

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND
THURSDAY, JUNE 25, 2015**

1. CALL TO ORDER

Chair Shaw called the meeting to order at 10:06 a.m.

2. ROLL CALL AND PLEDGE OF ALLEGIANCE

Board Members present: Chair Phyllis Shaw, Vice-Chair Jeffrey Greene (arrived at 10:09 a.m. and departed at 1:22 p.m.), Mr. Ralph Dierks, Ms. Raquel Elejabarrieta, Mr. Matthew Lalla, Mr. Daniel Matlow and Mr. Richard Templeton. Also present: Pension Coordinator, Lisa Castronovo, Board Secretary, Tammie Hechler; and Glenn Thomas for Board Attorney, James Linn.

3. CONSENT AGENDA

- a. May 28, 2015 Regular Meeting Minutes
- b. Ratification of Distributions (Contributions and DROP) and Plan Expenses
- c. Approval/Ratification of New Retirement/DROP/Vested/Death Annuities

MOTION made by Vice-Chair Greene, seconded by Mr. Lalla, to approve Consent Agenda Items 3.a-c (accepting the Minutes as amended). 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 \$11.9 million/4.1% net of disbursements from \$290.6 million on October 1, 2014 to approximately \$302.5 million on June 23, 2015. Investment returns through the April 30, 2015 were 6.13%. The Board accepted the Treasurer's Report as read.

5. INVESTMENT ISSUES (Keith Reynolds)

- a. Thompson, Siegel & Walmsley ("TSW") Presentation (Tracy Musser)
Report made part of these minutes.

Ms. Musser emphasized TSW 1) had not changed the portfolio's managers in many years; 2) looked to buy undervalued stocks that still had room for growth and would sell such undervalued stock once it hit its top growth; 3) did not hold more than five percent (5%) of any one stock.

7. ADMINISTRATIVE ISSUES - Taken out of order

- a. Fiduciary Liability Insurance discussion (Jori Van der Voort, Arthur J. Gallagher Risk Management Services)
Report made part of these minutes.

The Board discussed its options regarding increasing its fiduciary liability insurance coverage from the current \$1 million to \$2 or \$3 million. The Board expressed concern that to increase coverage immediately, the current provider required payment of the full annual premium rather than a prorated premium.

MOTION made by Mr. Lalla, seconded by Vice-Chair Greene, to have Arthur J. Gallagher search for a carrier for a coverage limit increase to \$3 million for next renewal period starting October 1, 2015. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0. It was agreed the results of the search will be sent to the Board one week before the August 27, 2015 Pension Board meeting.

5. INVESTMENT ISSUES (Keith Reynolds)

b. Flash Performance Review

Mr. Reynolds reported the Fund's value at \$302.5 million on May 31, 2015. The total Fund was up 0.48% for May 2015 and the total Fund net rate of return was 6.95% for October 1, 2015 - May 31, 2015 compared to the policy index of 5.71% for the same time period. Mr. Reynolds noted that international large cap equity manager Wellington had the highest absolute performance and was well above their benchmark for the first five months of the calendar year.

- c. Neuberger Berman Performance Package (Report made part of these Minutes)
Mr. Reynolds reviewed Segal Rogerscasey's analysis of Neuberger Berman's ("Neuberger") recent performance. Mr. Reynolds reported that over the last seven to eleven (7-11) years, it was more beneficial to have an active fixed income manager rather than have been invested in a fixed income indexed fund.

Mr. Reynolds noted 1) Segal Rogerscasey believed Barclays Intermediate U.S. Government/Credit was the right benchmark to use to measure Neuberger's performance, 2) Neuberger had experienced periods of underperformance in the past but always rebounded strongly thereafter, 3) while Neuberger's most recent performance had been disappointing, performance over the longer time periods continued to be compelling from both a gross- and net-of-fees perspective, 4) performance statistics indicated that the portfolio offered a lower standard deviation and more downside market protection relative to the index, and 5) Segal Rogerscasey was a proponent of fixed income active management going forward especially considering the likelihood on increasing interest rates.

