

# **CITY OF LAUDERHILL FIREFIGHTERS RETIREMENT SYSTEM**

## **FIRE PENSION MEETING**

02/14/2017

### **I. Call to order**

Sean Henderson called to order the regular meeting of the CITY OF LAUDERHILL FIREFIGHTERS RETIREMENT SYSTEM at 4:30 PM on February 14, 2017 at Lauderhill Fire Headquarters, 2nd Floor Training Room, 1980 NW 56 Avenue, Lauderhill, and Fl. 33313.

### **II. Roll call**

The Plan Administrator conducted a roll call. The following persons were present:

Sean Henderson, Chairman  
Michael Taussig, Vice Chairman  
Ryan Gabner, Trustee  
Matthew Newman, Trustee

Ron Cohen, Rice Pugatch Robinson Storfer & Cohen, PLLC  
Greg McNeillie, Dahab Associates  
Chad Little, Freiman Little Actuaries  
Mary Gregory and Kevin Osten, Brown Advisory  
Kevin McCreesh, Systematic Financial

Absent:

Meralis Celetti, Trustee

### **III. Approval of minutes from meeting dated January 10, 2017**

The minutes were reviewed by the trustees.

**MOTION to approve minutes by Ryan Gabner.**

**SECONDED by Matthew Newman.**

**MOTION PASSED UNANIMOUSLY.**

### **IV. New business**

1. Systematic Financial Report given by Kevin McCreesh, Chief Investment Officer. Market Value as of 12/31/16 was \$6,883,707. This report will be outlined under the Systematic tab in the Dahab Report.
  - a. Discussion: The Consultant asked for specifics on the stocks and why they performed or underperformed. Exelon is a Utility which is a part regulated and part independent power producer. They traded about 13 times earnings with a 4% dividend yield. The average electric utility trades at 18/19 times. Exelon did not participate in the big move up due to lower interest rates. A purely regulated utility that had no economic sensitivity would have done better during that time. If they went through each of the economic sectors, for the most part, anything with yield and had very little stock movement would have outperformed what it is probably at. Systematic's quantitative screen is looking for best value with best earnings performance. A lot of the headwinds were from 2009 to July 2016. Things have changed in the world. Since July we are in a huge tail wind. What has helped in the portfolio is the inclusion of companies like Alphabet and Microsoft as a value manager. Each trade in the high teens, multiple of earnings up until the recent quarter, that have moved up have tremendous cash flow. Alphabet and Microsoft have done very well. In hindsight Systematic should have asked how long is the Fed going to keep buying bonds and keep interest rates lower, and is there some way to neutralize this headwind. Implementing the process from 1991 up until 2009, outperforming by 1.5 to 2% a year, they didn't decide to change their process. In hindsight perhaps they should have during those years. After more discussion about the portfolio, Mr. McCreesh concluded his report by saying they are up about 2.5% and up about 40 basis points in the present quarter. The report is on file in the pension office.
2. Brown Advisory Report given by Mary Gregory and Kevin Osten. Mary Gregory began going over the portfolio. They recognize that 2016 was a really tough year. This most recent market cycle has been most unprecedented, in the sense that momentum and dividend yield has been driving stock prices quite a lot. The value of the portfolio as of 12.31.2016 was \$6,065,047. Mary and Kevin went over the report.

