# TOWN OF DAVIE POLICE PENSION PLAN
## Minutes

May 14, 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 May 14, 2013 at 5:00 p.m. at the Town of Davie Police Department, 1230 South Nob Hill Road in Davie, Florida

**TRUSTEES PRESENT**:

Mr. Greg Brillant, Chairman, Mr. Larry Davis, Secretary, Mr. Jack Mackie, Board Trustee, Mr. Thomas DiMeglio, Board Trustee and Mr. Ed Taylor, Board Trustee

**OTHERS PRESENT**:

Mr. Adam Levinson, Board Attorney, - Klausner, Kaufman, Jensen & Levinson; Mr. Bob Dorn and Patty Ostrander – Precision Pension Administration, Inc.; Janna Hamilton and Daniel Kallus – Garcia Hamilton & Associates; Michael Harhai – Buckhead Capital Management; James Pontone – Johnston Asset Management: David Lee – Dahab & Associates. Mr. Jonathan Woodruff and Mr. Aaron Lally also were in attendance.

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 April 9, 2013 meeting. Mr. Dorn asked if there were any changes required to the minutes of the April 9, 2013 meeting. Mr. Brillant corrected the Assumed Rate of Return on page 6 to 7.9%. Mr. Taylor corrected Mr. Frailing's DROP Date to July 01, 2013. A Motion was made by Mr. Mackie to approve the minutes with the above two amendments. Mr. Davis seconded the Motion. The Motion passed 5-0. Mr. Davis signed the approved minutes.

**WARRANT 366**

This warrant was for payment to Dulaney & Company, Inc., for actuarial services rendered through March 2013. The amount for this warrant is $3,486.25. Mr. Mackie made a Motion to approve this warrant for payment. Mr. Taylor seconded this Motion. The Motion passed 5-0.

**WARRANT 367**

This warrant was for payment to FPPTA so that Trustee Taylor could attend the June 2013 pension conference. The amount for this warrant is $500.00. Mr. Mackie made a Motion to approve this warrant for payment. Mr. Davis seconded this Motion. The Motion passed 5-0.

**WARRANT 368**

This warrant was for payment to FPPTA so that Trustee Davis could attend the June 2013 pension conference. The amount for this warrant is $500.00. Mr. Mackie made a Motion to approve this warrant for payment. Mr. Taylor seconded this Motion. The Motion passed 5-0.

**WARRANT 369**

This warrant was for payment to FPPTA so that Trustee Mackie could attend the June 2013 pension conference. The amount for this warrant is $500.00. Mr. Davis made a Motion to approve this warrant for payment. Mr. Taylor seconded this Motion. The Motion passed 5-0.

**WARRANT 370**

This warrant was for payment to Garcia Hamilton & Associates, L.P., for management services rendered from 01-01-13 through 03-31-13. The amount for this warrant is $39,055.89. Mr. Taylor made a Motion to approve this warrant for payment. Mr. Mackie seconded this Motion. The Motion passed 5-0.

**WARRANT 371**

This warrant was for payment to TAMRO Capital Partners, LLC, for management services rendered for the first quarter of 2013. The amount for this warrant is $17,094.50. Mr. Taylor made a Motion to approve this warrant for payment. Mr. DiMeglio seconded this Motion. The Motion passed 5-0.

**WARRANT 372**

This warrant was for payment to Klausner, Kaufman, Jensen & Levinson, P.A. for legal services rendered through March 31, 2013. The invoice number is #14626. The amount for this warrant is $900.00. Mr. Davis made a Motion to approve this warrant for payment. Mr. DiMeglio seconded this Motion. The Motion passed 5-0.

**WARRANT 373**

This warrant was for payment to Klausner, Kaufman, Jensen & Levinson, P.A. for legal services rendered through April 30, 2013. The invoice number is #14697. The amount for this warrant is $872.25. Mr. Davis made a Motion to approve this warrant for payment. Mr. DiMeglio seconded this Motion. The Motion passed 5-0.

## OLD BUSINESS:

Mr. Dorn advised that there was no changed to Mr. Jenkins' situation. Mr. Levinson advised the Board that we should continue to stay in contact with Mr. Jenkins and to try and monitor his situation periodically. The Board discussed this issued and agreed at this time not take any formal legal action for the remaining money owed to the plan. The Board made it clear that they are not forgiving Mr. Jenkins debt, but giving him a little more time for repayment because of his current financial situation.

## NEW BUSINESS:

There was no new business.

