CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
FEBRUARY 21, 2019

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Thursday, February 21, 2019 in the Police Department Training Room, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT:	Chairman Warren Carman (fifth member) Brian Cobb (resident member) Drew Bastian (resident member) Andrew McKay (police member) William Proctor (police member)
CONSULTANTS:	Ken Harrison, Board Attorney – Sugarman & Susskind Tyler Grumbles, Investment Consultant – AndCo Chad Little, Actuary – Freiman Little Actuaries Zach Chalifour, Auditor – James Moore CPA Karan Rounsavall, Plan Administrator
CITY STAFF:	None

Member Carman called the meeting to order at 9:00 a.m. A quorum was in attendance.

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Plan Administrator Rounsavall advised of a vacancy on the Pension Board as of December 28, 2018 due to the retirement of Chairman Steve Braddock. Pursuant to policy for election of police members, she posted a call for candidates to fill the vacancy for the balance of the unexpired term. As of February 20, 2019 (the closing date for candidates to submit their names), the only name submitted was Andrew McKay.

Member Bastian moved to certify the election. Member Carman seconded the motion which carried unanimously. Member Bastian then moved to seat Andrew McKay on the Port Orange Police Pension Board to fill the remainder of the unexpired term for a police member through October 2021. Member Carman seconded the motion; it carried on an all yes vote.

ELECTION OF OFFICERS

It was necessary to elect a new chairman due to retirement of former chairman Steve Braddock. *Member Bastian nominated Warren Carman. There were no other nominations. Member Bastian's motion to close nominations was seconded by Member Cobb and carried unanimously. Accordingly, Member Carman was elected as chairman.*

Chairman Carman opened nominations for secretary. *Member Bastian moved that Member Proctor continue his role as secretary for the Pension Board. There were no further nominations. Member McKay seconded the motion. The motion carried on an all yes vote.*

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting November 15, 2018 as submitted. Member Cobb 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 November 2018 - $2,600. *Recommendation:* Ratify payment.
2. Sugarman & Susskind – monthly retainer for December 2018 - $2,600. *Recommendation:* Ratify payment.
3. Sugarman & Susskind – monthly retainer for January 2019 - $2,600. *Recommendation:* Ratify payment.
4. Plan Administrator Karan Rounsavall – monthly fee (November 2018, December 2018, January 2019) - $9,000. *Recommendation:* Ratify payments.
5. Florida Public Pension Trustees' Association (FPPTA) – 2019 membership dues in FPPTA for Pension Board - $600. *Recommendation:* Ratify payment.
6. Florida Public Pension Trustees' Association (FPPTA) – 2019 Annual Certified Public Pension Trustee (CPPT) re-certification fee for Trustees Warren Carman and Drew Bastian - $60. *Recommendation:* Ratify payment.
7. James Moore & Co., CPA – Audit – Progress billing through December 31, 2018 - $4,000. *Recommendation:* Ratify payment.
8. AndCo Consulting – investment consulting and performance monitoring services for quarter ending December 31, 2018 - $8,750. *Recommendation*: Ratify payment.
9. First State Trust Company – custodial services for quarter ended December 31, 2018 - $4,625. *Recommendation*: Ratify payment.

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

OLD BUSINESS - None

NEW BUSINESS

A. Ratify normal retirement benefits for Steve Braddock (100 percent joint & survivor) commencing January 1, 2019

Member Cobb moved to ratify retirement benefits for Steve Braddock. Member Proctor seconded the motion and it carried unanimously.

B. Acknowledge receipt of detailed accounting report for Fiscal Year 2017/2018

Board members were in receipt of the detailed accounting report for Fiscal Year 2017/2018 prepared by the plan administrator. It reflected administrative expenses that were paid on behalf of the plan during the fiscal year. Administrative expenses included legal counsel, actuarial, investment consultant, plan administration, education, fiduciary insurance, etc. Total administrative expenses were $225,689 which was less than the adopted budget for the fiscal year. Investment management expenses were not considered administrative expenses and, as such, were not reported. Nor were mutual fund holdings (reported net of fees) considered administrative expenses.

Member Bastian moved to accept the detailed accounting report for Fiscal Year 2017/2018 as presented. Member Cobb seconded the motion and it carried on an all *yes vote.* A copy of the report would be posted on the police department bulletin board as well as the City's web site.

