

TOWN OF DAVIE POLICE PENSION PLAN
Minutes

January 13, 2015
4:00 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 January 13th at 4:00 p.m. at 13790 N.W. 4th Street, Suite 105, Sunrise, Florida.

TRUSTEES PRESENT:

Mr. Greg Brilliant – Chairman, Mr. Jack Mackie, Mr. Thomas DiMeglio & Mr. Ed Taylor - Board Trustees.

ABSENT:

Mr. Larry Davis – Secretary.

OTHERS PRESENT:

Mr. Adam Levinson - Board Attorney; Mr. David Lee - Board Investment Monitor; Mr. Don Dulaney – Board Actuary; Mr. Bob Dorn – Precision Pension Administration, Inc.; Mr. Richard Snyder and Mr. John Hipsher – MML Investment Advisors; Mr. Brian Walsh and Mr. Chip Tatlow – Dimensional Fund Advisors; Mrs. Deneen Bingham and Mr. Nathan Snyder - Snow Capital Management;

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 December 9, 2014 meeting. Mr. Dorn asked if there were any changes required to the cited minutes. Changes were offered by the Trustees and duly noted. A Motion by Mr. Taylor to approve the minutes as amended. The Motion was seconded by Mr. Mackie. Motion passed 4-0.

WARRANT 574

Payment of \$900.00 for fees to FPPTA for Trustees Mr. Mackie and Mr. DiMeglio to attend the February 2015 conference. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 4-0.

WARRANT 575

Payment of \$5,825.00 to Dulaney & Company for services rendered through November/2014. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 4-0.

WARRANT 576

Payment of \$832.32 reimbursement for expenses for Trustee Mr. Davis to attend the Intercontinental Investor Conference. A Motion was made by Mr. Mackie to approve as outlined. The Motion was seconded by Mr. DiMeglio. The Motion passed 4-0.

WARRANT 577

Payment of \$5,677.73 (As per our Board Actuary) to Alberto Gonzalez-Cabanas as a Return of Contribution for a non-vested member. The funds are being disbursed for a rollover into a Qualified Plan. Motion by Mr. Mackie to approve as outlined. The Motion

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was seconded by Mr. Taylor. Motion passed 4-0.

WARRANT 578

Payment of \$10,000.00 to Goldstein, Schechter & Koch for audit services. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. DiMeglio. The Motion passed 4-0.

WARRANT 579

Payment of \$12,750.00 to Dahab & Associates for services rendered through November/2014. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Taylor. The Motion passed 4-0.

WARRANT 580

Payment of \$2,318.68 to State Street Global Advisors for investment management services rendered from 07-01-14 to 09-30-14. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. DiMeglio. The Motion passed 4-0.

WARRANT 581

Payment of \$450.00 to FPPTA for Trustee Mr. Brillant to attend the FPPTA pension conference in February/2015. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. DiMeglio. The Motion passed 4-0.

WARRANT 582

Payment of \$5,000.00 to Mr. Scott Kiso for a one-time partial lump sum DROP distribution. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. DiMeglio. The Motion passed 4-0.

WARRANT 583

Payment of \$950.00 to Klausner, Kaufman, Jensen & Levinson for legal services rendered through December 2014. A Motion was made by Mr. Mackie to approve as outlined. The Motion was seconded by Mr. Taylor. The Motion passed 4-0.

WARRANT 584

Payment of \$15,563.74 to Buckhead Capital Management for investment management services rendered from 10-01-14 to 12-31-14. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 4-0.

WARRANT 585

Payment of \$2,903.00 to Rhumblin Advisors for investment management services rendered for the fourth quarter of 2014. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 4-0.

NEW / UNFINISHED BUSINESS:

No new or unfinished business.

ATTORNEY REPORT:

Mr. Levinson gave a brief over view of Senate Bill 242 to the Board. Mr. Levinson also gave an overview of Senate Bill 172. Mr. Levinson advised that he will keep the Board informed of these bills in the future. Mr. Levinson advised that he would like to table the administrative rule on COLA's for the next meeting. The Board agreed to review and

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discuss this administrative rule at the next meeting.

ACTUARY:

Mr. Dulaney stated that he spoke to Gloria at GSK (Auditor) and they created a DRAFT Financial Statement Report. Mr. Dulaney advised that he used this information to develop the required supplementary information for the new GASB67 report. Mr. Dulaney reviewed the draft report with the Board. A summary of the information given is as follows: the total pension liability is \$168,569,857, the Plan fiduciary net position is \$117,768,626 and the Town's net pension liability (unfunded liability) is \$50,801,231. The Plan's fiduciary net position as a percentage of total pension liability is 69.86%. Mr. Dulaney advised that he had to use a long term rate of return on plan assets with the current asset class allocations and that the rate of 6.17% was provided to him by Mr. David Lee, the Plan's investment performance monitor. Mr. Dulaney advised that he then had to complete a calculation on the net pension liability using the 6.17% return average and determined that a 1% decrease in return would give the Town a net pension liability of \$74,232,218 and a 1% increase in average return would give the Town a net pension liability of \$31,743,463. Mr. Dulaney explained to the Board how he determined the liabilities and assets calculations to determine these numbers. Mr. Brilliant inquired as to why the average return was 6.17%. Mr. DuLaney replied that Mr. Lee would have to answer that question, as the interest rate was the one assumption that the actuary was not permitted to choose under GASB67. Mr. Lee explained to the Board that the return in 2014 was 9.1%, 2013 return was 10.8% and 2012 return was 17.8%. Mr. Lee advised that the returns in 2011 and 2009 reduced the overall average returns of the Plan which caused the historical average return to be 6.17%. Mr. Dulaney advised that he also had to complete a 100 year projection of the net position for the report which was reviewed by the Board. Mr. Taylor made a Motion to accept the GASB67 supplementary report which will be in the final audit report. The Motion was seconded by Mr. Mackie. The Motion passed 4-0.

DAHAB ASSOCIATES:

Mr. Lee advised that there will be four presentations of investment managers. The format will be for thirty minutes for each investment manager presentation. The four investment firms are: (1) Dimensional Fund Advisors, (2) Lyrical Asset Management, (3) MML Investment Advisors and (4) Snow Capital Management. Mr. Lee advised that these interviews will be for the Large Cap Value allocation of the portfolio which has approximately twelve million dollars in allocated funds at this time. The current manager for this allocation is Buckhead.

The following is a synopsis of each of the investment managers' presentations:

Mr. Richard Snyder and Mr. John Hipsher gave the presentation for MML Investment Advisors. They also had Mr. Joe Fallon and Mr. Michael Farrell on a phone conference during the presentation. They advised that the three reasons the Board should consider their firm is because of asset management experience, strong corporate parent and a mutual structure. They are one of the world's top 45 institutional asset managers. They are among the highest financial strength rating of any company in the industry and they have a discipline of long-term growth strategy versus short-term approach. They have a diverse business model which help people secure their future and protect the ones they love. They are institutionally focused global asset manager with 206.8 billion under management. The approach they take is to build portfolios based upon risk parameters

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established with their clients, utilizes financial statements analysis to determine the desirability of each stock in our investment universe, periodically rebalance client portfolios to the latest market information, and continuously reassess risk throughout the process. They employ a discipline and repeatable process. They seek to identify individual stocks that will outperform or underperform the benchmark. They believe that there are four pillars of analysis in evaluating a company. They are (1) valuation, (2) capital use, (3) market reaction and (4) size/liquidity. They explained each of these pillars to the Board. The buy and sell decisions are integrated, systematic and are implemented as part of regular rebalancing process that occurs when new information is presented. The Russell 1000 Value is their benchmark. They have over 530 stocks in their portfolio. Over a twelve month rolling return was at 15.82%. They have not changed their strategy since inception (started in June/2000). They have had no professional employees leave the company over the last three years. The parent company is Mass Mutual.

Mr. Brian Walsh and Mr. Chip Tatlow made the presentation for Dimensional Fund Advisors. Dimensional is a global investment firm that has been serving investors for more than 30 years. We have a different approach to investing with a strong belief in markets frees us to think differently about investing. We identify compelling research and apply it to practical investing. Decades of research and rigorous underpin our approach to pursuing higher expected returns. Our goal is to add value over benchmarks and peers through an integrated and robust process. We have a long history in managing for clients in a time-tested investment strategy. We use outside academics from the University of Chicago, Dartmouth College and other Universities to assist in the investment process. We use our global investment team for our one dynamic process. We were founded in 1981 and have over 817 employees. Expected returns are driven by prices that investors pay and cash flow they expect to receive. We have four key areas we look at which are: market, company size, relative price and profitability. Our investment philosophy is based on rigorous empirical and academic research and over 30 years of experience structuring and implementing investment solutions. We use approximately 254 stocks in our portfolio. We offer a broad sector security diversification. We balance competing premiums and controls implementation costs by using a discipline and patient trading strategy. We focus on value securities within the Large Cap universe. We have increased emphasis on higher expected return securities with lower relative price, higher profitability and lower market cap. We incorporate momentum with buy and sell decisions. A stock returns may exhibit momentum when stocks with a large relative underperformance tend to have negative excess returns in the next period and a stock with large relative outperformance tend to have positive excess returns in the next period. We efficiently balance expected premiums with the costs of turnover on a daily basis. We continuously evaluate the portfolio. Our process is built to focus on higher expected returns everyday while considering costs. Our return for a three year period is 23.53%. Our one year return is 10.07%. Since inception (3/93) our return is 10.46%. Our investment philosophy is based on sound academic research. An investment process adds value through portfolio structure and implementation. Our investment solutions that provide access to sources of higher expected returns. We have firm wide commitment to our clients.

Mrs. Deneen Bingham and Mr. Nathan Snyder made the presentation for Snow Capital Management. The company was founded in 1980 by Mr. Richard Snow. They have approximately 4 billion in advised assets. They are employee owned and have thirty-five employees. We invest in undervalued securities of solid companies. We employ a bottom-up fundamental stock picking process based on normalization of earnings and

relative value. Our philosophy relies on independent fundamental research to determine the nature of the problem, assess the likelihood of a solution, gain confidence that the company has the financial resources to survive the difficulty, and to estimate the likely value of the stock after the problem is resolved. We have an intensive focus on valuation which includes an examination of historic relative P/E ratios, develop an expected normalized relative P/E ratio, established a target process and all investment must have a 30% upside before an investment is made. It is a team process. When skillfully executed, the contrarian philosophy results in portfolio of stocks with an asymmetrical payoff return. The downside protection is protected because the stock price is already depressed and the company is in sound financial condition. The upside potential is enhanced by both earnings turn-around and more powerfully, the positive change in investor sentiment that the expansion in the P/E will likely accompany an earnings recovery. Stocks are selected primarily on the upside potential reflected in our target price, but consideration is given to constructing a diversified portfolio. Our investment philosophy has not changed. Our investment process has adapted to evolving market conditions and modern research techniques. We are fully invested typically with 30 – 50 stocks in the portfolio. We are diversified by sector but without over/underweight limits with risk factor and market cap profile similar to benchmark. We invest in companies with low financial risk that has strong cash flow, relatively low debt/assets and underappreciated long term fundamentals. We have a sell discipline when stocks rise to our estimate of fair value, to trim positions that get too large, if the company's financial condition or outlook deteriorates and/or to make room in the portfolio for a more attractive stock. Three main reasons why they believe Snow Capital is right for this portfolio in our people, our process and our philosophy.

Mrs. Caroline Ritter and Mr. Gary Faccenda made the presentations for Lyrical Asset Management. The firm was founded in 2004 by Mr. Jeffrey Keswin. They have over 3.9 billion of assets under management. We invest in approximately 33 stocks that are not only deeply undervalued, but also are quality businesses. We seek investments with a minimum 35% upside to fair value. We only invest in good businesses, generally capable of producing double-digit returns on invested capital. We only invest in businesses we can understand and analyze and avoid situations that are excessively complex or require specialized technical knowledge. We do not seek or require a visible stock catalyst, event or trigger. We are a pure bottom-up approach. We trade sparingly with historical portfolio turnover of 17% per annum. We seek to maximize risk-adjusted returns over longer term. Nearly all investment ideas are identified using a proprietary investment screen. We start with a universe of over 1000 stocks, all U.S. traded common stocks with market capitalization of about 3.5 Billion or greater. We do estimates in the fair value of each stock from estimated long-term normalized earnings. The long-term normalized earnings analysis is appraised by a statistical extrapolation on the historical earnings trend line and consensus estimates of forward earnings. The function of security analysis may be described under three headings: (1) descriptive (review the important facts), (2) selective (express specific judgments), and (3) critical (apply standards to the facts). Our portfolio is made to select the best 33 risk adjusted investment opportunities, with as much balance and diversity as possible, strictly limit concentration risk exposures and maintain a strict valuation based sell discipline. Our one year return was 15.5%. Our three year return was 28.2 % and our five year return was 20.4%. Since inception of this fund in 1/1/09, the return has average 26.8% (Note: 2009 the fund return was 63.7%). We believe that Lyrical Asset Management is the best investment manager for Davie Police Pension Plan because of our noteworthy track record, proven strategy combining deep value and quality, repeatable investment process, diversified and balance portfolio construction and transparent.

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The Board discussed each of the investment firms and their approaches. The Board discussed that MML Investment Advisors and Dimensional Fund Advisors were more like index funds with the size of their portfolios ranging from 200 to 500 stocks. The Board spoke about the investment philosophies of Snow Capital Management and Lyrical Asset Management. The Board liked the philosophies of Snow Capital Management and Lyrical Asset Management. The Board by consensus agreed to split the mandate between Snow Capital Management and Lyrical Asset Management. After lengthy discussion, Mr. Taylor made a Motion to retain the investment services of Snow Capital Management, pending successful negotiation for a contract with the Board Attorney, Mr. Levinson. This motion was seconded by Mr. Mackie. Motion passed 4-0. Mr. Mackie made a Motion to retain the investment services of Lyrical Asset Management, pending successful negotiation for a contract with the Board Attorney, Mr. Levinson. This motion was seconded by Mr. DiMeglio. Motion passed 4-0. Mr. Lee advised that he will notify all of the affected parties of the Boards actions.

PLAN ADMINISTRATOR:

Mr. Dorn advised that a death check was completed and there were no unreported deaths for the Plan. Mr. Dorn advised that the audit report will be presented at the February/2015 meeting. Mr. Dorn advised that he spoke to representatives for the Town and they advised that this would be acceptable by them.

OPEN DISCUSSION:

No Open Discussion.

ADJOURN:

Mr. DiMeglio made a Motion to adjourn the meeting. The Motion was seconded by Mr. Taylor. Motion passed 4-0. The meeting was adjourned at 7:38 p.m.



Greg Bullant, Chairman