

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT FUND
SEPTEMBER 16, 2020**

1. CALL TO ORDER, ROLL CALL

Chair Weber called the meeting to order at 9:00 a.m.

Due to the virtual nature of the Board meeting, Chair Weber read a prepared script. Script made part of these Minutes.

Board Members present via communication media technology: Chair Paul Weber, Vice-Chair Jim Hoesley (departed at 11:39 a.m.), Secretary Jeffrey Rasor, Henry "Chip" Dickson, and Scott Privitera.

Also present via communication media technology: Board Attorney Janice Rustin (Lewis, Longman & Walker as designated by City Attorney), Investment Consultant Brendon Vavrica (AndCo Consulting), DROP Investment Consultants Jamie Hayes and Matt Dickey (NFP), Karen Russo (Salem Trust), and Pension Administrator Lisa Castronovo.

Guests present via communication media technology: John Mainville, Russ Mager

2. AGENDA ADOPTION

Chair Weber amended the Agenda to make Item 5.b. (in its entirety) Item 5.c. and make Item 5.c. Item 5.b.

MOTION made by Mr. Dickson, seconded by Mr. Rasor, to adopt the September 16, 2020 Agenda, as amended. In a voice vote by the members, **Motion** passed 5-0.

3. COMMENTS

a. Public
None

b. Board of Trustees of Police Officers' Retirement System
Chair Weber inquired as to the status of the contracts for the new pension administration software. Ms. Castronovo stated that to her knowledge the contract between the City and Gabriel, Roeder, Smith & Company ("GRS") would be signed by all parties in the next few days. Ms. Rustin said she was close to completing the draft of the contract between the Board and GRS for services and fees after the new software system was implemented.

c. Active and Retired Members of the Plan
None

4. CONSENT AGENDA

- a. May 20, 2020 Regular Meeting Minutes
- b. August 7, 2020 Special Meeting Minutes
- c. August 24, 2020 Special Meeting Minutes
- d. Warrant Ratification (#237-240)
- e. Warrant Approval (#241)
- f. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities

MOTION made by Mr. Dickson, seconded by Mr. Rasor, to approve Consent Agenda Items 4.a.-f. In a voice vote by the members, **Motion** passed 5-0.

5. REPORTS

- a. NFP Retirement Inc. June 30, 2020 Quarterly Report – Jamie Hayes and Matt Dickey
Report made part of these Minutes

Before Ms. Hayes and Mr. Dickey started their presentation, Ms. Rustin told the Board that NFP's DROP consulting services' invoices were currently being paid by the Retirement System rather than by funds accumulated in an Administrative Allowance Account ("AAA") within the DROP account at ICMA-RC that was set up specifically to pay for such invoices. Ms. Rustin stated that in her review of other municipalities' contracts for similar services, the retirement plan did not pay these invoices because the AAA accounts paid them.

Mr. Dickey reviewed the June 30, 2020 quarterly report noting that overall the DROP participants were offered a great line of investment products. Mr. Dickey noted that the majority of the DROP participants' assets continued to be in cash or target date funds which was not unexpected in a DROP account.

Mr. Dickey noted two funds – LSV Small Cap Value Institution and Fidelity Diversified International – that were performing poorly and should be replaced with better performing funds in the same asset class. He recommended replacing the LSV Small Cap Value Institution fund with the Small Cap Value II I1 fund and replacing the Fidelity Diversified International fund with MFS International Growth fund. In both cases, ICMA-RC would manage the transition of funds and would notify all participants of the changes.

MOTION made by Mr. Hoesley, seconded by Mr. Dickson, to replace the LSV Small Cap Value Institution fund with the Small Cap Value II I1 fund and replace the Fidelity Diversified International fund with MFS International Growth fund. In a roll call vote of the members, **Motion** passed 4-0.

MOTION made by Mr. Rasor, seconded by Mr. Dickson, to pay all future NFP invoices directly related to the Police Officers' ICMA-RC DROP account out of the Police Officers' ICMA-RC DROP account's Administrative Allowance Account. In a roll call vote of the members, **Motion** passed 4-0.

Ms. Castronovo reminded the Board that in 2019 they voted to pay out the entire AAA March 31, 2019 balance in December 2019 to all then current DROP participants. Ms. Castronovo stated that the Board needed to decide how they wanted to pay out any excess AAA balance in 2020 but to keep in mind if they decided to deduct NFP's quarterly invoices and ICMA-RC's quarterly fees from the AAA they would not be able to pay out the entire March 31, 2020 balance as there wouldn't be enough funds left in the AAA on December 31, 2020 to pay that quarter end's NFP invoice and ICMA-RC fees.

MOTION made by Mr. Dickson, seconded by Mr. Hoesley, to pay out in December 2020 to all then DROP participants 75% of the March 31, 2020 Administrative Allowance Account balance. In a roll call vote of the members, **Motion** passed 4-0.

