

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND
THURSDAY, MAY 22, 2014**

1. CALL TO ORDER

Chair Shaw called the meeting to order at 10:03 a.m.

2. ROLL CALL AND PLEDGE OF ALLEGIANCE

Board Members present: Chair Phyllis Shaw, Vice-Chair Jeffrey Greene (arrived at 10:07 a.m.), Mr. Charles Howell (arrived at 10:04 a.m.), Mr. Ralph Dierks, Mr. Patrick Gill, Mr. Matthew Lalla (arrived at 10:06 a.m.) and Mr. Richard Templeton. Also present: Pension Coordinator, Ms. Lisa Castronovo; acting Board Secretary, Ms. Raquel Elejabarrieta; and Plan Attorney, Mr. James Linn.

3. CONSENT AGENDA

- a. April 24, 2014 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 Mr. Dierks, seconded by Mr. Templeton, to approve Consent Agenda Items 3.a.-c. 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 that the Fund's investments had increased from \$255.8 million on October 1, 2013 to approximately \$285 million on May 20, 2014, which was an increase of \$29.2 million/11.4%, net of disbursements.

MOTION made by Mr. Dierks, seconded by Mr. Templeton, to approve the Treasurer's Report. In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

5. INVESTMENT ISSUES (Keith Reynolds – Segal Rogerscasey)

- a. Presentation by Christopher Premock, Frontier Capital Management
Mr. Christopher Premock, Vice President, Frontier Capital Management, presented an Account Review (hand-out made part of these Minutes). Mr. Premock shared Frontier Capital Management's philosophy regarding small- and mid-cap growth equity investments. Mr. Premock pointed out the two (2) ways of equity investing - stock selection and sector selection - with Frontier emphasizing stock selection over sector selection. Mr. Premock noted that Frontier: 1) is long-term investment oriented (average length of time stocks are held is 3-4 years); 2) their portfolio is leveraged for economic recovery; 3) did not see inflation as a major concern; 4) saw the current economic recovery as business-led rather than consumer-led; and 5) emphasized finding good stocks that out-perform the index.

- b. Presentation by Tracy Musser, Thompson Siegel & Walmsley
Ms. Tracy Musser of Thompson Siegel & Walmsley (TSW) presented an Account Review (hand-out made part of these Minutes). Ms. Musser emphasized TSW's philosophy of only investing in value stocks (as opposed to growth stocks). Ms. Musser pointed out that TSW: 1) had \$9.5 billion under management as of May 2014; 2) preferred to invest in under-valued stocks to add performance to their client's portfolios; 3) likes seeing slight upticks in a particular stock's price before purchasing it; 4) typically held each stock 18 – 24 months; 5) designed their portfolios to provide down-side protection; and 6) were diversified in all sectors.
- c. Performance Report for Quarter End March 31, 2014
Mr. Reynolds reported the Fund was valued at \$281.7 million on March 31, 2014 which was a gain of \$26.3 million/13.8% from April 1, 2013. Mr. Reynolds noted that Principal Enhanced Property Fund outperformed its benchmark for both the quarter and since inception (November 1, 2013).
- d. Flash Performance Review
Mr. Reynolds reported the Fund's value on April 30, 2014 at \$281 million. Mr. Reynolds continued that for the month ending April 30, 2014, Northern Trust was up 0.7%, TSW had a good month and outperformed the index, Frontier was down 3% but still outperformed its index, fixed income managers Neuberger Berman and Baird had positive performances, and while international manager Wellington underperformed its index, such underperformance was the norm for high-quality international managers.

6. LEGAL ISSUES (James Linn)

- a. Rules of Decorum
Mr. Linn presented the proposed rules of decorum as provided to him by Mr. Dierks.

MOTION made by Mr. Greene, seconded by Mr. Gill, to table this item and bring it back for discussion at the next meeting. In a voice vote by the members present, motion passed 5-2 (Chair Shaw and Mr. Templeton voted in opposition).

MOTION made by Mr. Lalla, seconded by Mr. Greene, to accept the rules of decorum with the amendment to specifically add to Section 3b (unruly behavior) clapping and cheering as examples of unacceptable behavior.

