CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
MAY 19, 2017

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Friday, May 19, 2017 in the Police Department Training Room, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT:	Chairman Steve Braddock (police member) William Proctor (police member) Warren Carman (fifth member) Drew Bastian (resident member)
MEMBERS ABSENT:	Brian Cobb (resident member - excused)
CONSULTANTS:	Dustin Watkins, Board Attorney – Sugarman & Susskind Charlie Mulfinger, Investment Consultant – Graystone Scott Owens, Investment Consultant - Graystone Chad Little, Actuary – Freiman Little Actuaries Karan Rounsavall, Plan Administrator
CITY STAFF:	Tracey Riehm, Finance Director

Chairman Braddock called the meeting to order at 9:07 a.m. A quorum was in attendance.

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting February 17, 2017 and special meeting April 3, 2017 as submitted. Member Carman seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS

The Board heard from Lt. Eric Fisher and Officer Evan Doyle who were members of the contract negotiations team for the Port Orange Police Department. They sought legal guidance relating to pension articles in the collective bargaining agreement, particularly as to how future changes might after Tier One (pre 2011) members and unrepresented members (captain rank and assistant chief). In the near future, members in Tier Two would outnumber those in Tier One; this caused concern if bargaining goals began to deviate. The current bargaining proposal submitted to the City requested a re-establishment of a single-tiered pension plan.

Attorney Watkins understood that different treatment of two tiers of benefits was a concern. He advised that any reduction in benefits must be prospective (i.e. date certain going forward). Actuary Chad Little spoke to the importance of reaching mutual consent in negotiations and specifically addressing same in the collective bargaining agreement. He mentioned that the pension fund still carried a small reserve and hoped that there would be agreement on the disposition of these funds.

Member Carman moved to direct the attorney to provide a legal opinion as to the consequences of converging tiers in the pension plan and what could/could not be agreed upon such that the receipt of state monies was not threatened. It was the intent *of the motion that this opinion also addressed the effect of the CBA on unrepresented members. Member Bastian 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 March 2017 - $2,600. *Recommendation:* Ratify payment.
   2. Sugarman & Susskind – monthly retainer for April 2017 - $2,600. *Recommendation:* Ratify payment.
   3. Sugarman & Susskind – monthly retainer for May 2017 - $2,600. *Recommendation:* Ratify payment.
   4. Plan Administrator Karan Rounsavall – monthly fee (February 2017, March 2017, April 2017) - $7,200. *Recommendation:* Ratify payments.
   5. James Moore, CPA – final billing for 2016 audit - $3,500. *Recommendation:* Ratify payment.
   6. Freiman Little Actuaries LLC – contracted actuarial services from 8/13/2016 through 2/14/2017, including actuarial valuation, annual state report, GASB supplements, and benefit statements - $23,500. *Recommendation:* Ratify payment.
   7. Freiman Little Actuaries LLC – supplemental actuarial services from 8/13/2016 through 2/14/2017 including 2017 COLA calculations and impact statement for defined contribution component ordinance - $2,000. *Recommendation*: Ratify payment.
   8. Trustee Warren Carman – reimbursement of mileage and meal expenses for attendance at FPPTA Winter Trustees School in Orlando - $146.52. *Recommendation*: Ratify payment.
   9. Trustee Drew Bastian – reimbursement of mileage and meal expenses for attendance at FPPTA Winter Trustees School in Orlando - $131.52. *Recommendation*: Ratify payment.
   10. Graystone Consulting – Tampa – all-inclusive investment fees (January 1, 2017 through March 31, 2017) - $65,110.95. *Recommendation:* Ratify payment.

B. Acknowledge receipt of deferred vested calculation for Roxanne Morrow (date of separation: March 19, 2017). *Recommendation*: Acknowledge receipt of calculation and direct plan administrator to provide same to Ms. Morrow.

C. Acknowledge refund/rollover of member contributions to the following non-vested members:
   1. Robert Hiatt (non-vested member) in the amount of $1,819.87;
   2. Maira Ragon (non-vested member) in the amount of $8,720.07;
   3. John Santana (non-vested member) in the amount of $12,856.95.

   Recommendation: Acknowledge refund of member contributions as stated.

Member Bastian moved to approve all consent agenda items as recommended. Member Warren seconded the motion and it carried on an all yes vote.

OLD BUSINESS - *None*

NEW BUSINESS

A. Status of proposed ordinance creating a defined contribution (DC) component for the Port Orange Police Pension Plan

Plan Administrator Rounsavall advised that the city attorney opined that the subject ordinance was a matter of collective bargaining. As such, it could not be scheduled for consideration by city council until the collective bargaining agreement (CBA) was executed. At such time, the ordinance would be conformed to the CBA as approved by the city and union.

Attorney Watkins emphasized the critical importance of addressing mutual consent in the CBA. *Member Proctor moved to direct the attorney/plan administrator to send a reminder letter to city staff and the union advising both parties that mutual consent was to be addressed in this CBA per Florida Statutes. Member Carman seconded the motion and it carried unanimously.*

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

Board members were in receipt of a renewal quote from Markel American Insurance Company. The aggregate limit of liability was $1 million with zero deductible. Waiver of recourse was included at no additional premium as was an endorsement covering the third-party administrator as an additional insured. The annual premium was $4,795.

