

TOWN OF DAVIE POLICE PENSION PLAN
Minutes

February 10, 2015
5:00 P.M.

The regular meeting of the Board of Trustees of the Town of Davie Police Pension Plan was called to order on behalf of the Board by the Plan Administrator, Bob Dorn on February 10, 2015 at 5:01 p.m. at 13790 N.W. 4th Street, Suite 105, Sunrise, Florida.

TRUSTEES PRESENT:

Mr. Greg Brilliant – Chairman; Mr. Larry Davis – Secretary; Mr. Jack Mackie & Mr. Thomas DiMeglio - Board Trustees.

ABSENT:

Mr. Ed Taylor - Trustee

OTHERS PRESENT:

Mr. Adam Levinson - Board Attorney; Mr. David Lee - Board Investment Monitor; Mr. Don Dulaney – Board Actuary; Mr. Bob Dorn & Mrs. Patty Ostrander – Precision Pension Administration, Inc.; Mrs. Janna Hamilton – Garcia Hamilton; Mr. Pete Hapgood – Intercontinental; Ms. Rosa Salum – Board Auditor.

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

CONSENT AGENDA:

APPROVAL OF THE MINUTES:

The Board of Trustees reviewed the minutes for the January 13, 2015 meeting. Mr. Dorn asked if there were any changes required to the cited minutes. Changes were offered by Mr. Levinson & Mr. Davis and duly noted. A Motion by Mr. DiMeglio to approve the minutes as amended. The Motion seconded by Mr. Davis. Motion passed 4-0.

WARRANT 586

Payment of \$24,158.97 to TAMRO Capital Partners, LLC. for the fourth quarter of 2014. Motion by Mr. Mackie to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0.

WARRANT 587

Payment of \$3,000.00 to Goldstein, Schechter & Koch for Audit Services in connection with the year ended 09-30-14. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Mackie. Motion passed 4-0.

WARRANT 588

Payment of \$5,728.96 (As per our Board Actuary) to Kelly Drum as a recurring monthly retirement benefit. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Davis. Motion passed 4-0.

WARRANT 589

Payment of \$10,600.16 to Garcia Hamilton – Equity Account for the period 10-01-14 through 12-31-14. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Mackie. Motion passed 4-0.

WARRANT 590

Payment of \$37,280.52 to Garcia Hamilton – Fixed Income Account for the period 10-01-14 through 12-31-14. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Davis. Motion passed 4-0.

WARRANT 591

Payment of \$2,918.00 to Klausner, Kaufman, Jensen & Levinson for legal services through January 2015. Motion by Mr. Mackie to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0.

WARRANT 592

Payment of \$4,413.75 to Dulaney & Company, Inc. for Actuarial services through December 2014. Motion by Mr. Mackie to approve as outlined, seconded by Mr. DiMeglio. Motion passed 4-0.

WARRANT 593

Payment of \$2,079.05 to State Street Global Advisors for the period 10-01-14 through 12-31-14. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Davis. Motion passed 4-0.

WARRANT 595

Payment of \$918.11 to Jack Mackie for Reimbursement for attendance at FPPTA February Conference. Motion by Mr. DiMeglio to approve as outlined, seconded by Mr. Davis. Motion passed 4-0.

WARRANT 596

Payment of \$809.95 to Greg Brilliant for Reimbursement for attendance at FPPTA February Conference. Motion by Mr. Mackie to approve as outlined, seconded by Mr. Davis. Motion passed 4-0.

NEW / UNFINISHED BUSINESS:

There was no new or unfinished business.

INVESTMENT MANAGER'S REPORT(S):

GARCIA, HAMILTON & ASSOCIATES:

Mrs. Janna Hamilton indicated that as of 12-31-14, the Equity Account portfolio had a market value of \$11,425,577.11. Mrs. Hamilton advised that the firm's investment philosophy has not changed and there were no employee changes. Stock prices were quite volatile during the quarter, but finished up with healthy returns. Small Cap stocks outperformed Large Cap stocks during the quarter. Energy and Materials sectors declined and the overall earnings estimates continue to slip throughout 2014.

The portfolio gained 5.7% in the quarter, outperforming the benchmark (Russell 1000 Growth Index) which was at 4.8%. Stock selection contributed 31 basis points of

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performance. Solid contributions came from many holdings including CVS Health, Express Scripts, Health Care REIT, Ross Stores and Whole Foods Market. Several companies had negative impact on the portfolio during the quarter and they were Stratasy Ltd, National Oilwell Varco Inc, and Trimble Navigation. Style was not a significant factor in performance this quarter with Growth and Value stocks posting similar gains across capitalization ranges. Portfolio remains conservatively positioned with a meaningful overweight in high-quality stocks balanced by exposure to asset management companies positioned to benefit from rising financial markets. Over 25% of portfolio holdings are rated A+ by S&P Earning and Dividend Quality Ranking, which is more than double the weighting of the benchmark.

Mrs. Janna Hamilton indicated that as of 12-31-14, the Fixed Income Account portfolio had a market value of \$40,183,505.49. The investment goals and philosophy for Fixed Income has not changed. The Fixed Income return for the quarter was 2.5% and the benchmark (Barclays Capital Aggregate Index) was 1.8%. The return for the year was 7.7% and the benchmark return for the year was 6.0%. The return for the last 3 years was 5.8% and the benchmark return was 2.7%.

During the quarter, the 10-year Treasury yield declined 33 basis points to end the year at 2.17%. The two-year yield increased 8 basis points to 0.66%, while the 30-year Treasury yield dropped 46 basis points to 2.75%. These moves caused the 2-30 year yield spread to flatten 209 basis points. With the decline in the intermediate and long term rates, the bond market delivered positive performance for the quarter with a return on the Barclays Capital Aggregate Index of 1.79% and a return on the Intermediate Government Credit Index of 0.89%. Spread product returns were mixed during the quarter. The asset-backed securities sector was the one to provide a positive excess return for the quarter with 8 basis points. Mortgage-backed, Corporate and Agency securities had a negative excess return for the quarter. Our duration remains marginally longer than the benchmark index and we remain underweight in corporate bonds versus the index. In the short term, we continue to believe rates will remain about the same.

INTERCONTINENTAL:

Mr. Hapgood made the presentation on behalf of Intercontinental. The firm has not changed its philosophy or had any changes in employees during the quarter. The portfolio return for the quarter was 4.91% and the benchmark return was 3.25%. The one-year portfolio return was 13.64% and the benchmark one-year return was 12.48%. The return for the portfolio since inception is 14.81%. A reminder of their strategy is it is a multi-disciplinary investment strategy which has a cash yield of 6-8% and a total return of 10%. The foundation of the yield driven property assets is that 80% is core/core-plus and 20% valued added. The key criteria is (1) liquidity – redemption available on a quarterly basis, (2) portfolio leverage target of 50%, (3) 25% of funds assets appraised each quarter (by independent appraisal company), (4) debt is marked to market and (5) no lock-out period.

The diversification of the portfolio is exhibited by the various sectors in the real estate market. The portfolio has 32% in office, 9.9% in industrial, 1.3% in hotel, 31.1% in multi-family, 2.3% housing, 6.8% in senior living, 9.0% in retail, 4.9% in healthcare, and 2.7%

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in other. The geographical position of the properties held by the portfolio is 35.4% in the Eastern U.S, 22% in the Southern U.S, 21.4% in the Western U.S and 21.2% in the Midwestern U.S.

The commercial real estate outlook has improved. Vacancies have improved substantially from the peaks experienced during the recession. Rents from office, apartments and industrial are expected to grow at a rate of 3% over the next year. Further out rent inflation will gain additional momentum as the economy makes greater strides with rents growing in the 4-5% range in succeeding years. Limited construction of new space during the recession and recovery will support rent growth in most markets. Volume of transaction activity continues to increase. The year-to-date property sales have totaled \$238 billion nationally which is 27% ahead of last year's pace.

DAHAB & ASSOCIATES:

Mr. David Lee made the presentation for Dahab & Associates. Mr. Lee advised that he will be brief on the market overviews since the previous two investment managers covered the topic for the Board. Mr. Lee advised that the unemployment rate dropped to 6.7%. Large cap growth stocks posted the strongest performances and the small cap growth posted the weakest return.

On 12-31-14, the plan value was at \$128,701,666. Last quarter, the plan posted net contributions equaling \$4,631,271 plus a net investment gain equaling \$4,638,516. The fund's return for the quarter was 3.8%. The one-year return was 7.8% and the three-year return was 12.0%. The five-year return was 9.8%.

The fourth quarter returns were as follows: Large Cap Equity return was 4.7%, Mid Cap Equity return was 6.3%, Small Cap Equity return was 10.2%, International Equity return was -2.0%, Real Estate was 1.6% and Fixed Income return was 2.5%. The total return for the fourth quarter net of fees was a 3.6% return for the portfolio.

The asset allocation is as follows: Large Cap Equity is 33.3%(\$42,871,553), Mid Cap Equity is 9.7%(\$12,444,736), Small Cap Equity is 8.7%(\$11,261,007), International Equity is 8.5%(\$10,994,672), Real Estate is 7.5%(\$9,668,427), Fixed Income is 31.1%(\$40,084,170) and Cash is 1.1%(\$1,377,101).

Mr. Lee advised the Board that Lyrical Asset Management wanted to increase the percentage amount of one holding in their investment portfolio from 5% to 15%. Mr. Lee advised that he would agree for this investment company to increase it to 10%. The current guidelines have each investment manager at 5%. The Board discussed and agreed to the increase. Mr. Mackie made the motion to increase the amount of percentage holding by Lyrical from 5% per stock to 10%. Mr. DiMeglio seconded the Motion. The Motion passed 4-0. Mr. Lee advised that he would discuss with the Board at the next meeting increasing the guidelines for other specific managers to the same as Lyrical. Mr. Mackie made the Motion to approve the investment contract with Lyrical Asset Management and to have the document executed. Mr. DiMeglio seconded the Motion. The Motion passed 4-0. Mr. Mackie made a Motion to approve the investment contract with Snow Capital management and have it executed. It should be noted that

Chairman Mr. Greg Brilliant executed the two aforementioned contracts. Mr. Dorn advised that he would send the contracts to both firms.

Mr. Lee suggested that the funding of the two new investment managers come from the Buckhead Capital fund and if there is more funds needed than the funds will be taken from the Vanguard Index fund. The Board members discussed this issue and agreed with Mr. Lee's suggestions. Mr. Mackie made a Motion to send six million from the Buckhead Capital fund either in kind or in cash to Lyrical Asset Management as soon as administratively as possible. This Motion was seconded by Mr. DiMeglio. The Motion passed 4-0. Mr. Mackie made a Motion to fund the Snow Capital fund with the remaining funds from the Buckhead Capital account and if funds were needed, to send the six million, then funds would be taken from the Vanguard Capital fund. This Motion was seconded by Mr. DiMeglio. The Motion passed 4-0. Mr. Dorn advised that he would contact the necessary investment managers and the bank representatives to ensure that this is completed.

Mr. Lee advised that he would update the investment guidelines with the new managers and bring them to the next meeting for the Board to approve.

Financial Statements – September 30, 2014 Goldstein Schechter Koch

Ms. Rosa Salum of Goldstein Schechter Koch appeared before the Board for the presentation of the audit report.

The responsibility of the auditor is to express an opinion on these financial statements based upon the audit. The audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those statements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ms. Salum stated that the financial statement presented fairly, in all material respects, the fiduciary net position of the Town of Davie Police Pension Plan as of September 30, 2014 and 2013, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Ms. Salum stated that the firm has issued a clean unqualified opinion on The Town of Davie Police Pension Plan.

Plan assets exceeded its liabilities at the close of the fiscal years September 30, 2014 and 2013 by \$117,768,626 and \$106,391,394, respectively. The Plan's net position is held in trust to meet future benefit payments. The increase in the Plan's net position of the respective years has result primarily from changes in the fair market value of the Plan's investment in the financial markets.

The Town of Davie contributions to the Plan For the fiscal year ending September 30, 2013 decreased by 7.30% based upon the actuarial valuation. The member contributions have fluctuated from year to year based upon the number of active members and salaries. Administrative expenses decreased from the previous year.

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The relative return of the portfolio was 9.5% and ranked in the 59th percentile of the public fund universe. The actual net returns from investments were net investment income in 2014 were \$9,398,648.00.

The Fiduciary Net Position presents information that includes all of the Plan's assets and liabilities as a snapshot of the financial position of the plan at a specific point in time which reflects resources available to pay members, retirees and beneficiaries at that point in time. The condensed statement of fiduciary net position is as follows: cash & equivalents were \$2,536,783, receivables \$342,521, prepaid benefits paid \$405,359 which gave total assets were \$119,827,787. The liabilities were \$2,059,161. The net position restricted for pensions is \$117,768,626.00.

For the fiscal year ending September 30, 2014, the domestic equity portion comprised 53.30% (\$63,468,503) of the total portfolio. The allocation to fixed income debt securities was 27.15% (\$32,327,950), and the cash equivalents comprised 2.13% (\$2,536,783). The allocation to international equity was 9.44% (\$11,233,935). The real estate fund was 7.98% (\$9,502,736) of the total portfolio.

The contributions to the plan were as follows: Town of Davie contributions were \$5,503,045, Member's contributions were \$1,670,986 and the State's were \$747,469. The total contributions were \$7,921,500.00. The investment income was from the net appreciation in the fair value of investments which was \$6,936,717 and the interest/dividends were \$3,036,858. The total investment income was \$9,973,575.00. The investment expenses were \$574,927. The net investment income was \$9,398,648.00. The total additions to the plan were \$17,320,148.00. The deductions were as follows: benefits paid were \$5,739,942, refunds of contributions \$31,616 and administrative expenses were \$171,358. The total deductions were \$5,942,916. The net increase (total net investment income minus total deductions) to the Plan is \$11,377,232.00. The balance at the beginning of the year was \$106,391,394 and the end of the year balance is \$117,768,626.00.

Ms. Salum reviewed with the Board the Tier One and Tier Two benefits, deferred retirement option plan (DROP), and optional forms of retirement income (benefit options).

The beginning balance of the total DROP account was \$5,554,331.00. The additions to the DROP were \$895,801 and the unused leave balance was \$186,580. The DROP distributions were \$1,235,269. The interest on the DROP accounts was \$527,269 and the expenses for the DROP were \$3,870.00. The ending balance of the DROP account was \$5,924,842.00.

The Plan is tax-exempt under the Internal Revenue Code and, therefore, has recorded no income tax liability or expense.

The Plan adopted Governmental Accounting Standards Board (GASB) statement No.67, Financial Reporting for Pension Plans. This is new for the Board. GASB 67 applies to

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pension plans that administer pension benefits for governments through a trust or equivalent arrangement that meets certain specified criteria. GASB 67 establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the net pension liability of employees for benefits provided through the pension plan. The adoption changed various reporting terminology, footnotes disclosures, and required supplementary information to be disclosed.

The components of the net pension liability of the Town of Davie as of September 30, 2014 were as follows: Total pension liability was \$120,782,373, Plan fiduciary net position was \$117,768,626 and the Town of Davie net pension liability is \$3,013,747. The Plan fiduciary net position as percentage of total pension liability is 97.50%. The City's net pension liability as a percentage of covered –employee payroll is 21.66%. The annual money-weighted rate of return (net of investment expense) is 9.10%.

Ms. Salum reviewed some of the exhibits in the Audit Report which was some of the same material in the Actuarial Valuation Report. Mr. Levinson asked Ms. Salum if her company received full cooperation from the actuary, plan administrator, attorney, monitor, custodian, and investment managers. Ms. Salum advised that she did receive full cooperation during the audit from all parties mentioned. Mr. Levinson inquired to Ms. Salum if the administrative expenses were within an acceptable range? Ms. Salum advised that the administrative expenses were below the normal expenses for this size of the Plan.

The Board discussed with Ms. Salum the expense section which initially showed no expenses for education and subscriptions. These sections were changed to include education and subscription expenses.

Mr. Davis made a Motion to accept the Auditor's report as amended. The Motion was seconded by Mr. Mackie. The Motion passed 4-0.

Mr. Dorn advised that he would send the auditor report to the Town and State.

ATTORNEY REPORT:

Mr. Levinson advised that he would be brief in his report. Mr. Levinson advised that Senate Bill 534 is in subcommittee and would brief the Board at a later time. Mr. Levinson also advised that he would review the new Administrative Rule on Cola's at the next meeting. Mr. Levinson advised that he reviewed and approved the contracts for Lyrical Asset Management and Snow Capital Management.

ACTUARY:

Mr. Dulaney gave the presentation of the Actuarial Valuation Report of the Town of Davie Police Pension Plan as of October 1, 2014. The Actuarial Valuation Report develops the required minimum retirement plan payment for the fiscal year beginning October 1, 2014 and ending September 30, 2015 under the Florida Protection of Public Employee Retirement Benefits Act and Chapter 185. The minimum payment consists of payment of annual normal costs plus amortization of the unfunded actuarial liability

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over various periods, and interest, as prescribed by law. The required funding amount for the plan/fiscal year ending September 30, 2015 to be met by the Town of Davie and State contributions under Chapter 185 is \$6,361,217 or 47.4% of the covered payroll. The member pension contributions will be \$938,837.00. The anticipated State (Chapter 185) contribution is \$747,469.00 (actual amount received for the 2013/2014 plan year). The resulting Town of Davie requirement contribution is \$5,613,748.00 or 41.9% of the covered payroll. If the actual Chapter 185 contribution is below the anticipated \$747,469.00, then the difference must be made up by additional Town of Davie contributions.

As of October 1, 2014, the plan had a total market value of \$119,827,787. The report this year must include DROP benefit payments as a liability and not as an asset. The total liabilities were \$7,984,004 which then changed the grand total for market value to \$11,843,783.

The smoothing method is used to move some of the bad financial years over a several year period. The plan has experienced several years of positive returns which means that there is an excess of \$5,000,000 in assets not accounted for at this time because they will be evenly divided over the next few years returns. The plan had another year of an actuarial gain and this report exhibits the actuarial gain experienced during the plan year was \$1,174,047.00. The covered payroll decreased by approximately 3.6% and the number of active participants decreased by 4.4%. The funded ratio for the plan is 78.6%. The market value rate of return was 9.1% for the fiscal year ended 09-30-14.

The following are changes from October 1, 2013 in the actuarial valuation. The actuarial assumptions on mortality table, fund investment return, salary increases and allowances for expenses have been revised in this valuation report. The assumed fund investment return was changed from 7.90% to 7.60% (net of investment expenses), compounded annually. The assumed future salary increases was changed from 6.25% per year to 5.50% per year. The rates in the termination table were reduced by 20% and the mortality table was changed from GAM83 to the RP-2000. The changes were made to better reflect the expected plan experience. The allowances for expenses changed from gross of investment fees to net of investment fees.

The participant data for this report is as follows: 153 active plan participants, 89 retired plan participants and beneficiaries receiving benefits, 14 DROP plan participants, 6 disabled plan participants receiving benefits and 3 terminated vested employees.

The contributing sources of funding for the plan came from the State, Town and employees. The Town of Davie contributed \$5,613,748, the State contributed \$747,469 and the employees contributed \$938,837 during this period. Mr. Dulaney advised that most of his report will be in the Auditor's report as exhibits.

The Board then agreed to accept the Actuarial Valuation Report. Mr. Davis made a Motion to accept the Actuarial Valuation report as presented. Mr. DiMeglio seconded the Motion. The Motion passed 4-0. Mr. Dorn advised that he would send this report to the Town and State.

PLAN ADMINISTRATOR:

Mr. Dorn advised that Mr. Kelly Drum has submitted his retirement documents and will start collecting his pension on March 1, 2015. The Board reviewed his documents and accepted these documents.

Mr. Dorn advised that a death check was completed and there were no changes.

OPEN DISCUSSION:

No Open Discussion.

ADJOURN:

Mr. Mackie made a Motion to adjourn the meeting. Mr. DiMeglio seconded the Motion. Motion passed 4-0. The meeting was adjourned at 7:59 p.m.



Greg Brillant, Chairman by

Wannence Jay Davis, Secy