



# NEW PORT RICHEY POLICE PENSION SYSTEM



## Minutes

Of a Quarterly meeting of the Board of Trustees  
Meeting at 6739 Adams Street, Police Station,  
New Port Richey, Florida 34652  
Tuesday, the 27<sup>th</sup> day of October 2015, at 5:00 P.M.

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The meeting was called to order by Mr. Pratt at 5:03 PM.

Trustees Present:

Mr. Glen Pratt  
Sergeant Chris Trapnell  
Officer Steve Wade

Trustee Absent:

Mr. William Bennett

Consultants Present:

Mr. Peter Hapgood  
Ms. Jana Hamilton  
Mr. Dana Stewardson  
Mr. John Riddle  
Mr. Brendon Vavrica  
Mr. Lee Dehner

Administrator:

Mr. T. Scott Baker

Others Present:

Ms. Debbie Manns, City Manager  
Ms. Crystal Feast, Finance Director

### **ITEM #1 -- Approval of the minutes of the meeting on September 22, 2015**

**Motion:** Sgt. Trapnell made a motion to approve the minutes of the meeting. Officer Wade seconded the motion. The motion passed without opposition.

### **ITEM #2 -- Open Public Comment**

There was no public comment.

### **ITEM #3 -- Intercontinental Real Estate Investment Report – Peter Hapgood**

Mr. Hapgood said real estate has done very well, with positive numbers. He began covering his report on page one, showing an overlook of what the index has done since it was established in 1979. The index shows that there have only been 4 down years, and said this product is a yield producing product that is giving the fund an almost 6% return on an annual basis for dividends. He said this year at almost 3 quarters there has been a 6.8% return. He said they have bought 15 new properties this year and it has a little bit of an effect on the performance in a negative way. He said this is because of the new rule that doesn't allow them to smooth them out over a five year time, so the expenses will be taken from the fund.

Moving to page 2, Mr. Hapgood said this graph shows the returns of Real Estate versus US Stocks and US Bonds over the 1, 3, 5, 10, and since inception periods. He said the New Port Richey fund's asset value as of September was \$2.4 million. He said the net gain since being in the fund is almost 12%. He said when New Port Richey joined the fund in 2013 they had about 50 properties and they are now approaching 90 (map on page 7 showing where the properties are located throughout the US). Continuing to page 8, Mr. Hapgood went over the Diversification pie charts (fund vs. index). Moving to page 9 he covered Real Estate Outlook and recent acquisitions on page 10.

Mr. Hapgood said the only thing that will affect them is interest rates. He said for an example (as shown on page 17) if interest rates go up 25 basis points, Intercontinental would get 77 basis points on appreciation, because of debt. So if interest rates go up their performance will go up. He said that if interest rates go up it will have an impact on purchases, because the rates of borrowing will increase. He asked for any questions and there were none.

Due to Jana Hamilton not arriving yet, the meeting continued to Item #5

### **ITEM #5 -- Logan Capital Quarterly Report – Dana Stewardson**

Mr. Stewardson said the fund is up over 9% for the year, however was only up around 2% at the end of the quarter in September. He said parts of the economy are doing really well while others are not. He said as an example, Walmart came out with some lousy numbers a couple weeks ago and the stock dropped quite a lot. He said 70% of the US economy is consumer based and the consumer is struggling right now. He said stock picking is paramount right now. Google, Sherwin Williams, Home Depot, Nike, Celgene (in the cancer space), Apple, and Facebook are companies Mr. Stewardson said are full of cash, products, brands, and have clear vision of where they are going and are some of the best growth stocks out there that they hold. He asked for any questions.

Mr. Pratt asked if there were any stocks they sold. Mr. Stewardson said there has been some trims, however not a lot of turnover. Sgt. Trapnell referred to page 29 and asked about two stocks listed under the "Worst Performers" being 3D Systems Corp. and United Rentals Inc. He said it looked like the weight was decreased but the returns were tanking. Mr. Stewardson said they had not sold any shares and said that United Rentals had actually had a big recovery over the last month. He said that 3D Systems has probably been the worst stock they have ever owned. He said at some point they will add to it, believing it will rebound.

