MINUTES
REGULAR PENSION BOARD MEETING
CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND
THURSDAY, NOVEMBER 19, 2015

1. CALL TO ORDER

Chair Shaw called the meeting to order at 10:07 a.m.

2. ROLL CALL AND PLEDGE OF ALLEGIANCE

Board Members present: Chair Phyllis Shaw, Vice-Chair Jeffrey Greene, Ralph Dierks, Raquel Elejabarrieta, George Keller, Daniel Matlow (via telephone; connection lost at approximately 12:30 p.m.) and Richard Templeton. Also present: Pension Coordinator, Lisa Castronovo; Board Secretary, Tammie Hechler; Board Treasurer, Matthew Lalla; and Board Attorney, James Linn.

3. CONSENT AGENDA

a. October 22, 2015 Special Meeting Minutes
b. October 22, 2015 Regular Meeting Minutes
c. October 29, 2015 Special Meeting Minutes
d. Excuse Trustee Raquel Elejabarrieta from October 29, 2015 Board Meeting
e. Ratification of Distributions (Contributions and DROP) and Plan Expenses
f. Approval/Ratification of New Retirement/DROP/Vested/Death Annuities

MOTION made by Mr. Dierks, seconded by Vice-Chair Greene, to approve Consent Agenda Items 3.a-f. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

4. TREASURER'S REPORT (Matthew Lalla)

Mr. Lalla reported an increase in the Fund's assets of $2.18 million/0.73% (net of disbursements) from $300.44 million on October 2, 2015 to $302.62 million on November 16, 2015.

5. INVESTMENT ISSUES (Keith Reynolds and John DeMairo)

a. September 30, 2015 Quarterly Performance Review

As of September 30, 2015, the Fund's market value was $275 million with a rate of return for the quarter ended September 30, 2015 of -3.96%.

b. Flash Performance Review

The Fund's market value on October 31, 2015 was $304.56 million and it reflected the City's contribution of almost $20 million at the beginning of October. The rate of return for October 2015 was 4.03% compared to the benchmark of 4.28%. A strong return in October helped make up for the previous third quarter negative returns.

c. Liquidity Analysis

Mr. DeMairo reviewed Segal Rogerscasey's Liquidity Analysis (report made part of these Minutes). The liquidity analysis was performed to determine the Fund's capacity to commit to alternative investments. The analysis measures the Fund's net cash-flow percentage as this percentage represents the portion of assets that must be met through investment income and liquidations. The analysis also measures the percentage of the Fund's portfolio that can be allocated to alternative investments.

The modeling assumptions included 1) $40 million commitment to alternative investments which was based on a ten percent (10%) target of the Fund's current market value ($300 million) increased by 1/3 for over-commitment factor, 2) capital called annually in $10 million increments, 3) net cash flow payments made pro-rata from the non-alternative investments, and 4) distributions from the alternative investments would not happen until the end of 2024 with no liquidations made prior to then.

Three deterministic tests were run during the analysis: a baseline one using an annual 7.5% rate of return which is the Fund's ultimate actuarial assumed rate of return, one assuming a 4.0% rate of return, and another assuming a 0.0% rate of return.

Because markets are inherently difficult to predict and do not move in straight lines, stochastic analyses were performed. The stochastic analysis uses the Monte Carlo simulation model which dictates rates of return many different ways based on proposed allocations and their risk/return distributions.

Several conclusions were obtained during the liquidity analysis: 1) forward-looking capital market assumptions are a challenge in meeting long-term actuarial assumption rates given the low fixed income yields and high equity valuation ratios, 2) alternative investments offer another source of expected return through the liquidity risk premium, 3) since liquidity risk is real, the Fund needs to test its capacity for liquidity risk, 4) the Fund was paying out more in benefit payments and expenses than was anticipated to be received in contributions but the magnitude of the discrepancy was expected to be manageable in future years.

Mr. DeMairo concluded by stating a ten percent (10%) allocation to alternative investments based on the models – both deterministic and stochastic - was not unreasonable and would provide good diversification and rates of return.

Mr. Reynolds reviewed Segal Rogerscasey's Alternatives Investments – Implementation (report made a part of these Minutes) which detailed two scenarios the Fund could follow to invest in alternatives. Scenario 1 would have the Fund add one additional asset class under alternative investments with a 10% allocation to private equity. The monies used for the investment would reduce the total Fund's target domestic equity exposure from 37.5% to 32.5% and reduce its home equity bias within domestic equities. The private equity allocation would be split between two different strategies: 1) a diversified fund of funds and 2) a "secondaries" or "special situations fund" focused on distressed assets or deep-valued investments. This scenario allowed flexibility for opportunistic allocation to potential dislocations in the market.

Scenario 2 would have the Fund add two additional asset classes under alternative investments with a 7.5% allocation to private equity and a 2.5% allocation to global infrastructure. The monies used for the investment would reduce the total Fund's target domestic equity exposure from 37.5% to 32.5% and reduce its home equity bias within domestic equities. The private equity allocation would be split between two different strategies: 1) a diversified fund of funds and 2) a "secondaries" or "special situations fund" focused on distressed assets or deep-valued investments. This scenario provided increased diversification and some inflation protection.

Mr. Templeton voiced his concerns regarding the implementation of alternative investments: 1) the number of projected retirements from the City in the next ten years, 2) what the City's expectations would be on replacing those people in the workforce, and 3) how would diminished payroll affect the cash flow.