Attorney Watkins noted that the current policy included a duty to defend clause (allowing insurer to use its own attorneys). While this language had never been an issue in the past, he preferred to see it deleted in future policies.

Member Bastian moved to authorize renewal of the fiduciary liability insurance policy at a cost of $4,795 for the ensuing year (May 31, 2017 through May 31, 2018). Member Carman seconded the motion and it carried on an all yes vote. Plan Administrator Rounsavall would inquire as to the "duty to defend" clause in future policies.

C. Ratify normal retirement benefits for Robert Gaines as of May 1, 2017 (100% Joint and Survivor Annuity)

Member Bastian moved to approve normal retirement benefits for Robert Gaines as of May 1, 2017 based on his elected benefit option of 100% joint and survivor annuity. Member Proctor seconded the motion and it carried unanimously.

D. 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 execution dates. The Board's agreement with Sugarman & Susskind (Board Attorney) was the oldest relationship that was scheduled for review. Its original agreement was executed on December 1, 2006 with a fee addendum executed in 2014 which provided for annual increases through 2017.

The Board expressed its satisfaction with the law firm's services and did not see a need for further review. Attorney Watkins advised there was no plan to increase fees in the near future.

Member Carman moved to continue the Pension Board's relationship with Sugarman & Susskind with no need for further review. Member Bastian seconded the motion; it carried on an all yes vote.

E. Discussion and possible action to reconsider proposed ordinance increasing trustee terms from two to four years

A similar ordinance increasing trustee terms was not supported by city council in 2015. Noting the educational requirements for trustees and the substantial expense thereof, Plan Administrator Rounsavall recommended that the ordinance be resubmitted at this time.

Member Bastian moved to direct the plan administrator and attorney to resubmit an ordinance increasing trustee terms from two to four years for city council consideration. Member Proctor seconded the motion and it carried unanimously. Plan Administrator Rounsavall would attend council meetings to speak in support of the ordinance.

***

Along the line of educational expenses, Chairman Braddock noted that the plan administrator attended FPPTA conferences and trustee schools at her own expense. The education that she gained at these events benefitted the pension plan. He would like to see the pension board reimburse her for one registration event per year. Attorney Watkins noted that there was a provision in her consulting agreement to cover expenses.

Member Carman moved that the pension board pay the registration fee for the plan administrator to attend one FPPTA event per calendar year. Member Bastian seconded the motion and it carried on an all yes vote.

CONSULTANT REPORTS

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

1. Performance Report for quarter ended March 31, 2017

Mr. Mulfinger commented on the long relationship that Graystone/Morgan Stanley enjoyed with the Port Orange Police Pension Plan (since 1995) and hoped for further opportunity to continue working for the Pension Board. Graystone had responded to the Board's request for proposals for investment consulting services. Attorney Watkins cautioned Mr. Mulfinger about discussing the RFP further.

Mr. Owens provided a brief economic overview. Markets continued to enjoy the *"Trump Bump"* with pro-growth mandates and positive economic news. For the past quarter, large-cap equities were the most positive asset class outperforming smaller cap holdings. Growth outperformed value. Emerging markets saw substantial returns.

Mr. Mulfinger continued with a review of the Investment Performance Report for the quarter ending March 31, 2017. Total fund performance was a positive 2.92 percent on a time-weighted basis (net of fees) trailing the policy index which was up 3.61 percent. Total market value as of March 31, 2017 was $31,622,179 representing a gain of $958,789.50 (net of fees) since the previous quarter ended December 31, 2016. The trailing one-year return was positive 8.71 percent (net of fees), short of the policy index return which was positive 10.85 percent. The one-year return exceeded the 7.45

percent assumed actuarial investment rate of return. As of May 12, 2017 the portfolio's market value was $32,069,203, representing a gain of 5.8 percent since September 30, 2016 (fiscal year-to-date return).

Mr. Mulfinger reminded the board that the Port Orange Police Pension Fund took less risk than the market, thus underperformance compared to the respective benchmarks.

Quarterly performance results (net of fees for quarter ending March 31, 2017) for the various investment styles/managers represented in the portfolio were as follows:

BlackRock (large cap value) – positive return of 2.28%
Jennison (large cap growth) – positive return of 10.44%*
Wedgewood (large cap growth) – positive return of 5.97%
Connors (large cap core) – positive return of 5.7%
Boston Partners (small cap value) - positive return of 1.80%*
RBC (small cap growth) – negative return of -0.18%
Lazard (international value) – positive return of 6.60%
Renaissance (international growth) – positive return of 10.22%*
Madison Investment Advisors (fixed income) – positive return of 0.35%
BlackRock (long/short credit) – positive return of 1.05%
Blackstone (multi-strategy) – positive return of 3.32%*
Pine Grove (alternative investments – hedge fund) – positive return of 1.42%*
Private Advisors (alternative investments – hedge fund) – positive return of 2.25%
UBS (private real estate) – negative return of -0.12%
* These managers outperformed their respective fund benchmark.