Mr. Reynolds recommended that in the future the Fund not be rebalanced between fixed income managers Baird Advisors and Neuberger for a 50/50 allocation but rather allow the monies allocated to Baird Advisors move naturally up to 60% and monies allocated to Neuberger move naturally down to 40%. Such allocation is within the Fund's investment policy.

MOTION made by Vice-Chair Greene, seconded by Mr. Templeton, to allow the monies allocated to Baird Advisors to move naturally up to 60% and monies allocated to Neuberger to move naturally down to 40% without reallocation of any funds at the present time and without any change in allocation of expenditures. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

- d. Alternatives Investment Education (Handout made part of these Minutes)
Mr. Reynolds explained the objective of investing in Alternative Investments such as hedge funds, private equity funds, and real assets such as timber and infrastructure was not to increase the risk factor of the Fund but rather to add diversification while keeping the risk at its current level and increasing the rate of return. Mr. Reynolds stated that such investing would mean the Fund would be less exposed to the equity markets which can be highly volatile. If some of the Fund's monies currently invested in US and international equities was reinvested in alternatives, Fund volatility could be reduced and long-term performance could improve.

6. LEGAL ISSUES (Glenn Thomas)

Mr. Thomas advised he had no legal issues to discuss.

Chair Shaw noted she had before her a letter of contract renewal for Segal Rogerscasey for October 1, 2014 to September 30, 2015 and wanted input from the Board before signing. Discussion ensued.

MOTION made by Vice-Chair Greene, seconded by Mr. Dierks, to sign the October 1 2014 to September 30, 2015 letter of extension for Segal Rogerscasey and also extend their contract for October 1, 2015 through September 30, 2016. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

7. ADMINISTRATIVE ISSUES

b. Securities Litigation Monitoring Law Firm update

Ms. Castronovo informed the Board of the departure of attorney Rebecca Katz from Motley Rice, one of the Board's securities litigation firms and that Marlon Kimpson would be the firm's representative going forward. Ms. Castronovo stated that Ms. Katz had provided to her recommendations of other securities litigation firms that the Board could consider, one of them being Saxena White, a firm located in Boca Raton. The Board instructed Ms. Castronovo to provide them with information regarding Saxena White at a future meeting.

c. Frozen Vested Retirement Benefits

Ms. Castronovo provided the Board with a copy of the Resolution drafted by the City Attorney to sue the Board for granting pensions to individuals deemed vested solely as a result of the ordinance freezing the prior plan on September 30, 2011. Ms. Castronovo reported that the Resolution was on the City Commission's agenda for discussion at their July 8, 2015 Commission meeting. Mr. Thomas stated that the Internal Revenue Code requires that once benefits are frozen under a frozen plan, active members at the time of the freeze become 100% vested in their frozen accrued benefit. Therefore, Mr. Thomas opined, if a lawsuit was filed against the Board and was not immediately dismissed, a summary judgment in favor of the Board was likely. Discussion ensued.

d. IRC Section 415

Ms. Castronovo noted several Board members recently became aware of an Internal Revenue Service Private Letter Ruling which stated in part if the sum of a member's monthly benefit and the annuitized DROP benefit exceeded IRC Section 415 limits, the monthly benefit would be reduced to the maximum allowable amount and the remaining monthly benefit must be paid through an excess benefit arrangement. Mr. Thomas noted that private letter rulings cannot be relied on as precedent but could be looked at as a likely way the IRS would view a given situation. Discussion ensued.

MOTION made by Mr. Templeton, seconded by Mr. Dierks, to send a second letter to the City Commission regarding the IRS Section 415 issue urging the City Commission to establish an excess benefit plan with a request for a response to the letter.

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

In a voice vote by the members present, all members voted in favor. **Motion** passed 4-2 (Ms. Elejabarrieta and Mr. Lalla opposed).

8. PUBLIC COMMENTS

Public comments were heard from: Barbara Duffy - AFSCME Local 2432 general counsel, 4621 Hollywood Blvd., Hollywood, FL; Troy Porter, AFSCME Vice-President

9. TRUSTEE REPORTS, QUESTIONS AND COMMENTS

Vice-Chair Greene asked Mr. Thomas for rules clarification regarding the acceptance as a gifts while serving as a Fund trustee. Mr. Thomas advised that based on the City's stated gift policy, City employees could not accept a gift of any value, but under applicable law non-City employees could accept gifts of value up to \$100.

Mr. Templeton suggested starting the Board meetings earlier and/or having two meetings per month. Mr. Templeton requested Ms. Castronovo to check with the Fire Marshal to determine the Pension Office conference room occupancy capacity.

Mr. Lalla reminded the Board that the trustee financial disclosures were due July 1, 2015. Mr. Lalla stated the NCPERS annual conference in New Orleans was the worst conference he had ever attended and highly discouraged any Pension funds ever being spent with NCPERS again.

Ms. Elejabarrieta requested the gift issue be placed on the agenda for the next regular Board meeting. Mr. Thomas stated that one of his associates had recently finished an in-depth research into the issue and that Mr. Linn would report the results to the Board at its next meeting.

Mr. Matlow agreed with Mr. Templeton regarding starting the Board meetings earlier in the day. Mr. Matlow suggested holding a special Board meeting to discuss the IRC Section 415 issues as they apply to the affected DROP members.

Mr. Dierks stated for due diligence purposes, an RFP should be done for the Board attorney. Mr. Dierks noted the meeting dates are picked a year in advance and thus each Trustee should leave the day open to attend the meetings and he was not in favor of starting the meetings any earlier in the day.

Chair Shaw commented the IRC Section 415 issue needed to be resolved. Ms. Elejabarrieta stated that she did not know what the Board as a group could do since the issue of the establishment of an excess benefit plan rested with the City, not the Board. Chair Shaw responded that since the Letter of Understanding establishing a floor for DROP earnings was never made part of the City's Ordinance, then the Board could address the issue. Mr. Lalla stated the Board should make sure in anticipation of any type of lawsuit from the

negatively impacted DROP members that the Board is properly interpreting the Ordinance and how it applies to DROP accounts. Further discussion ensued.

Chair Shaw informed the Board that the Fund's actuarial firm, Gabriel, Roeder, Smith and Company had outstanding invoices that the City had not yet paid and thus the Board could not expect GRS to continue their services without being paid. Chair Shaw concluded by stating she attended the City Commission budget workshop and it came out the City Commission was preparing to sue all three Pension Boards regarding the supplemental pension distribution issue.

10. PENSION COORDINATOR'S REPORT (Lisa Castronovo)


Ms. Castronovo noted she had ready for distribution a rough draft of the RFP for Pension Coordinator. The Board requested Ms. Castronovo to instead forward to each of them electronically the rough draft for each Trustee to review, comment, and provide their input.

Ms. Castronovo reported there were no responses to the Pension Software RFP she sent out in late March and thus she needed to make a couple of minor changes after which she would reissue it.

Ms. Castronovo informed the Board that Vice-Chair Greene was not reimbursed for the car he rented and the hotel parking fees he incurred in New Orleans in conjunction with the NCPERS conference and that he was upset. Ms. Castronovo stated that by Vice-Chair Greene having a rental car, such rental saved the Fund taxi fare from the airport to the hotel for Vice-Chair Greene, Ms. Elejabarrieta and Ms. Castronovo and taxi fare for Vice-Chair Greene from the hotel back to the airport. The Board collectively agreed to reimburse Vice-Chair Greene \$80.00 for the savings in taxi cab fares.

11. ADJOURNMENT

MOTION made by Mr. Matlow, seconded by Mr. Dierks, to adjourn the meeting. In a voice vote by the members present, **Motion** passed 6-0. Meeting adjourned at 2:00 p.m.



Phyllis Shaw, Chair

July 29, 2015
Date