C. Discussion and possible action related to reasonable assurance that monthly benefit payments were received by retirees

Plan Administrator Rounsavall was recently contacted by a retiree who wished to change their direct deposit authorization. This was a routine request which she regularly processed on behalf of retirees. However, this particular request raised some concern with her because the retiree had changed their direct deposit authorization several times in the past few months. Additionally, this time, the request was to a joint account with an unrelated individual.

Attorney Harrison stated that the plan administrator was proper in bringing this matter to the board's attention. The retiree in question was David Fouts, who survived a tragic accident two years earlier. The attorney advised that the Pension Board could move to appoint a guardian for Retiree Fouts but this could be a protracted and difficult course of action. Chairman Carman was familiar with the individual who was named as a joint account holder and was comfortable that they would act in Retiree Fouts' best interest.

Member Bastian moved to authorize Plan Administrator Rounsavall to process Retiree Fouts' request for a new direct deposit authorization. Member Cobb seconded the motion which carried unanimously.

Member Proctor wondered if it would be possible to include a notary clause on the direct deposit form. Attorney Harrison advised this was not an option as the form was prescribed by the custodian. As an alternative, Member Proctor asked if an administrative form could be developed to ensure that benefit payments were going to the retiree. Mrs. Rounsavall mentioned the annual confirmation of receipt of benefits form that was sent to all retirees.

CONSULTANT REPORTS

A. Tyler Grumbles – AndCo Consulting (Investment Consultant)

1. Investment Performance Report for quarter ended December 31, 2018

Mr. Grumbles presented the performance report for the quarter ended December 31, 2018. It was a very challenging quarter for equities, in fact, the worst in nearly a decade. Fear and economic uncertainty drove the markets. Trade tensions with China, midterm elections, tightening of monetary policy by the Federal Reserve, and the partial government shutdown, etc. outweighed any positive news reported during the quarter. The S&P 500 Index (domestic equity) ended the calendar year in negative territory. Small capitalization equities were the worst performing asset class. International equities also experienced considerable losses. Fixed income returns, while muted, were the safe haven for the quarter.

Total market value as of December 31, 2018 was $35,390,042 down from $36,648,504 for the previous quarter ended September 30, 2018. On a percentage basis, the composite portfolio was down -8.87 percent (gross) for the quarter which ranked in the 68th percentile of public plans. Since the first of the year, the pension plan was up significantly and recouped losses such that the portfolio was only down one to two percent since the start of the fiscal year. The fund was valued at $38,197,161 as of the previous day's market close.

Quarterly performance results (i.e. quarter ending December 31, 2018) for the various investment styles/managers represented in the portfolio were as follows:

Vanguard Total Stock Market Index Fund – negative return of -14.26% (46)*
EuroPacific Growth (international equity) – negative return of -12.59% (28)*
Oakmark International (international equity) – negative return of -16.30% (99)*
Dodge & Cox (domestic fixed income) – positive return of 0.29% (86)*
Metropolitan West (domestic fixed income) – positive return of 1.53% (18)*
PIMCO Diversified Income (global fixed) – negative return of -1.26% (90)
UBS Trumbull (private real estate) – positive return of 1.73% (66)*
*Public peer rankings

Mr. Grumbles reminded board members of their earlier decision (August 6, 2018) to increase the allocation to private real estate back to ten percent (roughly $550,000). He received the capital call from UBS Trumbull at the end of December and the allocation was funded. At the attorney's request, the consultant reviewed the compliance checklist.

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

2. Infrastructure Investment Opportunities

At its November 15, 2018 meeting, the pension board was introduced to infrastructure investments. Such investments tended to be counter-cyclical in nature with a low correlation to other asset classes. The board agreed to receive presentations from two infrastructure funds at this meeting.

✓ Brookfield Super-Core Infrastructure Partners

A conference call was initiated with Michael Botha of Brookfield Super-Core Infrastructure Partners (BSIP) who proceeded with an investor presentation of the Brookfield Super-Core strategy. BSIP was an open-end fund targeting core infrastructure in developed markets with a focus on current yield, lower volatility, diversification and inflation protection. It was a long duration investment with a targeted gross rate of return of nine percent. Average current yield was between five and six percent. The investment strategy focused on high quality, stable infrastructure assets, to-wit: utilities, energy, power and transportation sectors principally located in North America, Western Europe and Australia. Assets were valued quarterly by a third party.

While the minimum investment was typically $5 million, BSIP agreed to accept smaller investments from pension funds. The fee structure was 100 basis points on net asset value with an incentive fee calculated as five percent of distributions. There was an early investor discount of 25 percent (i.e. 75 basis points) that would close in March 2021.

Following several questions from board members, the Brookfield presentation concluded.

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The meeting recessed at 10:28 and reconvened at 10:34 a.m.

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✓ J.P. Morgan Asset Management – Infrastructure Investments Fund

A conference call was initiated with George Blake and Daniel Galinko of J.P. Morgan who began their presentation on the Infrastructure Investments Fund (IIF) strategy. IIF was an open-ended core portfolio that sought to deliver stable cash yield, diversification, attractive risk-adjusted returns and inflation protection through market cycles. This was a mature fund founded in 2006. Reflecting its core positioning, the majority of revenues were generated from contracts/regulated sources. This created a predictable cash flow. Assets were valued quarterly by an independent third party.

The fund was willing to accept a $2.5 million investment. Fees were one percent on net asset value. Capital calls were placed at the end of each quarter. There was a four-year commitment on investments with an early withdrawal fee. Additionally, there was an incentive fee when the fund produced a return in excess of seven percent.

There were no questions; the presentation was concluded.

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Discussion ensued. Mr. Grumbles commented on each fund. The J.P. Morgan fund (IIF) was fully invested at present and somewhat more risky than the Brookfield fund. It was sensitive to GDP (gross domestic product). While the Brookfield fund (BSIP) was more conservative with most of its investments in utility companies, its risk exposure was that it was a new fund. There was a three-year hard lock-in with BSIP. Member Cobb was comfortable with this sector and felt that the board should diversify its portfolio with infrastructure investments. Infrastructure was considered an alternative investment.

Member Proctor moved to allow infrastructure investments in the Port Orange Police Pension Fund. Member Cobb seconded the motion; it carried unanimously.

Member McKay then moved to invest $2.5 million with the Brookfield Super-Core Infrastructure Partners Fund and to direct the attorney to prepare the necessary investment management agreements and side letters. The allocation would be funded by a reduction to the domestic equity allocation. Member Cobb seconded the motion which carried on an all-yes vote.

3. Revised investment policy statement (IPS) to allow infrastructure investments

Board members were in receipt of a draft IPS which established a five percent target allocation to core infrastructure products with a corresponding decrease to the domestic equity allocation from 50 to 45 percent. The proposed IPS was reviewed and approved by the attorney as to form and content.

Member Proctor moved to approve the revised investment policy statement to provide for an allocation to core infrastructure. Member McKay seconded the motion which carried unanimously.

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

1. Presentation of annual valuation for fiscal year ending September 30, 2018

Board members were in receipt of the October 1, 2018 Actuarial Valuation Report for the Port Orange Police Officers' Pension Plan. This report established the annual City contribution to the Pension Plan for the fiscal year ending September 30, 2020. The

City's minimum required contribution, expressed as both a dollar amount and percent of pay, increased slightly. The total minimum funding requirement (city and state) was $3,344,724. Expressed as a percentage of payroll, the minimum contribution was 66.71 percent (city plus state). The city's contribution alone was 57.85 percent. The Plan's funded status was 73.96 percent, representing an increase over the previous year's funded percentage of 71.64 percent. The unfunded accrued liability (UAL) was $13,483,148.

The investment return on the "market" value of assets was 8.5 percent; the return on the "actuarial/smoothed" value of assets (five-year smoothing) was 6.39 percent which was less than the 7.35 percent assumed net investment rate of return.

At its previous quarterly meeting, the Pension Board received an experience study which reviewed current actuarial assumptions for the purpose of recommending changes that represented the best estimate of anticipated experience. Assumption changes approved at that meeting were incorporated into this valuation. Assumption changes, along with annual decreases in the assumed rate of return, had the effect of increasing city contributions.

Looking at amortization of the unfunded liability, Mr. Little suggested that the Board consider a *"fresh start"* with the next valuation. A *fresh start* would establish an equivalent single amortization period of seven to eight years and dramatically reduce the unfunded liability over that timeframe. *It was the Board's consensus to allow Mr. Little to discuss this opportunity with the city's new finance director.*

Mr. Little also mentioned that the city overfunded the pension plan by approximately $360,000 in Fiscal Year 2017/2018. Of this overpayment, $60,000 was directed to reduce the unfunded liability and the balance was directed as a prepaid contribution for Fiscal Year 2018/2019.

