

TOWN OF DAVIE POLICE PENSION PLAN
Minutes

February 12, 2013
5:00 P.M.

The regular meeting of the Board of Trustees of the Town of Davie Police Pension was called to order on behalf of the Board by the Plan Administrator Bob Dorn on February 12, 2013 at 5:01 p.m. at the Town of Davie Police Department, 1230 South Nob Hill Road in Davie, Florida

TRUSTEES PRESENT:

Mr. Greg Brilliant - Chairman, Mr. Larry Davis – Secretary (arrived at 5:07 P.M.), Mr. Thomas DiMeglio - Board Trustees, Mr. Jack Mackie – Board Trustee & Mr. Ed Taylor – Board Trustee.

EXCUSED ABSENCE

None.

OTHERS PRESENT:

Mr. Adam Levinson - Board Attorney; Mr. David Lee; Board Investment Monitor (arrived at 5:17 P.M.); Mr. Don Dulaney – Board Actuary; Mr. Bob Dorn & Mrs. Patty Ostrander – Precision Pension Administration, Inc.; Mrs. Deneen Bingham & Mr. Michael Harhai – Buckhead Capital Management; & Mrs. Janna Hamilton – Garcia Hamilton & Associates & Jonathan Richards – Town of Davie Resident.

It should be noted that there was a quorum for the Board to have an official meeting.

CONSENT AGENDA FOR APPROVAL:

APPROVAL OF THE MINUTES:

The Board of Trustees reviewed the minutes for the January 14, 2013 meeting. Mr. Dorn asked if there were any changes required to the minutes. No changes were offered. Motion by Mr. Taylor to approve the minutes, seconded by Mr. Mackie. Motion passed 4-0. Mr. Davis was not present for this vote. Mr. Brilliant signed the approved minutes.

Warrant 330

Payment of \$3,155.00 to Dulaney and Company for Actuarial services through December 2012. Motion by Mr. Mackie to approve as outlined, seconded by Mr. Taylor. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 331

Payment of \$1,681.00 to Rhumblin Advisors for Quarterly Management Fees through the 4th quarter. Motion by Mr. Taylor to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 332-334

Goldstein Schechter Koch - Tabled pending further information for the Board to consider.

Warrant 335

Payment of \$1,625.00 to the International Foundation of Employee Benefit Plans for Mr. Davis to attend the October 2013 Conference. Motion by Mr. Taylor to approve as outlined, seconded by Mr. Mackie. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 336

Payment of \$1,625.00 to the International Foundation of Employee Benefit Plans for Mr. Taylor to attend the October 2013 Conference. Motion by Mr. Mackie to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 337

Payment of \$1,625.00 to the International Foundation of Employee Benefit Plans for Mr. DiMeglio to attend the October 2013 Conference. Motion by Mr. Mackie to approve as outlined, seconded by Mr. Taylor. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 338

Payment of \$15,227.91 to TAMRO Capital partners for Quarterly Management Fees through the 4th quarter. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Taylor. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 339

Payment of \$37,831.07 to Garcia Hamilton & Associates, Inc. for Quarterly Management Fees through the 4th quarter. Motion by Mr. Mackie to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0. Mr. Davis was not present for this vote.

Warrant 340

Payment of \$2,962.00 to Klausner, Kaufman, Jensen & Levinson for legal services through January 31, 2013. Motion by Mr. Mackie to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0. Mr. Davis was not present for this vote.

NEW BUSINESS:

No new business discussed.

INVESTMENT MANAGER'S REPORT:

BUCKHEAD CAPITAL MANAGEMENT

Mr. Michael Harhai presented to the Board a letter per our investment guidelines to notify the Board if any bonds have a BBB rating and they want to keep the investment. It is their intention to retain three fixed income holdings which fell to a BBB rating. He advised that they are relative small positions, have short maturities and have a nice yield in addition to a price gain. He advised that they conducted a detailed analysis of all our corporate holdings during the financial crisis over the past several years which included these three companies. The three positions are (1) Pitney Bowes 4.75% 1/15/16, XL

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Capital 5.25% 9/15/14 and Citigroup 4.875% 5/7/15. Mr. Lee did not have an objection to these holdings by Buckhead.

Mr. Harhai advised that there were no changes to our investment process and the investment professionals remained the same.

Mr. Harhai advised that the market was driven largely by the strength of lower quality stocks. Value stocks outperformed growth stocks in 2012 in the strength of strong returns in financial stocks. The fixed income for the fourth quarter had mixed results. The Federal Reserve continued to keep interest low which hurt the bond market.

