

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT FUND
MAY 15, 2019**

1. CALL TO ORDER, ROLL CALL

Chair Weber called the meeting to order at 9:12 a.m.

Board Members present: Chair Paul Weber, Barry Feldman, James Hoesley, and Jeffrey Rasor. Board Member(s) absent: Trustee Raymond Jones.

Also present: Board Attorney Janice Rustin (Lewis, Longman & Walker as designated by City Attorney), Investment Consultant Brendon Vavrica (AndCo Consulting), Joseph Mendell (Fiduciary First), Jeffrey Amrose (Gabriel, Roeder, Smith & Company), Scott Porter (Caler, Donten, Levine, Cohen, Porter & Veil) and Pension Administrator Lisa Castronovo.

Guests: John Mainville, Nancy Graham, James Smith

2. AGENDA ADOPTION

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to adopt the May 15, 2019 regular Board meeting Agenda as amended to move Item 6.b. immediately after Item 5.a. In a voice vote by the members present, **Motion** passed 4-0.

3. COMMENTS

- a. Public
James Smith, Chair, Delray Beach General Employees' Retirement Plan
- b. Board of Trustees of Police Officers' Retirement System
None
- c. Active and Retired Members of the Plan
None

4. CONSENT AGENDA

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to approve Consent Agenda Items 4.a.-d. In a voice vote by the members present, **Motion** passed 4-0.

5. REPORTS

- a. Fiduciary First Quarterly Report – Joseph Mendell
Mr. Mendell began his presentation by stating the recently established Administrative Allowance Account for the ICMA DROP account had accumulated funds as of March 31, 2019 that could be used however the Board directed it to be used.

MOTION made by Mr. Feldman, seconded by Mr. Rasor, to credit monies accumulated in the Administrative Allowance Account as of March 31, 2019 to the DROP participants as soon as practical and to have the Board annually review and determine how to use the accumulated Administrative Allowance Account monies. In a voice vote by the members present, **Motion** passed 4-0.

Mr. Mendell reviewed the March 31, 2019 Quarterly Report noting specifically: 1) the majority of the investment funds performed as expected for the quarter, 2) almost 40% of the members' funds in the 401(a) plan at ICMA were held in cash/cash alternatives, and 3) two funds –Fidelity Puritan and Fidelity Diversified International – appeared on the watch list for the first time in the quarter ended March 31, 2019. Mr. Mendell noted he

was not concerned with either fund but would continue to monitor them over the next six months to ensure they rebounded. If they did not, he would recommend replacement funds.

6. ADMINISTRATIVE ITEMS

b. Fiduciary First Invoicing

Ms. Castronovo reviewed a spreadsheet detailing Fiduciary First's invoices since they were contracted by the City in late 2016. The spreadsheet showed that while the City had paid all of Fiduciary First's invoices, some of the costs incurred for quarters ended December 31, 2016, March 31, 2017 and June 30, 2017 were attributable to the combined Police and Fire 401(a) DROP account and thus the City was requesting reimbursement for the costs (\$4,179). After discussion, the Board directed Ms. Rustin to review the initial contract between the City and Fiduciary First to determine if the Police Retirement System should pay the \$4,179 since the Board did not enter into a contract with Fiduciary First until 2018.

5. REPORTS

b. Caler, Donten, Levine, Cohen, Porter & Veil – Scott Porter September 30, 2018 Audit Report Report made part of these Minutes

Mr. Porter reviewed the draft September 30, 2018 Audited Financial Statement report emphasizing that the auditor's opinion was "unmodified," meaning it was the best opinion to be given. Upon the completion of his overview of the report, Mr. Porter stated there were no material weaknesses or significant deficiencies unlike the prior year.

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to accept the September 30, 2018 Audit Report. In a voice vote by the members present, **Motion** passed 4-0.

c. 2018 State Report – Lisa Castronovo Report made part of these Minutes

Ms. Castronovo stated she needed Board approval to submit the 2018 State Report to the Florida State Division of Retirement since the September 30, 2018 Audit Report was now accepted. Ms. Castronovo stated she was comfortable with all of the information contained in the 2018 State Report and that it had been reviewed by other City employees and also compared to the just-approved Audit Report for accuracy. Ms. Castronovo reminded the Board the State uses the information provided in the annual State report to release the State Chapter money.

MOTION made by Mr. Feldman, seconded by Mr. Rasor, that the information provided for the annual State Report had been reviewed by the Board and was approved to be submitted to the State. In a voice vote by the members present, **Motion** passed 4-0.

- d. Gabriel, Roeder, Smith & Company ("GRS") – Jeffrey Amrose
October 1, 2018 Actuarial Valuation Report
Report made part of these Minutes

Highlights of the October 1, 2018 Actuarial Valuation Report:

- The City's required contribution increased from \$6,457,008 for the 2018-19 fiscal year to \$7,181,108 for the 2019-2020 fiscal year, a \$724,100 increase and a 4.76% increase as a percent of payroll. The components accounting for the change in the required contribution were: 1) a \$71,000 decrease in the normal cost, 2) a \$315,000 increase in the amortization payment on the Unfunded Actuarial Accrued Liability, and 3) a \$480,000 increase due to the decrease of the assumed rate of return from 7.25% at October 1, 2017 to 7.00% at October 1, 2018,
- If the City wished to pay the required contribution on the first day of the fiscal year as done in the past, the contribution would be \$6,917,364.
- There were no benefit revisions.
- The assumed rate of return was decreased from 7.25% to 7.00%.
- The Fund experienced a net actuarial loss of \$2,188,000 for the year meaning actual experience was less favorable than anticipated. The loss was due primarily to more than expected retirements, one disability, and higher than expected salary increases. The loss was somewhat offset by higher than expected investment returns. The actuarial loss increased the required contribution by \$197,000.
- The funded ratio on October 1, 2018 was 62.2% compared to 63.2% on October 1, 2017. Before the change in assumed rate of return, the funded ratio was 64.1%
- The market value of assets exceeded the actuarial value of assets by \$430,000. The excess would gradually be recognized over subsequent years resulting in a decrease in the required contribution.
- The Fund's normal cost will trend down in future years since all new hires after June 2015 have benefits lower than those hired before July 2015.
- Each Unfunded Actuarial Accrued Liability base is scheduled to be paid off in 20 years (10 years less than the maximum allowed of 30 years), with the largest base, currently \$39.8M, to be paid off in 2034.

The Board discussed establishing a funding policy which is basically a rule book passed down from year-to-year to each Board describing how and why each decision made by the Board was done. Mr. Amrose stated GRS could help the Board develop a funding policy.

General discussion ensued regarding the various actuarial methods and assumptions and their effect on the funded ratio. Mr. Amrose stated there were two ways to improve the funded ratio: 1) make more contributions to the plan, and 2) set the assumptions as closely as possible to what is most likely to happen in the future. Mr. Amrose continued that it was not reasonable to think that the funded ratio could be increased from 65% to 100% in any one year, but that the Board was taking the right steps to improve the chances of the funded ratio to increase by more closely aligning the actuarial assumptions to what is expected to occur in the future (such as lowering the assumed rate of return to 7.0% which is what market experts believe it will be over the next 15-20 years).

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to accept the October 1, 2018 Actuarial Valuation as presented with the assumed investment rate of return set at 7.00%. In a voice vote by the members present, **Motion** passed 4-0.

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to approve an expected rate of return of 7.00% for the current year, the next couple of years, and long-term thereafter. In a voice vote by the members present, **Motion** passed 4-0.

e. AndCo Consulting – Brendon Vavrica

i. Portfolio Performance Review – Quarter End March 31, 2019

Report made part of these Minutes.

Mr. Vavrica presented the Investment Performance Review Report for the quarter ended March 31, 2019 noting the bounce back of all asset class returns in the first calendar quarter. The Fund's return was 8.5% for the quarter and -0.22% for fiscal year-to-date.

Mr. Vavrica noted that growth equities continued to outperform value equities. Mr. Vavrica further noted that the yield curve had flattened and even inverted for a few days which reflected the overall bond market's prediction that interest rates were likely to start falling in the coming months. Such prediction was in contrast to the robust fundamentals so the markets were sending mixed signals: either the market was going to slow meaning the yield curve was correct or the market would continue positively meaning the yield curve was wrong.

ii. April 2019 Flash Report

Report made part of these Minutes

Mr. Vavrica reported the equities markets continued to rebound after the extremely poor 2018 fourth quarter. The Fund's return was 3.0% for the month ended April 30, 2019 compared to the policy index of 2.2% and it was 2.6% for the fiscal year-to-date marking its turn from a negative return to a positive one. Mr. Vavrica completed his review by noting how impressive it was that all of the Fund's investment managers had outperformed their benchmarks since inception, something that he rarely saw.

iii. Lazard SMID Cap Core Review

Report made part of these Minutes

Per the Board's request due to past poor performance by investment manager Lazard Asset Management, Mr. Vavrica presented a US SMID cap core equity manager analysis. Mr. Vavrica presented specific information for four possible replacement managers: Ancora Advisors, Clarkston Capital Partners, Great Lakes Advisors, and Vanguard Group. Of the four, Vanguard Group was a passive, index fund with over 3000 holdings, while the other three managers were separately managed accounts with approximately 100 holdings. Mr. Vavrica explained that Ancora Advisors and Great Lakes Advisors had similar "up capture" and "down capture" ratios over all measured periods with upside captures around 94% and downside captures around 87%. Conversely, Clarkston Capital Partners offered 70% upside capture but less than 60% downside capture making them very defensive in down markets. Vanguard's index fund, as expected, would capture about 100% of both upside and downside movement.

Discussion ensued regarding expected future market volatility and where the Board wanted to transfer Lazard's assets: to an indexed fund (Vanguard) or some sort of split between Clarkston and Great Lakes. The Board collectively agreed that it did not want to transfer the money to an indexed fund even though the fees were less. The Board also agreed that it was not in the Fund's best interest to split the monies between Clarkston Partners and Great Lakes.

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to terminate Lazard Asset Management and transfer all monies managed by them to Clarkston Partners as soon as administratively feasible. In a voice vote by the members present, **Motion** passed 4-0.

f. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin reported that one of the Board's securities monitoring law firms, Robbins Geller Rudman & Dowd, recommended that the Retirement System, along with the Firefighters' Retirement System, serve as class representatives to protect the Secondary Public Offering claim in a matter involving Conagra Brands. After a brief discussion, the Board agreed they did not wish to serve as class representatives.

MOTION made by Mr. Feldman, seconded by Mr. Rasor, to not serve as class representatives in the Conagra Brands matter. In a voice vote by the members present, **Motion** passed 4-0.

g. Pension Administrator – Lisa Castronovo

Ms. Castronovo reported 1) all but one of the 125 retirees/beneficiaries responded to the annual Alive & Well letter with the benefit payment for the one non-respondent suspended on May 1, 2019 but the benefit had since been reinstated upon receipt of the Alive & Well letter; 2) in April, Salem Trust merged with TMI Trust Company without any change in provided custodial services; and 3) the General Employees' Board was considering purchasing laptops/ iPads for each member in order to have paperless Board meetings and thus she wanted to know if this Board was interested in going paperless. The Board collectively agreed they did not wish to purchase electronic devices since they wanted to continue receiving hard copies of everything related to the Board meetings.

Ms. Castronovo provided two financial items: 1) financial statement of the Retirement System as of December 31, 2018 (latest date for which the City had all individual money manager statements), and 2) a comparison of the 2018-19 administrative expense budget versus actual administrative expenses through April 30, 2019.

6. ADMINISTRATIVE ITEMS

a. Summary Plan Description

Ms. Castronovo presented the Board with a draft Summary Plan Description (SPD) noting that the last time one had been prepared and distributed was mid-2013, pre-Retirement System split. Ms. Castronovo recommended the Board direct Ms. Rustin to review the SPD as well as Chair Weber and then authorize its distribution to the Retirement System participants.

MOTION made by Mr. Feldman, seconded by Mr. Rasor, to authorize Ms. Castronovo to distribute the Summary Plan Description after it had been reviewed and approved by both

Ms. Rustin, legal counsel, and Chair Weber. In a voice vote by the members present, **Motion** passed 4-0.

c. Miscellaneous Items

Ms. Castronovo reported that a member had recently requested a “disability package” but that the only item she found was a questionnaire. She stated that, after consulting with Ms. Rustin, she would provide the applicant with the questionnaire, a copy of the pertinent sections of the Ordinance, and a medical record release authorization. Ms. Castronovo recommended that the Board authorize Ms. Rustin to draft disability policies and procedures since such did not exist. Per the Board’s request, Ms. Rustin agreed to provide the Board with sample disability procedures at their next meeting.

Further regarding disability retirements, Ms. Castronovo stated that the Ordinance allows the Board to request its disability retirees provide a signed and notarized report that includes 1) a medical report from the disability retiree’s physician (stating whether the retiree continues to be totally incapacitated from performing their regular and continuous duties as a police officer) and 2) the member’s statement that they understand that if the medical report is incomplete or inaccurate, their disability benefits can be suspended. Ms. Castronovo also noted that in addition to the notarized report, the Board has the authority to require each disability retiree to undergo, at the Board’s expense, periodic reexaminations.

Discussion ensued. Trustees voiced their concern about following up with disability retirees considering many had been retired years and were already past normal retirement age. They questioned if it was right to now request such information and possibly cease benefit payments to retirees who depended on such income. Ms. Rustin noted that while it may not seem fair, it was also not fair to the Retirement System to continue to pay benefits to someone who was no longer be disabled. After further discussion, Ms. Rustin agreed to research the matter further and present the Board with a memorandum of law describing the requirements of the Retirement System and State law regarding disability payments and following up on claims.

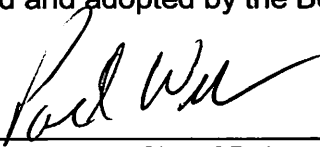
Ms. Castronovo stated that she would like to attend FPPTA’s annual conference in Orlando in late June 2019 and thus requesting Board approval since the Retirement System had to pay for her attendance.

MOTION made by Mr. Feldman, seconded by Mr. Hoesley, to approve Ms. Castronovo’s attendance at FPPTA’s annual conference in Orlando in late June 2019. In a voice vote by the members present, **Motion** passed 4-0.

ADJOURNMENT

MOTION made by Mr. Hoesley, seconded by Mr. Feldman, to adjourn the meeting. Meeting adjourned at 12:38 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 May 15, 2019 regular meeting of said body. These Minutes were formally approved and adopted by the Board on 9-20-19.



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.