

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND
THURSDAY, AUGUST 24, 2017**

1. CALL TO ORDER

Chair Shaw called the meeting to order at 9:23 a.m.

2. ROLL CALL AND PLEDGE OF ALLEGIANCE

Board Members present: Chair Phyllis Shaw, Vice-Chair Jeffrey Greene, Ronald Bolton (departed at 11:00 a.m.), Christopher Cassidy, Charles Howell (via telephone), George Keller (arrived at 10:59 a.m.) and Mel Standley (via phone). Also present: Pension Coordinator Lisa Castronovo and Glenn Thomas for Board Attorney James Linn (Lewis, Longman & Walker).

a. Agenda Adoption

MOTION made by Mr. Bolton, seconded by Mr. Cassidy, to adopt the August 24, 2017 regular Board meeting Agenda as presented. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

3. CONSENT AGENDA

- a. July 27, 2017 Regular Meeting Minutes
- b. August 15, 2017 Special Meeting Minutes
- c. Ratification of Distributions (Contributions and DROP) and Plan Expenses
- d. Approval/Ratification of New Retirement/DROP/Vested/Death Annuities

MOTION made by Vice-Chair Greene, seconded by Mr. Bolton, to approve Consent Agenda. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

4. TREASURER'S REPORT

The Board reviewed the Treasurer's Report and had no questions.

5. INVESTMENT ISSUES (Keith Reynolds – Segal Marco Advisors)

- a. Brandes Investment Partners Presentation (Grant Duncan & Scott Thompson)
Handout made part of these Minutes.

Mr. Duncan, Director, began the presentation by noting that Brandes Investment Partners 1) was a 100% employee-owned international small cap value manager headquartered in San Diego with close to \$30 billion under management, 2) used a team approach which allowed for diverse perspectives and input, 3) strived to find and purchase undervalued companies at a discount, 4) utilized a three-step process of analysis, valuation and construction when investing, and 5) aimed to build portfolios with high margins of safety so patience was critical since a long-term perspective helps investors look beyond short-term market fluctuations thus giving the portfolio the potential to grow over time.

Mr. Thompson, Product Manager, reported that while the portfolio had experienced strong absolute performance over the past twelve months (13.89%), the returns were significantly below the benchmark (18.45%). Mr. Thompson noted the one-year return reflected Brandes' cautiousness in the current bull market and the need for investor patience in the long term as Brandes felt strongly they would outperform the benchmark over the long-term, especially in bear markets.

Key positive performance factors were investment holdings in equity real estate investment trusts (REITs), health care equipment and supplies and holdings in Japan, Canada, and South Korea. The holdings in Japan and emerging markets had been significant contributors to the strong absolute returns.

The portfolio underperformance came primarily from 12% of the portfolio not being invested, but rather sitting in cash. The lack of investment was not a tactical decision on Brandes' part, but rather came from Brandes not finding worthy investments in the marketplace. Brandes was not finding worthy undervalued businesses and as a result had seen the cash level creep up over the past couple of years. Given the strong market returns over the past two years, the money sitting in cash had been a clear detractor from larger returns over the past year.

A second explanation for the relatively poor returns over the past year was Brandes' value style of investment which was not in vogue in the bull market. Growth investments outperformed value investments by over 300 basis points. When the value approach to investing was coupled with Brandes' cautious approach to investing (being unable to find worthy undervalued businesses in which to invest), the result was underperformance of their respective benchmark.

Mr. Bolton asked Mr. Thompson how long he thought the portfolio would continue with so much money in cash to which Mr. Thompson responded that they were waiting for a move in the market. Mr. Thompson noted that Brandes, unlike many of their peers, was a long-term investor and thus waited longer to invest in order insure each investment was the right one.

Discussion followed with several of the Trustees voicing their concern about the percent of the portfolio in cash. Mr. Duncan stated that Brandes did not like having as much money in cash as it had, but they were going to remain cautious and true to their established discipline. Vice-Chair Greene suggested Brandes needed to tweek its discipline. Mr. Duncan responded Brandes was looking at market volatility to provide a window in which to invest and was confident something would happen soon to open that window.

The Board collectively agreed to bring Brandes back in early 2018 to provide an update.

- b. Wellington Management Presentation (James DiGiuseppe & Laura Howenstine)
Handout made part of these Minutes.

Ms. Howenstine, Vice President and Equity Portfolio Specialist, stated Wellington's investment objective was to outperform the MSCI AC World ex US Index consistently over rolling 3-year periods. Wellington strives to outperform the benchmark through a balanced portfolio across a broad universe with diverse holdings and economic exposures. Experience, stability and support describe Wellington's investment team which is a dedicated team collaborating with global resources.