Mr. Templeton wanted the decorum rules to apply to Board members as well as members of the public.

Mr. Lalla and Mr. Greene withdrew their Motion.

Public comment was heard from: Robert Strauss – 2638 Jackson Street, Hollywood, FL

Chair Shaw suggested that each Trustee forward their proposed revisions to the rules of decorum to the Pension Coordinator who would then compile the revisions and provide them to the Trustees.

MOTION made by Mr. Howell, seconded by Mr. Templeton, that instead of tabling the discussion regarding rules of decorum, to not have the Board adopt official rules of decorum since people are respectful and courteous and as such official rules of decorum are unnecessary.

Discussion ensued.

In a voice vote by the members present, members voted 4-3 to oppose the motion; **Motion** failed (Chair Shaw, Mr. Howell, and Mr. Templeton voted in favor of the motion).

Mr. Linn reported that per the Board's direction at its April 2014 meeting, he wrote and mailed a letter to Keith Brinkman of the Florida Division of Retirement requesting Mr. Brinkman's opinion as to whether the distribution of a supplemental benefit for the fiscal year ended September 30, 2012 violated State law. Mr. Linn stated that to date he had not received a response from Mr. Brinkman. Mr. Linn noted that Deputy City Attorney Alan Fallik sent a letter to Mr. Brinkman on May 6, 2014 outlining the City's objection to payment of the supplemental benefit.

Mr. Linn advised the Board that due to a conflict he could not attend the June 26, 2014 regular Board meeting but that his associate, Mr. Glenn Thomas, could attend the meeting by phone.

7. ADMINISTRATIVE ISSUES

- a. October 1, 2013 Actuarial Valuation review by Jeffrey Amrose and Trisha Amrose, Gabriel, Roeder, Smith & Co.

Highlights of the October 1, 2013 Actuarial Valuation Report as presented:

- The City's required contribution for the 2014-15 fiscal year was 76.28% of covered payroll with the minimum dollar contribution equal to \$22,111,516.
- The March 5, 2014 benefit changes were implemented in the valuation report.
- Actuarial assumptions were changed in connection with the March 5, 2014 benefit changes.
- The Unfunded Actuarial Accrued Liability (UAAL) increased from \$169.6 million on 10/1/2012 to \$177.2 million on 10/1/2013 due to actuarial experience loss (\$0.9 million), supplemental benefit distribution (\$4.3 million), and benefit and actuarial assumption changes (\$5.5 million). The increase in UAAL due to the actuarial loss and the benefit and actuarial assumption changes will be funded over 30 years (\$77,000 per year for the actuarial loss and \$451,000 per year for the benefit and actuarial assumption changes). The increase in the UAAL due to the supplemental benefit distribution will be funded over 5 years (\$996,000 per year).

- 90% of the City's required contribution consisted of payment toward the UAAL.
- The present value of benefits for all members increased from \$426 million to \$433 million.
- The funded ratio on October 1, 2013 was 55.8% (56.5% before benefit changes) compared to 56.2% on October 1, 2012.
- The market value of assets exceeds the actuarial value of assets by \$15.1 million. The excess would gradually be recognized over subsequent years resulting in a decrease in the required contribution.

Mr. Amrose reported that before considering the change in benefits, the required employer contribution only increased \$100,000. After the benefit changes were considered, the required contribution increased \$600,000 which was in line with the actuarial impact statement provided in conjunction with the proposed Ordinance changes.

Mr. Amrose recommended that the supplemental benefit distribution be funded over five (5) years since the benefit was applicable for retirees only.

MOTION made by Mr. Templeton, seconded by Mr. Lalla, to follow Mr. Amrose's recommendation to fund the supplemental benefit distribution over five (5) years.

Discussion ensued.

Public comment was heard from: Robert Strauss

In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

Mr. Amrose stated the average funded ratio of the 80 clients he worked on was in the upper 70's (as compared to the Fund's funded ratio of 55.8%). Mr. Amrose said the Fund's funded ratio could be improved by shortening the time in which the UAAL was paid off or by decreasing the assumed rate of return. Mr. Amrose continued that even though the Fund had an overall market value rate of return close to 8.0% over the past 35 years, the assumed rate of return needed to be forward-thinking rather than based on past experience. Further, according to eight major investment consulting firms, a more feasible investment rate of return would be in the range of 6.5% to 7.25% and the Fund had less than a 50% chance of sustaining returns at or above 8.0%. Mr. Amrose emphasized the importance of accurate actuarial assumptions in order to keep actuarial losses to a minimum.

Public comment was heard from: Robert Strauss

Mr. Greene stated his desire for Mr. Amrose to provide a report to the Board on steps to take to increase the Fund's funded ratio. Mr. Gill asked Mr. Amrose if there were steps that could be taken that could be cost neutral to the City but improve the Fund's funded ratio. Mr. Amrose suggested that an experience study be conducted to analyze not only the effect of shortening the amortization period and/or lowering the investment assumption, but to also determine if other assumptions could be adjusted to better reflect actual Fund experience. Mr. Gill stated his desire to see a comparison of the various possible assumption adjustments to determine if one adjustment would be more

desirable than another. Mr. Amrose responded that, with Board authorization, he would run various actuarial models to determine which one model would produce the most accurate and Fund-healthy results.

Public comments were heard from: Robert Strauss; Troy Porter – 21760 NW 8th Place, Pembroke Pines, FL

MOTION made by Mr. Templeton, seconded by Mr. Dierks, to have Mr. Amrose provide a fee quote for an actuarial experience study.

Mr. Lalla requested Mr. Amrose provide the Board with the average assumed rate of investment return of his 80 clients to which Mr. Amrose responded that the average assumed rate of return was 7.42% with 80% of the clients already using a rate close to that and the other 20% of the clients trending down to it. Mr. Greene wanted to know the average assumed rate of return of other plans similar in size to the Fund.

In a voice vote by the members present, all members voted in favor. **Motion** passed 7-0.

The Board recessed at 12:38 p.m. and reconvened at 12:50 p.m.

b. Supplemental Benefit Repayment

Mr. Templeton asked Mr. Linn's opinion regarding the Board moving forward with the payment of the supplemental benefit considering Mr. Lalla's statement that the City would not fund the payment of such benefit. Mr. Linn stated the only funding source for benefit payment was the City and thus the problem the Board faced was its authorization of payment of the supplemental benefit versus the City's claim that it did not and would not approve the funding for it. Mr. Linn opined that nothing prevented payment of the supplemental benefit short of legal intervention.

Mr. Gill stated his opinion that if the supplemental benefit was paid and the State later determined that such benefit should not have been paid, then the payment should be recouped immediately by completely suspending each recipient retiree's gross monthly retirement benefit until the received supplemental benefit had been completely repaid.

Mr. Greene agreed with Mr. Gill and added his suggestion that a letter be sent to each retiree detailing the specifics of the supplemental benefit payment and method of recoupment if required.

Mr. Dierks questioned if the money would be recouped gross or net of insurance payments and taxes.

Public comment was heard from: Christopher Cassidy - 15721 93rd Lane North, Jupiter, FL

Mr. Howell agreed with Mr. Greene regarding the mailing of a letter to each recipient retiree. Mr. Howell suggested that each retiree come to the Pension

Office to collect the supplemental benefit check and before receiving it, they sign something showing their understanding of the terms of receipt and repayment of the benefit.

Mr. Templeton suggested the Board establish a policy for repayment of overpaid benefits.

Discussion continued regarding possible repayment options. Mr. Amrose suggested that interest (at the Fund's assumed rate of return of 8.0%) be added to the repayment to keep the Fund whole if it was determined that the benefit would have to be recouped.

MOTION made by Mr. Gill, seconded by Mr. Dierks, to not move forward with the processing and distribution of the supplement benefit checks until the method of recoupment had been determined and adequate notice had been provided to all recipient retirees.

Discussion ensued.

Public comment was heard from: Barbara Duffy - AFSCME Local 2432 attorney, 4621 Hollywood Blvd., Hollywood, FL

In a voice vote by the members present, **Motion** passed 5-2 (Mr. Howell and Mr. Templeton voted in opposition).

- c. Presentation regarding City Ordinance O-2014-02 (this Item was taken out of order)
Kathy Lopez-Negron, Department of Risk Management, reviewed and explained benefit changes made per City Ordinance O-2014-02 with specific emphasis on Planned Retirement.

8. PUBLIC COMMENTS

Comment was heard from Christopher Cassidy - 15721 93rd Lane North, Jupiter, FL

9. TRUSTEE REPORTS, QUESTIONS AND COMMENTS

Mr. Greene noted his agreement with Mr. Gill and Mr. Lalla regarding comments they made at the April 2014 meeting relating to the Trustees' decision to authorize payment of the supplemental benefit and each Trustee's fiduciary responsibility to the Fund.

Mr. Dierks asked Ms. Castronovo about the status of the webpage to which she replied that she was meeting with the developer and hoped to have something to show the Board at its next meeting.

Mr. Lalla asked if the Board took an action that violated State law was the Board covered by its liability insurance. Mr. Linn responded that he was not sure what the coverage would be since the issue of payment of the supplemental benefit was not a clear-cut case. Mr. Lalla distributed to each Trustee a copy of a page from the November 2012 minutes which detailed the Board's decision, based on advice from both the Board's attorney and actuary, to not authorize payment of the supplemental benefit for fiscal year end September 30, 2012. Mr. Lalla then asked for someone to explain what changed, besides the Police and Fire funds making the supplemental benefit payment in 2013, between November 2012 and April 2014 for the Board to reverse its decision in November 2012 to not authorize payment of the supplemental benefit to April 2014 to authorize the payment.

Mr. Templeton requested a copy of the current contracts for the Pension Coordinator, the Board attorney and the investment consultant so that he could complete the evaluation forms that had been provided for each position.

Mr. Howell asked to whom the Trustees had a fiduciary responsibility to which Mr. Linn responded the fiduciary responsibility was to the Fund's members. Mr. Howell confirmed that for the insurance company to not pay, a suit would have to be filed by someone to whom the Trustees had a fiduciary responsibility.

Chair Shaw stated that she and Ms. Castronovo had met with two representatives of HarborVest, an investment consultant group, who stated they could provide education to the Board on the various investment funding opportunities. Chair Shaw stated she was quite taken aback by the harshness of Deputy City Attorney Alan Fallik's letter to Keith Brinkman.

Mr. Lalla asked if the Trustees' fiduciary responsibilities extended to the City as the sponsor of the Fund to which Mr. Linn responded that technically fiduciary responsibility was only to the Fund's members and part of that responsibility was to assure the Fund had enough funds to provide all promised benefits for all Fund members.

10. PENSION COORDINATOR'S REPORT (Lisa Castronovo)

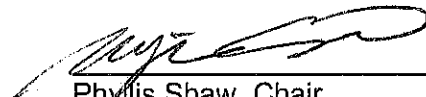
Ms. Castronovo asked for Board input regarding how they wished to proceed on the Motion made and approved at the April 2014 requesting the City to form some sort of supplemental plan to restore full retirement benefits to those retirees adversely affected by application of IRC Section 415 limits. Mr. Templeton suggested that a letter be written detailing the Board's concerns and suggestions and have all Trustees who voted in favor of the motion to sign the letter.

Ms. Castronovo stated she would provide each Trustee with a copy of the most current contract for the Pension Coordinator, the Board attorney and the investment consultant.

Ms. Castronovo suggested for those attending the annual IFEBP conference in Boston in October to make flight reservations soon since rates were good.

11. ADJOURNMENT

MOTION made by Mr. Greene, seconded by Mr. Gill, to adjourn the meeting. In a voice vote by the members present, motion passed 7-0. Meeting adjourned at 2:18 p.m.



Phyllis Shaw, Chair

7/10/14

Date