#### **ITEM #6 -- BRC Investment Management Quarterly Report – John Riddle**

Mr. Riddle said for those that don't know, they are a different kind of manager, having developed some methods that allow them to take advantage of an inefficiency in the market. He said that security analysts that continually issue reports and forecasts about what's going to happen in the future, as it turns out they have a huge influence on stock prices. He said what they found is that the analysts have a huge influence on prices but they actually have a hard time doing what they're trying to do.

Mr. Riddle said they have developed a methodology where they think they can predict the behavior of what those security analysts are going to do. So they feel they can use the individual analyst current behavior to predict what direction the whole group is going to go in. He said setting that aside for a second and saying they could actually do that, then it seems like the big thing left is do people continue to care. He said do people buy a stock when an analyst upgrades it and sell it when they downgrade it? He said if they do and they were able to significantly predict that behavior in advance then that would be a good thing. He said they have been doing this for about 20 years and they have developed a very good long term record of performance. He said they have outperformed their benchmark every fiscal year that New Port Richey has been with them. He said their firm has grown to close to \$1 billion.

Mr. Riddle said they currently have a concentrated portfolio with 30-35 stocks and it covers all 17 sectors, saying with the concentrated portfolio they feel they can earn alpha for a longer period of time. He said security analysts have been net pessimistic at a rate that's as high as they've measured all the way back to the financial crisis. He said what that means is that analysts are downgrading stocks earnings forecast a lot more than they're upgrading. He said in fact that rate of downgrade is as high as it's been since 2009.

Mr. Riddle said something else they keep track of closely is how many companies announce earnings that are strongly ahead of what people thought they were going to be. He said they keep track of how many companies beat the consensus versus how many that don't beat it. What they found was about 14% of companies this last quarter announced earnings that were considerably greater, on the downside, than what the consensus was. He said this was a little worse than normal but not terrible. He said it tells us that analysts are very pessimistic. He said this last quarter, the portfolio benefited from 495 excess revisions, compared to a random portfolio.

#### **ITEM #4 -- Garcia Hamilton & Associates Quarterly Report – Janna Hamilton**

Ms. Hamilton arrived and began presenting her report. She started on page 1, Investment Philosophy, and said they run an Intermediate fixed income product, which is a little more conservative. She said the question continues on whether rates will increase, which has affected fixed income. She said to increase value in the portfolio they have rotated sectors in the marketplace, saying now they are over weighted in Treasuries. For the quarter she said the portfolio outperformed the benchmark gaining 1.6% versus 90 basis points. The year to date return is 2.1% versus the benchmark of 1.8% and the fiscal year to date is almost 1% above the benchmark.

Ms. Hamilton said when they first started managing the fund's assets in 2010 they still thought that the corporate bond market was still very attractive. So from 2008 until about a year and a half ago they over weighted corporate bonds as much as 50-60%. Then a year and a half ago after they weren't being paid to take the spreads and the economy wasn't coming back, like everyone thought, they started selling off the corporates and started buying Treasuries. She said they are also long in the market, at 10-12% long duration because they feel that rates are still going to creek down a little.

Ms. Hamilton continued to page 9 in her report and discussed the 10 year historical sector weightings. Continuing to page 10 she discussed the portfolio characteristics compared to the benchmark. She said they were awarded Institutional Investors Intermediate Fixed Income Manager of the Year award this year and are pleased with that.

### **ITEM #7 -- Performance Monitor Report, Fiscal Year End – Brendon Vavrica**

Mr. Vavrica said he had two different pieces he was going to cover. He started on page one of the Portfolio Snapshot. He said what they do is take all of the stocks from the two individual managers and load it into a separate software. What it does is aggregate it and allows them to look at it as if it were one portfolio. He said looking at the blue/gray box on the top right, it is a breakdown of the percentages of the style of each of the securities. Adding the columns you get 18% in Value, 24% in Core, and 58% in Growth. So the portfolio, although having securities in all styles, has a greater percentage on the Growth side. Then adding the rows you get 55% in Large Cap, 43% in Mid Cap, and 2% in Small Cap.