Wellington's investment philosophy: 1) the market focuses excessively on short-term earnings and growth, 2) market insufficiencies exist because investors narrowly focus on companies within a specific region or industry, 3) return on capital drives stock prices over time, 4) assets and capital allocation provide early insights into future returns, and 5) return on capital can be mispriced at the company, industry or macro level.

Ms. Howenstine reported that the portfolio outperformed the benchmark in quarter end June 30, 2017, though it underperformed the benchmark for the year end June 30, 2017 by 30 basis points due to the underperformance it experienced in 2016. For the 3-year period and since inception, the portfolio significantly outperformed the benchmark (230 and 210 basis points, respectively).

Ms. Howenstine stated that any cash in a large cap international equity portfolio given the current market conditions would be drag on that portfolio's performance. Wellington had about 3.5% of its portfolio in cash which was the largest contributor to its year-to-date return being 30 basis points lower than the its respective benchmark. Ms. Howenstine noted that the top relative contributors to the portfolio's strong performance in 2017 were investments in information technology and most consumer staples. The largest relative detractors were most energy investments.

- c. June 30, 2017 Quarterly Performance Review

Mr. Reynolds reported the Fund experienced a very strong performance for the quarter end June 30, 2017 with the year-to-date, one year, three year and five year rates of return above their respective benchmarks.

Mr. Reynolds reported that a one year comparison of the Fund to 243 other public plans of similar allocations and less than \$500 million in assets showed the Fund was ranked in the top 12% of its peers. When the Fund was compared to its peers (236 funds of similar allocation and asset size) for the past three years, the Fund returned 6.65% and ranked #6. The Fund's returns consistently rank in the top 10% over the years when compared to other funds of similar allocation and size.

Mr. Reynolds noted that the Fund's rolling return had smoothed out in the last two years since alternative asset investments were added to the portfolio.

d. Flash Performance Review

Mr. Reynolds reported the Fund's market value was \$315.8 million on July 31, 2017 with an approximate net rate of return of 9.35% for the current fiscal year.

Mr. Reynolds said he would look into bringing the money managers before the Board by "asset group" (i.e. all equity managers, all fixed income managers, and all alternatives managers) three times a year instead of having two managers present at each monthly Board meeting which was proving to be quite time-consuming. Vice-Chair Greene suggested having a one- or two-day annual investment "seminar" which all the managers would attend and make their presentation.

e. Standing Transfer Directives for Baird Advisors and Neuberger Berman

Mr. Reynolds explained that \$975,000 was transferred monthly from each of the Fund's fixed income managers (Baird Advisors and Neuberger Berman) to the Fund's cash account to pay for the monthly retirement benefit checks. Chair Shaw noted that the monthly retirement checks totaled to more than \$2.3M so the incoming \$1.95M was not enough to cover it. Mr. Reynolds recommended leaving the standing directive for Baird Advisors and Neuberger Berman in place at the current transfer amount and to take any extra needed funds from the other managers on an as-needed basis. Chair Shaw stated she wanted the standing directives ceased immediately considering the Board was no longer going to have the City pay the Fund's monthly invoices via a reduction of employee contributions to the Fund.

6. LEGAL ISSUES (Glenn Thomas – Lewis, Longman & Walker)

a. Executive Director Search – Update

Mr. Glenn noted that the Executive Director and Assistant Administrator job notices would be posted with Florida Public Pension Trustees Association, International Foundation of Employee Benefit Plans, Pensions & Investments, National Conference on Public Employee Retirement Systems, Florida League of Cities, National Association of Public Pension Attorneys, BenefitsLink, and the Fund's website.

b. Public Records Law Update

Mr. Thomas noted that due to a new law, a notice stating who the public records custodian is along with their email address, phone number, and mailing address must be posted on the Fund's website and somewhere visible in the Pension Office.

Mr. Thomas noted for the record that a special attorney-client meeting needed to be scheduled for an upcoming meeting. The Board agreed to schedule the closed attorney-client meeting for September 28, 2017.

Mr. Thomas concluded his report by stating that after talking to both the City's Director of Human Resources and interim City Attorney, it was agreed by all that the City's Directors and Officers insurance policy covers the Trustees. Chair Shaw requested Mr. Thomas to provide written confirmation that the City's policy will continue to cover the Trustees after October 1, 2017.

c. Board Attorney RFP (taken out of order)

Chair Shaw stated she wanted to hold off on reviewing the responses for Board Attorney RFP due to Mr. Linn's institutional knowledge regarding the current 13th check litigation with the City. Chair Shaw stated Mr. Linn was in limbo so she suggested pulling the RFP entirely with the goal to reissue it in early 2018.

Vice-Chair Greene suggested asking the respondents if they would accept a 90-day extension of the review process. Mr. Paul Bassar, Director of Procurement, stated there was no expiration date in the RFP so the Board could not ask for an extension.

Discussion followed.

MOTION made by Vice-Chair Greene, seconded by Mr. Keller, to direct Mr. Bassar to reach out to the respondents to the RFP to let them know that the Board was not ready to make a decision but would meet in early 2018 to review and discuss the responses.

Public comment was heard from: William Vulpis – 7993 Exeter Boulevard West, Tamarac, FL

In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

7. ADMINISTRATIVE ISSUES

a. October 1, 2016 Actuarial Valuation Report (Jeff Amrose, Gabriel Roeder Smith & Company ("GRS"), report made part of these minutes).

Highlights of the October 1, 2016 Actuarial Valuation Report:

- The City's required contribution increased from \$23.44 million for the 2016-17 fiscal year to \$24.70 million for the 2017-18 fiscal year, but decreased as a percent of payroll from 66.33% to 63.11%.
- Pre-funding of the Supplemental Pension Distribution was done in accordance with the July 2014 letter from the Division of Retirement.
- The Report reflected the fact the City did not contribute the required amount as determined by the October 1, 2013 and October 1, 2014 Actuarial Valuation Reports.
- The investment return assumption was lowered from 7.80% to 7.70%, net of expenses. The investment return assumption will continue to decrease by 0.10% each year until it reaches 7.50%. The mortality assumption was changed, per State mandate, to be the same one used by the Florida Retirement System. The two assumption changes increased the required contribution by 5.55% of covered payroll.
- The Fund experienced an \$11.07 million net actuarial gain for the year meaning actual experience was more favorable than anticipated. The primary gain came from the recognized investment return being greater than the assumed rate of return of 7.80%. The actuarial gain decreased the required contribution by 2.47% of covered payroll.

- Since the investment return for fiscal year ending September 30, 2016 was less than 12.3%, a Supplemental Pension Distribution for fiscal year end September 30, 2016 was not payable.
- \$104 million of the \$195 million Unfunded Actuarial Accrued Liability (UAAL) will be paid off in 12 years.
- The funded ratio on October 1, 2016 was 59.6% (62.6% before the two actuarial assumption changes) compared to 58.0% on October 1, 2015.
- The market value of assets exceeded the actuarial value of assets by \$2.8 million. The excess would gradually be recognized over subsequent years resulting in a decrease in the required contribution.

MOTION made by Vice-Chair Greene, seconded by Mr. Keller, to accept the October 1, 2016 Actuarial Valuation Report as presented. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

Mr. Amrose presented a letter to the Board which outlined a new State mandate that requires all actuarial firms, starting with the October 1, 2017 actuarial valuations, to input directly into a State database 137 items from each annual actuarial valuation report. GRS's start-up fee for the required reporting would be \$1000-1250 with on-going annual fees thereafter at \$400-\$500.

MOTION made by Mr. Cassidy, seconded by Vice-Chair Greene, to approve GRS's fee for the new electronic reporting portal as mandated by the State for all actuarial reports filed starting October 1, 2017. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

b. City Commission Communication

Ms. Castronovo provided the Board with a draft City Commission Communication for the Board's July 2017 regular meeting and its August 15, 2017 special meeting. Chair Shaw directed Ms. Castronovo to add a note in the Communication about the possibility of working with the other two City retirement funds to possibly combine functions to provide economies of scale for the City as a whole.

c. Fiduciary Liability Insurance (taken out of order)

Katie Jackson from Gateway-Acentria Insurance and Christopher Goettelmann from R.T. Specialty provided fiduciary liability insurance premium quotes for such insurance for October 1, 2017 – September 30, 2018. Mr. Goettelmann noted that the coverage for the first three layers of insurance as provided by RLI, Allied World, and Markel did not change nor did the premiums for such coverage. Mr. Goettelmann reported that he was able to get the same coverage for the 4th and 5th layers, as provided by Euclid/Hudson and RSUI, respectively, but at reduced premiums. The premium for all five layers of coverage reduced from over \$154,000 for 2016-17 to \$147,600 for 2017-18.

Mr. Goettelmann said he asked RLI (the primary carrier) to take on a larger piece of the overall coverage, but they refused to do so at this time due to outstanding litigation. Chair Shaw said she would like Ms. Jackson and Mr. Goettelmann to seek new, lower coverage later in the fiscal year once the litigation was settled.

MOTION made by Vice-Chair Greene, seconded by Mr. Keller, to accept \$15 million fiduciary liability insurance coverage at a premium of \$147,600. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

- d. Pension Office relocation
No discussion.

- e. Retiree-representative Trustee election
Ms. Castronovo reported that Mr. Bolton's term as the trustee representing the Fund's retirees, ended October 31, 2017. As a result, it would be necessary to hold an election for the retiree-elected Trustee position. Ms. Castronovo reminded the Board that at its October 23, 2014 meeting, the Board made and adopted a Motion stating the Pension Coordinator, at the Fund's expense and by a date determined by the City of Hollywood Retirees' Association ("COHRA") at its annual meeting, would mail a notice to all Retirement Fund retirees regarding the retiree-elected trustee election, a list of the nominated candidates, and an absentee ballot and a return envelope.

Ms. Castronovo outlined a timeline for the election: 1) COHRA would hold a special meeting on Wednesday, September 20, 2017, to accept nominations for the retiree-elected Trustee position; 2) she would mail the Notice regarding the retiree-elected trustee election, a list of the nominated candidates, an absentee ballot and a return envelope on or before Monday, October 2, 2017, to all Fund retirees; 3) the absentee ballots would be received by COHRA no later than Friday, October 20, 2017; and 4) COHRA would conduct an in-house election at its annual meeting on Wednesday, October 25, 2017.

Public comment was heard from: William Vulpis – 7993 Exeter Boulevard West, Tamarac, FL

The Board was agreeable to the timeline, but wanted the retirees to be mailed a notice in advance of the September 20, 2017 meeting that they could nominate themselves or someone else at the September 20th meeting.

MOTION made by Vice-Chair Greene, seconded by Mr. Cassidy, to mail in advance of COHRA's September 20, 2017 special meeting a notice to all retirees informing them they could nominate themselves or someone else at the September 20th meeting as long as they attended such meeting in person. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

- f. Policies and Procedures
Mr. Thomas stated he had drafted a policy regarding Board credit card.
- g. Board Credit Card
Chair Shaw stated she would like the Board to have at least two credit cards. She continued that she would reach out to Wells Fargo to inquire about getting new/additional credit cards issued for the Chair and Vice-Chair.

- h. November 2017 Board Meeting Date
The Board agreed to hold the November regular Board meeting on November 2, 2017.
- i. Agenda Format Change
Chair Shaw stated she wanted "Invoice Approval" added to the Agenda's Order of Business.

8. PUBLIC COMMENTS

Public comments were made by: Veronica Mangan – address exempt FSS 119; Linda Haltam – 5641 Raleigh Street, Hollywood, FL

9. TRUSTEE REPORTS, QUESTIONS AND COMMENTS

Trustee comments were made by Vice-Chair Greene, Chair Shaw, and Mr. Howell. Vice-Chair said he would like to see improved communication between the Board and the retirees; Mr. Howell agreed. Chair Shaw said she would like to have a newsletter published at least twice a year as part of the effort to provide better communication between the Board and the retirees. Chair Shaw added she would like the Board/Pension Office to host annual workshops for retirees at which representatives from Social Security, the Fund's investment managers, the City's insurance providers, etc. would attend.

Chair Shaw thanked Mr. Thomas for his work over the past few months regarding the hiring of a new pension coordinator. Chair Shaw stated she was looking forward to the placing of the job notice with the various organizations as she was excited to see who would apply. Chair Shaw added that while she knew there would be work involved for the Board, she was excited for the Fund to move forward once it had more people to do the work.

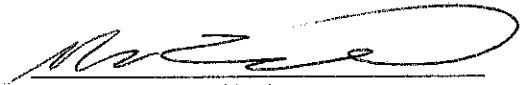
Public comment was heard from: William Vulpis – 7993 Exeter Boulevard West, Tamarac, FL

10. PENSION COORDINATOR'S REPORT (Lisa Castronovo)

Ms. Castronovo reminded the Trustees to let her know if they changed their October conference travel plans.

11. ADJOURNMENT

MOTION made by Vice-Chair Greene, seconded by Mr. Cassidy, to adjourn the meeting. In a voice vote by the members present, **Motion** passed 6-0. Meeting adjourned at 1:13 p.m.



Phyllis Shaw, Chair

9/28/17

Date