## INVESTMENT MANAGERS REPORTS:

### GARCIA HAMILTON & ASSOCIATES

Janna Hamilton and Daniel Kallus presented the Garcia Hamilton & Associates report to the Board. Stocks had a strong advance for the quarter. The S & P 500 was up 6% and the Russell 1000 Growth was up 9.5%. The aggressive monetary easing and "fiscal cliff" resolution provided the fuel for higher stock prices. The riskier, lower quality stocks outperformed broadly. Health Care and Consumer Staples were surprisingly the top sectors for the quarter. The consensus outlook currently calls for decent earnings growth in 2013, but estimates have continued to trend lower over the past few months which are reflecting a still sluggish global economy.

The portfolio's holding continue to deliver solid earnings relative to expectations. Stock selection was a negative factor this quarter. This was primarily due to low quality leadership across the sectors. Sector allocation was a negative factor due to an underweight in Health Care stocks. The portfolio remains meaningfully overweight in high quality stocks.

Domestic stock markets moved steadily higher through the quarter which was bolstered by a flood of liquidity from central banks around the world. Investment style did not play a large role in performance. Sector returns were unusual. Double-digit gains typically are associated with improving economic activity which favors cyclical stocks. During the first quarter, more defensive areas (Health Care and Consumer Staples) posted the best returns. Conversely, more economically-sensitive sectors (Information Technology, Materials, and Industrials) lagged behind. Since bottoming in early 2009, advances in the U.S. stock market have been driven by Federal Reserve actions aimed at increasing liquidity which drove down interest rates and triggering investor rotation into more risky asset categories.

The market value at the end of the quarter for the equities portion was $19,556,957.59. The fixed income market value at the end of the quarter was $17,171,229.54. The cash &

equivalents totaled $761,237.31. The total value under investment by Garcia Hamilton & Associates is $37, 489,424.45.

For the quarter, the equities return 8.2% and the Russell 1000 Growth benchmark returned was 9.5%. Sector allocation and stock selection were both contributors to underperformance relative to the benchmark. The fixed income return was 0.7% and the Barclays Capital Aggregate return was -0.1%. The blended index return was 4.6% and the portfolio return was 4.5%.

The three best performing stocks for the quarter was Celgene, Valero Energy, and McCormick. The three under performing stocks for the quarter was CF Industries, American Tower and Limited Brands.

The portfolio remains positioned with a slightly overweight in economic sectors sensitive to an improvement in global economic conditions and resulting corporate earnings delivery. As of March 31, the Financials sector represented the largest overweight in the portfolio followed by Materials and Industrials. The Health Care sector remains the most underweighted sector in the portfolio. After a great first quarter, we see stocks finishing 2013 above current levels.

**BUCKHEAD CAPITAL MANAGEMENT**

Mr. Michael Harhai presented the Buckhead Capital Management report to the Board. Buckhead Capital has 1.5 billion in assets under management. There have been no changes to our investment process. We are still 100% employee owned.

Coming off a very strong 2012, the stock market rally continued without interruption in the first quarter. Overcoming concerns about budget sequestration, an increase in payroll taxes, and the emergence of a Cypriot front in Europe's ongoing financial troubles, the S&P 500 index gained 10.6% in the first quarter. The market closed with a record high on the last trading day of March. The S&P 500 has now regained all of its 2008/2009 losses. Lower quality stocks continued to lead the market. The lower stocks being rated B or worse by Standard & Poor's. How high the market will go is unknown to everyone. This is the fifth best bull market in history. There is no clue to determine how long this will last. If the Federal Reserve stops the liquidity into the markets, interest rates will then start to raise which will slow or stop the market increases.

The equities portion of the fund return for the quarter was 11.01% and the Russell 1000 Value benchmark return was 12.31%. The fiscal year to date return was 9.71% and the benchmark return was 14.02%. The one year return was 11.95% and the benchmark was 18.77%. The three year return was 9.77% and the benchmark was 12.74%. The five year return was 4.89% and the benchmark was 4.85%.

The 75% of the stocks in the portfolio have a rating of B+ or higher while the Russell 1000 Value has only 52% of stocks with a rating of B+.

The market value of the equities at the end of the first quarter was $16,511,936. The fixed income value was $16,146,327. The cash & equivalents value was $1,733,556. The total value under investment was $34,391,818.

Financials and Energy were the highest invested sectors in the portfolio. The sectors with the least investment are Telecommunications Services and Materials. The three best performing stocks for the quarter were Blackrock, Pepsico and H&R Block. The worst performing stocks for the quarter were VeriFone, Caterpillar, and Dow.

The fixed income market posted a slight loss in the first quarter of 2013. The yields typically rise on good economic news and the economic data generally came in stronger than expected in the quarter as the unemployment rate fell 7.7% and the housing market continued to show signs of recovery. Nevertheless, the Federal Reserve has made it clear that it does not intent to raise interest rates until employment declines to 6.5%, with inflation remaining under control, so yields did not rise as much as they might have otherwise. The Fed continued to employ the QEIII program of purchasing $85 billion of Treasury and mortgage securities each month, and reinvesting all coupon and payment proceeds. The effect has provided a strong support for the equity market as well, with equity returns reaching double digits and the fixed income with negative returns.

The fixed income return for the quarter was 0.4% and the Barclays Aggregate was - 0.12%. The fiscal year to date return was 0.82% and the benchmark return was 0.09%. The one year return was 4.48% and the benchmark return was 3.77%. The five year return was 5.72% and the benchmark return was 5.47%.

The fixed income portfolio remains slightly defensive, shorter duration position, and although corporate yield spreads have declined to less than average levels, we remain over-weighted in the high-quality corporate credit areas. This combination of lower overall duration with an over-weighted corporate duration produced decent first quarter returns. We have maintained this position going into the second quarter.

## JOHNSTON ASSET MANAGEMENT

Mr. James Pontone presented the Johnston Asset Management report to the Board. An overview of the Johnston Asset Management is that they have 3.4 Billion total assets under management, 2.4 billion in International Equity and 315 million in new funding this quarter. In December 2012, Cassandra Hardman, the second largest shareholder exercised her option to significantly increase her firm ownership. Richard Johnston remains the largest shareholder. In February 2013, Jeff Meyer joined the firm as President. Richard Johnston wanted to get back at what he does best in investing and not managing personal matters which Mr. Meyer will do. Mr. Pontone advised that Mr. Richard Johnston has known Mr. Meyer for many years.

We believe investment results can best be achieved over time by investing in growth companies, defined as those secular EPS growth of 10% or more, high quality/well run businesses with competitive advantages, market leaders and stocks trading at a value price.

We continue to expect global economic growth to be reasonably tepid for the remainder of 2013. While U.S. economic growth is a relative bright spot, high debt and unemployment has had a dampening effect on the global economic rebound compared to previous recoveries. Unemployment levels in virtually all developed economies remain extremely high. However, consequence of this is labor costs (wage inflation) remain contained benefitting companies profitability. Despite a mute global economic outlook, recent economic data indicates a more optimistic tone which is helping equity markets move higher. This is particularly true of large, global companies and U.S. equities which benefit from low interest rates and moderating commodity and energy prices. European sovereign debt worries and exposure of the banking system remain a concern. The Cyprus situation and possible knock-on effects are the most recent evidence of this. Global equities are relatively attractive at current valuations with price/earnings ratios below historical averages in many global markets. One indicator of this equity yields remain above bond yields and the spread between them remain historically wide. We are seeing a number of compelling opportunities in new markets and valuations are reasonably attractive in both the developed and EM countries.

The portfolio's gross return for the quarter was 5.19% and the benchmark return was 5.15%. The 2012 return was 16.35% and the benchmark was 17.32%. The three year return was 4.82% and the benchmark return was 5.00%. Since inception, the fund return was 6.74% and the benchmark return was 6.94%.

Mr. Pontone advised that Japan economic was a deflation in that it has been flat for many years. The have followed a plan like the U.S. has done to their markets. The initial returns have been positive for the first quarter. Japan is the third largest economy in the world. Japan has other issues that are hurting them in they are really a closed society with not enough next generation workers for economic growth. We believe there will be opportunities in Japan for investment.

The technology sector under perform this quarter which hurt the fund in performance. The overweight in Health Care sector contributed to the gains. The best performing sector was Financials which return a 33%, but we were not overweight in this sector. The top three performing contributors for the quarter were PPR S.A, SABMiller PLC, and SGS S.A.. The three largest negative contributors were China Life Insurance Co, BHP Billiton PLC and Baidu Inc.

The fund usually has 25-29 stocks in the portfolio. We have added over a million dollars in investment returns since inception.

## MONITOR REPORT

Mr. David Lee presented to the Board the Dahab & Associates review for the first quarter. Mr. Lee advised that his review will be brief because of the investment managers review of the markets. Mr. Lee advised that the GDP is estimated to have expanded by 2.5% in the first quarter. The U.S. unemployment rate fell slightly to 7.6%. The domestic equity markets rallied, favoring mid and small cap over large cap and value over growth. In the small cap space, growth beat value. The international equity market did not do so as well as domestic equity. Emerging countries fell behind developed countries into negative territory. The U.S. dollar strengthened relative to the Euro. The bond market was flat.

On March 31, 2013, the Davie Police Pension Plan was valued at $101,070,646. This represented an increase of $6,340,840 since December/2012. In the first quarter, the composite portfolio gained 6.0% which ranked in the 25th percentile of the Public Fund universe. Over the trailing 12 months, the portfolio's return was 9.2%. The Large Cap Equity returned for the quarter was 9.4%. The Mid Cap equity returned 13.4%. The Small Cap Equity return was 12.8%. The International Equity return was 5.3%. The Real Estate return was 2.2% and the Fixed Income return was 0.6%.

The asset allocation is as follows: Large Cap Equity ($36,061,884) 35.7%, Mid Cap Equity ($7,793,685) 7.7%, Small Cap ($7,955,511) 7.9%, International Equity ($9,844,532) 9.7%, Real Estate ($3,496,426) 3.5%, Fixed Income ($33,332,607) 33%, and Cash ($2,586,001) 2.6%. Mr. Lee advised that the asset allocation is a little underweight in International Equity otherwise we are on target with everything else.

The Large Cap managers are slightly underperforming, but they are doing what we want they do to. We focus on them with downside protection. In this hyper growth market, small stocks will do well and high quality stock managers will not do as well as more risky, low quality stock managers.

Mr. Lee advised that one of the bond managers is doing a very good job and this manager is from Garcia Hamilton & Associates. Mr. Lee advised that he is suggesting to the Board that they take the bond funds from Buckhead Capital Management and have Garcia Hamilton & Associates invest this money. Mr. Lee advised that he believe we can get more from Garcia Hamilton than Buckhead Capital in the bond area. The move would take $16 million from Buckhead, so that Garcia Hamilton & Associates would have a total of $33,332,607 in bonds for the plan. This is the entire amount allocated for bonds. The Board discussed the issue and decided to look at this closer in the next quarterly meeting with Mr. Lee.

Mr. Lee advised that he will be looking to move a little bit more money to the small and mid cap managers towards the end of the year. Mr. Lee advised that he will bring the exact amounts and where the funds will be taken from for the transfers. Mr. Lee advised that the investment guidelines with have to be changed, if the Board approves of these changes.

Mr. Lee advised that the fund is overall doing very well compared to other public pension plans.

## ATTORNEY REPORT:

Mr. Adam Levinson presented the attorney report to the Board. Mr. Levinson advised that he is completely behind any bill that helps plans become more transparent to the public when it presents a true accurate picture of the plans. Mr. Levinson spoke to the Board regarding the Public Employee Pension Transparency Act (PEPTA). Mr. Levinson advised that numerous public pension associates are against this bill because they feel in the PEPTA summary materials are not realistic estimates of the true financial conditions of state and local retirement plans. They believe that the legislation has been reintroduced to the 113$^{th}$ Congress with misleading information. They feel that PEPTA does not protect employee benefits, save costs or result in more transparency. The position of these organizations against this bill is that they believe it is inappropriate Federal mandate that imposes costly regulation and threatens to tax state and local government bonds.

Mr. Levinson spoke to the Board about the recent U.S. Supreme Court decision that curtailed investors' ability to recover damages under the general anti-fraud provisions of the federal securities laws on international equities and other securities purchased outside the United States.

Mr. Levinson advised that the board that he attended a state budget crisis task force roundtable discussion at the Federal Reserve bank of New York. Mr. Levinson advised the Board that at the roundtable he gave various benefits for public pensions, public pension plans are designed to cope with market volatility, along with other topics. Mr. Levinson advised that the Task Force will be coming out with some recommendations from the roundtable discussion. He will keep the Board posted.

## ACTUARY:

Mr. Dorn advised that he spoke to Mr. Dulaney earlier today. Mr. Dorn advised that Mr. Dulaney was at a conference and would not be able to attend this meeting. Mr. Dorn gave copies of DROP fund statements as of March 31, 2013 to the Board at Mr. Dulaney's request for their review. Mr. Dorn advised that Mr. Dulaney will be sending these DROP statements to DROP fund members unless the Board wants any changes to these statements. The Board reviewed the statements and there were no changes or further direction on this issue.

PLAN ADMINISTRATOR:

Mr. Dorn disseminated the monthly expense report for the Board to review. The Board reviewed this report with no inquires. Mr. Dorn disseminated insurance deduction forms for the Board members to review. Mr. Levinson advised that he has reviewed the forms and approved them for the Board to use. Mr. Mackie made a Motion to use the new payroll deduction insurance forms. This Motion was seconded by Mr. DiMeglio. The Motion passed 5-0.

OPEN DISCUSSION:

Mr. Brillant advised that former Davie Police Officer Stephen Olenchak was recently convicted for a felony. Mr. Brillant advised that this member has his pension funds still in the plan. Mr. Levinson advised that a forfeiture review will need to occur. Mr. Levinson advised that we will have to obtain the internal affairs reports, police reports and any other data that will help the Board review the situation. Mr. Brillant advised that he would obtain the records. Mr. Dorn advised that he felt it would be better if he obtained the records. Mr. Levinson agreed. The Board gave Mr. Dorn direction to obtain the records and put on the agenda of a future meeting for this review.

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 7:10 p.m.

Larry Davis, Secretary