Mr. Harhai advised that B+ or better did a 2.7% return while B or worse did a 4.5% return. In 2012, B+ or better returned 14.0% while B or worse returned 18.6%. The market cycles of bottom, expansion, peak and then contraction have been through-out the market. In 2007, it ends a high for value stocks. The market control at some point has to go back to strong fundamentals. A lot of the returns in the S & P were dividends and not just growth. Over a five year period, 88% of the time we have outperformed the market with less risk.

The market value of the portfolio at the end of the quarter was \$15,023,152. The equity return was -1.17% which did not beat the Russell 1000 Value of 1.52% and did beat the Dow Jones Industrial which returned -2.48%. Over the trailing year, the account returned 12.06% while the Russell 1000 Value return was 17.86% and the Dow Jones Industrial was 7.26%.

The three best equity performance contributors for the quarter were Blackrock, Baxter and Nucor. The three performance detractors were Annaly Capital Management, AT&T and BB&T. The two recent additions to the account were Walt Disney Company and VeriFone Systems.

Mr. Harhai advised that the fixed income return for the quarter was 0.42% and the benchmark was at 0.21%. For the trailing one year period, the return was 5.31% and the benchmark was at 4.22%.

GARCIA HAMILTON & ASSOCIATES

Mrs. Janna Hamilton advised that for the quarter, stocks were relatively flat, with the S & P down 0.4%. The Russell Growth was down 1.3%. The high beta, lower quality, cyclical stocks led the Industrials, Financials, and Materials sectors. While the consensus outlook currently calls for decent earnings growth in 2013, estimates have continued to trend lower over the past few months, which are reflecting a still sluggish global economy.

The portfolio holdings fundamentally continue to deliver solid earnings relative to expectations. The portfolio remains meaningfully overweight in high quality stocks.

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The equities portfolio returned a -1.7% while the Russell 1000 Growth return was -1.3% and the S & P return was -0.4%. The trailing year number is 13.2% which also is slightly behind the benchmarks and this is due to the higher quality stocks. The fixed income return for the quarter was 1.0% and the Barclays Capital Aggregate was 0.2%. The training year for fixed income return was 10.0% and the benchmark return was 4.2%.

The market value of the equities portion of the portfolio is \$18,452,329.37. The Fixed Income market value is \$16,335,432.17. The cash & equivalents market value is \$741,948.68. The total value of the portfolio that is under investment for Garcia Hamilton & Associates for the Davie Police Pension Plan is \$35,529,710.22

Small cap stocks posted slightly better returns during the quarter which caught up from modest underperformance earlier this year. Remarkably, full year returns were almost identical for large and small caps stocks. This truly reflects an absence of true momentum in the fundamentals of any single sector, industry, or geographic region.

Sector returns showed a slightly cyclical bias, with areas helped by an improving economy posting gains. Sectors typically considered being defensive experienced negative returns, including Consumer Staples and Utilities. Energy stocks slipped, as did crude prices during the quarter. The Technology stocks were the exception to the cyclical bias, declining more than 6%. Only a portion of the underperformance is attributable to Apple stock.

Since bottoming in early 2009, advances in the U.S. stock market have been driven by Federal Reserve actions aimed at increasing liquidity, driving down interest rates, and triggering investor rotation into riskier asset categories. This equity portfolio relative to style benchmark and broad market continue to exhibit greater success at meeting or exceeding earnings expectations.

The top five best performing companies in the Russell 1000 Growth during the quarter were: Green Mountain Coffee, Netflix, United Rentals, CarMax, and Polypore Intl. The top five underperforming companies in the Russell 1000 Growth were: Abbott Laboratories, Coca Cola, CR Bard, IBM and Intel.

Overall, stock selection was a negative factor. Negative selection impact was broad-based across economic sectors, reflecting the lagging returns of high quality stocks. At the individual holding level there were no major blow ups, with no single holding accountable for more than 23 basis points of negative relative contribution and only four holdings detracting by more than 10 basis points. The detraction in the quarter instead came from the lesser portfolio exposure to higher beta, lower quality stocks that dominated benchmark performance.

The stocks that worked for the quarter were American Tower, Baxter International and Cinemark Holdings. The top three stocks that didn't perform well in the quarter were Express Scripts, National Oilwell Varco, and CF Industries.

Our outlook is optimistic for stocks in 2013. Central banks around the world are determined to prevent a deflationary spiral. Stock prices should benefit from the Federal Reserve's actions. Excess capacity in production, labor, and energy suggest these policies could well remain in place through a reasonable investment horizon.

MONITOR REPORT:

Mr. David Lee advised that during the fourth quarter, just as the waning Euro crisis improved investor sentiment, pessimism returned thanks to worries over the fiscal cliff stalemate. There was a great deal of market volatility during the quarter. Stocks slumped initially and then regained momentum, only to fade in late December. Because the year ended just before Congress approved the fiscal bill, it therefore finished on a down note. Broadly speaking, value performed better than growth and smaller-sized companies moved ahead of their larger counterparts. For the full year, there were only minor differences among the standard indices. Sector results varied a great deal during the quarter. Consumers stepped up their discretionary spending, leading that sector to an 11.7% advance. The Financials sector was up 7% while the Energy sector lagged behind and fell to 1.9%. The unemployment rate remains at 7.8%. The International Equity rallied while the Domestic Equity markets trailed behind. The US Dollar weakened relative to the Euro.

On December 31, 2012, the Town of Davie Police Pension Fund was valued at \$94,729,806. This represented an increase of \$1,233,452 from the September quarter's ending value of \$93,496,354. Last quarter, the fund posted net contributions equaling \$801,372 plus a net investment gain equaling \$432,080. Net investment return was a result of \$717,478 in income receipts and \$285,398 in net realized and unrealized capital losses.

For the cumulative period since December 2007, the portfolio has posted net contributions totaling 13.8 million, and recorded net investment gains totaling \$17.1 million. For the period since December 2007, if the fund had returned a compounded nominal rate of 7.9% it would have made the value of the fund at around 109 million. Mr. Davis inquired to Mr. Lee if this meant that the fund did not do well during this time period. Mr. Lee advised that for the market and the economic conditions, the plan did good compared to other plans in the same situation during this time period.

Mr. Lee advised that the total fund composite return for the quarter was 0.5%. Over the trailing twelve month period, the portfolio returned 11.7%. Since December 2007, the portfolio returned 4.0%.

Mr. Lee advised that the portfolio is a little underweighted at 9.9% which we have a target of 12.5%. Mr. Brilliant inquired as to where the fund is over-weighted at this time. Mr. Lee advised that we are within all acceptable allocations, but we are over-weighted in cash & equivalents. Mr. Lee also advised that we are under our target in real estate this should be corrected within a quarter or two.

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Mr. Lee advised that the funds invested by Garcia Hamilton in equity returned -0.4% for the fourth quarter. Since December 2007, the portfolio returned for equity was 4.9% which ranked them in the 12th percentile. The fourth quarter return for fixed income was 1.0% which ranked them in the 9th percentile for the time period. Over the trailing twelve month period, the Garcia Hamilton return for fixed income was 9.9% which clearly beat the benchmark's return of 4.2%.

Mr. Lee advised that the Buckhead Capital portfolio was valued at \$32,335,092 as of December 31, 2012. This represented a \$295,992 increase over the September ending value of \$32,039,100. Over the last three months, the Fund recorded net contributions totaling \$404,424, which overshadowed the account's \$107,432 net investment loss for the period. Since December 2007, this portion of the fund recorded net investment gains of \$5.4 million which accounts for a 3.7% return on an annualized basis. The fixed income posted a gain of 0.3% which was 0.1% greater than the benchmark.

Mr. Lee advised that RhumbLine portfolio was valued \$6,871,416 which represented a \$236,842 increase from the last quarter. The fourth quarter return was 3.6% which ranked then in the 27th percentile of the Mid Cap universe. Over the trailing year, the return was 17.9% which was equal to the benchmark return.

Mr. Lee advised that TAMRO's account was valued at \$7,166,082 at the end of the quarter. This represented a decrease of \$165,655. For the fourth quarter, TAMRO portfolio lost 2.0% which was 3.8% less than the benchmark return of 1.8%. This gave them a ranking in the 92nd percentile of the small cap universe. Over the trailing year, this account returned 17.7%, which was slightly better than the benchmark (16.3%). Mr. Lee advised that the overweight in Consumer Service and Service sectors were major detractors for the portfolio during the quarter.

Mr. Lee advised that SSgA portfolio was valued at \$4,147,429 which represented an increase of \$256,239 from the previous quarter. This represented a 6.6% return which equaled the benchmark for the quarter. Since December 2007, the account returned a negative 3.4% on an annualized basis and the benchmark return was a negative 3.2%.

Mr. Lee advised that American Core Realty Fund, LLC account was valued at \$2,387,595 which represented a gain of 2.5% for the quarter. Over the trailing twelve month period, the portfolio return was 11.3% which beat the benchmark (10.9%).

Mr. Lee advised that UBS Trumbull Property Fund was valued at \$1,042,104 which was an increase of \$16,874 since the last quarter. The fourth quarter return was 1.9% which was slightly lower than the benchmark (2.3%).

Mr. Lee advised that it was an overall poor quarter for the fund, but everyone had a relative poor quarter. Mr. Lee advised that overall he is positive for the investments and the real estate portion of the account has done well for us. Mr. Lee advised that the real

estate portion money had been taken from the bonds and the bonds have returned less than 3% while the real estate has returned approximately 11.2%.

Mr. Davis and Mr. Mackie advised that they are concerned about the ranking of some of the managers. Mr. Lee advised that he looks at the quarter but more importantly he looks at the trailing numbers. Mr. Lee advised that a drop of 1.0% can have a major impact on the ranking system of an investment company. Mr. Lee advised that for the first time, we had a bad quarter with all of the equity pieces. Mr. Lee advised that this shouldn't happen again. Mr. Lee advised that over the five-year period the returns have been good but compared to the other funds the account has done great.

ATTORNEY REPORT:

Mr. Adam Levinson reported to the Board on House Bill 458 which is an interpretation of a recent letter from the City of Naples to the Division of Retirement. The division was asked whether a city that negotiated and mutually agreed with its police officers to reduce benefits below levels in place on March 12, 1999, would jeopardize its premium tax revenues. In its new interpretation, the division advised that for local law plans in effect on October 1, 1998, the law compels the plan to provide chapter minimum benefits only to the extent that those benefits can be funded with additional premium tax revenues. So, for local law plans in effect on October 1, 1998, chapter minimum benefits must be provided only to the extent that they can be funded with premium tax revenues received in excess of the amount for calendar year 1997. Under the new interpretation, it appears that the following things are true: A plan sponsor may redirect, at its discretion, its pre-1997 premium tax revenue from funding minimum pension benefits to funding other non-pension retirement benefits, the plan's pension benefits could be reduced to the level that can be funded solely by those additional premium tax revenues received in excess of the 1997 level; a plan sponsor could reduce its mandatory contribution it was previously making to the plan to fund minimum benefits and redirect those monies to other municipal purposes; and Post 1997 insurance premium tax revenues used previously to fund extra benefits would be used to fund minimum benefits. The division has subsequently provided this new interpretation to other inquiring cities, on a case by cases basis. DMS has not adopted this new interpretation as a rule, or its previous entirely different interpretation of the exact same statutory language.

House Bill 534 has a lot of new reporting items that pension boards have to report to the state. This Bill is trying to give more meaningful disclosure.

Mr. Levinson advised of an article in Pension & Investments web site regarding reporting false information by two academics regarding the investment returns of the Rhode Island pension fund.

Mr. Levinson advised that on their web site they have an article regarding the basic misunderstanding of states and municipalities regarding bankruptcy. This article can be reviewed by the Board and members.

Mr. Levinson submitted to the Board new DROP Application forms and the frequently asked questions pamphlet for the Board to review and discuss at the next meeting. Mr. Levinson advised that the final corrected version of the summary plan description (SPD) will be ready for the next meeting.

ACTUARY:

Mr. Dulaney advised the Board that the updated DROP statements were sent out to the members and also sent to the Plan Administrator. Mr. Dulaney advised that he contacted the Town of Davie Manager and advised that they spoke about the valuation report. Mr. Dulaney advised that he sent the Town of Davie the valuation numbers and the full report will be presented to the Board at the next meeting. Mr. Dulaney advised the Board that the Town just needed the numbers and not the actual report. Mr. Dulaney advised that he also reviewed the language in the summary plan description (SPD) and agrees with the language.

PLAN ADMINISTRATOR:

Mr. Dorn advised that the subscription agreement between Davie Police Pension Plan and Intercontinental Real Estate Investment Funds, LLC has been reviewed by Mr. Levinson and Mr. Lee. Both have approved the subscription agreement. Mr. Dorn advised that at the previous meeting it was voted upon and approved to enter into this agreement. Mr. Dorn advised that this needs to be executed by to Board members. Mr. Brilliant and Mr. Davis signed the necessary subscription agreement forms.

Mr. Dorn advised that once we receive the summary plan descriptions for the Tier 1 & 2 members it will be placed on the web site.

OPEN DISCUSSION:

There were no issues in open discussion.

ADJOURN:

Mr. Taylor made a motion to adjourn the meeting. Mr. DiMeglio seconded the motion. The Motion passed 5-0. The meeting was adjourned at 6:45 p.m.


Greg Brilliant, Chairman