CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
NOVEMBER 15, 2018

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Thursday, November 15, 2018 in the Police Department Training Room, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT:	Chairman Steve Braddock (police member) Brian Cobb (resident member) Drew Bastian (resident member) Warren Carman (fifth member)
MEMBERS ABSENT:	William Proctor (police member) – excused
CONSULTANTS:	Ken Harrison, Board Attorney – Sugarman & Susskind Tyler Grumbles, Investment Consultant – AndCo Chad Little, Actuary – Freiman Little Actuaries Karan Rounsavall, Plan Administrator
CITY STAFF:	None

Chairman Braddock called the meeting to order at 9:06 a.m. and asked for a roll call. A quorum was in attendance.

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting August 16, 2018 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 August 2018 - $2,600. *Recommendation:* Ratify payment.
   2. Sugarman & Susskind – monthly retainer for September 2018 - $2,600. *Recommendation:* Ratify payment.
   3. Sugarman & Susskind – monthly retainer for October 2018 - $2,600. *Recommendation:* Ratify payment.
   4. Plan Administrator Karan Rounsavall – monthly fee (August 2018, September 2018, October 2018) - $9,000. *Recommendation:* Ratify payments.
   5. Florida Public Pension Trustees' Association (FPPTA) – registration fee for FPPTA Fall Trustee School for Trustees Drew Bastian and Warren Carman - $1,200. *Recommendation:* Ratify payment.
   6. Hyatt Regency Coconut Point Resort – lodging expenses for Trustee Drew Bastian (FPPTA Fall Trustee School) - $597. *Recommendation:* Ratify payment.

7. Hyatt Regency Coconut Point Resort – lodging expenses for Trustee Warren Carman (FPPTA Fall Trustee School) - $597. *Recommendation:* Ratify payment.
8. Trustee Drew Bastian – reimbursement of mileage and meal expenses for attendance at FPPTA Fall Trustee School in Bonita Springs - $299.72. *Recommendation:* Ratify payment.
9. Trustee Warren Carman – reimbursement of mileage and meal expenses for attendance at FPPTA Fall Trustee School in Bonita Springs - $299.72. *Recommendation:* Ratify payment.
10. AndCo Consulting – investment consulting and performance monitoring services for quarter ending September 30, 2018 - $8,750. *Recommendation*: Ratify payment.
11. First State Trust Company – custodial services for quarter ended September 30, 2018 - $4,625. *Recommendation*: Ratify payment.

Member Carman moved to ratify plan expenses as recommended. Member Cobb seconded the motion and it carried on an all yes *vote.*

OLD BUSINESS - None

NEW BUSINESS

A. Ratify normal retirement benefits for Aaron Mcilrath (100 percent joint & survivor) commencing October 1, 2018

Member Bastian moved to ratify retirement benefits for Aaron Mcilrath. Member Cobb seconded the motion and it carried unanimously.

B. Establish quarterly meeting dates for 2019
- Thursday, February 21, 2019 at 9:00 a.m.
- Thursday, May 16, 2019 at 9:00 a.m.
- Thursday, August 22, 2019 at 9:00 a.m.
- Thursday, November 21, 2019 at 9:00 a.m.

Member Bastian moved to approve the quarterly meeting dates as set forth above. It was understood that the dates could possibly change pending an effort to coordinate a meeting date for the city's three pension boards. Member Cobb seconded the motion and it carried on an all yes vote.

C. Authorization to renew membership in Florida Public Pension Trustees Association (FPPTA) for 2019

Member Bastian moved to renew membership in FPPTA for 2019 at a cost of $600. Member Cobb seconded the motion which carried unanimously.

CONSULTANT REPORTS

A. Tyler Grumbles – AndCo Consulting (Investment Consultant)

1. Investment Performance Report for quarter ended September 30, 2018

Mr. Grumbles delivered the Investment Performance Report for the quarter ended September 30, 2018. Market returns were, once again, mixed across major equity and fixed income indices for the quarter. Larger cap and growth-oriented equities led the way. Domestic fixed income was flat for the quarter. Mr. Grumbles mentioned that the asset allocation for international equities increased to 15 percent during the last quarter and an increased commitment to real estate was funded.

Total market value as of September 30, 2018 was $36,648,504 up from $36,367,679 for the previous quarter ended June 30, 2018. On a percentage basis, the composite portfolio was up 3.85 percent (gross) for the quarter which ranked in the 17th percentile of public plans. For the fiscal year the fund was up 9.04 percent (gross return) which ranked in the 30th percentile. The portfolio generated over $3 million in investment earnings since October 1, 2017 (start of fiscal year).

Quarterly performance results (i.e. quarter ending September 30, 2018) for the various investment styles/managers represented in the portfolio were as follows:

Vanguard Total Stock Market Index Fund – positive return of 7.09% (22)*
EuroPacific Growth (international equity) – negative return of -0.84% (98)*
Oakmark International (international equity) – negative return of -0.87% (98)*
Dodge & Cox (domestic fixed income) – positive return of 0.63% (6)*
Metropolitan West (domestic fixed income) – positive return of 0.04% (60)*
UBS Trumbull (private real estate) – positive return of 1.42% (100)*

It was noted that the compliance checklist was omitted from the performance report. Mr. Grumbles would forward this separately.

Member Bastian moved to accept the investment performance report as presented. Member Cobb seconded the motion which carried on an all yes vote.

2. Introduction and review of bank loans (fixed income alternative)

Traditional institution portfolios (such as local government retirement funds) were currently challenged to meet expected returns. In a rising interest rate environment, fixed income prices historically declined. Bank loans were a new asset class with characteristics that could address these challenges. Mr. Grumbles explained that bank loans were considered high-yield bonds and, as such, presented more investment risk but higher yields/returns. High yield bonds were frequently referred to as *"junk bonds."* AndCo Consulting had completed its due diligence with respect to bank loans and was of the professional opinion that the higher rate of return outweighed the risk of default.

Attorney Harrison felt that this new asset class (i.e. bank loans/high-yield bonds) would likely require a policy/ordinance change. He needed to research whether or not *Florida Statutes* allowed bonds below investment grade. *The attorney would provide a legal opinion on the matter at the next meeting.* Accordingly, the board moved onto the next agenda item.

3. Introduction and review of infrastructure investment opportunities

Infrastructure investments tended to be a counter-cyclical product with a low correlation to other asset classes. It was another asset class that targeted current challenges to meet expected returns. Infrastructure assets were typically characterized by (1) steady cash flow through an economic cycle; (2) inflation protection; and (3) less economic sensitivity than public equities. These benefits improved the risk-return characteristics of a traditional institutional portfolio resulting in a more optimal asset allocation.

AndCo was currently vetting two infrastructure funds: Brookfield Super-Core Infrastructure and J.P. Morgan Infrastructure Investment Fund. Should the retirement board decide to diversify its portfolio with infrastructure, Mr. Grumbles recommended a five percent target to be funded from a reduction to equities.

At the most recent trustee school, Member Carman learned of farmland investments and was interested in looking into an investment opportunity of this type which also ran counter to the market. He would like to compare the two strategies. Mr. Grumbles agreed to look into farmland investments. His first concern was registration with the Securities and Exchange Commission (SEC).

As the retirement board voiced no opposition to learning more about infrastructure, Mr. Grumbles would arrange for telephone presentations from Brookfield and J.P. Morgan at the next meeting.

4. Updated investment policy statement (IPS) review

This item was deferred to the next meeting pending the attorney's research and opinion concerning investments in high yield bonds (i.e. bank loans).

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

Before proceeding with named agenda items, Mr. Little raised a question related to valuing liabilities of the pension plan. For members retiring after a certain date, their annual benefit was capped at $95,000 including cost-of-living (COLA) increases. For example, should a member select a joint and survivor option (other than 100%) and predecease their joint annuitant, would the COLA for the survivor be reinstated because the benefit decreased based on the selected option? [Reference Section 54-130(a)(7)]

It was Mr. Little's opinion that the COLA would start again. It was likely that no one had given thought to this scenario when the $95,000 benefit cap was implemented. Regardless, such an instance would not occur anytime soon. *Attorney Harrison stated that he would research the question and report back.*

1. Presentation – asset allocation and assumed investment rate of return

Mr. Little stated that actuarial standards required the use of long-term capital market projections when examining assumed investment rates of return. For purposes of this presentation, he used market projections prepared by Blackrock and Merrill Lynch with some reference to the Horizon Study. Based on these projections, the long term geometric (i.e. compounded) return was 4.7 percent. The long term arithmetic mean return was 5.6 percent. The expected return for large cap stocks was 6.6 percent.

During the past ten years, markets had experienced spectacular returns. The Board's current expected rate of return was 7.35 percent. The valuation for 2019 would be performed using a 7.25 percent rate of return. Given the long-term projections, there was no asset allocation that generated that high a return. Given the likelihood of revision to the mean, Mr. Little encouraged the Board to continue to lower its assumed rate of return in light of these projections.

2. Presentation – actuarial experience study

Previously the Pension Board authorized an actuarial experience study which examined actual plan experience from 2012 through 2017. Mr. Little presented findings of the study which reviewed current actuarial assumptions for the purpose of recommending changes in order to develop costs that were stable, predictable and represented the best estimate of anticipated experience. The specific assumptions investigated in the study included: (1) retirement rates; (2) termination rates; (3) disability; (4) individual salary growth; and (5) marital assumption. The study also examined the change in funded percentage and minimum required contribution associated with each recommended assumption change.

The first assumption reviewed was *retirement rates*. Since plan changes in 2011, Mr. Little explained that participants were not working beyond 25 years of service. When participants retired early, the cost to the plan was a bit higher even though they were not eligible for a COLA. He recommended adjustments to retirement rates for those hired prior to January 31, 2011 as set forth in the age/service table.

The next assumption considered was *termination rates*. The study found that the expected termination rate (43.91) was well above actual experience (29). Mr. Little recommended adjusting termination rates accordingly.

There was no recommended change to the *disability rate* as expected disabilities (0.57) were consistent with actual disabilities (1).

Moving on, *individual salary growth* was lower than expected until a participant reached 22 to 23 years of service. High salary increases at later service levels had more impact on a plan's cost. Mr. Little recommended lowering the salary scale from 7.5 percent to 7.25 percent.

The final assumption examined was the *marital assumption* (i.e. how many retirees elected a joint and survivor option). The actuary recommended an assumption of 40 percent of married participants electing the 100 percent joint and survivor option.

The study also examined the change in funded percentage and the change in minimum required contribution associated with each assumption change. Mr. Little emphasized that these should not be the determining factor for assumption selection. He recommended that the Retirement Board adopt the new assumptions as presented. The cost associated with the changes was approximately a $250,000.

Member Carman wondered how the review of plan assumptions might affect the cost for a participant to purchase prior service as this was discussed at the time the experience study was authorized. Mr. Little advised that the recommended changes would increase the cost to purchase prior military or law enforcement service. He would provide a detailed analysis at the quarterly meeting in February.

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Mr. Grumbles was excused from the meeting at 11:18 a.m.

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Member Bastian asked about implementing only a few changes at this time or implementing them over a period of several years. Mr. Little suggested that the change in termination rate assumption could be done over a two-year period.

Member Bastian moved to accept the actuary's recommendation for all assumptions with the change to termination rate assumption being phased in over a three-year period. Assumption changes would be effective with the 2018 valuation. Member Carman seconded the motion and it carried unanimously.

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

Attorney Harrison advised that the Internal Revenue Service was changing the way that it interpreted QDRO's (qualified domestic relation orders). Currently public retirement plans only honored income deduction orders. This was an informational item at this time, however, changes could be forthcoming.

Recent constitutional amendments could potentially affect retirement plans as the standard for judicial reliance on an agency's administrative rules had changed. Additionally, survivor benefits for public safety employees were now stated in the State Constitution.

D. Karan Rounsavall – Plan Administrator

1. Educational Opportunities: Florida Public Pension Trustees Association (FPPTA) Winter Trustees School in Orlando (February 3-6, 2019)

If any member wished to attend, they were to contact her at their earliest opportunity.

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The next quarterly meeting was scheduled for Thursday, February 21, 2019.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 11:46 a.m.

Sgt. W...

Sgt. Warren Carman, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator