CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
AUGUST 19, 2016

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Friday, August 19, 2016 in the Second Floor Conference Room of City Hall, 1000 City Center Parkway, Port Orange, Florida.

MEMBERS PRESENT:	Chairman Steve Braddock (police member) Secretary William Proctor (police member) Warren Carman (fifth member) Brian Cobb (resident member)
MEMBERS ABSENT:	Drew Bastian (resident member - excused)
CONSULTANTS:	Ken Harrison, Board 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 9:00 a.m. A quorum was in attendance.

APPROVAL OF MINUTES

Member Carman moved to approve minutes of quarterly meeting May 20, 2016 as submitted. Member Proctor seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS

Chairman Braddock and Member Proctor reported positively on their recent attendance at the Florida Public Pension Trustees Association (FPPTA) Annual Conference in Orlando.

CONSENT AGENDA

The following items were presented for action as recommended:

A. Approve plan expenditures as follows:
   1. Sugarman & Susskind – monthly retainer for May 2016 - $2,300. *Recommendation:* Ratify payment.
   2. Sugarman & Susskind – monthly retainer for June 2016 - $2,300. *Recommendation:* Ratify payment.
   3. Sugarman & Susskind – monthly retainer for July 2016 - $2,300. *Recommendation:* Ratify payment.
   4. Plan Administrator Karan Rounsavall – monthly fee (May 2016, June 2016, July 2016) - $7,200. *Recommendation:* Ratify payments.
   5. Florida Public Pension Trustees Association (FPPTA) – annual conference registration for Sgt. Braddock and Assistant Chief Proctor - $1,100. *Recommendation*: Ratify payment.
   6. Hyatt Regency Orlando – three nights lodging for FPPTA conference for Sgt. Braddock - $567. *Recommendation*: Ratify payment.

7. Hyatt Regency Orlando – three nights lodging for FPPTA conference for Assistant Chief Proctor - $567. *Recommendation*: Ratify payment.
8. Assistant Chief William Proctor – reimbursement of out-of-pocket travel expenses for FPPTA annual conference in Orlando - $214.75. *Recommendation*: Ratify payment.
9. Sgt. Steve Braddock – reimbursement of out-of-pocket travel expenses for FPPTA annual conference in Orlando - $252.27. *Recommendation*: Ratify payment.
10. Graystone Consulting – Tampa – all-inclusive investment fees (April 1, 2016 through June 30, 2016) - $46,222.42. *Recommendation:* Ratify payment.

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

1. David Adams (non-vested member) in the amount of $17,513.31. *Recommendation:* Ratify refund as stated.
2. Bryan Roy (non-vested member) in the amount of $1,284.99. *Recommendation:* Ratify refund as stated.
3. Rosanna Bustos (non-vested member) in the amount of $9,551.09. *Recommendation:* Ratify refund as stated.

C. Acknowledge receipt of deferred vested calculation for Sean Sheridan (date of separation: May 5, 2014) *Recommendation:* Acknowledge receipt of calculation and direct plan administrator to provide same to Mr. Sheridan.

Member Proctor moved to approve all consent agenda items per the stated recommendation. Member Cobb seconded the motion and it carried unanimously.

OLD BUSINESS

A. Review of professional services agreement with Freiman Little Actuaries, LLC per Board policy

At its May 20, 2016 quarterly meeting, the Pension Board asked to review its contract with Freiman Little Actuaries. This action was pursuant to the Board's adopted policy providing for the periodic review of professional service provider agreements. Board members were in receipt of the actuary's professional services agreement and expressed their satisfaction with Freiman Little's services. No action was necessary; per the referenced policy, the Board continued with this service provider.

B. Review and acceptance of formal board policies relating to:

1. Clarifying the context of *"year"* in the definition of average final compensation to mean plan (fiscal) year; and

2. Provision to allow an active member to purchase prior service in installment payments up to twice the amount of time purchased.

Board members were in receipt of the proposed policies. Attorney Harrison reviewed the policies and reminded the board of its responsibility to interpret the plan document. The context of the proposed policies was presented to city administration earlier in ordinance form. However, city administration opined that the changes were subject to the collective bargaining process and did not take action to forward the proposed ordinances onto city council; thus the need for the Board to clarify its intent on these matters via formal policy statements.

Member Carman moved to adopt a formal board policy clarifying the context of "year" in the definition of average final compensation to mean plan (fiscal) year as presented. Member Proctor seconded the motion and it carried on an all yes vote.

Member Cobb moved to adopt a formal board policy allowing an active member to purchase prior service in installment payments up to twice the amount of time purchased as presented. Member Proctor seconded the motion and it carried unanimously.

NEW BUSINESS

A. Acceptance of disability retirement application submitted by Detective David Fouts and authorize plan attorney to proceed with acquiring necessary medical information

Board members were in receipt of an application for disability retirement benefits submitted by Alexa Fouts (as power of attorney for her father David Fouts). Attorney Harrison briefly explained the disability process. Plan Administrator Rounsavall advised that Detective Fouts remained hospitalized and his prognosis was poor at this time, thus the need to move expeditiously as possible.

Member Carman moved to accept the disability application submitted by David Fouts and to authorize the attorney to proceed with acquiring medical records from his physicians, hospitals, etc. Member Cobb seconded the motion and it carried on an all yes vote.

Member Carman also moved to authorize the actuary and plan administrator to provide estimated retirement benefit calculations for both disability retirement and early retirement for David Fouts as quickly as possible. The calculations would be provided to Alexa Fouts (POA for David Fouts). Member Cobb seconded the motion and it carried unanimously.

B. Approval of administrative expense budget for Plan Year 2016/2017 in accordance with *Florida Statutes 185.05(8)*

The Retirement Board was in receipt of the proposed budget for Plan Year 2016/2017 as prepared by the plan administrator. Pursuant to statute, the Board was required to adopt and operate pursuant to an administrative expense budget each plan/fiscal year. The budget included all administrative expenses (e.g. actuary, legal, investment consultant, audit, administration, insurance, etc.) but did not include investment management fees. The proposed budget for 2016/2017 was $287,600.

Mrs. Rounsavall commented briefly on the proposed budget and suggested that the Board consider an increase to its education budget in the event that a trustee wished to enroll in the Certified Public Pension Trustee (CPPT) program. She also mentioned that her two-year fee guarantee expired in 2017 and that she would be seeking an increase at that time. Retirement Plan expenditures for 2015/2016 were less than budgeted.

Member Proctor moved to amend the proposed budget for Fiscal Year 2016/2017 by increasing the education line item from $8,000 to $10,000 and increasing the *miscellaneous line item from $1,000 to $5,000 (anticipating a fee increase for the plan administrator in 2017). Member Carman seconded the amendment.*

Member Proctor then moved to approve the administrative expense budget as amended. Member Carman seconded the motion and it carried unanimously. The budget would be presented to the Port Orange City Council (plan sponsor) and posted on the bulletin board at the Police Department for plan members.

C. Approval of revised beneficiary designation form to provide for notarization of member's signature and additional information

The revised form required notarization of the member's signature and as well as additional information on beneficiaries. This form would be collected by the Human Resources Department upon a member's date of hire and could be changed at the discretion of the member. It was suggested that the proposed form be revised such that a member could name multiple beneficiaries (primary and contingent) and assign percentages to said beneficiaries.

Member Cobb moved to approve the revised beneficiary form for immediate use by the Port Orange Police Pension Plan. Member Proctor seconded the motion and it carried on an all yes vote.

D. Proposed ordinance adding a *Defined Contribution Plan Component* to the Port Orange Police Officers' Pension Plan as required by *Florida Statutes*

Florida Statutes now required a defined contribution plan component for local law police retirement plans even though it may or may not receive any funding depending on agreements reached in collective bargaining. The proposed ordinance created such a defined contribution plan component in the plan document for the Port Orange Police Pension Plan.

Member Carman advised that mutual consent between the City of Port Orange and the unions representing police officers had not been reached as of this date. As such, he was uncomfortable with the statement in the third paragraph of Section 54-126(g), to-wit:...*the City and the members' collective bargaining representative have reached mutual consent…*

Actuary Chad Little mentioned that the State Division of Retirement questioned the absence of a defined contribution plan component when it reviewed the 2015 annual report. Premium tax revenues in the estimated amount of $373,343 were expected before the end of the fiscal year.

Member Carman moved to approve moving forward with the proposed ordinance as revised to remove statement to the effect that the City and the collective bargaining representative had reached mutual consent with regard to premium tax revenues. His motion further directed the actuary to prepare statement of no impact to accompany the ordinance and directed the plan administrator to send the ordinance and impact statement to City administration for review and placement on a future city council agenda for action. Member Proctor seconded the motion and it carried unanimously.

E. Discussion regarding taxability of disability retirement benefits

Attorney Harrison's opinion letter to the Pension Board dated March 24, 2016 discussed the appropriate method of reporting disability benefits granted to plan participants to the

Internal Revenue Service (IRS) Form 1099-R. In brief, if a line-of-duty disability retiree's *"accrued retirement benefit"* exceeded the minimum percentage, the excess amount was considered taxable income and should be reported as such on the recipient's Form 1099-R. If the service-connected disability benefit was less than the accrued retirement benefit, then the entire amount was excluded from income and thus non-taxable.

Plan Administrator Rounsavall was asked to contact any disability retirees who might be in the former situation as to the taxability of their benefits.

CONSULTANT REPORTS

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

1. Performance Report for quarter ended June 30, 2016

Mr. Owens began with a brief economic overview. Market volatility continued with much of it precipitated by the United Kingdom's vote in June 2016 to discontinue membership in the European Union (BREXIT). However, this proved to have little lasting impact on market performance. Despite the volatility, asset class results for the period were broadly positive with the exception of international market equities which were down modestly. Small capitalization equities outperformed large capitalization equities. Mid-cap value was the best performing asset class. Fixed income was strongly positive with the Barclays index posting a two percent return.

Mr. Mulfinger continued with a review of the Investment Performance Report for the quarter ending June 30, 2016. Total fund performance was a positive 0.98 percent on a time-weighted basis (net of fees) which trailed the policy index which was up 1.81 percent. Total market value as of June 30, 2016 was $28,440,321 representing a gain of $244,805 (net of fees) since the previous quarter ended March 31, 2016. The trailing one-year return was negative (-0.95) percent (net of fees) which also fell short of the policy index return which was positive 0.98 percent. The one-year return was also less than the 7.65 percent assumed actuarial investment rate of return. As of August 12, 2016 the fund had rebounded nicely with a market value of $28,649,600, representing a gain of 6.1 percent since September 30, 2015).

Quarterly performance results (net of fees for quarter ending June 30, 2016) for the various investment styles/managers represented in the portfolio were as follows:

BlackRock (large cap value) – positive return of 4.10%
Jennison (large cap growth) – negative return of -1.56%
Wedgewood (large cap growth) – negative return of -2.07%
Connors (large cap core) – positive return of 2.26%
Boston Partners (small cap value) - positive return of 1.23%
RBC (small cap growth) – positive return of 3.03%
Lazard (international value) – negative return of -0.26%*
Renaissance (international growth) - negative return of -3.19%
Madison Investment Advisors (fixed income) – positive return of 0.57%
Pine Grove (alternative investments – hedge fund) – positive return of 1.19%*
Private Advisors (alternative investments – hedge fund) – positive return of 1.29%*
UBS (private real estate) – positive return of 1.36%

* Lazard, Pine Grove, and Private Advisors were the only managers to <u>outperform</u> their respective fund index.

Total fees paid to Graystone Consulting for the quarter were $46,222.42 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.

Member Cobb commented that he only found three of the active investment managers in the portfolio that beat their respective benchmarks over a long time period. This concerned him and he wondered why Graystone did not use any index funds in the portfolio. Index funds were consistently outperforming active management and their fees were much less. Pension funds had a long-range investment horizon.

Mr. Mulfinger responded that active managers in this portfolio focused on quality. As to passive investing, the difficult question was when to invest. He suggested that the time to do so was when there was a market pullback. He agreed that active managers had underperformed recently. Mr. Mulfinger also stressed that the fund received higher returns when adjusted for risk.

Attorney Harrison stated that he focused on total fund performance and asked Mr. Mulfinger when the fund could expect to exceed its benchmarks. Along this line, he wondered if the fund had the proper benchmarks. Mr. Harrison struggled with the fact that Graystone was not meeting its own policy index or the assumed actuarial annual investment rate of return.

Member Carman also expressed his frustration with disappointing investment returns. It didn't seem that the fund was ever going to meet its actuarial assumptions.

Member Cobb moved to acknowledge receipt of the investment performance report as presented. Member Proctor seconded the motion and it carried on an all yes vote.

2. Revision to Investment Policy Statement (IPS) in accordance with direction from the May 20, 2016 quarterly meeting

At its May 20, 2016 quarterly meeting, Mr. Mulfinger advised the Pension Board that Private Advisors (hedge fund) was closing its Stable Value Fund in which the portfolio was invested. Following presentation of an asset allocation study and discussion on alternative investments, the Board voted to <u>increase</u> the fund's real estate exposure from 7.5 percent to ten percent, to <u>decrease</u> 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 Board's action included direction to Graystone Consulting to provide a revised Investment Policy Statement at this meeting.

Mr. Mulfinger reviewed changes to the IPS as outlined above. *Member Proctor moved to formally adopt the revised IPS reducing allocation to hedge funds and increasing allocation to real estate as approved at the last quarterly meeting. Member Carman seconded the motion and it carried unanimously.*

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

1. Notice that 2015 Annual Report was state approved

Mr. Little announced that the annual report for Port Orange Police was state approved and that receipt of premium tax revenues was expected in the near future.

He went on to mention that a member's date of hire might not necessarily be when service credits began. Per the plan document, a member accrued service credits when they began contributing to the pension plan. There were some conflicting reports on these dates and he still needed to receive correct information from city staff.

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

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

Board members were in receipt of a May 24, 2016 memorandum prepared by Sugarman & Susskind with regard to IRS proposed regulations setting standards for normal retirement age and in-service distributions. While these proposed regulations were not yet formalized, it was important for his firm to know whether or not the City of Port Orange had a practice of rehiring its retirees. Mr. Harrison needed to ensure that the operation of the plan was consistent with the plan document and that both complied with new IRS guidelines.

D. Karan Rounsavall – Plan Administrator

1. Educational Opportunities:

- ✓ Florida Public Pension Trustees' Association (FPPTA) Fall Trustees School in Bonita Springs (September 25 – 28, 2016)
- ✓ Florida Division of Retirement Annual Police Officers' & Firefighters' Pension Conference in Kissimmee (November 2-4, 2016)

If any member wished to attend, they were to contact Plan Administrator Rounsavall at their earliest opportunity.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 12:45 p.m.

Steve Braddock, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator