MINUTES
REGULAR RETIREMENT COMMITTEE MEETING
CITY OF DELRAY BEACH GENERAL EMPLOYEES' RETIREMENT PLAN
AUGUST 15, 2019

1. **Call to Order**
Chair James Smith called the meeting to order at 1:00 p.m.

Roll Call
Retirement Committee ("Committee") Members present: Chair James Smith, William Ellingsworth, Adam Frankel (departed at 2:45 PM), Thomas MacManus, and Laura Thezine.

Also present: Investment Consultant Brendon Vavrica (AndCo Consulting), Attorney Janice Rustin (Lewis, Longman & Walker), City of Delray Beach ("DB") Attorney Lynn Gelin, DB Accounting Manager John Mainville, DB Lt. Paul Weber, DB Battalion Chief Gregory Giaccone, DB Fire Rescue Tyler Adams, Gilbert Garcia and Janna Hamilton (Garcia Hamilton & Associates), Chuck Cook and Meghan Timbas (BNY Mellon), and Karen Russo and Mark Rhein (Salem Trust Company).

Agenda Adoption
MOTION made by Mr. Ellingsworth, seconded by Mr. MacManus, to move the August 15, 2019 Agenda Item 9 and one item under Agenda Item 10 to immediately follow Item 1 and to approve such amended August 15, 2019 Agenda. In a voice vote by the members present, **Motion** passed 5-0.

2. **Welcome Police Officers' and Firefighters' Retirement Systems' Board Members**
Chair Smith welcomed Police Officers' Retirement System's Chair Paul Weber and Firefighters' Retirement System's Chair Gregory Giaccone and Board Member Alan Kirschenbaum to the Committee meeting.

2.1 Update on Proposed State Law
Trustee Frankel stated he was continuing to work on it but did not have an update since he had not yet been able to meet with State Representative Mike Caruso who would have to draft the bill. Chair Smith stated that most likely the best time to introduce the idea of the proposed bill would be at a legislative session that was scheduled to be held on Thursday, October 3, 2019 at the Norton Museum of Art in West Palm Beach. Mr. Frankel stated he likely could not attend to which Chair Smith responded he would attend on Mr. Frankel's behalf along with the Chairs of the Police and Firefighters' Boards if they were able to go. Chair Smith said he wanted to reach out to not only Representative Caruso but also State Senator Gayle Harrell.

2.2 Presentation made to City Commission
Presentation/Comments made part of these Minutes.
Chair Smith stated he made a presentation to the City Commission at its budget workshop on August 13, 2019 to provide a "heads-up" as to why the City's contribution to the General Employees' Retirement Plan was going to increase for fiscal year 2019-20 – primarily because the Committee voted to reduce the actuarial assumed rate of return from 7.25% to 6.75%. Chair Smith told the Commission that the Committee based its decision to reduce the assumed rate of return on a recently completed actuarial experience study which concluded that the forecasted rates of return for the next several years would average 6.7% (net of expenses).

Chair Smith stated he met with the Mayor and three commissioners prior to the budget workshop. Mr. Frankel stated that each Commissioner was receptive to the information Chair Smith provided, was appreciative of the upfront discussions and felt included in the process. Chair Smith concluded that it there were good discussions and that overall the Commission fully understood the Committee's efforts.

3. Presentations

A. Garcia Hamilton & Associates (Gilbert Garcia, Janna Hamilton)
Handout made part of these Minutes.
After introducing themselves, Mr. Garcia and Ms. Hamilton discussed how the market's current higher than expected volatility was affecting the returns GHA was producing for the three City retirement funds. Mr. Garcia explained that while the returns had been good in 2018, they were not good in 2019 because GHA had positioned themselves on the wrong side of the Federal Reserves' recent moves. Specifically, the market had shifted from expecting the Fed to raise interest rates several times to expecting the Fed to cut interest rates several times with such shift in expectations moving rapidly. However, in GHA's view, the shifting was an overreaction to a lot of exogenous events (government shutdown, trade concerns with China and Mexico, Brexit) and thus GHA did not think cutting rates so many times was warranted. In fact, it was GHA's opinion, based on many economic factors that not only was the economy not slowing down, it was actually performing very well and was very strong. Mr. Garcia proceeded to review the Fed's recent monetary policy (long treasuries, money supply growing rapidly to historic highs), economic factors (initial jobless claims, unemployment rate, consumer confidence, job openings, corporate bond spreads), and inflation outlook (in wages primarily). Based on the various factors presented, GHA believed the economy was strong and was getting stronger with the Fed's cutting of rates having virtually no effect on the economy. GHA's opinion was the money supply growth would lead to economic activity which would happen around the first quarter of 2020.

Mr. Garcia summarized by stating GHA would stay the course since it was their belief that 1) the Fed was not done with its current interest rate cycle, 2) the various exogenous events would be in the rearview mirror, and 3) the interest rates would return to the very high 2's/low 3's because the Fed was not done raising rates.

Mr. Garcia said GHA would reverse course if they saw the money supply plummet, consumer confidence fall, credit markets lock up and corporate spreads widening. If they saw those factors change, they would reverse course and shorten up the duration of the bonds they purchase.

In response to Chair Smith's question about what GHA's strategy regarding duration in the face of a recession, Mr. Garcia responded that first they would go neutral – sell some of the float rate notes and buy some long treasuries – and then they would evaluate whether they had already missed the big move.

Chair Smith informed Mr. Garcia that GHA's performance in the past 12 months was lower than the benchmark by over 200 basis points which put GHA out of compliance with the Committee's Investment Policy. As a result, the Committee would continue to closely monitor GHA's performance in conjunction with oversight from the Police Officers' and Firefighters' Retirement Systems' Boards.

B. BNY Mellon (W. Charles Cook, Meghan Timbas)
Handout made part of these Minutes.
Ms. Timbas briefly explained the 2018 merger of The Boston Company (the investment manager hired by the Retirement Plan in the mid-90's), Mellon Capital and Standish who were all owned by the same parent company. Ms. Timbas explained that the merger happened since the three companies shared complimentary management style. The merger allowed Mellon to offer active equity and fixed income funds as well as passively managed funds. Ms. Timbas assured the Committee that while there were changes to the corporate structure, there were no changes to the investment team or investment process.

Mr. Cook highlighted several items of interest: 1) the management team was small, stable and dedicated, 2) the stock selection process was unchanged with the management team focused on selecting stocks with an attractive valuation, strong fundamentals, and catalyst-driven business improvement, and 3) the fund historically recovered within one year after times of poor performance.

Mr. Cook stated that what caused the fund's underperformance in the 12-month period ended June 30, 2019 was mostly due to sector allocation – the fund was hurt most by being underweight in consumer staples, utilities, real estate investment trusts but it was because Mellon was not finding these sectors met the criteria of attractive valuations, strong fundamentals and catalyst-driven business improvement. However, those sectors had recently performed well due mostly to falling interest rates which was when they performed the best. Mellon was over invested in energy which performed poorly in recent quarters.

Mr. Cook stated that Mellon's conviction and dedication to their established philosophy would not change even in quarters following poor performing quarters; they would not abandon their strategy simply to chase the market. Further, Mr. Cook stated Mellon strongly believed in investing value stocks even though value stocks underperformed growth stocks for the past several years. History showed that after extended periods of outperformance of growth stocks, value stocks would become the outperformer for a significant period of time which was what Mellon strongly believed would happen in the near future.

C. Salem Trust Company (Karen Russo, Mark Rhein)
Handouts made part of these Minutes.
Ms. Russo, Relationship Manager, introduced Mark Rhein, Salem Trust's President. Mr. Rhein discussed Salem Trust's recent friendly acquisition by TMI Trust Company mostly due to the two companies' shared synergies – their cultures of client focus, core competencies, and client market. Mr. Rhein said there were no anticipated changes to relationships, relationship managers, how they did business, or their business model. The name will remain Salem Trust Company.

Mr. Rhein reviewed their handouts: Summary Prospectus, Money Markets Funds Comparison, and Salem Trust's Service Report Summary.

The Committee meeting recessed at 2:45 p.m. and reconvened at 3:00 p.m.

4. PUBLIC COMMENTS
There were no public comments.

5. CONSENT AGENDA
A. June 20, 2019 Regular Meeting Minutes
B. June 24, 2019 Regular Meeting Minutes
C. Ratification of Plan Expenses and Distributions (Termination Refunds)
D. Approval/Ratification of New Retirement/DROP/Vested/Death Annuities
E. Ratification of Bank Deposits

Chair Smith pulled the second item of Item 5.E. and renumbered it to Item 5.1.E., second item.

MOTION made by Mr. MacManus, seconded by Mr. Ellingsworth, to approve the revised Consent Agenda. In a voice vote by the members present, **Motion** passed 4-0.

For Item 5.1.E, second item, Chair Smith requested the Pension Administrator to include the completed travel advance expense reconciliation form associated with the cash receipt and then add the item to the November Committee meeting's Consent Agenda.

MOTION made by Mr. MacManus, seconded by Mr. Ellingsworth, to include the completed travel advance expense reconciliation form associated with the cash receipt and add the item to the November 21, 2019 Consent Agenda. In a voice vote by the members present, **Motion** passed 4-0.

6. AndCo Consulting – Brendon Vavrica

A. June 30, 2019 Quarterly Portfolio Performance Review
Report made part of these Minutes.
Mr. Vavrica presented the Investment Performance Review Report for the quarter ended June 30, 2019 noting that though the Fund did well, the quarter was very volatile with several ups and downs. The Fund's net return was 3.6% for the quarter and 2.1% fiscal year-to-date. Mr. Vavrica noted that growth equities continued to outperform value equities.

Mr. Vavrica reviewed the manager investment policy compliance report noting the fund was not in compliance with the policy in a few areas: total return of 8.0% or more over a trailing one-year period, GHA did not perform above the bottom quartile for their peer group over two consecutive quarters, Harding Loevner fell in the southeastern quadrant of the risk/return scattergram for three- or five-year time periods, and the Harding Loevner funds did not have positive alpha for three-year time periods.

In response to questions about GHA, Mr. Vavrica said he had been tracking and working with them for over 15 years and had found that GHA tended to be aggressive and active; they were not a "set it and forget it" type manager. Further, up until the last six months, GHA had been remarkable right in terms of their investment movements. Unfortunately, in the last six months, they were caught by the Fed's indecision regarding increasing or decreasing interest rates. Mr. Vavrica stated he was hearing a lot of the same things that Mr. Garcia pointed to as indicators that GHA's approach was correct and thus was comfortable staying the course with GHA.

Mr. Vavrica concluded his review by stating overall the Plan did very, very well for the quarter even though it was behind for the fiscal year and definitely well below the new actuarial assumed rate of return of 6.75%. The funds as a whole were doing quite well.

B. July 31, 2019 Flash Report
Report made part of these Minutes.
Mr. Vavrica reported that the July 2019 overall return was good with a 1.00% return for the month. All funds except the international equity ones managed by Harding Loevner experienced positive returns in July and were in line with their respective benchmarks.

C. Review Vanguard Fund Balance and Reallocation
Chair Smith confirmed with Ms. Thezine that the City was going to wire the annual City contribution to the Plan on October 1, 2019.

MOTION made by Mr. Ellingsworth, seconded by Mr. MacManus, to place the entire October 1, 2019 City contribution of approximately $2.9M in the Vanguard Total Stock Market fund. In a voice vote by the members present, **Motion** passed 4-0.

D. State of Massachusetts Alternative Investment Pool
Mr. Vavrica stated he had not recently spoken to anyone in Massachusetts about their State alternative investment pool.

Chair Smith requested Mr. Vavrica to bring to the next Committee meeting a social investment analysis that could possibly be added to the Committee's investment policy. Mr. Ellingsworth wanted to know the Plan's exposure to some of the hot-button investments – guns, fossil fuels, tobacco.

7. Lewis, Longman & Walker – Janice Rustin

C. Ordinance Update for Enhanced Multiplier – this Item was taken out of order

Ms. Rustin reminded the Committee that the City was considering changing the Plan to clarify that the optional enhanced multiplier will only start on an employee's one-year employment anniversary rather than being retroactive to their date of hire. Ms. Thezine said she would like to see the ordinance allow an employee to pay for the enhanced multiplier for their first year of employment if they chose to do so. The Committee discussed the issue and decided that an actuarial impact statement would be required before proceeding further.

The other provision in the proposed Ordinance amendment was to change the Committee make-up from one that requires the Finance Director sit on the Committee to one that requires the City Manager, their designee or the City Treasurer sit on the Committee. Chair Smith requested the change because, due to the Sunshine Law, Committee members could not talk to the Finance Director who was also the supervisor of the Pension Administrator.

The Committee agreed to request three actuarial impact statements: 1) the enhanced multiplier will only be applied starting on the employee's one-year anniversary date (not retroactive to date of hire); 2) the enhanced multiplier will start on the employee's one-year anniversary data and the employee can make it retroactive to their date of hire by contributing to the Plan 3.45% of their earnings during their first year of employment; or 3) the enhanced multiplier will start on the employee's one-year anniversary data and the employee can make it retroactive to their date of hire by contributing to the Plan the actuarial value of the enhanced multiplier for their first year of employment.

City Attorney Lynn Gelin said she spoke to each City Commissioner who all resoundingly stated they wanted Mr. MacManus to remain on the Committee even though he no longer resided in Delray Beach. Mr. Ellingsworth asked if the Committee needed to change anything in their residency policy to which Ms. Gelin replied they did not. Further, the request to allow Mr. MacManus to continue to serve on the Committee was on the Commission's August 20, 2019 meeting's Consent Agenda.

B. Telephone/Electronic Device Participation Policy – this Item was taken out of order

Ms. Rustin reported that per her research, extreme hardship (a requirement to be met to be able to attend meetings electronically) as defined by the Attorney General included physical disability to access a building, receiving medical treatment, being out-of-state or geographically far away. Ms. Rustin said the Attendance Policy addressed the advanced absence notice and how if one attended via an electronic device, they could vote but they would not be considered for quorum purposes. Electronic participation would include telephonic and Skype, but would not include texting or emailing. If someone participates electronically, the votes for a motion will be taken by roll call. Participation via electronic devices will be limited to one absence per year unless there is a hardship which was Committee-approved.

MOTION made by Ms. Thezine, seconded by Mr. Ellingsworth, to request three actuarial impact statements: 1) the enhanced multiplier will only be applied starting on the employee's one-year anniversary date (not retroactive to date of hire); 2) the enhanced multiplier will start on the employee's one-year anniversary data and the employee can make it retroactive to their date of hire by contributing to the Plan 3.45% of their earnings during their first year of employment; or 3) the enhanced multiplier will start on the employee's one-year anniversary data and the employee can make it retroactive to their date of hire by contributing to the Plan the actuarial value of the enhanced multiplier for their first year of employment. In a voice vote by the members present, **Motion** passed 4-0.

MOTION made by Mr. Ellingsworth, seconded by Mr. MacManus, to limit participation via electronic devices to one absence per 12-month period unless there is an extreme hardship which is Committee-approved at the beginning of the meeting. In a voice vote by the members present, **Motion** passed 4-0.

A. Attendance Policy
After much discussion regarding excused and partial absences, the Committee decided to table this Item.

MOTION made by Mr. Ellingsworth, seconded by Mr. MacManus, to table discussion of the Attendance Policy to the November 2019 Committee meeting. In a voice vote by the members present, **Motion** passed 3-0 (Ms. Thezine had stepped out of the room).

Chair Smith stated he would like to see the Retirement Committee referred to as a Board or Board of Trustees in the City's Ordinance, especially considering the Police and Firefighters' Retirement Systems are administered by Boards of Trustees. Mr. MacManus agreed that, if there was no legal reason to be called a Committee, he would like to see the reference changed to Board of Trustees.

MOTION made by Mr. Ellingsworth, seconded by Mr. MacManus, to put in the Ordinance amendment a change in name for the "Retirement Committee" to "Board of Trustees." In a voice vote by the members present, **Motion** passed 4-0.

8. Pension Administrator Position Update

Chair Smith said he had nothing to report on the Pension Administrator position but thought that perhaps the City was waiting to fill the position under the new City Manager. Chair Smith continued that he had not heard anything from Human Resources Director Duane D'Andrea but would reach out to him once again to let him know that the Chairs of the three Retirement Plans wanted to be involved in the interview and hiring process. Ms. Thezine reported interviews for the position had been done and that Human Resources was working with the interview committee's recommendation.

10. Other Business

Chair Smith noted that though the final October 1, 2018 Actuarial Valuation Report was included in the meeting's backup, it would be discussed more fully at the November 2019 meeting when Jeff Amrose would be present to discuss if necessary.

Chair Smith stated that a proposed 2020 Committee meeting date schedule was included in the backup for the members' review. If any member had a conflict with any of the dates listed, they were to contact Ms. Castronovo. Chair Smith said he wanted to finalize the 2020 schedule at the November 2019 meeting.

The Committee reviewed Ms. Castronovo's memorandum regarding the three Plan's reimbursement to the City for her earnings and benefits since the first of June when Nancy Graham left the City. Ms. Castronovo noted that the Police Officers' and Firefighters' Retirement System had reimbursed the City for June and July, but no monies had been paid by the General Employees' Retirement Plan. Ms. Castronovo proposed that the Plan reimburse the City for August with the result that each Plan would reimburse the City for 1/3 of the incurred expenses for June – August 2019.

MOTION made by Mr. Ellingsworth, seconded by Mr. MacManus, to have the Plan reimburse the City for Ms. Castronovo's earnings and benefits for August 2019 which effectively resulted in each Retirement Plan paying 1/3 of the costs for June – August 2019. In a voice vote by the members present, **Motion** passed 4-0.

11. Agenda Item Suggestions for November 21, 2019 Committee Meeting

1) Review proposed meeting dates for 2020 and identify any conflicts so that the calendar can be finalized in November; 2) Jeff Amrose from Gabriel, Roeder, Smith & Company will present the final October 1, 2018 Actuarial Valuation Report, a revised 10-year cashflow analysis, and an actuarial funding policy; 3) Brendon Vavrica from AndC0 Consulting will present Investment Policy amendments; 4) Chair Smith will provide an update on the State legislative meeting he will attend on October 3, 2019 and on a meeting he plans to have with Joseph Mendell with Fiduciary First regarding their fees and ICMA-RC investment options; and 5) backup for Chair Smith's travel expense advance form will be presented on the Consent Agenda.

MOTION made by Mr. MacManus, seconded by Mr. Ellingsworth, to 1) Review proposed meeting dates for 2020 and identify any conflicts so that the calendar can be finalized in November; 2) Jeff Amrose from Gabriel, Roeder, Smith & Company will present the final October 1, 2018 Actuarial Valuation Report, a revised 10-year cashflow analysis, and an actuarial funding policy; 3) Brendon Vavrica from AndC0 Consulting will present Investment Policy amendments; 4) Chair Smith will provide an update on the State legislative meeting he will attend on October 3, 2019 and on a meeting he plans to have with Joseph Mendell with Fiduciary First regarding their fees and ICMA-RC investment options; and 5) backup for Chair Smith's travel expense advance form will be presented on the Consent Agenda. In a voice vote by the members present, **Motion** passed 4-0.

12. ADJOURNMENT

The meeting adjourned at 4:40 p.m.

James Smith, Chair

11/21/19
Date