

TOWN OF DAVIE POLICE PENSION PLAN

Minutes

February 17, 2016
4:00 P.M.

The regular meeting of the Board of Trustees of the Town of Davie Police Pension Plan was called to order on behalf of the Board by the Plan Administrator, Bob Dorn on February 17, 2016 at 4:02 P.M. at 13790 N.W. 4th Street, Suite 105, Sunrise, Florida.

TRUSTEES PRESENT:

Mr. Greg Brilliant – Chairman; Mr. Larry Davis – Secretary; Mr. Thomas DiMeglio - Trustee, Mr. Jack Mackie – Trustee; Trustee Ed Taylor.

ABSENT:

None

OTHERS PRESENT:

Mr. Adam Levinson Board Attorney; Mr. Bob Dorn, Plan Administrator – Precision Pension Administration, Inc.; Mr. David Lee – Dahab & Associates; Patty Ostrander – Precision Pension Administrator; Andrew Morey & Jenna Welsh – LMCG Investments; Richard Wells & Caldwell Calame – WEDGE Capital Management; James Mineman & John Coates – PNC Capital Advisors;

It should be noted that there was a quorum for the Board to have an official meeting.

PUBLIC DISCUSSION:

No public comments presented.

CONSENT AGENDA:

WARRANT 731

This Warrant was to FPPTA for Trustee Taylors's FPPTA re-certification fees. The amount of this Warrant is \$30.00. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 5-0.

WARRANT 732

This Warrant was to FPPTA for Trustee Brilliant's FPPTA re-certification fees. The amount of this Warrant is \$30.00. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 5-0.

WARRANT 733

This Warrant was to FPPTA for Trustee DiMeglio's FPPTA re-certification fees. The amount of this Warrant is \$30.00. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. Davis. The Motion passed 5-0.

WARRANT 734

This Warrant was to Dahab & Associates for professional servers rendered from 10-01-15 through 12-31-15. The amount of this Warrant is \$16,433.67. A Motion was made by Mr. Taylor to approve as outlined. The Motion was seconded by Mr. Mackie. The Motion passed 5-0.

WARRANT 735

This Warrant was to FPPTA for Trustee Mackie's FPPTA re-certification fees. The amount of this Warrant is \$30.00. A Motion was made by Mr. DiMeglio to approve as outlined. The Motion was seconded by Mr. Davis. The Motion passed 5-0.

NEW / UNFINISHED BUSINESS:

No new or unfinished business was discussed.

INVESTMENT MANAGERS INTERVIEWS:

Mr. David Lee gave a brief overview of each of the small cap equity investment managers. Mr. Lee advised each of the investment managers that they would have thirty minutes to give their presentation to the Board.

LMCG INVESTMENTS:

Andrew Morey who is the managing director of the Small Cap Growth fund and Jenna Welsh who is a client service manager gave the presentation for LMCG Investments.

Jenna Welsh gave an overview of the company. Each of the portfolio managers for the Small Cap Growth Fund has at least twelve years of experience and combined total investment experience of 70 years along with 50 years on the buy-side. The growth investment team is diverse, industry vertical expertise that has resulted in strong performance across all sectors. The investment team has a discipline investment approach that emphasizes consistent long-term risk-adjusted returns.

Andrew Morey advised that the Small Cap Growth Investment Team seeks to identify unrecognized growth potential, wherever it exists, across all sectors and economic environments. There are two main factors that they look at to identify unrecognized growth potential and they are (1) growth characteristics and (2) strategy for multiple environments. Growth characteristics are revenue growth, margin expansion, and the ability to surprise and revise upwards on estimates. Strategy for multiple environments are fundamental, bottom-up process has outperformed in both volatile and steady markets.

The investment process has four stages. The stages are (1) initial high level screens, (2) proprietary industry lenses, (3) fundamental research and (4) valuation. They never want to over pay for growth. They typically have between 45-65 stocks at any one time. The price targets and key fundamental drivers determine buy and sell decisions. They need to see a 20-30% upside to be included in the portfolio. They consider a risk-reward profile of each individual stock in determining position size and they set a price alert at 90% of the price target triggers a revaluation and potential trimming of the stock in the portfolio. They usually have less than 5% of the portfolio in cash. The market cap is generally in line with the Russell 2000 Growth Index.

They beat the index in the one, three and five year market cycle. They have been in the top 25th percentile compared to their Small Cap Growth peer universe rankings for the past one, three and five year comparisons. They have a diverse portfolio within the Small Cap sectors and usually have four sectors that are over weighted and six sectors underweighted compared to the index. They did not beat the index in 2011 and that is the only year going back to 2008. They spoke about fee schedules with the Board.

Mr. Lee asked when the fund will close to new investments. Mr. Morey advised that when the fund has 1.5 billion in the Small Cap fund is when it will be closed to new investments. Mr. Morey advised that they believe this is a prudent level to keep the current strategy. Mr. Brilliant asked if there were any investments in the energy sector. Mr. Morey advised that currently they do not have any investments in the energy sector because of the current market conditions and problems with the energy stocks so damaged in that they lost so much, even if they rebounded, the cash in these companies are down and the debt is so high that they don't believe right now is the time to invest in these type of stocks.

WEDGE CAPITAL MANAGEMENT:

Richard Wells who is a client service executive and Caldwell Calame who is the executive vice-president gave the presentation for WEDGE Capital Management.

Richard Wells gave an overview of their company. They have 11.3 billion under management. The firm was founded in 1984. The firm is owned by 8 general partners. Their investment team has 6 client portfolio managers, 20 research and quantitative analysts and 3 trading professionals. The investment team has 17 years of experience. Their strategies are (1) traditional equity, (2) quantitative equity and (3) fixed income. The traditional equity is characterized by deep fundamental research enhanced with quantitative tools for the portfolios which are constructed through a bottom-up stock by stock selection process. The quantitative equity is rooted in fundamental analysis with quantitative strategies combined value, contrarian and momentum factors to construct a diverse portfolio of value stocks. The fixed income is investing in dollar denominated investment grade bonds with risk-controlled approach where we strive to add incremental value while preserving principal.

Richard Wells advised that their Small Cap Value Fund has beaten the Russell 2000 Value and Russell 2000 Index for the past one, three and five year returns. The fund has a 13.05% return, which has beaten the Russell 2000 Value Index since its inception. They capture 108.8% of the upside in an up market capture ration and protect the portfolio 92.8% of the fund in a down market capture ratio. The current market is a growth market which has hurt all of the value funds in the various cap investment categories.

Caldwell Calame spoke about the investment approach of the firm. By systematically applying our proprietary quantitative analysis and fundamental research we identify undervalued stocks that, we believe, are well positioned to provide strong investment returns. By integrating risk management throughout the process, we seek to deliver returns with less downside risk. The investment process overview starts with (1) stock universe, (2) screening models, (3) analyst research and (4) portfolio construction. The fundamental value model has four factor categories that they look at in a stock and they are (1) value, (2) quality, (3) capital use, and (4) momentum. Stocks ranked by composite scores and the analysts focus on the top 4 deciles with limited exceptions when justified. The financial quality model looks at the financial ratios for (1) growth, (2) profitability, (3) leverage and (4) liquidity. The goal of these two models is to (1) identify the value of a stock for the greatest return potential and (2) guarding against holding a financially unsound company. They conduct extensive company research and they ask

themselves, what is the market missing on this company? What is the downside if we are wrong?

How is equity research at WEDGE Capital unique? The time arbitrage is longer holding period allows for potential competitive advantage. The identification of mispricing is to understand why our view is different from consensus often in situations of uncertainty and change. A small cohesive team of generalists allows for flexibility and improved perspectives. The firm's robust quantitative tools create discipline and efficiencies.

Portfolios are carefully constructed based on stated parameters that incorporate client guidelines and then continually monitored and managed to help achieve desired outcomes. They seek prudent diversification across sectors. They have between 125 to 150 stocks in their portfolio. They have maximum sector weightings of 25% or the appropriate value benchmark of 5%, whichever is higher. They have intensive vetting and ongoing risk management. Their goals are to capture profit, limit losses and ensure style is consistent. Stocks are sold when they become fairly valued, better opportunity develops, or when the investment thesis becomes invalid.

They believe that WEDGE has proven experience, client focused with knowledge driven professionals, a stable company with very distinctive research and stock selection processes. They spoke to the Board about their fee schedule.

PNC CAPITAL ADVISORS:

John Coates who is a senior client advisor and James Mineman who is a senior portfolio manager gave the presentation for PNC Capital Advisors.

James Mineman gave an overview of their company. PNC Capital Advisors provides comprehensive investment products delivered by an accessible and responsive team. PNC provide personalized services to a diverse and long-lasting institutional client base. Their focus is on delivering risk-adjusted returns. PNC Capital Advisors is a subsidiary of the PNC Financial Services Group, Inc., a strong corporate citizen devoted to responsible business practices. PNC believe that cash flow is the best metric of corporate performance and a portfolio of well managed companies that focus on capital allocation will produce competitive returns with modest volatility and strong downside protection. We engage in the investment process as a team of deeply experienced professionals. We are passionate about our process and investments. We have learned from the markets. Humility has afforded us the ability to gain from our experience and provide clients with better performance, lower turnover and improved risk control. Our small cap equity strategy fits squarely in the small cap space. It is comprised of 45-70 holdings. These companies reflect our best ideas. Our risk profile is more favorable than broad market as evidenced by lower volatility and lower turnover paired with average returns. Our process enables us to be long-term investors. Our client service team is charged with meeting the needs of the Davie Police Pension Plan through communications, reporting, transparency. Our goal is to serve you in a simple, perfect and timely manner such that you would view us as your ideal partner.

John Coates advised that PNC is different than other small cap managers because (1) proven, discipline, and repeatable cash-flow based process, (2) long-tenured investment team with generalist research approach, (3) company research focused on key drivers of

value creation, (4) focused portfolio with low turnover, and (5) a history of down-side protection. Our investment team has an average of twenty years of industry experience in investing client's funds. Our investment philosophy is based on three main ideas and they are (1) cash-flow is the best measure of corporate performance, (2) capital allocation is the key determinant of value creation and (3) wealth is created through long-term ownership of profitable growing businesses. Our investment process reviews the U.S. accounting principles creates earnings distortions because they are highly subjective and this is why we focus on cash flow which eliminates these accounting issues. Our process allows for more accurate comparisons between companies and across industries.

We construct our portfolio by (1) idea generation, (2) fundamental research (track record, why undervalued, capital allocation, sustainability), (3) value the business (cash flow models, three target prices- entry-worth today –sell price) and then (4) construction of portfolio (risk management, individual stock limit, sector limit). Our sell discipline is based on valuation, significant adverse change in the business, better investment idea, management mistake and takeover.

We have learned over the years that our top ten holding was generating a significant portion of our outperformance. We reduce our number of holding and increased the weight of our top ten holding. This has raised the bar for more capital in our best ideas. Certain industries and types of companies repeatedly underperformed. We acknowledged that some companies and industries do not fit our investment process which resulted in a noticeable reduction in the quantity of underperformers. We make adjustments based upon corporate performance and valuation. All of these lessons learned have made a significant positive impact on performance. Our investment process has delivered consistent results. Our small cap return for the past year was 5.83% which rank third in the small cap universe. Our 3 year return was 16.56%, 5 year return was 15.05% and our 7 year return was 19.12%. All of these time periods we beat our bench market of the Russell 2000 Index.

The small cap equity strategy we are proposing would help enable the Davie Police Pension Plan to achieve its investment return objectives for the small cap allocation utilizing a disciplined and repeatable cash-flow process.

ARISTOTLE CAPITAL BOSTON:

Jack McPherson who is the portfolio manager and Will Averill gave the presentation for Aristotle Capital Boston.

Why should Davie Police Pension Plan select our firm? We believe our firm's boutique culture and ownership structure foster stability and provide meaningful alignment of interests between investment professionals and clients. Our teams disciplined and patient investment approach results in what we believed to be high-quality, high conviction portfolios with a long-term time horizon. Our dedicated research team consists of six highly experienced investment professionals averaging 22 years of industry experience and 10-year tenure on the team.

Our company profile is that Aristotle Boston was founded in 2014 as an affiliate of Aristotle Capital Management, LLC. We are an independent and employee owned

company. We have emphasis on generating proprietary bottom-up, fundamental research. We offer consistency of portfolio managers, philosophy and process since 2002 when the strategy was managed at a predecessor firm. We are dedicated to the small cap equity and small/mid cap equity investing.

Our investment philosophy is a patient investment approach based on in-depth company research that can give us the ability to own what we believe to be great businesses at discounted price levels and generate attractive risk-adjusted returns for our clients. We aim to substantially participant in the appreciation of the market while also protecting capital. We achieve this by (1) identify businesses we believe have a high probability of improvement, focusing on companies that are underfollowed, misunderstood and out of favor, (2) seek to protect capital by avoiding companies with binary fundamentals, highly speculative valuations and low quality balance sheets, (3) invest in securities we believe to have attractive upside potential and limited downside risk, and (4) construct diversified, high-conviction portfolios with long-term view.

We have risk management integrated throughout all stages of our investment process. We look over 2,200 companies with quantitative screens to narrow the list to approximately 300 companies. We then conduct a bottom-up fundamental analysis with a long term perspective. We look at the management, the industry, and the financial health of the company. We conduct a valuation analysis of an upside/downside review. We then take a 2-3 year outlook of a company to start construction of the portfolio. We put emphasis on a bottom-up security selection. We then continuously monitor the portfolio.

We target stocks with at least a 3:1 upside to downside. We focus on long-term earnings with price targets setting conservative estimates. We usually hold 80-120 stocks in the portfolio. We typically have a 20%-30% annual turnover rate. Our 1 year return was 3.2%, 3 year return was 14.2% and our 5 year return was 11.7%. We beat the benchmark in each one of these periods.

We would like to thank the Board for giving us the opportunity to make this presentation and we also believe we would be a good fit for the Town of Davie Police Pension Plan.

MONITOR REPORT:

David Lee made the presentation for Dahab & Associates. Mr. Lee gave an overview of each of the aforementioned small cap equity managers. Mr. Lee spoke about investment style, philosophy, number of securities in each portfolio, 5 year upside capture, 5 year downside capture, fee schedule and turnover rate.

The Board discussed with each other and Mr. Lee each of the managers. The Board narrowed the managers to PNC Capital Advisors and LMCG Investments. The Board then had another discussion on these managers. Mr. Lee advised that PNC Capital Advisors is a core small cap equity manager and LMCG Investments is a growth small cap equity manager. The Board continued their discussion and decided to select both of these managers with advice from Mr. Lee. The Plan has approximately 12 million to invest in small cap. Mr. Mackie made a suggestion to invest 7 million with PNC Capital Advisors and 5 million with LMCG Investments. The Board agreed to this.

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Mr. Mackie made a Motion to hire PNC Capital Advisors for a small cap equity manager with an allocation of 7 million dollars and to execute all necessary documents as well as transfers of the necessary funds. The Motion was seconded by Mr. Taylor. The Motion passed 5-0.

Mr. Mackie made a Motion to hire LMCG Investments for small cap equity manager with an allocation of 5 million dollars and to execute all necessary documents as well as transfers of the necessary funds. The Motion was seconded by Mr. DiMeglio. The Motion passed 5-0.

Mr. Taylor made a Motion to terminate the contract with TAMRO Capital Partners for their small cap manager and to liquidate their securities into cash. Mr. DiMeglio seconded the Motion the Motion passed 5-0.

ATTORNEY REPORT:

Mr. Levinson advised that his firm is still working with WEDGE Capital Management on the contract.

PLAN ADMINISTRATOR:

Mr. Dorn advised that a death check has been conducted and there have been no new reported death(s) of retired members.

Mr. Dorn advised that the Auditors are working on the annual state report and should be completed by the middle of next month.

OPEN DISCUSSION:

No Issues were discussed during open discussion.

ADJOURN:

Mr. Taylor made a Motion to adjourn the meeting. Mr. Davis seconded the Motion. Motion passed 5-0. The meeting was adjourned at 6:31 P.M.



Greg Brilliant, Chairman