Mr. Vavrica said looking at the circle graph on the top left side of the page there is a small sliver of red, which represents International or non US Stocks, which is 3.4% of equity assets. He said on the bottom of the page it lists the top 8 holdings out of 81 (total securities owned by both managers). The greatest one is Apple at 4.06% and something that you're concerned about are both managers buying the same stocks, especially because you can't have any more than 5% of the portfolio in any one stock. Both managers own Apple with a total of 4.06% of only the equities. When you add in Fixed Income and Real Estate the Apple stock is really only about 2.6-2.7% of the entire portfolio.

Continuing to page two, Mr. Vavrica said this is a list of all the stocks, including the ticker symbol, the dollar value, and the one three and five year return of that security (although it may not have been owned that long). Continuing to page 6, this shows BRC's stocks and there are no international stocks. The style box shows they have 36% in Value, 35% in Core, and 29% in Growth and this is why there is an overall Growth tilt because they are not as far on the Value side as Logan is on the Growth side. Continuing to page 10, this shows Logan's stocks and they have 6.7% of their portfolio in International or ADR's. Mr. Vavrica said the style box is about as true style reading as you'll ever see in terms of Growth versus Value. They have 87% on the Growth side, 12% in Core, and 1% in Value, with 64% in Large Cap, 36% in Mid Cap, and no Small Cap.

Mr. Vavrica began covering the main report starting on page 2 saying that it wasn't a good quarter as Fixed Income and Real Estate were the only things that were positive.

The big loser was the Russell 2000 Growth (Small Cap Growth) which was down in excess of 13% just for the quarter. He said the trailing one year shows a mixed bag, depending on whether you were in Large Cap, Small Cap, Growth or Value you were either slightly positive or slightly negative for the 12 months, which is the fiscal year end. The trailing 3 years are still doing nicely. Moving to page 3 (Compliance) where you want everything marked as yes, they are all yes'. He said page 4 shows a couple of no's, which is related to Logan's 5 year performance ranking. He said BRC and Garcia Hamilton both have all yes'. Moving to page 9, shows a snapshot of the assets as of September 30<sup>th</sup> with 60% in Equity, 27% in Fixed Income, 11% in Real Estate, and 2% in cash. Page 11 shows the dollar amount of the total fund at \$22.5 million.

Continuing to page 12, Mr. Vavrica said for the quarter the fund lost 3.9%, which trailed the policy which was down 3.47% and placed in the 31<sup>st</sup> percentile. In all other time periods all of the numbers aren't as big as they were 3 months ago, but are still very good relative to the benchmark. Fiscal year to date is at 3.81%, which is below the assumed rate, however relative to the market outperformed significantly, by almost 2%. The market did 1.9% and the fund was in the 1<sup>st</sup> percentile. The 3 year return was 10.2% versus the benchmark at 9% and over 5 years the fund had a return of 9.9% versus the benchmark of 9.6%. Mr. Vavrica covered the returns of equity and fixed income, including individual managers. He discussed the risk on page 15.

**ITEM #8 -- Budget – Senate Bill 172 Requirement/Approval  
Recap of 2014-2015 Budget  
Discussion of 2015-2016 Budget**

Mr. Baker made sure everyone had copies of the 2014-2015 Budget, indicating at the top of the page shows the projected expenses from 2013-2014, the actual expenses from 2013-2014, and the projected expenses for 2014-2015. Mr. Dehner said that the fiscal year ending September 30, 2015 Budget/Expenses needed to go to the city for a FYI and the projected Budget for 2015-2016, fiscal year ending September 30, 2016 needed to be approved and then filed with the city and Division of Retirement. Mr. Baker said each column was self-explanatory indicating what the total amount for each category and said most areas were within the budgeted amount. The following amounts were budgeted/paid: \$10,000/\$8,480 Attorney; \$8,000/\$1,075 Schools; \$37,000/\$44,293 BRC; \$15,000/\$15,329 Garcia Hamilton; \$35,000/\$42,140 Logan Capital; \$17,000/\$21,660 Intercontinental Real Estate; \$13,000/\$12,107 Fiduciary Trust; \$400/\$200 Clerical; \$9,600/\$9,600 Administrator; \$19,000/\$17,881 Actuary; \$600/\$600 Dues; \$13,000/\$14,450 Auditor/Accountant; \$20,000/\$18,462 Performance Monitor; and \$4,000/\$3,945 Fiduciary Insurance. The total expenses were \$210,223.

A second sheet was used to determine the projected expenses for the 2015-2016 fiscal year. Mr. Dehner recommended adding a miscellaneous column in case of a disability claim or anything else. The following amounts were set by the Board: \$10,000 Attorney, \$8,000 Schools, \$48,000 BRC, \$18,000 Garcia Hamilton, \$48,000 Logan Capital, Intercontinental \$25,000, \$14,000 Fiduciary Trust, \$400 Clerical, \$9,600 Administrator, \$19,000 Actuary, \$700 Dues, \$16,000 Auditor/Accountant, \$20,000 Performance Monitor, and \$4,500 Fiduciary Insurance, \$5,000 Miscellaneous.

**Motion:** Officer Wade made a motion to approve the projected budget for 2015-2016. Sgt. Trapnell seconded the motion. The motion was passed without opposition.

Mr. Dehner said that the approved projected budget needs to go to the city and the Division of Retirement. He said the 2014-2015 budget/expense report also needs to go to the city. He asked Ms. Manns and Ms. Feast if they wanted it all on one sheet and they requested that it be put on one sheet. Mr. Dehner said that a motion would need to be done amending the previous motion for the Budget for the fiscal year ending 2016 and the actual expenses for the fiscal year ending 2015, as amended.

**Motion:** Officer Wade made a motion to approve the projected budget 2016 and actual expenses for 2015, as indicated by Mr. Dehner. Sgt. Trapnell seconded the motion. The motion was passed without opposition.

#### **ITEM #9 -- Legal Report – Lee Dehner**

Mr. Dehner said he wanted to follow up on a couple of items. He said Senate Bill 534 calculations had been received from the Actuary and they filed it electronically with the Division as required and asked if the report had been posted on the city's web-site. Mr. Baker said that it had been posted. Mr. Dehner asked if the Administrative Rule 60-T calculation on investment returns from Thistle needs to be posted as well. Mr. Vavrica said this document should have been received months ago. He said it is a table format that essentially gives the allocation over the last 5 years and what your actual return was relative to your assumed rate.

Mr. Dehner said Senate Bill 172, that brought the budget requirements also determines the allocation of excess state money. In the first instance its contemplated that it will be negotiated and agreed upon through mutual consent. If that does not occur then it would default to the statute, which essentially means the city gets 50% and the members get 50%. The 50% that goes to the members would have to go into a share plan. He said the time frame on this is when they enter into the next CBA, which is next year, confirming it with Ms. Manns. She said at this point they are discussing doing a one year extension on the agreement, which would take in into 2017. Mr. Dehner said the statute also requires that a share plan has to be put into the ordinance. He said they will be sending what is most prevalent along with other IRS required changes to amend the ordinance.

Mr. Dehner said during prior meetings Senate Bill 242 went to conference in the House and is now House Bill 1309 and it was adopted. This Bill provides that local law plans, such as this one, need to use the same mortality table as used by FRS, and becomes effective January 1, 2016. He said this means that the numbers must be used for the 10/01/2016 Valuation Report.

#### **ITEM #10 -- Approval of expenditures**

There were 4 Distribution Authorizations for approval by the Board of Trustees for payment: :\$10,343.00 to Logan Capital Management for Investment Management Fees for the quarter ending 09/30/2015; \$10,311.00 to BRC Investment Management for Investment Management Fees for the quarter ending 09/30/2015; \$3,818.59 to Garcia

Hamilton for Investment Management Fees for the quarter ending 09/30/2015; and \$4,582.00 to Thistle Asset Consulting for Performance Monitor fees for the quarter ending 09/30/2015.

**Motion:** Sgt. Trapnell made a motion to approve the expenditures. Officer Wade seconded the motion. The motion was passed without opposition.

**ITEM #11 -- Any other business**

Officer Wade said that he had retirement paperwork from Deputy Chief Bob Close that will be effective 12/18/2015. Mr. Baker said he did receive a letter back from the city indicating that they are going to pay GRS directly for the charges associated with the GASB68 fees.

**Motion:** Officer Wademade a motion to adjourn. Sgt. Trapnell seconded the motion. The motion passed without opposition. The meeting was adjourned at 6:41 PM.