Vice-Chair Greene asked what was the minimum investment in each asset class to which Mr. Reynolds responded the minimum was typically ($500,000 to $2 million. When asked by Vice-Chair Greene if there would be a problem if the Fund invested in Neuberger Berman's private equity fund considering the Fund already invested with Neuberger, Mr. DeMairo advised that such an investment would not be a good idea. Vice-Chair Greene stated the Board had always been forward thinking in their investment strategy and he thought the Board should move forward with more alternative investments since, based on his discussions with other funds' trustees, it was better for the Fund to invest in more than one alternative investment class.

Chair Shaw agreed with Vice-Chair Greene to move forward with alternative investments and inquired as to the time-frame to invest in any given investment. Mr. DeMairo responded that it depends on each individual manager, but funds must be ready to transfer when the manager called the closing date.

Mr. Keller asked if the stochastic models allow for any type of wild card variables such as incalculable events, i.e. international security, to which Mr. DeMairo responded "no."

Vice-Chair Greene asked what was the process to select a manager. Mr. DeMairo stated the Board could follow one of three avenues to select the manager: 1) Segal Rogerscasey presents 2-3 managers and the Board interviews all presented, 2) Segal Rogerscasey chooses the best manager and the Board interviews only that one, or 3) Segal Rogerscasey is given full discretion to make and hire the manager.

Chair Shaw and Vice-Chair Greene agreed that giving Segal complete discretion to hire the manager was not an option but they liked the idea of interviewing the one manager Segal selected as the best one for the Fund.

Mr. DeMairo noted that with alternative investments the overall fees paid by the Fund would increase because alternative management fees are greater than fees for standard investments in equities or fixed income assets. Also, the Fund would most likely incur increased fees from both Segal for their services to find the best manager(s) for the Fund and from the Fund's legal counsel since there will be documents requiring thorough legal review. Finally, there would be more pressure administratively on the Pension Coordinator regarding back office support coordinating the interactions between Segal, the managers, legal counsel and the investments themselves.

Mr. DeMairo stated that Segal Rogerscasey's fees would be approximately $40,000/year.

Public comment was heard from: Ronald Bolton - 1150 NW 71 Avenue, Plantation, FL

MOTION made by Vice-Chair Greene, seconded by Mr. Keller, to follow Segal Rogerscasey's recommendation of a $40 million investment in additional alternative assets with 50% of the total investment directed to a diversified private equity fund of funds, 25% of the total investment directed to secondaries or a special situations private equity fund, and 25% of the total investment directed to a global infrastructure fund. Segal Rogerscasey is to bring to the Board for interviewing one (1) manager from each asset class within a reasonable period of time. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

6. LEGAL ISSUES (James Linn)

a. Litigation Update

Mr. Linn reported that Ronald Cohen was appointed to represent the Board in the litigation regarding Supplemental Pension Distributions known as "City of Hollywood vs. The Board of Trustees of the Employees Retirement Fund of the City of Hollywood, and the Board of Trustees of the City of Hollywood Firefighters Retirement System, and the Board of Trustees of the City of Hollywood Police Officers Retirement System." Mr. Linn noted Mr. Cohen had requested if he, Mr. Linn, was agreeable to a short extension of time to respond to the City's complaint to which Mr. Linn responded he was fine with it.

b. Pension Ordinance Amendment

Mr. Linn presented to the Board a proposed amendment to City Ordinance Chapter 33, Section S - Administration. The changes Mr. Linn made were all related to removing the City from administrative responsibility for the Retirement Fund, the Board, and various items the City was directly involved in such as hiring and paying various Fund vendors, i.e. attorney, actuary, Fund custodian.

Discussion ensued with Board members raising their concerns and voicing suggested changes. Mr. Linn made note of the items discussed and stated he would incorporate the suggestions and bring back before the Board at its next regular Board meeting.

7. ADMINISTRATIVE ISSUES

There were no administrative issues.

8. PUBLIC COMMENTS

Public comment was heard from: Ronald Bolton

9. TRUSTEE REPORTS, QUESTIONS AND COMMENTS

Mr. Templeton requested Mr. Keller to find out about reserving three (3) parking spaces near the Pension Office to accommodate retirees visiting the Office.

10. PENSION COORDINATOR'S REPORT (Lisa Castronovo)

Ms. Castronovo: 1) reported that the Notice of Election would be provided the week after Thanksgiving to all employees informing them that the Board would be accepting Applications of Candidacy for the employee-elected trustee position currently filled by Mr. Dierks whose term was ending February 29, 2016; 2) noted that the FPPTA Trustees School was in in Orlando in the first week of February 2016 and anyone who wished to attend needed to let her know so she could coordinate registration; 3) reported the City Manager signed a ninety (90) day extension to the Fund custodian contract with Wells Fargo and the RFP for the Fund custodian would be sent out by the City's Procurement Department in the next few weeks; 4) noted that Chair Shaw had signed agreements with law firms Saxena White and Scott & Scott for securities monitoring services; and 6) provided information regarding the National Pension Education Association "NPEA" for the Board to review.

11. ADJOURNMENT

MOTION made by Vice-Chair Greene, seconded by Mr. Keller, to adjourn the meeting. In a voice vote by the members present, **Motion** passed 6-0. Meeting adjourned at 12:35 p.m.

Phyllis Shaw, Chair

12/17/2015
Date