



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 24th day of January 2017, at 5:00 P.M.

The meeting was called to order by Mr. Pratt at 5:05 PM.

Trustees Present:

Mr. Glen Pratt
Mr. Edward Beckman
Officer Steve Wade
Sergeant Chris Trapnell

Trustee Absent:

Mr. William Bennett

Consultants Present:

Mr. Mark Jaeger
Mr. Brendon Vavrica
Mr. Lee Dehner
Mr. Larry Wilson (arrived at 5:50 PM)

Administrator:

Mr. T. Scott Baker

Others present:

Ms. Debbie Manns
Ms. Crystal Feast

ITEM #1 -- Trustee Positions, expired on December 31, 2016

- **City Appointed Position currently held by William Bennett**
- **Officer Position, currently held by Steven Wade**

Mr. Baker said that Officer Wade was the only Officer that had submitted his name for the Trustee position, so therefore he was elected by acclimation. He said that Mr. Bennett was approved at the last City Council meeting to continue serving as one of the city appointed Trustee positions. Both Trustee positions have a term of 4 years.

ITEM #2 -- Approval of the minutes of the meetings on October 25, 2016 and December 13, 2016

Motion: Mr. Beckman made a motion to approve the minutes of the meeting. Sergeant Trapnell seconded the motion. The motion passed without opposition.

ITEM #3 -- Open Public Comment

There was no public comment.

ITEM #4 -- Placement of funds, Benevolent Fund (Johnny Cash Fund)

Mr. Beckman said he has been corresponding with Cindy Ewald from SunTrust who was supposed to attend the meeting, however she had a medical issue causing her to miss the meeting. He said that SunTrust does business with the city and Ms. Ewald's recommendation was to place the funds in a money market account and possibly some of the funds be placed into a CD. Mr. Beckman said this could be set up at the branch at Main St. & US Hwy. 19 and asked who the signers would be. Mr. Pratt said currently 2 Trustee's signatures are required for a distribution, so all Trustees would be signers on the account. Mr. Beckman suggested placing \$30,000 in a CD and the remaining \$9,800 be placed in a money market account. He said after placing the funds the Board could move forward on how the fund would be overseen, whether a separate board from the city would be set up or some other way it gets set up. City Manager Debbie Manns said the City is prepared to make a proposal to the Board at the next Board Meeting on how they would establish a Board and administer the program on the Pension Board's behalf. Crystal Feast, City Finance Director, said she suggested not tying up the funds in a CD so that there would be an easier transition for the funds to be transferred to a city account. Mr. Beckman again mentioned getting the Officers involved, so that perhaps an annual fundraiser could be held to help sustain the account.

Motion: Mr. Beckman made a motion to deposit the check from Morgan Stanley into a money market account at SunTrust and wait until the next Board meeting to hear what the City will propose for administering the funds. Sergeant Trapnell seconded the motion. The motion passed with Officer Wade abstaining from the vote. Mr. Dehner asked the basis for his abstaining and Officer Wade said he wanted to wait until the proposal is heard from the city, as he liked the way the fund was currently being administered by the Board of Trustees. Mr. Dehner asked if Officer Wade had a personal interest that he could gain or lose from (inaudible). Sergeant Trapnell said that he and Officer Wade could be affected by the vote. A further discussion took place regarding abstaining or voting and with the motion being only for putting the check in the bank, both Officer Wade and Sergeant Trapnell voted "yea", approving the motion.

ITEM #5 -- 361 Capital Investment Manager Quarterly Report

Mr. Yaeger began covering his report on page 4 saying he had discussed the change in October by being acquired by 361 Capital. Moving to page 5, he said this was the portfolio and said they did have a good quarter for Value stocks, going from \$7 million to \$7.3 million, a 4.3% gain for the quarter. He said it was less than the Russell 1000 Value (their benchmark) which was up 6.7% for the quarter. Continuing to page 6, he said this shows the returns by fiscal year, showing they have underperformed in half the years and

outperformed in the other half. He said the most recent was talked about at the last meeting. Continuing to page 8 shows the returns for the quarter showing Value significantly outperformed Growth, an increase of 6.7% which occurred after the election with the best performing sectors being Financials (up 22%), Materials, and Industrials. He said Small Cap outperformed Large Cap and underperforming sectors were Health Care, Real Estate, and Consumer Staples.

Mr. Yeager continued to page 9 and covered the Positive and Negative Factors of performance versus the Russell 1000 Value. Positive: Analyst behavior prediction models performed very well; Stocks with positive value characteristics performed well on an absolute basis which helped returned; and Strong security selection in Financials. Negative: Factor returns continued to moderate relative to earlier in the year; The portfolio benefited from 2% more large positive surprises than would be expected in a random portfolio; Relative to the value benchmark, our portfolio is biased toward positive behavior and earnings momentum; and Stock selection in Energy (Gulfport Energy), down 23%. Tyson Foods, was also down 23%, were sued in a class action lawsuit for collusion on surprise of poultry with other companies to try to keep the prices up. He said they sold the stock.

Mr. Yeager said in January they are outperforming, about 1.5%. He said it appears that the factors seen last year and before the election last quarter are starting to moderate even more and are starting to see their stocks being rewarded. He said he thinks this will continue and is optimistic about the year and doesn't not think the factor returns will be as volatile as they were last year. Mr. Pratt asked if Mr. Yeager thought the interest rate would go up again and he said he thought they would at least twice and possibly three times. Mr. Pratt asked due to the poor performance in Health Care will there be changes in the portfolio holdings. Mr. Jaeger said the portfolio automatically rebalances to sectors that have lower weights.

ITEM #6 -- Performance Monitor Report – Brendon Vavrica

Mr. Vavrica said he had warned the Board 3 months ago that a name change was coming and the new name of the company is "&Co". He said on page one of his report there is a commentary on more of the name change. Mr. Vavrica continued covering his report on page 2, showing how the markets performed during the quarter. Moving to page 3 he said the graph shows the different Russell benchmarks. Continuing to page 9, he said discussed the Treasury Yield Curve.

Moving to page 10 (Fund Compliance), Mr. Vavrica said there were a few performance related compliance boxes marked "no". He said he would look at this in more detail when reviewing the returns page. Continuing to page 12, he said this was a snapshot of the assets showing a total fund balance of \$24.2 million as of 12/31/2016. He said the middle graph shows the deviation from the benchmarks and said Fixed income was a bit light, which has been a function of performance.

Mr. Vavrica continued to page 16 (Performance) and said it was a decent quarter, as it was positive (gaining 1.32% and placing in the 23rd percentile), but it did trail the policy which was up 1.9%. He said the performance was all from the equities (361 Capital gaining 4.3% versus the benchmark at 6.6% for the quarter) and performance for the trailing one year at 5% versus the benchmark at 17%. He said Logan, who was up last quarter, gave a lot back, losing 74 basis points versus the benchmark at a positive 1.01%

and placing in the 64th percentile. He said Logan's one year return was 3.4% versus the benchmark at 7%.

Dropping down to Fixed Income, Mr. Vavrica said Garcia Hamilton did kind of protect the fund on the down side, as they were down 1.4% and outperformed the benchmark which was down 2.07%. He said Intercontinental Real Estate had a phenomenal quarter gaining 5.7% versus the benchmark at 2.07%.

Mr. Dehner asked Mr. Vavrica if he had any comments or recommendations on the equities because he said they were missing by a lot. Mr. Vavrica said that it has been a very frustrating environment, not just for 361 and Logan, but across the board for active management. Mr. Vavrica said there has been a period of about 7 years where passive management has done really well and asked if now was the time to get into passive management. He said that going from an underperforming active and going to a different underperforming active is a hard decision. Mr. Vavrica said what he would propose is if the Board doesn't want the managers to have a little bit more time, would be to look at a passive strategy, at least on a temporary basis. He said this would maybe be 6 months to a year and if the environment begins to turn around and active has a better environment then you could move back into active. Mr. Vavrica said he thought of taking about half of the active equities and go passive with it, something like the Vanguard total stock, which is a Core allocation, dominated by Large Cap, for 5 basis points, and would be easy in and easy out. Mr. Pratt asked what the returns were and Mr. Vavrica said you just have to look at the benchmark returns and take 5-10 basis points from that for fees.

Mr. Dehner asked if Mr. Vavrica's recommendation was to take half of both active equities (Logan and 361) and put it into an index fund. Mr. Vavrica said that the funds from both managers would go into a Core index fund, while still keeping both active managers. The Board discussed what action to take.

Motion: Sergeant Trapnell made a motion to wait a quarter before taking any action on moving funds into a passive index account and keep the active managers. Officer Wade seconded the motion. The motion passed without opposition.

Mr. Vavrica said he wanted to point out one other item in the report, on page 31. He said this is a Heat Map for asset class and style returns. He said this was a case for diversification.

Note: Mr. Wilson arrived

ITEM #7 -- Review and approval of Valuation Report – Mr. Larry Wilson

Mr. Wilson distributed his Valuation report to those in attendance. He said the report is of 10/01/2016 and it determines the city's contribution for 09/30/2018. He said the costs are up slightly as a percent of pay and as a dollar amount (dollar amount up about \$27,000 and up .3% of pay). He said the city actually put in about \$19,000 extra last year, so if that is used then the amount would be reduced. He said there was an actuarial gain this year, sourced from both the smoothed investment return and liability gains. Mr. Wilson said as part of the report they are recommending updating the actuarial assumptions, saying state statute requires they update the mortality assumptions. He said they also looked at the rest of the assumptions and are recommending revising the assumptions, including the investment return assumption, saying this is part of the reason the costs are up this year. He said they are again recommending an experience study, which had been

tabled by the Board in the past. Mr. Dehner asked if Mr. Wilson had included his assumption recommendations in this report and he said he did include them, saying that if the Board didn't want those changes, they could discuss it and the report could be treated as a draft.

Mr. Wilson began reviewing his report starting on the page first page with letterhead. He said they have calculated the total cost to be 49 ½% of covered payroll. He said the amount they have projected based on that is \$1,110,966.00. He said the 49.5% is paid by three (3) sources: members, 4.5%; state, 8.8% (based on last year's amount and based on statutorily amounts for mutual consent); and the city, 36.2%. He said last year it was 35.9%, and based on the projected payroll from the city is \$812,477.00. Mr. Wilson said this is less than what they paid last year.

Mr. Wilson said the city has a credit balance of \$19,770.00 and the city had previously requested that any overage in contributions be put into this credit balance. He said the balance had gone to zero as the city had used the credit balance in previous years. He said the \$400/\$200 supplement remains, as the plan has to get more money from the state to fund the \$500. He said they are recommending a more robust experience study as proposed earlier.

Continuing to page 8, Mr. Wilson said some of the significant financial results are shown on a comparative basis. There are three sets of columns, last year, this year (if no changes were made & don't have the choice to do this), and the last based on their recommended changes. He said in comparing the left column to the center column show the effect of plan experience during the year. The number of active participants remains unchanged; covered payroll increased by about 2 ½%, the normal cost (which is the cost of benefits expected to accrue in the upcoming year) increase both as a percent of pay and dollar amount; the unfunded liability would have decreased, both as a percentage of pay & dollar amount; and the city minimum funding payment would have decreased both as percent of pay and dollar amount. He said in comparing the center and right columns those items that were identified have increased.

Mr. Wilson said the Vested Benefit Security Ratio shown is a measure of funded status which is not the one you see published but said it was kind of a coverage. He said if we were to pay benefits to all that are vested, based upon the actuarial assumptions for funding, he said there was more than 100% of assets to pay out benefits that have been earned and vested, including all of the retirees and DROP's. He said the ratio is at 104% and would have been at 111% if the assumptions weren't changed.

Mr. Wilson continued covering his report with the following highlights: Page 14 - Actuarial gain of \$1,151,890 for the year which is smoothed over 5 years; Page 34 - Salary and Termination Experience; Page 37 - Smoothed return of 10.5% vs. assumption at 8% (He said they are recommending a 7 ½% assumption and all the numbers in the report are based on this recommendation); Page 11 - Receipts this year without taking into account investment income, were about \$1.3 million and the disbursements were \$1.5 million, a negative cash flow (which included a DROP payment of \$124,658 and said this is not seen every year). Discussed the excess state funds of \$100,515 and said if mutual consent says to keep going under the pre-statutory change in allocation of state payments then that money is there to provide additional benefits for the members; Page 12 - Showing the smoothed actuarial value of assets; Page 13 - City's contribution amounts; Page 17 - New GASB67 accounting, as of 09/30/2016 the audit report for the

plan showed that our funded position was 94.19%, based on the accounting, and 91.99% for projected 09/30/2017. Mr. Wilson said these were very good numbers, as with published surveys showing that funded percentage on average was in the mid 70's.

Mr. Wilson asked for questions about the report and/or new assumptions and said that FRS's assumption for 2016 was reduced from 7.65% to 7.6%. Mr. Pratt asked what page the 8% assumption was on and said the Board needed to discuss this. Mr. Wilson said that there would be a problem with using the 8% and a disclaimer would have to be included, however though that if the assumption was set at 7 ¾% then a disclaimer would not be needed. Mr. Wilson said the numbers would be somewhere in the middle of the numbers on page 8 which shows the net city minimum funding payment between 30.3% and 36.2%.

Mr. Wilson asked for Mr. Vavrica's recommendation for setting the assumption rate. Mr. Vavrica said that you would like the assumption rate to be as low as possible as it makes it easier to beat on an annual basis, however the downside is as its lowered, the cost, ultimately to the city goes up. He said what can you do reasonably and make sense in terms of having a reasonable assumption that doesn't put an undue burden on the sponsor. Mr. Pratt asked for Mr. Vavrica to provide a recommended number and he said he thought reducing the assumption to 7 ¾% would be a good initial step. The Board discussed the assumption rate.

Motion: Officer Wade made a motion to approve the Valuation report with an assumption rate of 7 ¾%. Mr. Beckman seconded the motion. The motion passed without opposition.

Mr. Wilson said he wanted to mention that the annual state report is being required this year to be filed electronically. He said they do two pieces of that report, the actuarial certification and the DROP rolled forward schedule, and said they would be providing the electronic pages to the Board's auditor, be filed with the report.

Mr. Dehner asked Mr. Wilson, with the approval tonight, if he would be doing the 112.664 calculations and within 60 days file it electronically, and provide a copy to the Board to be posted on the city's website. Mr. Wilson said he would re-issue the report based on the 7 ¾% assumption rate and post the 112.664 report within 60 days of today's approval and meeting. Mr. Dehner confirmed that Mr. Vavrica would be providing the 60T calculations to the Board and a copy will need to be placed on the city's website.

Mr. Vavrica said that with the approval of the Valuation, the expected rates of return would need to be set. He said he recommended 7 ¾% for the next year, the next several years, and the long term thereafter.

Motion: Mr. Beckman made a motion to approve the recommendation of Mr. Vavrica for the rates of return at 7 ¾%. Sergeant Trapnell seconded the motion. The motion passed without opposition.

Mr. Dehner said a copy of the letter would need to be provided to the Division, city, and Mr. Wilson.

ITEM #8 -- Legal Report – Lee Dehner

Mr. Dehner said the legislative session will convene on March 7th and run for 60 days into May and said so far there has been one Bill pre-filed that could have an impact on the fund. He said it was Senate Bill 306 and said it relates to when you can abstain as a Trustee, due to a gain or loss.

Mr. Baker said he had been contacted by Mr. Dehner's office regarding setting up a date for the Disability Hearing for Nick Kaller. He said the date should be confirmed soon for a hearing date in 2-3 weeks.

ITEM #9 -- Approval of expenditures

Mr. Baker said there were 7 Distribution Authorizations that were approved by the Board of Trustees for payment: \$10,990.00 to 361 Capital LLC for Investment Management Fees for the quarter ending 12/31/2016, \$11,118.00 to Logan Capital Management for Investment Management Fees for the quarter ending 12/31/2016, \$3,929.87 to Garcia Hamilton for Investment Management Fees for the quarter ending 12/31/2016, \$4,623.23 to AndCo Consulting for performance monitoring for the quarter ending 12/31/2016, \$2,436.00 and \$6,401 to GRS (Gabriel Roeder Smith & Co.) for Actuary fees for the quarters ending 09/30/2016 and 12/31/2016, and \$2,462.22 to Christiansen & Dehner, P.A. for Attorney's fees.

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

ITEM #10 -- Any other business

Mr. Beckman said he wanted to encourage the Officers on the Board to explore other charity options for the Johnny Cash Fund. He suggested a board be proposed including residents, employees, and business persons and creating a 501c3. A discussion took place regarding ideas of the options.

There was no other business.

Motion: Officer Wade made a motion to adjourn. Sgt. Trapnell seconded the motion. The motion passed without opposition. The meeting was adjourned at 7:05 PM.