

**CITY OF PORT ORANGE GENERAL EMPLOYEES RETIREMENT PLAN
REGULAR MEETING MINUTES
March 26, 2018**

ROLL CALL:

The meeting of the City of Port Orange General Employees Retirement Plan was called to order by Chairperson Linda Johnson at 2:00 p.m. on March 26, 2018 in the 2nd Floor Training Room, City Hall 1000 City Center Circle, Port Orange, FL.

TRUSTEES PRESENT:

Chairperson Linda Johnson, Vice Chairman Peter Ferreira, Lynn Hadley, Jake Johansson, and Kynah Cockcroft

ABSENT AND EXCUSED:

Tracy Riehm and Scott Stiltner

OTHERS PRESENT:

Retiree John Shelley; Pete Prior of Benefits USA, Inc.; Dave Leonard, Actuary; City's Risk Manager Grace Stewart and Heather Carrizales of Human Resources

Member Ferreira moved to have the Investment Consultant Jeff Swanson present his report out of order. Motion seconded by Member Johansson and the motion passed.

FINANCIALS:

Southeastern Advisory – Jeff Swanson (via Telephone Conference)

Mr. Swanson reviewed the investment performance report for the period ending December 31, 2017. The Fed's raising of interest rates for the third time in 2017 wasn't enough to stall the equity bull market as continued optimism regarding tax cut legislation helped power the S&P 500 Index to its 62nd record daily high for the year before pulling back. In addition to the largest overhaul of the U.S. tax system in 30 years, there were other factors contributing to this success including a rebound in global economic growth and continued strength domestically. What also made the past year particularly impressive was the relative lack of volatility. The largest drawdown for the year was -2.8%, and there were only four trading days where the market was down 1% or more, making 2017 one of the least volatile years in nearly four decades. Real GDP grew at a 3.2% annualized rate during the third quarter of 2017. All of the major components of GDP contributed to growth. Personal consumption slowed but still added 1.5% to real growth. Business investments grew at a pace not seen since 2014, contributing more than 2% to real GDP during the first three quarters of 2017. A shrinking trade deficit contributed to growth as did the first increase in government spending this year, consumer price increases accelerated during the second half of 2017.

Mr. Swanson reported that the value of the Fund's portfolio as of December 31, 2017, was \$34,054,643. The Total Fund returned 4.7% for the fourth quarter which was 0.8% higher than the target Index of 3.9% and ranked 3% of Total Public Fund Sponsors, 16.50% for the one year, and 8.9% for the past three years on an annualized basis. The asset allocation is 55.2% Domestic Equity, 17.5% Fixed Income, 10.7% International Equity, 13.1% Real Estate and 3.5% Cash. Total Domestic Equities' return was 7.4% which was 0.8% above the S&P 500 Index of 6.6%. Total Fixed Income returned 0.4% which was equal to the Barclays Aggregate Index of 0.4%. Total International Equities' return was 5.1% which was 0.9% above to the MSCI EAFE Index of 1.8%. Total Real Estate's return was 1.8% which was close to the NCREIF Property Index of 1.7%.

Mr. Swanson reported that the Manager Allocation is 22.7% managed by Highland Capital, 10.2% managed by Atlanta Cap, 5.0% managed by Euro-Pacific Growth, 5.8% managed by Vanguard Global, 13.2% managed by Principal Real Estate, 24.3% managed by Boston Company and 18.9% managed by Integrity.

Mr. Swanson reported that due to the increase in the cash flow of the Plan he is recommending that the Board consider rebalancing at this time. He noted that the equity portion is now at 57% and it is time to rebalance to the Pension Fund Policy allocation. He recommends that Highland Capital and The Boston Company are instructed to raise \$500,000.00 in each of their respective portfolios immediately and transfer those \$1,000,000.00 into the Integrity Fixed Income account. Member Johansson moved to approve the recommendations of the consultant. Member Ferreira seconded the motion and the motion passed.

It was also suggested that Fund's R&D account should be increased from 400K to 500K. Should the balance fall below this level, First State is authorized to contact and request that cash is raised 40% from the Highland Capital Equity Account, 40% from The Boston Company Equity Account and 20% from the Integrity Fixed Income Account. Excess balances above \$600,000.00 are to be transferred into the Integrity Fixed Income account. The frequency limit for rebalancing between accounts should be no more than once per quarter. Member Johansson moved to approve the recommendations from the consultant. Member Ferreira seconded the motion and the motion passed. Mr. Swanson said he would send the letter to Benefits USA for implementation.

APPROVAL OF MINUTES

February 26, 2018 – Regular Meeting

Chairperson Linda Johnson asked the Members does anyone have any issues with the minutes, any corrections, additions, or deletions. Administrator Pete Prior distributed copies of the revised minutes of February 26, 2018 to the Board Members. Mr. Prior reported that the only revisions he made was under Actuary Leonard's report (page three, first paragraph). He stated that he was out of the office, and his staff listened to the tape of the February 26 meeting to prepare the minutes. Mr. Prior commented that he did not agree with the way Actuary Leonard's report was recorded, so he revised the minutes when he returned to office on Friday. Member Johansson said that he didn't feel right to approve the minutes without reading and suggested to table it. Member Johansson moved to table the minutes of February 26, 2018 meeting. Member Ferreira

seconded the motion and the motion passed. Member Johansson asked Administrator Pete Prior to send the minutes electronically to the Board Members. Mr. Prior promised he would do so.

PARTICIPANT/PUBLIC PARTICIPATION:

Retiree Tom Troutman addressed the Board regarding First State's mistake of not withholding his Federal taxes for a year. Ms. Heather Carrizales of Human Resources also informed the Board regarding Retiree Richard Towey stating that he may also have the same issue since both he and Tom Troutman exited the DROP in 2017. Member Johansson asked is this the Bank's mistake or the Administrator's mistake? Mr. Prior answered that the Tax issue was the Bank's responsibility. Ms. Carrizales said Retiree Kenneth Parker entered and exited the DROP in 2012, and Mr. Parker's whole proceeding had no mistakes and moved smoothly, and that at the time; Salem Trust was the Pension Fund's custodian bank. It was noted that the Chair will send a letter to First State regarding the incorrect 1099R matters. Ms. Carrizales listed several mistakes from First State such as members whose insurance was not paid correctly and has been corrected. Ms. Carrizales also commented that the Advice of Credit lists Kent Donahue as the Contact person with Benefit USA's address and Ms. Mei Fang's phone number. He added that this is a major reason why Retirees have problems communicating their pension issues with the Bank efficiently. The Board approved to direct the Administration office to contact Jim Robinson on the matter and advise the Bank to place the Advice of Credit on their form. Member Cockcroft stated that she wants to read the Agreement Letter between the Pension Fund and First State Trust. Member Hadley commented that she wants to review the contracts of all of the Pension Fund's vendors. Mr. Prior promised he would email the contracts to all the Members when he returns to the office.

PRESENTATION:

2017 Valuation Report and GASB67&68 – Dave Leonard

Mr. Leonard addressed the Board and provided a copy of the October 1, 2017 Valuation Report which is being reviewed by his peers.

Mr. Leonard reported that the October 1, 2017 valuation was prepared on a group of 116 active members, a decrease of ten from 2016. The shift in the Plan membership weighting to the "new" Plan formula has continued as the percentage of active members under the new Plan increased from 13.6% to 18.3%. The pre-2012 Plan actives decreased by eight to 95. The "new" Plan population lost 2 active members with more terminations than new members leaving 21 actives.

For the October 1, 2017 valuation, the Fund continued phasing of the 7.0% interest assumption which was the primary mover in the recommended contribution rate increasing from 17.3% for this year to 21.3% for the 2018-19 fiscal year. The 2018 valuation will be prepared based fully on 7%, so another bump in the contribution rate should be expected for the 2019-2020 plan year.

The 2016-17 trust asset return was 11.7%, and 11.4% net of all expenses including administrative. The funding measures based on the market value of assets increased this year due to strong performance. For the GASB disclosures, at 7.0% the Plan is funded at 84%, up about 3%. Taking a snapshot of accruals to date, the Plan is more than 100% funded using the

7% discount rate. The result should be taken with many grains of salt, however, because current discount rates are still well below 7%, and thus the Plan could not be “settled” or cashed out anywhere near that level.

The smoothed valuation yield was 7.9% for the year which helped hold down the increases in costs somewhat. The deferred gains from 2016 and 2017 have combined to give the Plan a current cushion of unrecognized gains of almost \$1.2 million. This cushion will help protect the Plan in a down year and provide positive results if the Plan just hits the Assumed Rate. For 2018 about \$250,000 in gains will be recognized giving the Plan a head start of about 83 basis points (bps) towards the assumed 7.0% return.

After an Experience Study covering nine years of retirement with the Committee’s approval we have reduced some of Assumed Rate of early retirement for members qualifying for the special early retirement benefits in the Plan. This reduced the required contribution rate by 0.3% of compensation.

Member Johansson moved to approve the October 1, 2017 Valuation Report. The motion was seconded by Member Hadley and the motion passed.

Mr. Leonard provided a brief report on GASB 67 & 68 which is of no impact to the Plan. As of September 30, 2017: Total Pension Liability is \$37,537,415; Plan Fiduciary Net Position is \$31,581,533; Net Pension Liability is \$5,955,882 and the Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 84.13%.

As of September 30, 2017, Pension Plan membership consisted of the following: 86 Inactive Members or Beneficiaries currently receiving benefits, 20 Inactive Members entitled to but not yet receiving benefits; 116 Active Plan Members. FS 2017 Actuarial Assumptions applied to all periods in the measurement: Inflation rate is 3%, Salary Increase 4.0% and Investment Rate of Return is 7.0% represented under Section 8 in the GASB67-68 report.

Member Johansson moved to approve both GASB 67 & 68 Reports. Member Hadley seconded the motion and the motion passed.

2017 Financial Statement – James Moore

Mr. Zach Chalifour presented the audit for fiscal year ended September 30, 2017, reporting that they rendered a clean, unqualified opinion. The net investment income for the year was \$3,521,247 which was \$556,783 higher than the 2016 income; Total Employer Contributions were \$794,333 which was \$85,876 lower than the 2016 Employer Contributions; Total Employee Contributions were \$360,185 which was \$36,412 lower than the 2016 Employee Contributions. Operating expenses for fiscal year ended 9/30/2017 were \$75,902. Total benefits paid were \$2,154,821 which was \$111,644 greater than 2016. All those numbers totaling a balance of \$33,027,203 as of September 30, 2017 which was \$2,396,093 higher than 2016 total Plan net assets. Mr. Chalifour reported that he found no compliance or internal control issues to be reported to the Trustees. In the Auditor’s opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Port Orange General Employees Defined Benefit Retirement Plan as of September 30, 2017 and changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member Johansson moved to approve 2017 Financial Statements. Member Hadley seconded the motion and the motion passed.

FINANCIALS:

February 2018 – Dave Leonard

Actuary Dave Leonard reviewed the financials with the Board. It was noted that the market value of the Fund is \$34,129,643.73, a decrease of \$1,006,274.09. Receipts for the month totaled \$756,987.65 versus total disbursements of \$976,529.50. Payments to retirees and other participants totaled \$199,596.66. The balance as of February 28, 2018, was \$793,526.11 in the Cash account. Actuary Leonard reported that the yield for the month is -2.54%. Actuary Leonard briefly explained the issue of overpayment from First State.

Member Hadley moved to accept the November report as provided. Member Ferreira seconded the motion and the motion passed.

Highland Capital – Grant McMurray

Mr. Grant McMurray distributed an additional handout about the performance of the Fund. As of December 31, 2017, the City of Port Orange General Employees Retirement Pension Fund's Highland Capital Management balanced account was valued at \$7,661,243.00. For the fourth quarter, the Highland Capital Management balanced portfolio returned 6.56% which was 1.25% higher than the Index of 5.31%. For Fiscal Year to Date the Plan earned 15.66% and 14.96% for the past five years on an annualized basis. It was noted that the asset allocation is as follows: 94.2% in Value and 5.8% in Cash/Cash Equivalents. The top three holdings by sector are as follows: Financials, 29.7% of the portfolio returned 10.5%; Energy, 12.4% of the portfolio returned 11.0%; and Info. Tech, 12.4% of the portfolio returned 8.5%.

Mr. Grant McMurray provided a brief report on the economy. Mr. McMurray reported that the fourth quarter of 2017 concluded a strong year for the equity market, by notching a gain of 6.6% for the quarter, and bringing the full year return to 21.8%. The market has risen for nine consecutive quarters and volatility continues to be absent. It takes very little conviction to expect that volatility in 2018 will be greater than the placid calm we enjoyed in 2017.

NEW BUSINESS:

James J. Daly – Beneficiary of Deceased Member Lisa Ferrara-Daly Payment for Approval
Chairperson Linda Johnson reviewed the documents reflecting the death benefit payment for Mr. James J. Daly. Member Johansson moved to approve the payment for Mr. Daly. Member Ferreira seconded the motion and the motion passed.

City Port Orange General Pension Fiduciary Liability Renewal for Approval

Chairperson Linda Johnson reviewed the documents reflecting the City Port Orange General Pension Fiduciary Liability Renewal application. Chairperson Johnson said the application form was revised several times because the old coverage also included the ICMA Fund. Chairperson

Linda Johnson stated that the Board should bind the insurance today since it expired on 3-21-2018. Administrator Pete Prior reminded the Board that the waiver of recourse should be paid by the Plan Sponsor which is the City. Member Johansson asked Mr. Prior to contact the Insurance Agent to find out whether the current billing includes the waiver of recourse or will they have a separate invoice sent to the Plan Sponsor. The question was asked is it possible that the \$100 fee could be waived on behalf of the Board of Trustees? Member Johansson moved to approve the City of Port Orange General Pension Fiduciary Liability Renewal application and payment of the renewal quote invoice. The motion was seconded by Member Ferreira and the motion passed.

CONSENT AGENDA:

For Approval:

Warrant#133

Benefits USA, Inc. (Admin Fees 03/2018; INV #POG104)	\$ 2,500.00
James Moore (2017 Audit INV #567869)	\$ 3,000.00

Hearing and seeing no changes, Member Johansson moved to approve Warrant #133. Member Hadley seconded the motion and the motion passed.

REPORTS:

Administrator:

Administrator Pete Prior reported that he contacted First State Trust about deceased member Margaret Kelly's pension overpayment for one month. Mr. James Robinson stated that he received the check from Benefits USA but did not deposit it in a timely manner. He added that Ms. Kelly's son closed the account with the check still outstanding. Mr. Robinson deposited the check and the check was returned not paid since the account was closed.

Mr. Prior informed Mr. Robinson that the Board is looking for First State to make restitution. Technically the funds should be returned by Ms. Kelly's Estate. Mr. Robinson stated that he will send a letter to Ms. Kelly's estate requesting the money be returned. The Board thanked the Administrator for following up.

Mr. Prior further discussed the February 26, 2018 minutes which the Board voted to table. He explained to the Board that he only revised one paragraph (page three, first paragraph) of the February 26, 2018 minutes under Actuary Leonard's report to clean up some language. Member Johansson moved to revisit the prior motion about tabling the February 26, 2018 minutes, Member Ferreira seconded the motion and the motion passed. Following the Board's review of the revised paragraph, Member Johansson moved to approve the minutes of February 26, 2018 meeting as amended. Member Ferreira seconded the motion and the motion passed.

NEXT MEETING DATE:

April 23, 2018 – Regular Meeting

ADJOURNMENT:

The meeting adjourned at 3:45 p.m.



Chairperson



Date