- c. Salem Trust Annual Update – Karen Russo

Ms. Russo reported that Salem Trust's "back-office" transition had been completed and while there were a few hiccups along the way, everything was now completed and proceeding smoothly. Ms. Russo noted that one result of the back-office transition was that all retirees would receive two IRS Form 1099-Rs for 2020.

b. AndCo Consulting – Brendon Vavrica

i. Portfolio Performance Review – Quarter End June 30, 2020

Report made part of these Minutes.

Mr. Vavrica presented the Investment Performance Review Report for quarter end June 30, 2020 noting that after such a disastrous March 31, 2020 quarter and partly as a result of the Fed's very aggressive moves in March and April (lowering interest rates and buying bonds), the markets had rebounded remarkably well. Mr. Vavrica noted that the markets were being challenged by politics, acts of nature, and societal unrest among other things, but were "weathering the storm" and continued to produce positive returns. Mr. Vavrica stated that domestic growth equity was the major driver of positive returns for the quarter and was also the main reason the fund was overweight in equities at quarter end. Mr. Vavrica concluded by noting that because fixed income manager Garcia Hamilton was heavily invested in corporate bonds as opposed to government bonds, they performed exceptionally well in the quarter.

ii. August 2020 Flash Report

Report made part of these Minutes

Mr. Vavrica reviewed the August 2020 investment returns noting the System's total net return for August was 3.63% compared to the benchmark of 3.73% bringing the System's net return for the fiscal year to date to 10.76%. Mr. Vavrica stated that through September 15, 2020, returns, though down, continued to be positive and the total estimated net return for the fiscal year to date was 8.0%.

Discussion turned to overall asset allocation with some trustees questioning if the assets currently allocated to fixed income, specifically Garcia Hamilton, should be moved to higher performing equities. Mr. Hoesley pointed out that the overall return of the Plan needs to be at least 6.75% which was challenging given that 20% of the Plan's assets were invested in fixed income which was projected to have returns of only 0% for the foreseeable future. Mr. Vavrica agreed, but said if the assets were moved from fixed income to equity in the very near future, the Plan would be buying equities when they were peaking. Mr. Hoesley said he would like to take another look at alternative investments and possibly hold a Board meeting dedicated to such.

Mr. Vavrica stated that money needed to be moved into the cash account to cover upcoming monthly benefit payments. Mr. Vavrica recommended transferring \$1M from Garcia Hamilton to the Vanguard stock index fund and also place the upcoming City contribution in the Vanguard stock index fund. H: likes this idea. Wants BV to look at alternatives and possibly have another special investment meeting.

iii. Polen IPS Addendum

Mr. Vavrica stated that Polen's Focus Growth fund, in which the System was invested, was a very concentrated portfolio with only 15-25 total holdings. Because the fund had such few holdings, there were times when any one holding could be up to 15% of the total portfolio. As a result, Polen wanted an addendum to their contract allowing them to keep any single holding up to a maximum of 15% of their portfolio rather than the current limit of 12% of the portfolio. Mr. Vavrica suggested adding to the addendum that no single purchase could exceed 10% of the portfolio at the time of purchase.

MOTION made by Mr. Dickson, seconded by Mr. Rasor, to adopt Polen Capital's addendum that would allow any single holding to make up 15% of the portfolio and any single purchase could make up no more than 10% of the portfolio at the time of purchase. In a roll call vote of the members, **Motion** passed 5-0.

iv. Templeton Global Bond Portfolio Comparison
Report made part of these Minutes

Mr. Vavrica said he was making a presentation to the Board about the Templeton Global Bond fund because, while AndCo liked maintaining a global bond fund position, they were concerned about Templeton's poor performance over the last few years and thus felt the Board should consider replacing Templeton with another better performing global bond fund. AndCo recommended three funds as possible replacements: Legg Mason BW Global Opportunities Bond IS ("Brandywine"), Loomis Sayles Fixed Income, and PIMCO Diversified Income. When compared to Templeton, PIMCO was much more diversified with slightly higher fees and Brandywine and Loomis Sayles had about the same number of holdings with slightly lower fees. Mr. Vavrica explained that Brandywine was the most aggressive of the three funds (a bit more equity-like) and for that reason, he recommended the Board select Loomis Sayles or PIMCO.

MOTION made by Mr. Hoesley, seconded by Mr. Dickson, to liquidate the Templeton global bond fund and transfer the assets to Loomis Sayles. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Hoesley, seconded by Mr. Rasor, to transfer \$1.5M from Garcia Hamilton to the Vanguard Total Stock Index fund. In a roll call vote of the members, **Motion** passed 4-0.

MOTION made by Mr. Dickson, seconded by Mr. Rasor, to invest the entirety of the City's incoming annual contribution in the Vanguard Total Stock Index fund. In a roll call vote of the members, **Motion** passed 5-0.

v. Fidelity Index Fund as possible alternative to Vanguard's Index Fund

Mr. Vavrica stated that Vanguard had typically been the provider of index funds with the lowest basis points. Recently, Fidelity started rolling out index funds to compete with Vanguard and was offering such funds at 2 basis points less than Vanguard (2% vs. 4%), which equated to \$2,000/year savings. Mr. Vavrica noted that the two funds perform basically the same. Mr. Vavrica stated if the Board wants to change from Vanguard to Fidelity, Salem Trust could do the transfer on the same day so no money would not be invested for any length of time. Mr. Vavrica said he would bring more information about Fidelity to the next meeting.

d. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin told the Board they needed to make a motion to direct NFP to work with ICMA-RC to amend ICMA-RC's administrative services agreement so the agreement would state that ICMA-RC's fees would be paid out of the Administrative Allowance Account.

MOTION made by Mr. Dickson, seconded by Mr. Hoesley, to direct NFP to work with ICMA-RC to amend ICMA-RC's agreement so that it would reflect that ICMA-RC's fees will be paid out of the Administrative Allowance Account. In a roll call vote of the members, **Motion** passed 5-0.

Ms. Rustin stated she provided the Board with a memorandum detailing the specifics of a new law that took effect July 1, 2020 which states that a local government pension board may not enter into an agreement with a contractor on or after January 1, 2021 unless the contractor has registered with and uses E-Verify. E-Verify is a free, internet-based system through which a City or Board may quickly confirm if a new vendor is authorized to work in the United States. The new law allows a Board to terminate an agreement with a contractor if they have a good faith belief that the contractor is not authorized to work in the U.S. Ms. Rustin suggested the Board send a letter to each of its contractors notifying them of their obligation to register with E-Verify.

6. ADMINISTRATIVE ITEMS

a. Board of Trustee Elections Police & Procedures

Ms. Rustin stated that all five trustee positions would expire in the next 2-3 months. She noted that when the employee-elected positions were filled in 2016, the City handled the election, but the Ordinance stated that it was the responsibility of the Board to adopt a policy and procedures for all employee-elected positions held after 2016. Ms. Rustin then asked the Board general questions around which she would draft an election policy/procedure.

Ms. Castronovo stated that since the two employee-elected positions expired in November 2020, the Board needed to set a date on which to hold the employee election.

MOTION made by Mr. Rasor, seconded by Mr. Hoesley, to hold the election for the two upcoming employee-elected vacancies October 29, 2020 – October 30, 2020. In a roll call vote of the members, **Motion** passed 5-0.

b. DROP Reimbursement

Ms. Castronovo explained how she inadvertently did not add Cpt. Russ Mager's DROP deposit information to the worksheet she used to authorize monthly DROP deposits and as a result had missed directing the bank to make DROP deposits for Cpt. Mager for March 1, 2020 thru August 1, 2020. Ms. Castronovo said that as soon as Cpt. Mager alerted her to the fact that no DROP deposits had been made on his behalf to his DROP account, she immediately authorized those deposits as well as confirming that his information was included on the worksheet used for all future deposits.

Ms. Castronovo explained that this item was put on the Agenda as Cpt. Mager was requesting the Board to make him whole for the earnings he might have lost in the six months that the principal monthly deposits were not invested in his DROP account.

Discussion ensued as to how to make Cpt. Mager whole either via an application of a flat interest rate (i.e. 3% or the Plan's 6.75% assumed rate of return) or via an attempt to duplicate how much earnings would have been credited within the DROP account based on Cpt. Mager's investment selection.

MOTION made by Mr. Rasor, seconded by Mr. Dickson, to request NFP to use whatever method needed to effectuate acquiring a calculation of the earnings not credited to Cpt. Mager as of a specific date and to provide such earnings calculation to Ms. Castronovo on a specific date for her to deposit that exact amount into Cpt. Mager's DROP account as soon as possible with her to notify the Board and Cpt. Mager of such deposit. The specific date will be defined as the date the earnings calculation is finalized. In a roll call vote of the members, **Motion** passed 4-0.

ADJOURNMENT

MOTION made by Mr. Razor, seconded by Mr. Hoesley, to adjourn the meeting. Meeting adjourned at 12:14 p.m.

I, Paul Weber, the undersigned, am the chair of the Board of Trustees of the City of Delray Beach Police Officers' Retirement System ("Board"). The information provided herein is the Minutes of the September 16, 2020 regular meeting of said body. These Minutes were formally approved and adopted by the Board on 9-18-20.

Paul Weber
Board of Trustees, City of Delray Beach
Police Officers' Retirement System

NOTE TO THE READER: If the Minutes you have received are not complete as indicated above, this means these are not the official minutes of the Board of Trustees of the City of Delray Beach Police Officers' Retirement System. Minutes will become official Minutes only after they have been reviewed and approved, which may involve some amendments, additions or deletions to the Minutes as set forth above.

NOTE: upon official approval by the Board of Trustees, the Minutes will be posted on the City of Delray Beach website at: www.delraybeachfl.gov.