcomed Mr. Ron Wise as the new Mayor's Appointee. Mr. Wise assumed the seat of Mr. Melville Pollak who recently passed away. All of the Trustees thanked him for his service and look forward to working with him in the best interest of the System.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 12:35 PM.

Respectfully submitted,

C. Marano, Secretary

APPROVED:

D. Strauss, Chairman