Total fees paid to Graystone Consulting for the quarter were $65,110.95 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. He noted that the portfolio was overweight in every equity asset class and recommended rebalancing back to "range" weights as opposed to "target" weights.

Member Bastian moved to authorize rebalancing of portfolio as recommended by the investment consultant. Member Proctor seconded the motion and it carried on an all yes vote.

The Pension Board acknowledged receipt of the performance report.

***

Mr. Mulfinger discussed the ongoing underperformance of Wedgewood Partners, the fund's large capitalization growth manager. Morgan Stanley recently lowered its rating of this manager from "focus" to "approved;" there was pressure from other clients to replace Wedgewood due to substantial loss of assets.

Graystone Consulting presented the results of a manager search in this asset class and recommended that the pension board interview possible candidates at the next meeting.

Member Proctor moved to hear presentations at the next meeting from three vetted investment firms in the large-cap growth style, to-wit: Clearbridge Investments, Pioneer

Investments, and Sawgrass Asset Management. Member Bastian seconded the motion and it carried unanimously.

***

Mr. Mulfinger went on to recommend that the pension board consider a change to its fixed income manager from Madison Investment Advisors to J.P. Morgan. J.P. Morgan not only had higher returns, it was willing to negotiate a lower fee than Madison. Mr. Mulfinger advised that J.P. Morgan allowed investment grade bonds (BBB) and mortgage bonds in its portfolio. The current Investment Policy Statement (IPS) did not allow investment grade bonds. As such, the IPS would need to be revised to allow J.P. Morgan as fixed income manager. Further J.P. Morgan was not a part of the Morgan Stanley platform; a separate agreement with the Port Orange Police Pension Board would be required.

Member Carman moved to accept the consultant's recommendation to change the fixed income/bond manager from Madison to J.P. Morgan and to direct the plan attorney to work with Graystone to prepare a separate agreement with the pension board. Member Bastian seconded the motion and it carried.

Mr. Mulfinger thanked the pension board for its business.

2. Revised Investment Policy Statement (IPS) reflecting actuarial assumption of 7.55 percent with it decreasing by ten basis points each year until it reached 7.25 percent

This revision was discussed at the February 17, 2017 meeting when the board received the valuation for 2016. *Member Carman moved to revise the Investment Policy Statement to: (1) include the decreasing assumed rate of return (i.e. ten basis points each year until it reached 7.25 percent); (2) change the fixed income section to require that all securities hold a rating in one of the* ***four*** *highest classifications (investment grade (BBB) bonds); and (3) change the benchmark for comparing fixed income performance to the Barclays Capital Aggregate Bond Index. Member Bastian seconded the motion which carried on an all yes vote.*

It was noted that state law required a 31-day waiting period before the change became effective.

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

1. Scope of services and quote to conduct experience study to compare current assumptions against actual behavior in the plan (e.g. retirement age, payroll increases, terminations, etc.)

Mr. Little explained that the experience review would provide an explanation of each assumption, a discussion of how well each assumption has compared to actual results, and an explanation of any recommended changes in each assumption. It would also provide estimated valuation results (as of October 1, 2016) based on these recommendations. The fee for the study was $5,500. (Reference Mr. Little's correspondence dated May 11, 2017) It had been over ten years since the last experience study. There were numerous changes to the pension plan in 2011 which had changed behavior. Mr. Little pointed out, however, that he still needed to receive corrected payroll data from city staff to perform the experience study. He anticipated results and presentation to the pension board at its November 17, 2017 quarterly meeting.

Member Carman moved to authorize the actuary to proceed with the experience study at a cost not to exceed $5,500 with results presented at the November 17, 2017 quarterly meeting pending receipt of corrected payroll data from city staff. Member Bastian seconded the motion and it carried unanimously.

C. Dustin Watkins – *Sugarman & Susskind* (Attorney)

1. Legislative Update

Mr. Watkins advised that there was no legislation relative to public pension plans adopted during the recent session.

D. Karan Rounsavall – Plan Administrator

1. Educational Opportunity: Florida Public Pension Trustees Association (FPPTA) Annual Conference in Orlando (June 25-28, 2017)

If any trustee wished to attend the conference, they were to contact the plan administrator at their first opportunity. Chairman Braddock planned to attend.

2. Annual Financial Disclosure filing deadline (July 1, 2017)

Mrs. Rounsavall reminded trustees of filing requirements and to keep of copy when their form was filed with the Elections Office.

3. Notice of election for police officer trustees and notice of reappointment for fifth member and resident trustees

Current terms expired on October 1, 2017. Pursuant to board policy, the date for election of police officer trustees was to be set 90 days prior to term expiration date. (Note: This timeframe could be modified pending city council's action on the proposed ordinance to increase trustee terms from two to four years.)

***

Mrs. Rounsavall reminded board members of the special meeting scheduled for Tuesday, June 20, 2017 at 10:00 a.m. in the Police Training Room to review and short list responses to the RFP for investment consulting services.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 11:39 a.m.

Steve Braddock, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator