

**CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
MAY 18, 2018**

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Friday, May 18, 2018 in the Police Department Training Room, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT: Chairman Steve Braddock (police member)
Warren Carman (fifth member)
Drew Bastian (resident member)
Brian Cobb (resident member)

MEMBERS ABSENT: William Proctor (police member) – excused due to work commitment

CONSULTANTS: Ken Harrison, Board Attorney – Sugarman & Susskind
Tyler Grumbles, Investment Consultant – AndCo
Dan Johnson, Investment Consultant - AndCo
Chad Little, Actuary – Freiman Little Actuaries
Karan Rounsavall, Plan Administrator

CITY STAFF: Jake Johannson, City Manager
Tracey Riehm, Finance Director
Margaret Roberts, City Attorney

Chairman Braddock called the meeting to order at 9:03 a.m. A quorum was in attendance.

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting February 16, 2018 and special meeting March 29, 2018 as submitted. Member Carman seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS - None

CONSENT AGENDA

The following items were presented for action as recommended:

- A. Approve plan expenditures as follows:
 1. Sugarman & Susskind – monthly retainer for March 2018 - \$2,600.
Recommendation: Ratify payment.
 2. Sugarman & Susskind – reimbursement of copy charges for Vastell disability - \$257.01. *Recommendation:* Ratify payment.
 3. Sugarman & Susskind – monthly retainer for April 2018 - \$2,600.
Recommendation: Ratify payment.
 4. Sugarman & Susskind – monthly retainer for May 2018 - \$2,600.
Recommendation: Ratify payment.
 5. SIMED Rehabilitation Medicine – prepayment for Independent Medical Exam for David Vastell - \$1,300. *Recommendation:* Ratify payment.

6. Plan Administrator Karan Rounsavall – monthly fee (February 2018, March 2018, April 2018) - \$7,800. Recommendation: Ratify payments.
7. Drew Bastian – reimbursement of mileage, meals, etc. for attendance at FPPTA Winter School in Orlando - \$111.76. Recommendation: Ratify payment.
8. Warren Carman – reimbursement of mileage, meals, etc. for attendance at FPPTA Winter School in Orlando - \$111.76. Recommendation: Ratify payment.
9. Freiman Little Actuaries – contracted actuarial services from February 14, 2017 through February 12, 2018 - \$22,240. Recommendation: Ratify payment.
10. Freiman Little Actuaries – supplemental actuarial services from February 14, 2017 through February 12, 2018 - \$4,302. Recommendation: Ratify payment.
11. AndCo Consulting – investment consulting and performance monitoring services for quarter ending March 31, 2018 - \$8,750. Recommendation: Ratify payment.
12. First State Trust Company – custodial services for quarter ended March 31, 2018 - \$4,625. Recommendation: Ratify payment.
13. James Moore & Co. – Final billing for work on September 30, 2017 audit - \$1,000. Recommendation: Ratify payment.

Member Bastian moved to ratify plan expenses as recommended. Member Cobb seconded the motion and it carried on an all yes vote.

- B. Acknowledge refund of member contributions to the following non-vested members:
1. Ethan Siders (non-vested member) in the amount of \$671.12;
 2. Kayla Scott (non-vested member) in the amount of \$19,493.25.

Member Bastian moved to acknowledge refunds to the non-vested members as stated. Member Carman seconded the motion and it carried unanimously.

OLD BUSINESS

- A. Status of ordinance increasing investment limits on equities held in the portfolio from 65 to 70 percent

It was noted that the subject ordinance had not yet been presented to the Port Orange City Council for consideration. City Manager Jake Johannson expressed concerns about risk and volatility associated with increasing equity limits in the portfolio particularly since the city was responsible for funding annual shortfalls. He sought assurance that increasing these limits was an appropriate and prudent action.

Investment Consultants Tyler Grumbles and Dan Johnson of AndCo Consulting discussed the importance of asset allocation in a portfolio and provided a handout illustrating the historical performance of various asset classes versus assumptions, asset allocation of other public plans, and long-term projections. From their perspective, the greatest concern was current low fixed income returns which were expected to continue years into the future. One strategy to increase the probability that the fund met its expected annual rate of return was to raise the portfolio's exposure to equity, specifically international equity investments. Including an allocation to international fixed income was also a possibility. Mr. Grumbles added that investment returns in the police

pension fund lagged in the past, in part, because of a higher allocation to domestic fixed income. In fact, in a rising interest rate environment, bond returns could turn negative. The goal was to take an appropriate amount of risk and position the portfolio to achieve its investment objectives going forward.

Actuary Chad Little noted that the pension plan utilized a five-year smoothing technique of investment returns to decrease year-to-year volatility. Attorney Ken Harrison stated that AndCo Consulting had "*quite a big hole to dig themselves out of*" having taken over investment consulting to the plan in October 2017. Changes needed to be made to the portfolio and trustees had taken on this responsibility. From a legal perspective, the subject ordinance was proper.

The consultants were happy to attend city council meetings when the ordinance was presented to address city council concerns and answer questions.

Member Bastian moved to direct representatives from AndCo Consulting to attend city council meetings when this ordinance was presented. Member Carman seconded the motion and it carried unanimously.

NEW BUSINESS

- A. Ratify early retirement benefits for Sean Sheridan (terminated vested member) commencing July 1, 2018
- B. Ratify service-related disability benefits for David Vastell commencing April 1, 2018

Member Carman moved to ratify Mr. Sheridan's selection of 100 percent joint and survivor benefit option and to ratify Mr. Vastell's selection of life annuity option. Member Bastian seconded the motion and it carried on an all yes vote.

- C. Discussion and possible action with regard to changing quarterly meeting schedule

Attorney Harrison asked whether or not the board would be agreeable to his attendance at future meetings via video conferencing (Skype). This alternative was contemplated because of recent changes with other retirement plans that his law firm represented. He also noted that Sugarman & Susskind recently was named as legal counsel for the Port Orange Fire Pension Plan which met on Mondays. Board members voiced their preference for the attorney's personal (face-to-face) attendance at quarterly meetings. There was no objection to a change of meeting dates, however, Mondays were generally preferred to Thursdays.

Plan Administrator Rounsavall would research the feasibility of meeting on third Mondays or possibly third Thursdays of February, May, August, and November and report back to the board. Pending her report, there was no immediate change to current meeting date/arrangements for 2018.

- D. Professional service agreement with James Moore, Certified Public Accounts, to perform pension plan audit for fiscal years ending September 30, 2018, 2019, and 2020

Board members were in receipt of a proposed agreement with James Moore CPA to perform an audit of the pension fund for the ensuing three years at a fixed cost of \$9,000 each year. Upon query from Chairman Braddock, the attorney advised that the

fund was only required to have an audit every three years. Audits had been performed for the past three years with each receiving an "unmodified opinion." It was also noted that the Port Orange Fire Pension Fund utilized the city's audit to meet this requirement.

Member Bastian moved to authorize execution of the agreement with James Moore CPA for independent audit of police pension plan financials at annual cost of \$9,000. It was understood that the agreement could be terminated for successive years (i.e. 2019 or 2020). Member Cobb seconded the motion which carried unanimously.

E. Renewal of fiduciary liability insurance policy with Markel American Insurance Company through Ullico Casualty Group

Board members were in receipt of a renewal quote from Markel American Insurance Company. The aggregate limit of liability was \$1 million with zero deductible. Waiver of recourse for trustees was included at no additional premium as was an endorsement covering the third-party administrator as an additional insured. The annual premium was \$4,878 (slightly higher than the prior year's premium of \$4,795).

Member Carman inquired as to whether or not the policy allowed the Board the option of selecting its own counsel in the event of a claim (as opposed to using legal representation provided by the insurer). Attorney Harrison and Plan Administrator Rounsavall would inquire as to this clause and report back.

Member Bastian moved to authorize renewal of the fiduciary liability insurance policy at a cost of \$4,878 for the ensuing year (May 31, 2018 through May 31, 2019) subject to legal review of the policy allowing the pension plan the right to select independent counsel if desired. Member Carman seconded the motion; it carried on an all yes vote.

F. Periodic review of professional service provider agreements

Pursuant to its adopted policy, the Pension Board routinely reviewed all professional service provider agreements to determine appropriateness and timeliness of the terms contained therein. Board members were in receipt of a listing of all consultants and their agreement execution dates.

The Board expressed satisfaction with all of its current professional service providers. No further action was necessary.

CONSULTANT REPORTS

A. Tyler Grumbles – AndCo Consulting (Investment Consultant)

1. Investment Performance Report for quarter ended March 31, 2018

Mr. Grumbles delivered the Investment Performance Report for the quarter ended March 31, 2018. It was a volatile quarter with market returns broadly negative across major equity and fixed income indices. Equity markets saw a ten percent correction in February triggered in part by trade war concerns. Fixed income performed poorly as interest rates began to rise which caused bond prices to decrease. Exposure to real estate continued to add value to the portfolio relative to fixed income returns.

Total market value as of March 31, 2018 was \$35,494,438 down from \$35,756,521 for the previous quarter ended December 31, 2017. On a percentage basis, the composite portfolio was down -0.65 percent (gross) for the quarter which ranked in the 76th

percentile of public plans. Fiscal year to date, the fund was up 3.23 percent (gross return) which ranked in the 58th percentile.

Member Carman moved to accept the investment performance report as presented. Member Bastian seconded the motion which carried unanimously.

2. Domestic Equity: Passive vs. Active Investment Options Review

Mr. Grumbles provided an informational handout that compared passive and active management strategies for domestic equity investments, specifically large capitalization value and growth styles. The domestic equity market was extremely efficient and it was difficult for active managers to outperform this index. The police pension plan currently utilized the Vanguard Total Stock Market Index Fund for its domestic equity portfolio. Mr. Grumbles stated that a passive strategy only replicated the index; the fund would never achieve an above market-return with passive equity investing. Active investing involved buying and selling stocks in an effort to outperform the index.

If the pension board wished to consider active management for a portion of its domestic equity allocation, Mr. Grumbles recommended the Vanguard Equity Income Fund for large cap value and MFS Growth for large cap growth.

It was the pension board's preference to continue a passive strategy in this asset class by remaining in the Vanguard Total Stock Market Index Fund.

At the next quarterly meeting, Mr. Grumbles would present a review on global fixed income opportunities.

B. Chad Little – *Freiman Little Actuaries, LLC* (Plan Actuary)

1. 2017 State Annual Report - Approved

Board members were in receipt of correspondence dated May 7, 2018 from the Office of Municipal Police Officers' and Firefighters' Retirement Trust Funds/Division of Retirement advising that it had reviewed and approved the 2017 Annual Report for the Port Orange Police Officers' Pension Fund. Mr. Little also mentioned that he completed the electronic filing of the 2018 actuarial valuation. This was a new requirement.

2. Discussion regarding pension credit start dates

Mr. Little advised of a recent conference call with the plan administrator and human resources director to verify pension start dates for several plan members. He went on to recommend that the swear-in date be used as the pension start date for new hires. This recommendation would be formalized and presented to the pension board for consideration at the next quarterly meeting.

At the next meeting, Mr. Little would also present a study on assumed investment rates of return.

C. Ken Harrison – *Sugarman & Suskind* (Attorney)

1. Legislative Update.

Attorney Harrison advised that the State Legislature passed a bill providing workers compensation coverage for PTSD (post-traumatic stress disorder) for first responders. This could potentially affect applications for disability retirement in the future.

Attorney Harrison responded to Member Carman's question about plan benefits when two collective bargaining units posted divergent votes. He advised that a member could not lose a benefit in which they were already vested. Actuary Little commented that mutual consent between the city and bargaining units also factored into this conversation.

Board members agreed to conduct a "pre-retirement conference" for active members at the conclusion of the next quarterly meeting when the attorney, actuary, plan administrator and human resources director could be in attendance to present information and answer questions.

D. Karan Rounsavall – Plan Administrator

1. Educational Opportunities:

- ✓ Annual Police Officers' & Firefighters' Pension Trustees' School sponsored by the Division of Retirement in Tallahassee (June 4-6, 2018)
- ✓ Florida Public Pension Trustees Association (FPPTA) Annual Conference at Rosen Shingle Creek in Orlando (June 24-27, 2018)

If any member wished to attend, they were to contact her at their earliest opportunity.

2. Annual Financial Disclosure Filing Deadline

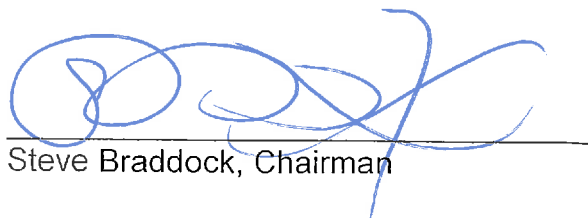
Mrs. Rounsavall reminded board members of the importance of timely filing of their disclosure reports no later than July 1, 2018.

The next quarterly meeting was scheduled for August 17, 2018.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 11:45 a.m.



Steve Braddock, Chairman



Karan Rounsavall, Plan Administrator