CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
AUGUST 18, 2017

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Friday, August 18, 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) Brian Cobb (resident member)
CONSULTANTS:	Ken Harrison, Board Attorney – Sugarman & Susskind Charlie Mulfinger, Investment Consultant – Graystone Scott Owens, Investment Consultant – Graystone Tyler Grumbles, Investment Consultant – AndCo Dan Johnson, Investment Consultant - AndCo Chad Little, Actuary – Freiman Little Actuaries Karan Rounsavall, Plan Administrator
CITY STAFF:	Margaret Roberts, City Attorney

Member Proctor called the meeting to order at 9:15 a.m. A quorum was in attendance. (Note: Chairman Braddock arrived at 9:16 a.m.)

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting May 19, 2017 and special meetings June 20, 2017 and July 24, 2017 as submitted. Member Carman seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS - *None*

CONSENT AGENDA

The following items were presented for action as recommended:

A. Approve plan expenditures as follows:
   1. Sugarman & Susskind – monthly retainer for June 2017 - $2,600. *Recommendation:* Ratify payment.
   2. Sugarman & Susskind – monthly retainer for July 2017 - $2,600. *Recommendation:* Ratify payment.
   3. Sugarman & Susskind – monthly retainer for August 2017 - $2,600. *Recommendation:* Ratify payment.
   4. Plan Administrator Karan Rounsavall – monthly fee (May 2017, June 2017, July 2017) - $7,200. *Recommendation:* Ratify payments.
   5. Florida Public Pension Trustees Association – annual conference registration for Chairman Steve Braddock and Plan Administrator Karan Rounsavall - $1,300. *Recommendation:* Ratify payment.

6. Omni Orlando Resort – hotel expense for Chairman Steve Braddock (FPPTA Annual Conference) - $540.00 *Recommendation*: Ratify payment.
7. Chairman Steve Braddock – reimbursement of mileage and meal expenses for attendance at FPPTA Annual Conference - $322.60. *Recommendation*: Ratify payment.
8. Graystone Consulting – Tampa – all-inclusive investment fees (April 1, 2017 through June 30, 2017) - $61,266.89. *Recommendation*: Ratify payment.

B. Acknowledge refund of member contributions to the following non-vested member:
   1. Brandy DeMarco (non-vested member) in the amount of $1,148.35. *Recommendation*: Acknowledge refund of member contribution as stated.

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

OLD BUSINESS

A. Status of ordinance increasing trustee terms from two to four years

At its May 19, 2017 quarterly meeting, the pension board directed the plan administrator and attorney to resubmit to the Port Orange City Council an ordinance increasing trustee terms from two to four year terms. Mrs. Rounsavall attended the council's July 18, 2017 meeting to speak in favor of the subject ordinance upon first reading. The proposed change to four-year terms was favorably received by city council at that meeting; however, there was a recommendation to stagger the terms such that all trustees were not considered for appointment at the same time.

City Attorney Margaret Roberts was in attendance and presented a revised ordinance providing for staggered four-year terms. Upon expiration of current terms on October 1, 2017, three trustee positions (i.e. police members and fifth member) would be elected/appointed for four-year terms. The two resident members would be appointed/re-appointed for two-year terms. At the end of two-year terms for resident members, subsequent terms of appointment would be for four-years. She emphasized that trustees could succeed themselves. Further, if a vacancy occurred, it would only be filled for the remainder of the vacated term.

The revised ordinance was scheduled for first reading by city council on September 5, 2017 and public hearing on September 19, 2017. Board appointments would also be considered at the September 19, 2017 meeting.

Member Bastian moved to approve the revised ordinance creating staggered four-year terms and presenting same to city council as stated. His motion included direction to the actuary to prepare the required statement of no impact to accompany the ordinance. Member Carman seconded the motion and it carried unanimously.

Plan Administrator Rounsavall would attend the city council meetings to speak on behalf of the ordinance and answer questions, etc.

NEW BUSINESS

A. Ratify early retirement benefits for Donald Meurlot (terminated vested member) commencing November 1, 2017

Member Bastian moved to ratify Mr. Meurlot's selection of the 100 percent joint and survivor annuity option with benefit payments commencing November 1, 2017. Member Carman seconded the motion which carried on an all yes vote.

B. Approval of administrative expense budget for Plan Year 2017/2018 in accordance with *Florida Statutes*

The Pension Board was in receipt of the proposed budget for Plan Year 2017/2018 as prepared by the plan administrator. Pursuant to *Florida Statutes* 185.05(8), the Board was required to adopt and operate pursuant to an administrative expense budget each year. The budget included all administrative expenses (e.g. actuary, legal, investment consultant, custody, administration, insurance, etc.) but did not include investment management fees. The proposed budget for 2017/2018 was $227,225 which was less than the adopted budget for 2016/2017 of $291,200.

Plan Administrator Rounsavall reviewed individual line items in the proposed budget and projected changes (e.g. new investment consultant and inclusion of custodial fees). She also advised that estimated expenditures for 2016/2017 were slightly less than budgeted.

Member Bastian moved to approve the administrative expense budget in the amount of $227,225 as presented. Member Proctor 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.

CONSULTANT REPORTS

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

1. Performance Report for quarter ended June 30, 2017

Mr. Mulfinger expressed disappointment that Graystone/Morgan Stanley would not be serving the Port Orange Police Pension Board as its investment consultant going forward. He thanked board members for the long relationship that Graystone had enjoyed with the pension plan for the past 27 years.

Mr. Owens continued with a brief economic overview. Growth continued to outperform value; international equities and emerging markets also continued to outperform their domestic counterparts.

Mr. Mulfinger continued with a review of the Investment Performance Report for the quarter ending June 30, 2017. Total fund performance was a positive 2.18 percent on a time-weighted basis (net of fees) slightly trailing the policy index which was up 2.37 percent. Total market value as of June 30, 2017 was $32,521,592 representing a gain of $751,834 (net of fees) since the previous quarter ended March 31, 2017. The trailing one-year return was positive 10.08 percent (net of fees), short of the policy index return which was positive 11.42 percent. The one-year return exceeded the 7.45 percent assumed actuarial investment rate of return. As of August 14, 2017 the portfolio's market value was $33,317,709, representing a gain of 7.9 percent since September 30, 2016 (fiscal year-to-date return). It was a good quarter for the portfolio which generated higher returns with less risk.

Quarterly performance results (net of fees for quarter ending June 30, 2017) for the various investment styles/managers represented in the portfolio were as follows:

BlackRock (large cap value) – positive return of 3.14%*
Jennison (large cap growth) – positive return of 5.79%*
Wedgewood (large cap growth) – positive return of 0.15%
Connors (large cap core) – positive return of 1.17%
Boston Partners (small cap value) - positive return of 1.70%*
RBC (small cap growth) – positive return of 3.46%
Lazard (international value) – positive return of 6.87%*
Renaissance (international growth) – positive return of 6.78%*
Madison Investment Advisors (fixed income) – positive return of 0.52%
BlackRock (long/short credit) – positive return of 0.56%
Blackstone (multi-strategy) – positive return of 1.49%*
Pine Grove (alternative investments – hedge fund) – positive return of 1.58%*
Private Advisors (alternative investments – hedge fund) – positive return of 0.46%
UBS (private real estate) – positive return of 0.78%
* These managers outperformed their respective fund benchmark.

Total fees paid to Graystone Consulting for the quarter were $61,266.89 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 expressed Graystone's commitment to assisting with transition of the portfolio to AndCo and advised that historical performance had already been provided. He appreciated the business over the years. Messrs. Mulfinger and Owens left the meeting at this time.

Member Carman moved to accept the performance report as presented. Member Cobb seconded the motion and it carried on an all yes vote.

