

MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND
FEBRUARY 11, 2021

1. CALL TO ORDER, ROLL CALL

Chair Giaccone called the meeting to order at 9:05 a.m.

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

Board Members present via communication media technology: Chair Gregory Giaccone, Vice-Chair Craig Mahoney, Secretary Jack Warner, Thomas Glanfield, and Alan Kirschenbaum.

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 Consultant Matt Dickey (NFP), Pension Administrator Lisa Castronovo, and Pension Specialist Elizabeth Brown.

Guests present via communication media technology: John Mainville, Laura Thezine, Michael Rodriguez, and Kevin Saxton

2. AGENDA ADOPTION

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to adopt the February 11, 2021 Agenda. In a voice vote by the members, **Motion** passed 5-0.

3. COMMENTS

a. Public
None

b. Active and Retired Members of the Plan
Michael Rodriguez and Kevin Saxton

c. Board of Trustees of Firefighters' Retirement System
Chair Giaccone explained that the City, not the Board, had the authority to open an early retirement incentive program as requested by some of the firefighters. If they wanted, the Board could request the City to authorize an early retirement incentive program study on behalf of its members.

MOTION made by Mr. Warner, seconded by Mr. Mahoney, that the Board has no objection to a City request for an early retirement incentive program study with the understanding the City would pay all fees related to such study. In a voice vote by the members, **Motion** passed 5-0.

6. ADMINISTRATIVE ITEMS

a. Discussion of UAAL Amortization Period

Ms. Rustin reviewed the letter that was sent to Interim City Manager Jennifer Alvarez in December 2020 regarding the Board's intent to look into reducing the amortization period of unfunded actuarial accrued liability (UAAL). Ms. Rustin explained that Gabriel, Roeder, Smith & Company ("GRS") determined that if the UAAL amortization period was lowered, it would cause an immediate increase in the City's contribution to the Firefighters' Retirement System ("System"), but over the long run would decrease the amount of the City's contributions. Via the letter, the Board invited the City to listen to today's discussion of this issue. Ms. Rustin noted that GRS determined that if the UAAL amortization period was decreased from 20 years to 15 years, the City's contribution would increase approximately \$270K per year.

Discussion ensued. Ms. Rustin noted that GRS said a 20-year amortization period was reasonable. Chair Giaccone said he wanted GRS to prepare the October 1, 2020 actuarial valuation using the in-place 20-year amortization period and then prepare a side study showing the contribution amounts using a 15-year amortization period. Trustee Mahoney remarked that if the City adopted the proposed benefit changes being negotiated by the City and the Firefighters' union, the City would save approximately \$280K per year which would in turn cover the \$270K increase in required contributions if a 15-year amortization period was adopted.

Mr. Kirschenbaum asked if the Board was considering lowering the actuarial assumed rate of return as well as reducing the UAAL amortization period. Mr. Warner said he would like GRS to study decreasing the actuarial assumed rate of return to 6.25%, maybe by decreasing the rate from the current 6.75% by 0.10% per year over the next five years. Chair Giaccone asked if the Board wanted to look at an actuarial assumed rate of return of 6.50% as well as 6.25%. Mr. Glanfield said he would like to consider actuarial assumed rates of return of 6.50% and 6.25% in conjunction with lowering the UAAL amortization period from 20 years to 15 years.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to direct GRS to present the results of five actuarial studies when they provide the October 1, 2020 actuarial valuation report: 1) reduce UAAL amortization period from 20 years to 15 years with current actuarial assumed rate of return (6.75%), 2) reduce actuarial assumed rate of return from 6.75% to 6.50%, 3) reduce actuarial assumed rate of return from 6.75% to 6.25%, 4) reduce UAAL amortization period from 20 years to 15 years and reduce actuarial assumed rate of return from 6.75% to 6.50%, and 5) reduce UAAL amortization period from 20 years to 15 years and reduce actuarial assumed rate of return from 6.75% to 6.25%. In a roll call vote of the members, **Motion** passed 5-0.

4. CONSENT AGENDA

- a. December 11, 2020 Regular Meeting Minutes
- b. Warrant Ratification (#252-253)
- c. Warrant Approval (#254)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities
- e. Virtual/Electronic Attendance Policy

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to approve Consent Agenda Items 4.a.-e. In a roll call vote of the members, **Motion** passed 5-0.

5. REPORTS

- i. NFP Retirement Inc. December 31, 2020 Quarterly Report – Matt Dickey
Report made part of these Minutes
Mr. Dickey reviewed the December 31, 2020 quarterly report noting the current fund lineup was strong with a large variety of investment options available to DROP participants from fully passive to fully active strategies and any combination in between. Mr. Dickey said 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 said three funds which had previously been discussed – Fidelity Diversified International, LSV Small Cap Value, and Janus Henderson Small Cap Value T – would be liquidated and moved to similar, but better performing funds once all required legal documents were completed. Fidelity Diversified International would be moved to MFS International Growth and both LSV Small Cap Value and Janus Henderson Small Cap Value would be moved to American Century Small Cap Value.

- b. AndCo Consulting – Brendon Vavrica
 - i. Portfolio Performance Review – Quarter End December 31, 2020

Report made part of these Minutes.

Mr. Vavrica provided an update on AndCo noting the company had made significant investments in itself in 2020 by adding two new employees to its research team, advancing two employees to partners, and enhancing its company-wide technology.

Turning to investment performance, Mr. Vavrica stated that the quarter ended December 31, 2020 was very strong with small cap domestic equity stock leading the way with return rates over 31%. For all asset classes, the investment performance in calendar year 2020 was remarkable considering how poorly the year started. Of particular note was fixed income's strong 2020 calendar year performance which was atypical considering equity returns were equally as strong in the same timeframe. Actions taken by the federal government in early 2020 and the rollout of vaccines in late 2020 helped the market rebound from the negative returns it experienced at the beginning of the year. Mr. Vavrica noted that in the final quarter of 2020 and for the first time in many quarters, domestic value stocks outperformed domestic growth stocks.

The Firefighters' Retirement System ("System") assets increased from \$117M on September 30, 2020 to \$139M on December 31, 2020. \$9M of the \$22M increase came from the City and State's annual contribution and the other \$13M came from investment returns. This dollar increase translated into an 14.3% total net fund increase. Due to excellent returns experienced by growth equity investments, the System became overweight in equities.

While reviewing the individual asset classes, Mr. Glanfield asked Mr. Vavrica why did fixed income manager Garcia Hamilton ("GHA") perform so well in 2020. Mr. Vavrica responded that the fixed income market had started performing better overall. Mr. Vavrica pondered if GHA's investment strategy aligned with what the Board wanted. Mr. Vavrica reminded the trustees that GHA, as a short duration investor, performs well when interest rates increase and conversely, performs poorly when interest rates remain flat or decrease. GHA was underweight in Treasury bonds and overweight in corporate bonds, so when interest rates decreased in 2018 and 2019, they did very poorly. Once the spreads between treasuries and corporates narrowed, GHA started performing better. When asked, Mr. Vavrica stated that he felt GHA was a good manager moving forward assuming the federal government issues more stimulus money and inflation starts. As long as the Treasury curve increases, he expected GHA to perform well.

Mr. Vavrica suggested making some investment changes in the small cap equity space.

ii. Flash Report – January 2021 – no report available

iii. Small Cap Equity Analysis

Report made part of these Minutes

Mr. Vavrica reviewed his small cap equity analysis report in which he provided information regarding the Fidelity Small Cap Index (the fund the System was currently invested in), Delaware Small Cap Core, MassMutual Premier Small Cap, Reinhart Partners Genesis, and Great Lakes Disciplined Smid Cap. Mr. Vavrica stated that MassMutual had the lower fee and since it was so similar to Delaware Small Cap Core, he recommended it over Delaware or Reinhart.

Mr. Kirschenbaum asked Mr. Vavrica for his thoughts on keeping the money solely invested in the Fidelity Small Cap Index Fund. Mr. Vavrica said there were times when active managers would outperform an index fund, but he did not have a problem leaving the money in the index fund in this case. Mr. Kirschenbaum asked Mr. Vavrica his thoughts about splitting the small cap investment between an actively managed and an index fund to which Mr. Vavrica replied that such an investment would be okay. When asked for his recommendation, Mr. Vavrica recommended investing about \$5M in the MassMutual Premier Small Cap fund.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to take \$4M from Fidelity Mid Cap Index Fund and \$1M from Fidelity Small Cap Index Fund and purchase \$5M of the MassMutual Premier Small Cap Opps Fund. In a roll call vote by the members, **Motion** passed 5-0.

b. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin stated that the Ordinance provides an early retirement incentive program when the City directs the provision to be opened.

Ms. Rustin suggested the Board adopt a standing policy that GRS does not have to request approval from the Board to do studies when studies are requested by the City or union. Chair Giaccone disagreed and stated he wanted to know when and what GRS was requested to study before they started the work.

MOTION made by Mr. Warner, seconded by Mr. Mahoney, for standing approval that any time the City or firefighters' union asks for census/financial data, such information can be released without Board objection upon the Chair authorizing such release with the Chair's action ratified at the next following Board meeting. In a roll call vote by the members, **Motion** passed 5-0.

i. Travel Policy

MOTION made by Mr. Mahoney, seconded by Mr. Warner, to adopt the travel policy recently drafted for and adopted by the General Employees' Retirement Plan's Retirement Committee, with modifications to reflect specifics related to the Firefighters' Retirement System and present the final at the May 2021 Board meeting. In a roll call vote of the members, **Motion** passed 5-0.

d. Pension Administrator – Lisa Castronovo

- Ms. Castronovo provided two financial items: 1) financial statement of the Retirement System as of September 30, 2020 and the 2020-21 administrative expense budget versus actual expenses through February 3, 2021.
- Ms. Castronovo provided updated standing Salem Trust Signature Authorizations for the trustees to sign.
- Ms. Castronovo reported that the Pension office mailed 119 benefit verification letters of which 92 had been returned.
- Ms. Castronovo provided a brief update on the status of the new pension administration software system, the annual audit, actuarial valuation and State report.

ADJOURNMENT

The meeting adjourned at 11:44 a.m.

I, Gregory Giaccone, the undersigned, am the Chair of the City of Delray Beach Firefighters' Retirement System Board of Trustees ("Board"). The information provided herein is the Minutes of the February 11, 2021 regular meeting of said body. These Minutes were formally approved and adopted by the Board on August 12, 2021.



Board of Trustees, City of Delray Beach
Firefighters' 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 Firefighter's Retirement System. Minutes will become official 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.