

**MINUTES  
REGULAR PENSION BOARD MEETING  
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT FUND  
FEBRUARY 22, 2019**

**1. CALL TO ORDER, ROLL CALL**

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

Board Members present: Chair Paul Weber, Secretary Raymond Jones, and Trustee James Hoesley. Board Members absent: Trustee Barry Feldman and Trustee Jeffrey Rasor. Also present: Board Attorney Janice Rustin (Lewis, Longman & Walker as designated by City Attorney), Investment Consultant Brendon Vavrica (AndCo Consulting), Joseph Mendell (Fiduciary First), and Pension Administrator Lisa Castronovo.

Guests: Susan Grant, Duane D'Andrea, Laura Thezine, Nancy Graham

**2. AGENDA ADOPTION**

**MOTION** made by Mr. Jones, seconded by Mr. Hoesley, to adopt the February 22, 2019 regular Board meeting Agenda as modified to move Item 5.c. before Item 5.a. In a voice vote by the members present, **Motion** passed 3-0.

**3. COMMENTS**

- a. Public  
Duane D'Andrea introduced Susan Grant, new Assistant City Manager.
- 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. Hoesley, seconded by Mr. Jones, to approve Consent Agenda Items 4.a.-d. In a voice vote by the members present, **Motion** passed 4-0.

**5. REPORTS**

- a. AndCo – Brendon Vavrica
  - i. Portfolio Performance Review – Quarter End December 31, 2018  
Report made part of these Minutes.  
Mr. Vavrica presented the Investment Performance Review Report for the quarter ended December 31, 2018 noting the very poor returns for all equity classes. The poor returns were slightly offset by a slight uptick in fixed income returns due to the sell-off of equities and purchase of bonds. Mr. Vavrica noted that once the Fed announced in late-December that it would do more due diligence before increasing interest rates in the future, the downward slide stopped with the markets rebounding significantly.

Mr. Vavrica reviewed a checklist regarding the Fund's overall compliance as well as the individual investments' compliance with various items of importance and noted that ultimately one wants to see all boxes marked "yes." In the Fund's case, some boxes were marked "no" indicating areas for improvement and/or concern.

ii. January 2019 Flash Report

Report made part of these Minutes

Mr. Vavrica reported the equities markets rebounded significantly in January 2019 after a very negative 2018 fourth quarter. The Fund's return for the month ended January 31, 2019 was 5.05% compared to the policy index of 5.41%.

iii. Draft Letter of Direction for Salem Trust re: Monthly Benefit Payments

Draft letter made part of these Minutes.

Mr. Vavrica recommended the establishment of a mutual fund within the Fund's Receipts and Disbursements (R&D) account so that transfers of needed cash to cover monthly benefit payments could be made on a quarterly basis rather than a monthly one with the excess cash held in a fund that would produce returns. Mr. Vavrica stated the General Employees fund set up a Vanguard stock index fund within their R&D account and the moving of funds on a monthly basis was working smoothly. Mr. Vavrica introduced a draft letter for the Board's consideration directing Salem Trust to set up a stock index fund within the Receipts and Disbursements (R&D) account with the guideline that all monies in excess of \$350,000 would be held in the index fund. There followed a brief discussion regarding why Mr. Vavrica suggested a stock index fund to which he replied that generally the monies used to fund monthly benefit payments generally came from the equity accounts.

**MOTION** made by Mr. Hoesley, seconded by Mr. Jones, to liquidate the Westwood Income Opportunity Fund and to send a letter to Salem Trust directing them to set up a Vanguard Total Stock Index Fund within the Receipts and Disbursements account within which all cash in excess of \$350,000 would be held. Further, the new Vanguard fund was to be funded with \$2 million from the liquidated Westwood account with the balance of the liquidated assets to go to a new global tactical asset allocation account managed by BlackRock Advisors. In a voice vote by the members present, **Motion** passed 3-0.

iv. Asset Allocation Education

Informational material made part of these Minutes.

Mr. Vavrica presented an asset allocation analysis specifically noting that asset allocation is an effective tool to manage portfolio risk. Mr. Vavrica noted that asset allocation is the more effective way to manage portfolio risk than managing it via investment manager selection. Mr. Vavrica's report showed that the Plan's forecasted rate of return, based on its current asset allocation, was 6.06%. The report showed five alternative asset allocations that would increase the forecasted rate of return from 3 to 41 basis points while keeping the standard deviation and Sharpe ratio about the same as it currently was (9.65 and 0.63, respectively).

Mr. Vavrica said the five alternative asset allocation mixes were only small tweaks to the current allocation. Mr. Hoesley responded that it did not make much sense to make any of the asset allocation mix changes since it moved the needle so insignificantly. Mr. Vavrica reported that the Firefighters' Board agreed with Mr. Hoesley's observation and had thus decided to dig deeper to determine liquidity needs over the next 7-10 years with a possible idea of immunizing the funds needed to provide the cash flow in

investments that would liquidate on an annual basis as required, and then have available all remaining monies for investing freely however the Board deemed fit.

The Board collectively agreed that rather than adopt one of the asset allocation mixes suggested in Mr. Vavrica's asset allocation analysis report, they wanted to dig deeper to get a much better handle of the Plan's long-term cash needs and then build an investment portfolio around those cash needs. Mr. Vavrica said he would reach out to the actuaries to find out if they could provide a cash flow/liquidity analysis after which the Board could hold a special meeting to discuss in more detail.

**MOTION** made by Mr. Hoesley, seconded by Mr. Jones, to hold a special meeting to discuss changing the investment policy. In a voice vote by the members present, **Motion** passed 3-0.

To address the upcoming retirement of the portfolio manager of Westwood Income Opportunities Fund, the Plan's current global tactical asset allocation ("GTAA") fund, Mr. Vavrica presented a GTAA manager analysis. Mr. Vavrica recommended the Board move the money invested in the Westwood fund to one of three other GTAA managers: BlackRock Advisors, JPMorgan Investment Management, or Pacific Investment Management. Mr. Vavrica recommended the Westwood monies be moved to BlackRock since its GTAA fund was the least expensive of the three and the most similar to the Westwood fund.

Mr. Vavrica suggested moving \$2M of the Westwood funds into the newly established Vanguard stock index fund in the R&D account with the balance invested with BlackRock Advisors.

**MOTION** made by Mr. Jones, seconded by Mr. Hoesley, to direct Gabriel, Roeder, Smith & Company to provide an estimate to the Board of the Retirement System's cash needs over the next ten (10) years. In a voice vote by the members present, **Motion** passed 3-0.

Ms. Rustin stated that the Firefighters' Board wanted to provide a letter to the City Manager to keep him up-to-date on the fact that the Board would be discussing various investment policy changes and that she would provide a draft of the letter to the Police Board when it was done.

b. Lewis, Longman & Walker – Janice Rustin

i. Approval of CAPIS Agreement

Ms. Rustin stated that the CAPIS Agreement that the Board members had been provided in the Board meeting backup needed to be signed. Mr. Vavrica explained that CAPIS provided commission recapture services which 10-15 years ago was quite lucrative when commission fees were quite high and the respective fees caught and returned to recipient funds was significant. However, once commission fees reduced to the level they were currently at, commission recapture only returned pennies. That being said, CAPIS was the provider of commission recapture services and their contract needed to be updated due to the recent hire of Polen Capital.

**MOTION** made by Mr. Jones, seconded by Mr. Hoesley, to execute the CAPIS agreement. In a voice vote by the members present, **Motion** passed 3-0.

ii. Review Plan's Reimbursement to City of Pension Administrators' Expenses

This Item was taken out of order.

Ms. Rustin reminded the Board that in December 2017, the Trustees of the Firefighters' Retirement System, General Employees' Retirement Plan, and Police Officers' Retirement System, agreed to share equally (1/3, 1/3, 1/3) the total administrative costs associated with the administration of the three retirement plans. There was further agreement that the share arrangement would be reviewed after one year.

Ms. Rustin explained that the Firefighters' Board had voted at their meeting the previous day to split 100% of Ms. Castronovo's salary and City-provided benefits equally between the Firefighters and Police Officers' plans pending approval from the Police Officers' Board. Ms. Rustin added that the General Employees' Board had agreed at their Board meeting on the previous day to pay 100% of Ms. Graham's salary and City-provided benefits. A brief discussion ensued.

**MOTION** made by Mr. Jones, seconded by Mr. Hoesley, to split 100% of Lisa Castronovo's salary and respective City-paid benefits equally (50/50) between the Police Officers' Retirement System and the Firefighters' Retirement System. In a voice vote by the members present, **Motion** passed 3-0.

c. Fiduciary First – Joseph Mendell

This Item was moved in front of 5.a.

Mr. Mendell presented the quarter end December 31, 2018 update of the 401(a) DROP account with ICMA-RC. Mr. Mendell stated that the asset allocation account that he had discussed at the previous Board meeting had been established and would soon be funded with saved administrative costs. Once the account was funded, the Board could then decide how to appropriate the funds – reduce members' expenses, use the funds to reduce Board-related expenses. Mr. Warner asked if the saved monies could automatically be used to reduce members' costs to which Mr. Mendell responded they could and that he would bring information regarding automatic payments to members to the Board at its next meeting.

Mr. Mendell noted that only two of the funds available for members to invest in were on the watch list. However, upon digging deeper, one of the two accounts, Oppenheimer Global Opportunities ("OGO"), shouldn't be on the watch list since the benchmark to which it is measured is not a true benchmark to its particular style of investment. In fact, it was noted that the OGO fund was actually performing remarkable well.

d. Pension Administrator – Lisa Castronovo

Ms. Castronovo informed the Board: 1) the annual Alive & Well letters were sent to all current retirees and beneficiaries at the end of January with a return date request of February 28, 2019 and that the majority of the letters had been returned; 2) the financial data and the census data for the October 1, 2018 actuarial valuation was submitted to the actuary on February 7<sup>th</sup> and 11<sup>th</sup>, 2019, respectively; 3) the member data used for the annual State report was prepared and once the auditors completed the September 30, 2018 audit, all would be reviewed in preparation for submittal to the State in the next few weeks; 4) the City Manager provided written confirmation on January 2, 2019 that the

Board of Trustees of the City of Delray Beach Firefighters' Retirement System was acting within the "Safe Harbor" provision of the collective bargaining agreement between the City and the IAFF; 5) Hagens Berman, one of the Board's securities litigation monitoring law firms, provided a quarterly report on the System's exposure to securities cases; 6) there was a proposed State of Florida House Bill that would amend Florida's Open Meetings Law and impose additional procedural requirements if adopted; 7) it had been legally determined that Police participants did not need to wait until they met 5 years of City employment to be eligible to purchase previous military/government service which was a change in policy from prior years; and 8) Mr. Jones reviewed the recently issued fiduciary liability insurance policy and found it appropriate and acceptable.

**6. ADMINISTRATIVE ITEMS**

There were no Administrative Items.

**ADJOURNMENT**

**MOTION** made by Mr. Hoesley, seconded by Mr. Jones, to adjourn the meeting. Meeting adjourned at 11:02 AM.

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 February 22, 2019 regular meeting of said body. These Minutes were formally approved and adopted by the Board on 5-15-19.

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.mydelraybeach.com](http://www.mydelraybeach.com).