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

1. Amendment to Public Records Act

Board members were in receipt of the law firm's legislative update on amendments to the Public Records Act. Attorney Harrison reviewed changes to the public records law designed to minimize the filing of law suits due to frivolous public records requests intended primarily to cause a violation of the law and result in an attorney fee award. New legislation required the prominent posting of contact information for the agency's custodian of public records in the agency's primary administrative building and on the agency's website.

Plan Administrator Rounsavall advised that the city clerk served as the Records Management Liaison Officer (RMLO) for the Police Pension Plan. She further reported that the City of Port Orange was already in compliance with the new law and had posted contact information appropriately.

2. Mutual consent requirements relative to collective bargaining negotiations

Attorney Harrison stressed the importance of addressing mutual consent as to allocation of insurance premium tax revenues in the collective bargaining agreement

(CBA) currently being negotiated. Member Carman mentioned that the current CBA expired October 1, 2017. There were no proposed changes to the retirement section.

Member Proctor moved to accept the attorney's report. Member Carman seconded the motion and it carried unanimously.

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

Mr. Little discussed correspondence from the Division of Retirement (dated August 10, 2017) which found all of the plan's actuarial valuations through October 1, 2015 to be state accepted. He went on to comment on the State's findings contained therein related to investment return assumption and mortality table.

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As to an experience study which was approved at the May 19, 2017 quarterly meeting, Mr. Little advised that he still needed corrected salary data from city staff to complete the study in a timely fashion. (Note: It was originally anticipated that the study could be presented to the pension board at its November 17, 2017 quarterly meeting.)

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He also advised of the receipt of state insurance premium tax revenues in the amount of $397,679.88 which put the city in an overfunded status for the fiscal year. The city could treat the excess contributions as a pre-pay for the ensuing fiscal year or reduction to unfunded liability.

Member Bastian moved to accept the actuary's report. Member Proctor seconded the motion which carried on an all yes vote.

D. Karan Rounsavall – Plan Administrator

1. Educational Opportunities:

   ✓ Florida Public Pension Trustees Association (FPPTA) Fall Trustees School in Tampa (October 8-11, 2017)
   ✓ Florida Division of Retirement Annual Police Officers' & Firefighters' Pension Conference in Orlando (November 15-17, 2017)

Plan Administrator Rounsavall announced the upcoming educational sessions. If any member wished to attend, they were to contact her at their first opportunity. Members Bastian and Cobb tentatively planned to attend the FPPTA Fall Trustees School.

2. Acknowledge receipt of 2016 premium tax distribution in the amount of $397,679.88 from the State Division of Retirement

Mrs. Rounsavall advised that these funds were received by city staff and timely deposited with the pension plan's custodian.

Member Bastian moved to accept the administrator's report. Member Carman seconded the motion and it carried unanimously.

E. Tyler Grumbles & Dan Johnson – *AndCo Consulting* (Investment Advisory Services and Performance Monitor)

1. Presentation of transition plan and action items related thereto

Mr. Grumbles served as primary consultant to the Port Orange Police Pension Plan with Dan Johnson serving as supporting consultant. They introduced Jennifer Gainfort who joined the team as client solutions specialist. Their purpose at this meeting was to present a plan to transition assets from Morgan Stanley/Graystone to a new portfolio with investments recommended by AndCo. Overall, AndCo recommended a simpler portfolio with fewer managers and less complexity, particularly in the short term. Being that Port Orange Police was a relatively young plan, one recommendation was to increase the equity exposure.

Board members were in receipt of an Investment Performance Review for the quarter ending June 30, 2017. The review illustrated the report format which would be used by AndCo going forward. The report provided quarterly returns as well as fiscal year to date returns and trailing returns over one, three, and five years. Additionally, the report provided percentile rankings of performance for the total portfolio, as well as individual managers/investment styles, against other public plans.

AndCo charged a flat fee of $35,000 annually which was guaranteed for two years. Its fee did not increase as the portfolio grew in value. By contrast, Graystone charged the fund a consulting fee of 50 basis points. AndCo's flat fee of $35,000 was roughly equivalent to 11 basis points.

Mr. Grumbles presented the transition plan with anticipated time frames over the next 12 months. Action items included selection of a custodian, transfer of assets, hiring a transition manager and initially positioning the portfolio with index funds pending individual manager selections for the various asset classes. AndCo did not recommend terminating the fund's relationship with Graystone until a new custodian and transition manager were in place. AndCo would draft and coordinate the necessary letters of instruction for the termination of the current all-inclusive program with Graystone as appropriate with the timing of the transition.

The first action item dealt with the selection of custodian. Currently plan assets were held at Morgan Stanley. First State Trust Company of Delaware served as a secondary custodian and was responsible for monthly benefit payments and payment of plan expenses, etc. It was possible for the pension plan to maintain First State Trust Company as its overall custodian. This offered some advantage as it would not impact retiree payments whatsoever. However, AndCo had never worked directly with First State and there were questions as to how trade tickets would be handled.

First State Trust Company proposed a flat annual fee of $18,500 for full custodial services including benefit payments, etc. This fee was in line with that charged by other custodians serving public pension plans in Florida. *Member Proctor moved to maintain the pension plan's custodial relationship with First State Trust Company at a flat fee of $18,500 guaranteed for two years. Member Cobb seconded the motion and it carried unanimously.* Attorney Harrison would review the proposed agreement with First State and provide for execution/signature as quickly as possible.

Secondly, the board needed to engage the services of a transition manager. A transition manager served in a fiduciary capacity and facilitated the process of moving the current portfolio to the new structure (i.e. selling off current holdings and buying into new recommended positions). AndCo had vetted two transition managers for the board's consideration, to-wit: CAPIS and Abel Noser. CAPIS charged $.01 per share for its domestic and equity trades and 10 to 12.5 basis points for fixed income trades. AndCo recommended that the board hire CAPIS as transition manager.

Member Carman moved to authorize execution of an agreement with CAPIS as transition manager for the portfolio at the transition costs stated above, pending attorney review. Member Cobb seconded the motion and it carried on an all yes vote.

The initial transition included an intermediate portfolio of broad index funds representing domestic equity and fixed income markets, specifically Vanguard Total Stock Market Index fund, Vanguard Total International Index ETF (Exchange Traded Fund), and Vanguard Total Bond Market Index ETF.

Mr. Grumbles went on to address several other temporary matters related to the transition: (1) notice of termination/90-day liquidation request to PineGrove Advisors; (2) ongoing redemption of Private Advisors' holdings; and (3) revision to plan document/ordinance establishing specific equity allocation to "most liberal" language as allowed by statute (recommended 65 percent equity allocation). Proceeds from the liquidation of PineGrove and Private Advisors would be available to fund the international equity portfolio in 2018.

Member Bastian moved to approve the transition plan as recommended by the consultant (AndCo) including redemption notice to PineGrove (as of December 31, 2017) and Private Advisors. His motion expressly excluded any immediate action to change the equity allocation in the plan document to "most liberal" language. Member Cobb seconded the motion which carried unanimously.

The final item for consideration as part of the transition process was adoption of a revised Investment Policy Statement (IPS). Board members were in receipt of the standard IPS used by AndCo clients. Performance objectives included measurement over rolling three and five year periods; total portfolio performance to rank in top 50th percentile of peer universe over three and five-year periods; meeting or exceeding the actuarial earnings assumption; and providing inflation protection by meeting the Consumer Price Index plus three percent every year. The draft IPS also established target asset allocations.

Attorney Harrison wished to review the IPS for compliance with *Florida Statutes,* particularly with regard to trustees acting as fiduciaries to the plan.

Member Bastian moved to approve the revised IPS as presented by the consultant pending attorney review. Member Carman seconded the motion which carried on an all yes vote.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 12:00 noon.

Steve Braddock, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator