CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
MAY 20, 2016

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Friday, May 20, 2016 in the Training Room of the Port Orange Police Department, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT:	Chairman Steve Braddock (police member) Secretary William Proctor (police member) Warren Carman (fifth member) Drew Bastian (resident member) Brian Cobb (resident member)
CONSULTANTS:	Ken Harrison, Board Attorney – Sugarman & Susskind Dustin Watkins, Associate Attorney – Sugarman & Susskind Charlie Mulfinger, Investment Consultant – Graystone Scott Owens, Investment Consultant - Graystone Chad Little, Actuary – Freiman Little Actuaries Karan Rounsavall, Plan Administrator

Chairman Braddock called the meeting to order at 2:00 p.m. A quorum was in attendance.

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting February 19, 2016 as submitted. Member Proctor seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS

Chairman Braddock asked Pension Board members to support a request to the Florida Public Pension Trustees Association (FPPTA) Relief Fund on behalf of Port Orange Detective David Fouts and his family. Detective Fouts was involved in a serious motorcycle accident on April 24, 2016 and remained hospitalized in very critical condition.

Member Bastian moved to approve the request to the FPPTA Relief Fund on behalf of Detective Fouts and family as well as to authorize a $200 donation from the Port Orange Police Pension Fund to a fund raiser likewise for Detective Fouts. The donation would be channeled through the Coastal Florida Police Benevolent Association. Member Proctor seconded the motion and it carried on an all yes vote.

CONSENT AGENDA

The following items were presented for action as recommended:

A. Approve plan expenditures as follows:
   1. Sugarman & Susskind – monthly retainer for February 2016 - $2,300.
      Recommendation: Ratify payment.
   2. Sugarman & Susskind – monthly retainer for March 2016 - $2,300.
      Recommendation: Ratify payment.
   3. Sugarman & Susskind – monthly retainer for May 2016 - $2,300.

Recommendation: Ratify payment.

4. Plan Administrator Karan Rounsavall – monthly fee (February 2016, March 2016, April 2016) - $7,200. *Recommendation:* Ratify payments.
5. James Moore, CPA – final billing for audit of 9/30/2015 financial statements - $2,500. *Recommendation*: Ratify payment.
6. Freiman Little Actuaries – contractual actuarial services through February 11, 2016 including actuarial valuation, annual report, benefit statements, GASB supplements, benefit calculations, etc. - $22,000.
7. Freiman Little Actuaries – supplemental actuarial services through February 11, 2016 including COLA calculations and impact statements - $2,000.
8. Warren Carman – reimbursement of travel expenses for FPPTA winter school in Orlando - $104.84.
9. Drew Bastian – reimbursement of travel expenses for FPPTA winter school in Orlando - $130.84.
10. Graystone Consulting – Tampa – all-inclusive investment fees (January 1, 2016 through March 31, 2016) - $74,634.85. *Recommendation:* Ratify payment.

Member Bastian moved to approve and ratify payment of all plan expenditures as presented above. Member Proctor seconded the motion and it carried unanimously.

B. Acknowledge refund of employee contributions to the following non-vested members:

1. Althea Kennedy (non-vested member) in the amount of $2,859.65. *Recommendation:* Ratify refund as stated.
2. Bryan Spears (non-vested member) in the amount of $11,971.90. *Recommendation:* Ratify refund as stated.
3. John Mulligan (non-vested member) in the amount of $13,310.59. *Recommendation:* Ratify refund as stated.

Member Bastian moved to ratify refunds to non-vested members as stated. Member Carman seconded the motion and it carried on an all yes vote.

OLD BUSINESS

A. Status of proposed ordinances: (1) providing an installment payment option for the purchase of prior military or law enforcement service; and (2) clarifying the context of *"year"* in the definition of average final compensation to mean plan (fiscal) year

These ordinances were previously submitted to city administration along with the required statements of no impact. City staff opined that these ordinances were subject to the collective bargaining process and accordingly would not take them forward to the Port Orange City Council for consideration. Relative to the changes proposed by these ordinances, Attorney Harrison advised that the Pension Board could interpret its plan document and formally adopt a policy implementing said interpretation.

As to the proposed ordinance providing an installment payment option for the purchase of prior service, Member Carman asked whether the length of time proposed to pay for the prior service could be extended. He certainly had no issue with the purchase being cost neutral to the pension fund but understood that it was quite expensive for a member to purchase prior service and it could be difficult for one to accumulate the funds in a short amount of time. Attorney Harrison suggested that a member be given the option of paying in installments up to twice the amount of time purchased.

Member Warren moved to interpret the plan document such that "plan year" meant "fiscal year" and that an active member could purchase prior service in installments up to twice the amount of time purchased and to direct the attorney to draft formal policies for both these matters for consideration at the next meeting. Member Bastian seconded the motion and it carried unanimously.

NEW BUSINESS

A. Acknowledge legal opinion of pre-retirement death benefits payable to beneficiaries of active and terminated vested members

In an email to Plan Administrator Rounsavall dated April 29, 2016, Attorney Harrison expressed the opinion that Section 54-132 of the plan document addressed this matter. <u>Namely, the only available form of benefit to the survivor/beneficiary of an active or terminated vested member was ten-year certain and life commencing on normal retirement date or an immediate benefit (actuarial equivalent) payable on the first of the month following the participant's death (i.e. no other intervening date). There was no option to elect an optional form of benefit; only the normal form of benefit (ten-year certain) was available. The benefit would only be payable to the survivor for ten years and would cease after 120 payments.</u>

Member Bastian moved to accept the legal opinion as stated above. Member Carman seconded the motion and it carried on an all yes vote.

B. Acknowledge receipt of deferred vested calculation for Christopher Ganem

Board members were in receipt of the *Notification of Deferred Vested Benefit* for Christopher Ganem showing that he was eligible for normal retirement as of January 1, 2021 with a monthly benefit of $2,053.40 payable as a ten-year certain and life form. Plan Administrator Rounsavall would advise Mr. Ganem of his future benefits payable along with directions to apply for retirement at the appropriate time, etc.

Member Bastian moved to acknowledge receipt. Member Proctor seconded the motion and it carried unanimously.

C. Form letter to be sent to terminated vested members with their deferred vested calculation

Member Bastian moved to approve the form letter as written. Member Proctor seconded the motion and it carried.

D. Ratify early retirement benefits for George Oliveira as of April 1, 2016

George Oliveira elected early retirement from the Port Orange Police Pension Plan as of April 1, 2016. He elected the 100 percent joint and survivor annuity option with a monthly benefit in the amount of $1,337.75 payable for his lifetime and upon his death, the same amount payable to his survivor. *Member Bastian moved to ratify early retirement benefits for George Oliveira as stated. Member Cobb seconded the motion and it carried.*

E. Renewal of fiduciary liability insurance policy with Markel American Insurance Company through Ullico Casualty Group

Member Bastian moved to authorize renewal of the Fund's fiduciary liability insurance policy with Markel American Insurance Company and to approve payment of the annual premium in the amount of $4,706 to United Members Insurance. The policy provided coverage in the amount of $1 million from May 31, 2016 through May 31, 2017. Member Carman seconded the motion and it carried unanimously.

F. Periodic review of professional service provider agreements

Pursuant to its adopted policy, the Pension Board routinely reviewed all professional service provider agreements to determine appropriateness and timeliness of the terms contained therein. Board members were in receipt of a listing of all consultants and their agreement dates. In 2015, the Board reviewed its agreement with Graystone/Morgan Stanley for investment consulting services. The next oldest agreement was with Freiman Little Actuaries.

It was the consensus of the Board to review its agreement with Freiman Little Actuaries, LLC at its next quarterly meeting.

CONSULTANT REPORTS

A. Charles Mulfinger and Scott Owens – *Graystone Consulting/Morgan Stanley Wealth Management* (Investment Consultant)

1. Performance Report for quarter ended March 31, 2016

Mr. Mulfinger began with a brief explanation of consulting and investment fees charged to the pension fund as Graystone/Morgan Stanley moved to a new fee platform as of January 1, 2016. The new fee arrangement passed along lower fees to clients. He also advised that Graystone was paid in arrears for its services.

Mr. Owens continued with a brief economic overview. He expected more volatility and more muted returns in financial markets going forward. The Port Orange Police portfolio was continually positioned to provide protection on the downside. Telecommunication and utility stocks generated the most return for the past quarter. If an investment manager was underweight in these sectors, their performance suffered.

Mr. Mulfinger continued with a review of the Investment Performance Report for the quarter ending March 31, 2016. Total fund performance was a negative (0.24) percent on a time-weighted basis (net of fees) which trailed the policy index which was up 0.78 percent. Total market value as of March 31, 2016 was $27,970,601 representing a loss of $31,840 (net of fees) since the previous quarter ended December 31, 2015. The trailing one-year return was negative (1.75) percent (net of fees) which also fell short of the policy index return of a negative (0.54) percent. This return was also less than the 7.65 percent assumed actuarial investment rate of return. As of May 18, 2016 the market value of the fund was $28,039,653 (a <u>gain</u> of 1.8 percent since September 30, 2015).

Quarterly performance results (gross of fees for quarter ending March 31, 2016) for the various investment styles/managers represented in the portfolio were as follows:

BlackRock (large cap value) – <u>positive</u> return of 0.34%
Jennison (large cap growth) – <u>negative</u> return of -6.00%

Wedgewood (large cap growth) – positive return of 0.47%
Connors (large cap core) – negative return of -0.80%
Boston Partners (small cap value) - negative return of -1.26%
RBC (small cap growth) – negative return of -0.18%*
Lazard (international value) – negative return of -2.53%*
Renaissance (international growth) - negative return of -0.57%
Madison Investment Advisors (fixed income) – positive return of 1.46%
Pine Grove (alternative investments – hedge fund) – negative return of -2.41%
Private Advisors (alternative investments – hedge fund) – negative return of -0.91%*
UBS (private real estate) – positive return of 1.63%
* These managers out performed their respective fund index.

Total fees paid to Graystone Consulting for the quarter were $74,634.85 which included consulting, trading, and custody as well as fees charged by the individual managers. Hedge funds and comingled funds were reported net of fees.

Mr. Mulfinger reviewed the compliance checklist which examined the portfolio against the Board's Investment Policy Statement (IPS) for each asset class, concentrating on those managers reporting a "No." There was no need to rebalance the portfolio at this time.

The Pension Board acknowledged receipt of the investment performance report as presented.

2. Notice that Private Advisors (hedge fund) was closing its Stable Value Fund as of June 30, 2016
3. Asset allocation study and discussion on hedge fund investment alternatives

Mr. Mulfinger advised Private Advisors was closing its commingled Stable Value Fund as of June 30, 2016. Funds would be returned to investors according to a pre-determined schedule with the first distribution on June 30, 2016 continuing on six-month interims through December 31, 2018. (Reference April 26, 2016 correspondence from Private Advisors LLC)

With respect to incoming distributions from Private Advisors, Mr. Mulfinger sought the Board's input on where to direct these funds. As fixed income was expected to produce low returns into the foreseeable future, he suggested that the board look to an alternative investment that acted differently than bonds. He distributed an asset allocation analysis that examined the risk/return characteristics of several investment mixes. It was pointed out that the portfolio's exposure to real estate had performed nicely over the past several years.

There was a brief discussion on alternative investments, including two hedge funds that Graystone had vetted and recommended to the Board (i.e. Blackrock Global Long/Short Credit and Blackstone Alternative Multi-Strategy).

Member Bastian moved to increase the fund's real estate exposure from 7.5 percent to ten percent, to decrease its hedge fund exposure from ten percent to 7.5 percent, and to allocate 1.25 percent equally between Blackrock Global Long/Short Credit and Blackstone Alternative Multi-Strategy. While these changes were within policy ranges for these asset classes, the motion included direction to Graystone Consulting to provide a revised Investment Policy Statement for the Board's consideration at its next *quarterly meeting. Member Cobb seconded the motion and it carried with Member Carman voting nay. Member Carman did not support investments in hedge funds.*

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Member Cobb was excused from the meeting at 3:44 p.m.

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B. Chad Little – *Freiman Little Actuaries, LLC* (Plan Actuary)

1. Review of benefit calculation method using fiscal year approach

Mr. Little reviewed a sample benefit calculation using fiscal year salaries and prorating pay periods (and partial pay periods) in a member's terminating year (to capture pensionable accrued leave payouts). Benefit calculations of this fashion were consistent with the Pension Board's earlier direction.

C. Ken Harrison – *Sugarman & Susskind* (Attorney)

1. Report on Internal Revenue Service (IRS) regulations relating to normal retirement age

Attorney Harrison advised that the IRS proposed new regulations relating to normal retirement age and in-service distributions (Reference Sugarman & Susskind's special report dated March 2016). Letters to clients were forthcoming from his law firm to determine whether or not the pension plan might be affected by the new rulings.

D. Karan Rounsavall – Plan Administrator

1. Educational Opportunity: Florida Public Pension Trustees' Association (FPPTA) Annual Conference in Orlando (June 26-29, 2016)

Plan Administrator Rounsavall announced the upcoming conference. If any member wished to attend, they were to contact her at their first opportunity. Chairman Braddock voiced his intent to attend the annual conference.

2. Authorize trustee to cast ballot for FPPTA board of directors election at annual conference

Member Proctor moved to authorize Chairman Braddock to cast the vote for the Port Orange Police Pension Board at his discretion. Member Bastian seconded the motion and it carried unanimously.

3. Annual financial disclosure filing deadline (July 1, 2016)

Mrs. Rounsavall reminded board members of the need to timely file their financial disclosure statements with the Volusia County Supervisor of Elections' Office by the July 1, 2016 deadline in order to avoid penalties.

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Plan Administrator Rounsavall mentioned that she was working with the attorney's office to revise the beneficiary designation form to collect more information and to require notarization of a member's signature.

She also advised that she was experiencing difficulty in having the required actuarial compliance statement posted to the City's web site.

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PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 4:10 p.m.

Steve Braddock, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator