GENERAL EMPLOYEES PENSION BOARD

Minutes of
February 15, 2018

Meeting was called to order by Chair James Smith at 1.04 p.m.

Item 1. Roll Call

Members Present:	Howard Ellingsworth, Kimberly Ferrell, Faye Henry, Thomas MacManus and James Smith
Members Absent:	None
Guests Present:	Jeffery Amrose (GRS), Duane D'Andrea, Janice Rustin, Karen Schell, Laura Thezine and Brendon Vavrica (AndCo Consulting)

Item 2. Approval of the General Employees' Pension Board Agenda for February 15, 2018.

Mr. Smith requested Item 12, the review of sunshine laws by Ms. Rustin be removed and defer to the August 2018 meeting. Ms. Ferrell moved to approve the agenda for February 15, 2018 as amended, seconded by Mr. MacManus. Said motion passed unanimously.

Item 3. Approval of the General Employees' Pension Board Minutes for November 16, 2017.

Mr. Ellingsworth moved to approve the minutes of November 16, 2017, seconded by Ms. Henry. Said motion passed unanimously.

Item 4. Public Comments.

None.

Item 5. Consent Agenda:

A. Approval of the Following Invoices:

a. AndCo Consulting, LLC dated November 10, 2017, in the amount of $8,031.89 for performance monitoring for the quarter ending September 30, 2017.
b. State Street Global Advisors dated November 14, 2017, in the amount of $2,438.36 for investment management fee for the period of July 1, 2017 through September 28, 2017.
c. Florida Public Pension Trustees Association dated November 19, 2017, in the amount of $600.00 for 2018 Annual Membership.
d. Florida Public Pension Trustees Association dated December 28, 2017, in the amount of $600.00 for registration fee for James Smith's attendance to the 2018 winter trustee school January 28, 2018 through January 31, 2018.
e. Hyatt Regency Orlando dated December 28, 2017, in the amount of $627.00 for hotel accommodations for James Smith's attendance to the 2018 winter trustee school January 28, 2018 through January 31, 2018.
f. James Smith dated December 28, 2017, in the amount of $254.31 for travel advance for James Smith's attendance to the 2018 winter trustee school January 28, 2018 through January 31, 2018.
g. Denver Investments dated January 16, 2018, in the amount of $1,485.64 for investment management fee for the period of January 1, 2018 through January 9, 2018.
h. RhumbLine Advisers dated January 23, 2018, in the amount of $5,425 for investment management fee for the period of October 1, 2017 through December 31, 2017.
i. Denver Investments dated January 16, 2018, in the amount of $15,081.24 for investment management fee for the period of October 1, 2017 through December 31, 2017.
j. The Boston Company Asset Management, LLC dated January 24, 2018, in the amount of $14,616.20 for investment management fee for the period of January 1, 2018 through March 31, 2018.

k. Dana Investment Advisors, Inc. dated January 11, 2018, in the amount of $9,258.13 for investment management fee for the period of January 1, 2018 through March 31, 2018.

B. Approval of the Following DROP Retirement(s):

a.	Name:	Janet Meeks
	Age:	60
	Monthly Pension Amount:	$5,705.14
	Benefit Commenced:	December 1, 2017
	Benefit Requested:	10 Year Certain
b.	Name:	Pamela Williams
	Age:	48
	Monthly Pension Amount:	$3,609.05
	Benefit Commenced:	February 1, 2018
	Benefit Requested:	Ten Year Certain
c.	Name:	Karen Schell
	Age:	60
	Monthly Pension Amount:	$2,854.62
	Benefit Commenced:	February 1, 2018
	Benefit Requested:	Normal Form

C. Approval of the Following Deferred Retirement(s):

a.	Name:	Nancy Ludwig
	Age:	61
	Monthly Pension Amount	$576.47
	Benefit Commenced:	December 2017
	Benefit Requested:	10 Year Certain
b.	Name:	Sarah Palmer
	Age:	60
	Monthly Pension Amount	$1,908.71
	Benefit Commenced:	April 1, 2018
	Benefit Requested:	Ten Year Certain
c.	Name:	Rodger Ribeiro
	Age:	60
	Monthly Pension Amount	$2,203.70
	Benefit Commenced:	November 1, 2017
	Benefit Requested:	100% Joint and Survivor

D. Approval of the Following Termination Refund(s):

a. Joanne Carhuamaca (Environmental Services) in the amount of $1,478.87.
b. Teresa Cantore (Utility Billing) in the amount of $6,042.42.
c. Mark Stivers (Planning & Zoning) in the amount of $2,921.56.
d. Randy Ylla (IT) in the amount of $264.47.
e. Nieves Rodriguez (Public Works) in the amount of $10,353.41.
f. Allison Herbert (Planning & Zoning) in the amount of $435.61.
g. Candi Jefferson (Utilities W & S) in the amount of $21,600.77.
h. Curtis Jones III (Human Resources) in the amount of $3,954.22.

E. The General Employees' Pension Board Accepts the Plan has Received the Following Check(s) Which Have Been Deposited in the Trust Account.

a. Florida Public Pension Trustees Association in the amount of $300.00 deposited November 9, 2017 for reimbursement of incorrect class registration for Mr. James Smith.
b. Florida Public Pension Trustees Association in the amount of $600.00 deposited January 3, 2018 for refund of fall school due to cancellation for Laura Thezine.
c. Florida Public Pension Trustees Association in the amount of $900.00 deposited January 3, 2018 for refund of CPPT registration fee due to cancellation for Laura Thezine.
d. Pierre Normil, in the amount of $300.00 deposited January 17, 2018 for reimbursement of fees for actuarial recalculation for a change of beneficiary.

e. Thomas Watson, in the amount of $300.00 deposited February 7, 2018 for reimbursement of fees for actuarial recalculation for a change of beneficiary.

Ms. Ferrell moved to approve the consent agenda, seconded by Mr. Ellingsworth. Said motion passed unanimously.

Item 6. Review of Fiduciary Liability Insurance Renewal.

Mr. Ellingsworth moved to approve the fiduciary liability insurance renewal, seconded by Ms. Ferrell. Said motion passed unanimously.

Item 7. Review of Plan's Performance Evaluation for the Period Ending December 31, 2017.

A. Revised Investment Policy.

Mr. Vavrica indicated there were very few changes; basically, cleaning up some names and fund managers. The board made the comment in the beginning of the meeting that you would like to have the provision in there for the index funds. On the bottom of page three he will add a sentence that says for index funds the performance expectation is to be within 20 bsp.

Garcia Hamilton provided a little feedback to Mr. Vavrica in that with Denver investments, there was a hybrid index. The plan was essentially comparing them 80% intermediate to 20% long. Garcia Hamilton would prefer one index over the other, not a blend of the two. Mr. Vavrica suggested to measure in intermediate, especially with the rising rate environment.

Page 5 under alternatives, Mr. Vavrica removed the Allianz fund as it is no longer part of the mix and put the Global Tactical funds in.

Page 6 Mr. Vavrica changed the numbers, took out the long duration left intermediate, and removed and replaced the convertibles with Global Tactical funds.

Mr. MacManus moved to approve the revised investment policy subject to an additional amendment reflecting the index fund's performance be within 20 bsp, seconded by Ms. Ferrell. Said motion passed unanimously.

B. Quarterly Performance.

Mr. Vavrica briefly reviewed the compliance report illustrating Dana Large Growth did not equal or exceed the benchmark over the trailing three or five-year period. RhumbLine Large Cap Value, RhumbLine Large Cap Growth and RhumbLine Mid Cap did not equal or exceed the benchmark over the trailing three or five-year period. Denver Investments did not equal or exceed the benchmark over the trailing three-year period nor did they rank in the top 40% over the trailing three-year period. AllianzGI FI did not equal or exceed the benchmark over the trailing three-year period; nor did the return rank in the top 40% of its peers over the trailing three-year period.

Mr. Vavrica continued with the review of the Executive Report. The asset allocation illustrates a total of $131,540,612; Domestic Equity $80,682,063, International Equity $6,295,497, Emerging Equity $6,396,887, Fixed Income $26,130,142, Convertible Bond $4,968,014, Real Return $4,999,468 and $2,068,541 in Cash.

The last quarter of our fiscal year was another strong period for most assets classes. International equities led the way with domestic equities close on their heels. Even with the strong equity results, fixed income was also able to post a positive quarter to close out the year.

We started the quarter with $124,991,986 in assets, the City contribution of $2.26 million was received, we had over $1.78 million in distributions, and finished with $131,540,612 due to the very strong plan performance. The plan's allocation is consistent with the investment policy with each asset class within about 1% of its target weight.

It was a very good quarter for both absolute and relative performance; the plan earned 4.89% (4.85% net) versus the benchmark of 4.01% and placed in the 2nd percentile. For the year, the plan earned 16.15% (15.97% net) beating the benchmark return of 14.48% and placed in the 40th percentile. Over the last five years, the plan has a gross annualized return of 10.73% (10.53% net) and placed in the 4th percentile among the public fund universe.

C. January Flash Report.

Mr. Vavrica commented the trend continues. The plan is up 3.7% vs. the policy of 2.85. Emerging markets were slightly behind. Allocations are in line.

D. Estimated Performance update February to date.

Mr. Vavrica indicated in reviewing on a daily basis, from the month of January to today, the plan is about 1% positive. The plan lost ¾ of what it had in January; however, the plan is not negative.

E. Recommended action, if any.

Mr. Ellingsworth stated it seems to be the consensus of the board to take action with Dana Investments. Is there a more defensive move to take now, moving it out of Dana? What would you do to address that concern?

Mr. Vavrica responded there were a few options. One if you take from Dana and put it in the index, you would actually be more aggressive. Reason being is Dana generally overall, they are a defensive manager relative to the index. In the up market that we have been seeing, they have not kept up.

The quickest thing to do would be keep it allocated to growth, (the index fund). Move the index which would give time to reconsider a different more defensive strategy whether it be in growth or perhaps a different asset altogether.

After further discussion, Mr. MacManus moved to close Dana Investments and move the funds to RhumbLine Large Cap Growth, seconded by Mr. Ellingsworth. Said motion passed unanimously.

Item 8. Review Actuary Report.

A. What do we know about future City required contributions including impact of the positive investment performance for FYE 2017?
B. General trend of investment return assumptions over the past 10 years.
C. General long-term expected return forecast of investment consulting firms.
D. Estimated impact of lowering the current investment return assumption including a slow gradual approach.

Mr. Smith stated he has invited Jeff Amrose to give a comprehensive industry review of the plan.

Mr. Amrose stated one of the things he will be talking about is where the City's contribution is going. The direction of where it is going will be based on how your plan is doing. There are some things we do know about, additionally we will talk about the actuarial assumptions, specifically the investment return assumption, where that is in the industry, what trends we are seeing. Why changes are being made to the assumptions.

Mr. Amrose continued stating this pension plan is in excellent shape. First, as of 2016, the funded ratio was 96.8% a really high elevated number. Out of approximately 90 plans in Mr. Amrose's team, the average funded ratio back in 2016 was in the low 80% bracket. A lot of it has to do with the conservative nature the board has taken in setting assumptions, methods and the plan changes in 2010. All of these have tended towards having a healthy funded ratio. If we look at the real value, (not the smooth value) we were a little higher, 98.5% on a market value basis. Your experience in fiscal year ending 2017, when looking at the market value of assets, you're certainly over 100%. The 2017 valuation report should be very close to 100%. Note the funded ratio at what ever level they are is one thing. The board should look deeper into the actual assumptions. The assumptions being used by this plan are certainly in a range of reasonableness. Second reason Mr. Amrose says the plan is in good shape is the level of required city contributions. As of the 2016 report, the city contributions were at 13.68% of payroll. Meaning for each active non-drop member the city contributed 13.68% of their pay to fund the pension plan. Significantly lower than other plans. The third reason, even outside to comparing to other plans, is one of the knots on the defined benefit pension plans is the volatility. The plan sponsor takes on the investment risk. The contribution rate has been stable over some turbulent economic times. From 2004 to the present, the required city contribution has been between 12%-15% of pay; very stable.

The objective in setting the assumption to set assumptions realistically so they have a good chance of being met. The average investment return of assumption is very close to 7.25%. Florida Retirement System is 7.55%, the actuary is recommending a rate of 6.8%-6.85%. Keep in mind all of these funds are invested differently, different expense ratio, more active, more passive. There is a lot more into it than just saying the rate of return is so much.

Next, what do we know about the city's required contribution? As of the 2016 report, city's contributions were $2.11 million (13.68% of payroll). Mr. Vavrica already alluded the plan is less than half way through the fiscal year and the return is close to the assumption. There are two parts of the required contributions. First the employer normal cost; the value of accruals from the active members each year. It should stay level unless you change the plan or assumptions. The amortization payments on the unfunded accrued liability; essentially when there are actual gains or losses, assumption changes, method changes. Plans pays for this over a period of time not to exceed 30 years; this plan pays over 25 years. Over the next four years, several of those bases will expire and will move the contributions required by the city both up and down. In total over the next for years, it will increase approximately $100,000. We use the smooth value of assets in determining the city's funding requirements. When we have good years and bad years, it smooths it out 20%. Based on a 12.85% net return, expectation of the market value of assets will be approximately $8.6 million higher than the smooth value of assets. Meaning $8.6 million of unrecognized gains. The plan will get this over the next several years starting in the 2017 report (approximately $1.7 million). This will reduce the contributions by about $155,000 for the next 5 years.

Mr. Amrose continued stating law SB 1128 that passed states if the plan has a negative unfunded, (over 100% funded), the city cannot take credit for it. It must always pay its normal cost. The reason that law passed, because in the late 90's cities had a normal cost, but they had unbelievable returns and their negative amortization payments dwarfed their normal cost. The City will still need to make that normal cost.

Ms. Ferrell questioned if the plan is outperforming the assumed return, and the plan is below what the average pension plan assumed return is, why lower it?

Mr. Amrose commented in the past, the returns earned about 8 ½%-9%. In our opinion, one should not be looking at the past to determine what you should set the investment return at. If the board were to look back about 10 years, the plan would have been setting it at 3%-3 ½%. Mr. Amrose doesn't think anyone would like; including the city footing the bill for that. The Actual Standards of Practice points one to look forward not back. Based on the last 30 years, the plan could have 9.1%; the last 10 years was only 6.2%. Huge difference. Mr. Amrose suggested using the advice of consulting firms who will give their expectation on each of the components in your pension plan. What they think is going to happen over the next 15-20 years.

Mr. Amrose clarified it was stated earlier the assumptions whether it's the investment return assumption, the mortality, whatever one is referring to does not change the cost of the plan. The cost of the plan is dictated by the plan provisions. What is your benefit multiplier, what is normal retirement age, what is the average final compensation, that determines the cost.

Ms. Ferrell question what Mr. Amrose says the range of reasonableness is?

Mr. Amrose stated he does not run numbers on specific clients. But in general terms a pension plan mix about 65%-70% equity, 30%-35% fixed income and real estate in there, Based on their models, receiving input from 8 large investment consulting firms the expectation of each asset class would be in the 50th percentile; meaning more like 6.5%-6.75%. That is not specific to this plan's fund; further research and reports would need to be completed.

This pension plan is very mature, having 70% of the accrued liability from members already retired. The plan's inactive group, the mid-term of 15 years is crucial to the plan that is in the negative cash log meaning the plan has more money coming out each year than going in. If one doesn't have the assumption set properly, over the next 15-20 years not enough money will go in. If one under performs in that time period, it could lead into a situation where it's hard to come out. That is the reason why it is beneficial to look at more of a mid-range forecast.

Mr. Amrose indicated if the plan were to drop to 50 bsp the contributions would increase approximately $800,000; for 10 bsp the contributions would increase approximately $160,000.

Item 9. Pension Administrator Reports:

A. Review of Investment Expense Report.

Deferred to a later meeting.

B. Review of DROP Plan Fees.

Nothing further on this item.

C. Review Policy on Time Frame of Transactions.

Board agreed on fifteen business days. Mr. Vavrica commented that could vary if the contract is not all in place.

D. Review of Implementing a Cash Requirement System to Reduce the Current $700,000.

Not addressed.

E. Review of 2018 Budget Expenses.

Not addressed.

Item 10. Kimberly Ferrell's Discussion of Pension Administration Services.

Ms. Ferrell stated in the interview process, she would like to have the three chair members included on the selection committee along with Ms. Thezine, Ms. Schell and an individual from Human Resources.

Item 11. Jim Smith's Review of Cybersecurity.

Mr. Smith indicated he has done some research on Cybersecurity and believes he has identified what he feels are the four components of Cybersecurity. First is having the proper policies and procedures in place. Second is to have the security of the software system that recognizes when having an attack and recovering from the damage. Third is to have an audit to make sure to make sure the policies and procedures are in place and being followed. And fourth make sure one has enough liability insurance besides the security insurance.

Mr. Smith commented when at the FPPTA seminar, he met with Pension Technology Group who deals with the security of pension. He stated they are willing to meet with the board and IT department at no cost to explain the system and what they have. If it is the opinion of this board subject to a meeting with the IT department, Mr. Smith would be willing to have them at the May meeting.

Item 12. Janice Rustin's Review of Sunshine Law, Ethics and Public Records.

This item has been deferred to the August 2018 meeting.

Item 13. Other Business.

Mr. Smith reiterated items for the next meeting as follows:

Mr. Amrose will review the actuary report and scenarios of what we want to do.
Mr. Vavrica will come back with alternative investments.
Ms. Ferrell will update the board on the Pension Administrator services.
Possible Cybersecurity presentation.

Motion to Adjourn:

There being no further business, meeting was adjourned at approximately 2:53 p.m.

The undersigned is the Chair for the General Employees' Pension Board. The information provided herein are the minutes of the City of Delray Beach General Employees' Pension Board of February 15, 2018 which minutes were formally approved and adopted by the General Employees' Pension Board on 9/17/18, 2018.

James Smith, Chair
Board of Trustees
City of Delray Beach Employees' Retirement Fund