Discussion: Over the long term their large cap strategy has performed well, but over the recent years that Lauderhill has been invested with Brown there were more years of underperformance than outperformance. Mary went over the firm and their strategy. Then went over the investment performance. Mary went over some of the factors behind the underperformance. Brown Advisory strategy can outperform in a lot of different market environments but when markets are driven by fundamental things other than the stocks, the market is driven by momentum with things like dividend yield and other risk factors, the asset flows are moving in large size and quickly. That is an environment Brown Advisory has difficulty outperforming. Recognizing the level of underperformance isn't what the plan likes to see, Mary went on to explain that this is a cycle in the market and a period that they haven't been able to keep up. There have been no down years in this cycle. Brown's strategy has a good way of protecting on the downside. Things are starting to come back, they know they have a lot of work ahead of them. They feel they need to stick to the process the way it carried them through in their history and the process they were hired to apply. It would be taking a big risk with the plan's money if they tried to shift and chase the market now. They will look at the margin and can certainly improve on mistakes made. Particular stock selections they have is the other factor. A lengthy discussion ensued. Greg McNeillie pointed out some of the positives and then negatives. Over the last five years the plan has gotten an 11% return out of this portfolio. The plan did make money on this investment. They were hired because they are a good manager, had decent performance, and they were consistent with keeping the benchmark. They had very little pricing power. His concerns are in paying 80 basis points in fees. They have about 300 basis points of annualized underperformance. If the plan keeps Brown as their large cap growth manager, Greg asked if there was a chance Brown would give a fee discount that can always be looked at later. Brown Advisory has been looking at this and they are happy to go back and talk with their team to consider offering a fee discount. Greg mentioned that he recently did a large cap growth search and got another client a manager charging 50 basis points and they outperformed over the past three years.

In conclusion, the consultant likes the portfolio. Greg is willing to see some underperformance from time to time, but the underperformance can't be 94 percentile over three years, and 97 percentile for five years. Mary Gregory realizes they need to turn it around. She respectfully acknowledged the points she was given and will get back to the Consultant about a discount.

Greg McNeillie said they put Brown on a watch two years ago and took away half of their assets to diversify. Part of his job is to hopefully avoid buying high and selling low. Brown's portfolio is set up to do well, as seen in January. He would like to give them another quarter and see where they are.

This concluded the Brown Advisory report.

### 3. Dahab Report

The Consultant went over the balance of the report. Discussion ensued in regard to asset allocations. Asset allocation drives what the assumption should be. Allocations are based on the benchmarks not the actual performances of the advisors. If, for a period of time, the plan is seriously and consistently falling below the benchmarks, the Actuary would have to take that into account. Discussion ensued about how much analysis goes into asset allocation. The Consultant will go through an asset allocation process once the trustees have the actuary's new numbers. Most likely around second quarter. The Chairman said he would like to look at the allocations and assumption rate every year. The Actuary explained that the assumption rate is a long term rate. The Consultant explained to assure the plan would meet or beat the benchmark 100%, the asset mix would have to be very conservative with low volatility to beat the benchmark every year. Ultimately returns will be lower. The plan would make less money. The good thing about actuarial funding is that it is self-correcting.

There is a proposed piece of legislation that will add language to Chapter 112, and that would be the long range rate of return. That is defined as the return that you expect to get with a 50% probability over the next 30 years. Ron Cohen believes that part of the proposed legislation will be effective in 2021.

After a lengthy discussion, the Chairman said he would like to find an entity that gives an unbiased opinion on the plan's asset allocation. Chad Little said he understood what the Chairman is looking for but he thinks in the end that person would be giving you the same information as your consultant. This discussion led into the Actuary's Report.

#### 4. Freiman Little Report

Right now the plan is assuming 8% gross rate of returns. That means over a long period of time managers will earn an average of 8%. The fees paid to those managers are added to the required contribution. Almost all of the other plans in the state of Florida are on a net rate of return now. That means that after all the managers are paid the plan assumes it will earn a net rate of return of 7.75% or whatever the board sets it at. The Governmental Accounting Standards Board declares "net rate of return". When GASB 67 (for the plan) first came into play in 2015, Chad told the auditor about the net return and asked if it was ok to continue using gross return.

At the time the auditor said the plan was ok with gross return for another year. GASB 68 (for the city) says net return. The actuary asked the question again last April 2016 and received their answer in February 2017. The auditor said the plan needs to change to net return. Chad's recommendation is to go to net return. After much discussion, the Actuary said he could see 7.85%. The Consultant said he could back that up. Chad further said they could re-evaluate it around November 2017. The Chairman entertained a motion.

**MOTION by M. Taussig to go to a 7.85% net rate of return for this year based upon the Actuary's recommendations. They should re-evaluate in November 2017.**

**SECONDED by R. Gabner**

**MOTION PASSED UNANIMOUSLY**

The Chairman asked the Actuary to bring a list of what other municipalities are at.

- Chad advised the board that the members' statements were done and delivered to the Administrator.
- MOU - An impact statement was done and is under review.
- Shane Vaughn-After some discussion, the attorney and administrator and actuary should have a phone conference with Shane Vaughn to make sure they have all of the USERRA information Shane has to provide and then determine what amount of credited time, and credited salary Shane is eligible to receive. Ron said that Brent has been deeply involved in tracking Shane's deployments, and ongoing research into the USERRA documents provided. Brent has had many conversations with Shane. Ron will tell Brent about today's discussion. Brent can give Chad a better understanding of what the Ordinance says, what USERRA says and what Shane's questions are.

#### 5. Approve Warrant

**MOTION by R. Gabner to approve the warrant in the amount of \$77,507.73**

**SECONDED by M. Newman**

**PASSED UNANIMOUSLY**

#### V. Attorney's report given by Ron Cohen

- 53 Bank - Because of GASB 72, the custodian needs to provide the plan with various pieces of information. The auditor needs this information to complete the financial statements. 53 Bank asked for a signed addendum to the custody agreement. The administrator forwarded it to Ron. Ron made some revisions which 53 Bank agreed to. Ron asked the board to authorize the Chairman to receive the addendum from the administrator and sign it to release the information.

**MOTION by M. Newman to authorized the Chairman to sign the reporting addendum.**

**SECONDED by R. Gabner**

**MOTION PASSED UNANIMOUSLY**

Audit - Ron spoke about how difficult it was to get the audit done this year. He had more involvement than he ever had. Ron realizes that there is a good relationship between the administrator and the people at 53 Bank. They were very professional, communicated with the administrator well and got the revised documents passed through their legal department quickly.

The contracting with BDO was terrible. Again, the team is good, but the contracting was terrible. Ron heard Chad Little say he had some trouble getting information as well. Ron feels the board should know about it and see if BDO can turn it around, or not turn it around. They spent a lot of time rewriting several parts of the contract with GKS and it was all worked out. He recommended they put the revised engagement language on BDO letterhead. BDO came back with another contract that didn't have the revisions included so they had to start over with review and revisions again. This went on until just before this meeting. Then the administrator told Ron there was one delay left and it is answers to Chad's question about the change from gross rate of return to net. He is not suggesting the board make changes for now, but he feels the board needs to be aware it was way too hard to get the audit started and completed.

## **VI. Plan Administrator's report**

- Investments Summary Report January 2017
- Letter from the Membership. The attorney told the board they received in their packages a letter. It is not signed. They can receive it and put it in the file. If they want to discuss it they can. Ron is prepared to discuss it if they want to.

**MOTION by R. Gabner to accept the letter into the record and file it.**

**SECONDED by M. Newman**

**MOTION PASSED UNANIMOUSLY**

- **MOTION by R. Gabner to renew the Lauderhill Pension office lease**  
**SECONDED by M. Newman**  
**MOTION PASSED UNANIMOUSLY**
- Carlos Ramirez has been reinstated. He will receive retroactive pay from February 2016 to February 2017. Retroactive pension contributions will be deposited into the fund in March. The Administrator will keep the board updated.
- New Membership package for January 30, 2017. M. Surriano, A. Petito, K. Cabalero.

**MOTION to approve membership packages by R. Gabner.**

**SECONDED by M. Newman.**

**MOTION PASSED UNANIMOUSLY**

Ron Cohen wanted to further explain the 53 document. He read pertinent information in the addendum for the record. He wanted the trustees to be aware of what they were signing.

## **VII. Old Business**

## **VIII. Communications**

## **IX. Adjournment**

**MOTION to adjourn by M. Newman. The meeting adjourned at 7:48.**