The valuation report also included required disclosures under *Florida Statutes* 112.664(1). Report disclosures required by Governmental Accounting Standards Board (GASB) 67 and 68 were provided as a supplemental report.

Member Bastian moved to approve the 2018 actuarial valuation report as presented. Member Cobb seconded the motion and it carried on an all yes vote. Plan Administrator Rounsavall would forward the report to city staff for required posting on its web site.

2. Declare expected annual rate of investment return for assets of Port Orange Police Officers' Pension Plan for short term and long term thereafter in accordance with *Florida Statutes*

Board members sought input from their actuary and investment professional as to an expected investment rate of return going forward. Actuary Little was comfortable with the current 7.35 percent expected investment rate of return as was Mr. Grumbles given the long timeframe for a pension fund.

Per the Board's previous direction to reduce the assumed rate of return by ten basis points each year (September 3, 2015), the actuary would prepare the 2019 valuation using 7.25 percent as the assumed annual rate of return.

Member Bastian moved to declare a 7.35 percent expected rate of return for retirement plan assets going forward. Member Proctor seconded the motion and it carried on an all yes vote.

Member Bastian also moved to approve the actuary's appearance before the Port Orange City Council to present the 2018 valuation report as had been done in past years. Member Proctor seconded the motion which likewise carried.

C. Zach Chalifour – *James Moore CPA* (Auditor)

1. Presentation of draft audit of Police Pension Fund financials for fiscal year ended September 30, 2018

Mr. Chalifour advised that there was nothing in the audit report assessed as a material weakness to be disclosed. His firm presented an *"unmodified opinion"* of police pension financials for Fiscal Year 2017/2018 which was the highest standard.

The audit was performed in conformance with governmental auditing standards. The Pension Plan reflected a fiduciary net position of $34,814,690. The net pension liability was $13,360,699. For purposes of the financial statements, the pension plan's funded percentage was 74.20.

There were no recommendations or comments for improving the Plan's efficiency and internal controls. All prior comments were satisfactorily addressed in previous years.

Member Bastian moved to accept the audit report for fiscal year ended September 30, 2018 as presented. Member Cobb seconded the motion which carried unanimously.

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

1. Legal opinion related to reinstatement of cost-of-living increases for joint annuitants upon death of retiree as it related to $95,000 benefit cap

Actuary Little raised this question at the previous meeting, specifically whether or not a member selecting a joint and survivor option (other than 100 percent) and predeceasing their joint annuitant, would the COLA for the survivor be reinstated because the benefit decreased based on the selected option.

Attorney Harrison opined that, in such cases, the COLA would be reinstated until the $95,000 benefit cap was reached again.

2. Legal opinion related to permissibility of high yield bond investments (i.e. bank loans) in Port Orange Police Pension Fund

The Board was in receipt of the legal opinion dated January 16, 2019. It concluded that investments in *"bank loans"* (floating rate debt securities below investment grade) were permissible under the current plan document provided the total allocation to securities below investment grade did not exceed five percent of the total portfolio. However, the attorney emphasized that it would be preferable to amend the ordinance to be more specific as to this type of security.

Mr. Grumbles commented on bank loans which offered a higher yield and low default rate. He proposed an allocation of 2.5 percent to be funded from global fixed income.

Board members expressed interest in receiving more information about bank loans. *Member Proctor moved to direct the investment consultant to prepare an informational* *presentation on bank loans for the next meeting. Member Cobb seconded the motion; it carried unanimously.*

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The plan administrator received a query from the Human Resources Department seeking guidance on a recent instance where the certification form for an officer was not timely submitted to the Florida Department of Law Enforcement. However, that officer had been making contributions to the pension plan.

It was the attorney's opinion that the police officer in question was entitled to credited service dating back to his swear-in date even though the official certification was not in place at that time. The Pension Board agreed. Plan Administrator Rounsavall would relay this consensus back to Human Resources.

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Attorney Harrison reported that there were no prefiled bills pending that would impact the Pension Plan. There was some discussion as to expanding presumptive diseases for police officers and firefighters but these had yet to be introduced.

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E. Karan Rounsavall – Plan Administrator

1. Educational Opportunities: Police Officers' and Firefighters' Pension Trustees' School sponsored by Florida Division of Retirement in Tallahassee (April 30 – May 2, 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, May 16, 2019.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 12:42 p.m.

Sgt. Warren Carman

Sgt. Warren Carman, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator