

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND
SEPTEMBER 22, 2016**

1. CALL TO ORDER

Chair Shaw called the meeting to order at 9:09 a.m.

2. ROLL CALL AND PLEDGE OF ALLEGIANCE

Board Members present: Chair Phyllis Shaw, Vice-Chair Jeffrey Greene (arrived at 9:30 a.m.), Chris Cassidy, Charles Howell (arrived at 9:12 a.m.), Mel Standley, George Keller, and Richard Templeton. Also present: Pension Coordinator Lisa Castronovo and Board Attorney James Linn (Lewis, Longman & Walker, via telephone).

Chair Shaw stated the Board should adopt the current meeting's Agenda prior to the start of the meeting. A brief discussion ensued.

MOTION made by Mr. Keller, seconded by Mr. Templeton, to approve the September 22, 2016 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. August 25, 2016 Regular Meeting Minutes
- b. September 8, 2016 Special Meeting Minutes
- c. Excuse Chair Shaw and Trustee Standley from August 25, 2016 Regular Board Meeting
- d. Excuse Trustee Howell from September 8, 2016 Special 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. Templeton, seconded by Mr. Keller, to approve Consent Agenda Items 3.a.-f. In a voice vote by the members present, all members voted in favor. **Motion** passed 6-0.

Chair Shaw explained there was a typographical error in the April 28, 2016 regular Board meeting minutes that required correction and Board approval.

MOTION made by Mr. Templeton, seconded by Mr. Keller, to correct and approve the April 28, 2016 minutes. In a voice vote by the members present, all members voted in favor. **MOTION** passed 6-0.

4. TREASURER'S REPORT (Ernest Acosta)

Mr. Acosta stated there was no Treasurer's Report for August as the September Board meeting was earlier in the month than usual and thus specific investment information and bank statements were pending.

5. INVESTMENT ISSUES (Keith Reynolds, Francois Otieno – Segal Rogerscasey)

- a. Brandes Investment Partners (Tom Mulligan)
Handout made part of these Minutes.

Mr. Mulligan reviewed his report on international equity money manager Brandes Investment Partners. Mr. Mulligan specifically noted that Brandes 1) was a small cap value manager headquartered in San Diego with \$27 billion in assets under management, 2) used a team approach with very little turn-over, 3) strived to find companies that were undervalued in the market and then purchased such companies at a discount, 4) utilized a three-step process when investing: analysis, valuation, and construction, 5) aimed to build portfolios with high margins of safety, and 6) specifically regarding the Fund, a) had consistently outperformed the benchmark since inception (May 1, 2015), b) the Fund's portfolio held up very well in the recent down markets which was not seen often in value investments, and c) some of the best performance had come from investments in emerging markets. Mr. Mulligan stated that in order to protect the interests of Brandes' current investors, they would likely soon close the small cap international equity to fund to future investors.

- b. Wellington Trust Company (Thomas Egan, Matt McKenna)
Handout made part of these Minutes.

Mr. Egan emphasized international equity money manager Wellington Trust Company 1) was a global investment firm headquartered in Boston with \$969 billion under management, and 2) had a strong culture of collaboration among its very stable team of investors.

Mr. McKenna emphasized regarding international opportunities, Wellington sought to outperform its respective benchmark by consistently over rolling 3-year periods by utilizing its experienced team, using a "return on capital" approach, and pursuing a balanced portfolio across a broad universe by having diverse holdings and economic exposures. Wellington's investment policy consisted of five beliefs: 1) the market focuses excessively on short-term earnings and growth, 2) market inefficiencies 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 and macro levels.

Mr. McKenna noted that the returns experienced by the Fund for the past year and also year-to-date lagged behind the respective benchmark due specifically the first two quarters of 2016 and the volatility in international markets in 2016.

Once Mr. Egan and Mr. McKenna concluded their presentation, Chair Shaw asked Mr. Reynolds if the Board should do anything with its investment with Wellington due to Wellington's recent poor market performance. Mr. Reynolds

advised it would be best to not do anything immediately since year-to-year volatility was expected. Mr. Reynolds noted that Segal remained confident in Wellington and their performance especially considering recent volatility in international markets. The Board collectively agreed to bring Wellington back for a presentation at their February 2017 meeting since they want to keep a close eye on their performance.

8. ADMINISTRATIVE ISSUES (taken out of order)

- b. Fiduciary Liability Insurance (Katie Jackson, Gateway-Acentria Insurance & Christopher Goettelmann, R.T. Specialty ("RTS"))

Mr. Goettelmann reported the Board was significantly underinsured with \$3 million coverage and recommended that a better level of coverage was somewhere between \$10 and \$15 million. Mr. Goettelmann and Ms. Jackson stated they could obtain quotes for such levels of coverage and could have a proposal ready for Board discussion the next week.

Chair Shaw authorized a letter appointing Gateway-Acentria Insurance as the Fund's exclusive insurance agent and RTS as the broker effective September 22, 2016.

6. DISABILITY APPLICATION

- a. Timothy Irwin

Director of Human Resources Tammie Hechler reviewed her September 21, 2016 letter and attached timeline concerning Timothy Irwin's duty disability application. Discussion followed.

MOTION made by Mr. Templeton, seconded by Mr. Keller, to grant Mr. Irwin's work-related duty disability application retroactively to the date he filed his duty disability application, February 8, 2016.

Mr. Linn cautioned the Board that to his knowledge, granting a disability benefit retroactively to the date the application was filed would set a precedent for future disability applications. Vice-Chair Greene asked whether it would set precedent if the motion was made pertaining to the application immediately presented and that each other disability application would and should be analyzed based on its own merit. Mr. Linn responded by recommending an amendment be made to the current motion to include "based on the unique circumstances of this case."

AMENDED MOTION made by Mr. Templeton, seconded by Mr. Keller, based on the unique circumstances of Mr. Irwin's case, to grant a duty disability retroactive to February 8, 2016. In a voice vote by the members present, all members voted in favor.

MOTION passed 7-0.

Mr. Linn said his office was working on a draft of procedure requirements for processing disability applications that would be presented at the next Board meeting.

5. INVESTMENT ISSUES (continued)

c. Flash Performance Report

Mr. Reynolds reported the Fund's market value was \$288.3 million on August 31, 2016. The Fund's rate of return, net of fees, for August 2016 was 0.31% vs. policy index of 0.16% and for the fiscal year-to-date was 9.70% vs. policy index of 9.14%. Mr. Reynolds noted that SMID cap domestic equity managers TSW and Frontier Capital had performed very well for the fiscal year-to-date, 15.91% and 20.40%, respectively. Mr. Reynolds continued that real estate managers Principal and Morgan Stanley continued to perform well for the Fund.

d. Fixed Income Structure Review (Keith Reynolds, Consultant & Francois Otieno, Director of Fixed Income, Segal Rogerscasey)
Handout made a part of these Minutes.

Mr. Reynolds began his presentation on fixed income structure by noting the Fund's current allocation in fixed income was 42% in intermediate (with Neuberger Berman) and 58% in core plus (with Baird Advisors). The reason Mr. Reynolds made the presentation was to have the Board start thinking about ways they could get higher rates of return from the fixed income investments and could at the same time protect the Fund from future increases in interest rates by lowering interest rate sensitivity in the portfolio.

Mr. Reynolds stated the Board might consider investing up to 25% of its fixed income allocation (equal to 7.5% of the total Fund portfolio) into "opportunistic credit" fixed income which could include allocations to multi-sector fixed income (more aggressive than current allocation) or multi-sector and direct lending fixed income (more aggressive and more diversified). In both scenarios, assets would remain allocated to intermediate and core plus fixed income but at reduced percentages (37% and 38%, respectively).

Mr. Otieno explained that both multi-sector and direct lending fixed income assets add diversity to a portfolio and protection against loss of principal due to upticks in interest rates. Mr. Otieno addressed Mr. Templeton's concerns about investing in assets with BBB or BBB- quality ratings by stating the increased return from such diversification more than outweighs what is lost by the slight downgrade in quality. Mr. Otieno pointed out that not only does the yield increase from 1.7% in the current portfolio to a projected 3.1% (at the low end) in a scenario that includes both multi-sector and direct lending fixed income but the duration decreases from 4.9 years to 4.0 years which is a 20% decrease.

The presentation was summarized as follows:

Current fixed income portfolio:

- weighted average duration of 4.9 years, weighted average yield of 1.7%, average credit quality of AA
- in current conditions of low yield and low return environment, current fixed income portfolio structure could be improved to guard against rising interest rates by reallocating up to 25% of existing fixed income into a lower correlated/well diversified opportunistic credit offering(s)
- substitute the Neuberger Berman intermediate duration strategy for a passive fixed income mandate which should generate a net savings due to a decrease in management fees of up to 20 basis points

Decrease current fixed income portfolio to 37% intermediate/38% core plus and add multi sector "opportunistic credit"

- weighted average duration of 4.2 years, potential weighted average yield of 2.5% (decrease duration by 0.7 years, potentially increase yield by 80 basis points)
- add conservative long-only multi-sector manager with target return in mid to high single digits
- strategy would likely reduce fixed income portfolio's active risk while improving the return to risk measure

Decrease current fixed income portfolio to 37% intermediate/38% core plus and add multi sector and direct lending "opportunistic credit"

- weighted average duration of 4.0 years, potential weighted average yield of 3.1% (decrease duration by 0.9 years, potentially increase yield by at least 140 basis points)
- add conservative long-only multi-sector manager AND single direct lending manager who targets low double digit returns
- aggregate portfolio would have less exposure to the securitized sector and more exposure to private corporate credit
- result would be a less volatile fixed income portfolio due to diversification of investment styles across 4 strategies

Mr. Otieno explained that direct lending was for small companies who, due to federal regulations, cannot get funds in the traditional way from banks, so they seek investors to loan funds to them directly. In return, such investments can provide higher return yields.

Discussion ensued. The Board expressed interest in obtaining more information about transferring the monies currently held by Neuberger Berman into a passively managed fund and about multi-sector and direct lending fixed income assets. Vice-Chair Greene asked if the Board would like to hear presentations from some fixed income "opportunistic credit" managers at an upcoming Board meeting. Mr. Reynolds said he would bring additional information regarding the "opportunistic credit" fixed income strategies to the Board's December meeting and, if the Board decided so desired, bring managers in for presentations at the Board's February meeting.

7. LEGAL ISSUES (James Linn)

a. RLI Notice to Close File on Claim re Frozen Benefit Vesting

Mr. Linn updated the Board regarding the City's civil action against the Board for its granting of retirement benefits to Fund members deemed vested solely as a result of benefits freezing on September 30, 2011 (or March 4, 2014). Since the City had not filed a claim in the twelve months since it opened the case, RLI, the Board's insurance carrier, was closing their file regarding the case with the provision that the claim could be reopened later if the City proceeded with legal action. Mr. Linn stated he was advised by the Deputy City Attorney their first RFP for legal services only received one response and they are issuing a second RFP. If they receive no response, it is possible the City Commission may not want to pursue the Claim.

b. September 13, 2016 letter from Florida Division of Retirement

Mr. Linn provided the Board with copy of a September 13, 2016 letter from Keith Brinkman with the Division of Retirement to Deputy City Attorney Alan Fallik. The letter was sent to put the City on notice that the Fund was "not State accepted" since the supplemental pension distribution ("SPD") had not been funded. When questioned by Mr. Linn, Mr. Brinkman informed him that the State was not going to take action against the City or the Board since there was pending litigation between them regarding payment of the SPD.

When asked by Mr. Templeton how much the Fund was underfunded, Mr. Acosta responded it was approximately \$160 million.

Chair Shaw noted that the time of adjournment noted in the September 8, 2016 minutes was incorrect.

MOTION made by Mr. Keller, seconded by Mr. Templeton, to pull Item 3.b. from the September 8, 2016 meeting minutes to correct the time of adjournment. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

8. ADMINISTRATIVE ISSUES

a. City Commission Communication

Ms. Castronovo provided the City Commission Communication memorandum for Board approval.

MOTION made by Vice-Chair Greene, seconded by Mr. Templeton, to accept the City Commission Communication. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

b. Fiduciary Liability Insurance

Ms. Castronovo was directed to schedule a special Board meeting for the following week for the Board to discuss fiduciary liability insurance proposals submitted by Gateway-Acentria Insurance.

Chair Shaw stated there was a City resolution that specified the amount that could be paid to Mr. Linn's firm could not exceed \$75,000.00 for the fiscal year ended September 30, 2016. Chair Shaw noted Mr. Linn's fees would likely exceed \$75,000 but since the Fund was totally responsible for the payment of the fees, she wanted the approved limit increased so that Mr. Linn could be paid in full.

MOTION made by Vice-Chair Greene, seconded by Mr. Templeton, to approve increasing the approved contract amount payable to Lewis, Longman & Walker from \$75,000.00 to \$80,000.00. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

MOTION made by Mr. Templeton, seconded by Vice-Chair Greene, to approve Lewis, Longman & Walker's contract amount not to exceed \$90,000.00 for FY 2016-17. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

9. PUBLIC COMMENTS

Public comment was made by: Ron Bolton - 1150 NW 71st Avenue, Plantation, FL

10. TRUSTEE REPORTS, QUESTIONS AND COMMENTS

Mr. Keller reported that the City's proposed budget for FY 2017, that was approved at first reading the previous week, included full funding of an excess benefit plan for those Fund members unduly affected by Internal Revenue Code Section 415. Mr. Keller noted the funding included money for the two prior years as well as money for future years.

Mr. Keller stated the City approved a 4-day/10-hour work schedule in which the City's annex building, City Hall, old library and several other buildings would be closed on Friday's and weekends for energy cost savings. Discussion followed regarding Pension Office hours and the Boards' desire to have the Pension Office to be open Monday – Friday.

Mr. Templeton wanted to move forward with moving the Pension office out of the annex building as soon as possible and to remove Ms. Castronovo as the lessee.

Mr. Howell asked what type of space and price range was needed for the new Pension office. It was agreed three offices, a conference room, two restrooms, storage area, plenty of parking, easily accessible (preferably on first floor) and not to exceed \$3,000/month.

Chair Shaw stated she was pleased with everyone pitching in to help with the transition to independence from the City. Chair Shaw complimented Mr. Keller on his presence and efforts to bring the Board and the City together. Mr. Keller thanked Chair Shaw and stressed the importance of a working relationship as good business practice. Chair Shaw thanked Ernie Acosta and his staff for the work he and his staff had done and would continue to do during the transition.

11. PENSION COORDINATOR'S REPORT (Lisa Castronovo)

Ms. Castronovo reported she had finished processing the DROP benefits for all DROP participants who retired June 1, 2016 – September 1, 2016 and that there were only a few active DROP members participating in the DROP. Ms. Castronovo noted she had provided each trustee with information regarding the upcoming FPPTA Fall Trustees School in Bonita Springs.

12. 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 7-0. Meeting adjourned at 12:43 p.m.



Phyllis Shaw, Chair

10/27/16

Date