

MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND
MAY 21, 2020

1. CALL TO ORDER, ROLL CALL

Chair Giaccone called the meeting to order at 9:06 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, Secretary Jack Warner, Thomas Glanfield, and Alan Kirschenbaum. Board Member absent: Vice-Chair Craig Mahoney.

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

Guests present via communication media technology: John Mainville

2. AGENDA ADOPTION

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to adopt the May 21, 2020 Agenda. In a roll call vote of the members, **Motion** passed 4-0.

3. COMMENTS

- a. Public
None
- b. Board of Trustees of Firefighters' Retirement System
None
- c. Active and Retired Members of the Plan
None

4. CONSENT AGENDA

- a. February 20, 2020 Regular Meeting Minutes
- b. Warrant Ratification (#243)
- c. Warrant Approval (#244)
- d. Ratify/Approve - Refunds/Benefit Enhancements/New Retirements/DROPs/Vested/Death Annuities
- e. Amendment No. 1 to the Agreement with Caler, Donten, Levine, Cohen, Porter & Veil

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

5. REPORTS

- a. Caler, Donten, Levine, Cohen, Porter & Veil
 - i. September 30, 2019 Audit Report
Report made part of these Minutes
Mr. Porter reviewed the draft September 30, 2019 Audited Financial Statement report emphasizing that the auditor's opinion was "unmodified," meaning it was the best opinion to receive. Upon the completion of his report overview, Mr. Porter stated there were no material weaknesses, significant deficiencies, or non-compliance issues.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to accept the September 30, 2019 Audit Report. In a roll call vote of the members, **Motion** passed 4-0.

- b. 2019 State Report – Lisa Castronovo
Report made part of these Minutes

Ms. Castronovo stated she needed Board approval to submit the 2019 State Report to the Florida State Division of Retirement now that the September 30, 2019 Audit Report was accepted. Ms. Castronovo stated she was comfortable with the information contained in the 2019 State Report and that it had been reviewed by Scott Porter who had provided his approval and by City employees who provided their approval. 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. Warner, seconded by Mr. Glanfield, 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 roll call vote of the members, **Motion** passed 4-0.

- d. Gabriel, Roeder, Smith & Company (“GRS”) – Jeffrey Amrose
i. October 1, 2019 Actuarial Valuation Report
Report made part of these Minutes

Highlights of the October 1, 2019 Actuarial Valuation Report:

- The City's required contribution increased from \$7,618,406 for the 2019-20 fiscal year to \$7,922,054 for the 2020-21 fiscal year, a dollar increase of \$303,648 increase, but a 0.87% decrease as a percent of payroll. The components accounting for the change in the required contribution were: 1) a \$110,000 increase in the normal cost, 2) a \$175,000 increase in the amortization payment on the Unfunded Actuarial Accrued Liability, and 3) a \$15,000 increase from change in benefits.
- 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 \$7,614,414.
- Benefits were changed to reflect newly adopted Florida Statutes stating that a firefighter who is diagnosed with certain specified cancers is presumed to have contracted those cancers while in the line of duty for purposes of determining the disability or death benefit payable from the Plan.
- There were no actuarial assumption changes.
- The Fund experienced a net actuarial loss of \$319,000 for the year meaning actual experience was less favorable than anticipated. The loss was due primarily to higher than expected salary increases (8.1% actual compared to 5.6% expected) and more than expected retirements (7 actual compared to the 4 that were expected). The loss was somewhat offset by gains to a recognized investment return greater than the assumed 7.0%.
- The funded ratio on October 1, 2019 was 63.5% compared to 61.6% on October 1, 2018.

ii. 2019 Experience Study Results
Report made part of these Minutes

Mr. Amrose reminded the Board that actuarial assumptions do not control how much the contributions are to a retirement plan but rather control when those contributions will be made. For example: the mortality assumption could be set to assume that every retiree dies at age 50 with the result being an immediate reduction in the required contribution, but as retirees live beyond age 50 the required contribution in future years will go up significantly due to losses from the mortality assumption not being an accurate reflection of actual mortality. The only thing that controls the overall cost of the plan are the plan benefits as detailed in the City Ordinance. The only role of actuarial assumptions is to level out the required contributions over time. The end goal is for the assumptions used to be within a reasonable range and to align with future experience.

Mr. Amrose presented the results of the 2019 Experience Study which covered the 7-year period of October 1, 2012 to September 30, 2019. This time period provided sufficient data to form a basis for recommending updates in demographic and financial assumptions used in future annual actuarial valuations.

Recommended changes included updating:

- future salary increase assumption to reflect the higher observed than expected real salary increases;
- assumed future retirement rates to reflect generally the higher observed than expected actual retirement experience;
- assumed rates of future employment separation to reflect generally lower observed than expected actual employment separations;
- assumed rates of future mortality to reflect updated mortality assumptions used in the July 1, 2019 Actuarial Valuation of the Florida Retirement System; and
- the net investment return assumption.

Effect on FYE 2021 City Contribution of each recommended change:

- salary increase assumption: \$56,000;
- retirement rates: \$29,000;
- employment separation rates: \$(41,000);
- updated mortality table: \$(403,000);
- lower net investment return assumption from 7.00% to 6.75%: \$538,000
- lower net investment return assumption from 7.00% to 6.50%: \$1,098,000
- all assumption changes, leave net investment rate of return at 7.00%: \$(339,000)
- all assumption changes, 6.75% net investment rate of return: \$179,000
- all assumption changes, 6.50% net investment rate of return: \$717,000

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to adopt all of the GRS proposed assumption updates with an assumed rate of return of 6.75%. In a roll call vote of the members, **Motion** passed 4-0.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Warner, to approve an expected rate of return of 6.75% for the current year, the next couple of years, and long-term thereafter. In a roll call vote of the members, **Motion** passed 4-0.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to approve the October 1, 2019 Actuarial Valuation subject to the adopted assumption changes voted on at this meeting. In a roll call vote of the members, **Motion** passed 4-0.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, for Ms. Castronovo to provide a draft letter to the Board at their next meeting for their approval that would be sent to the City Manager giving him a heads-up that the Board will consider in connection with the October 1, 2020 actuarial valuation a decrease in the assumed rate of return as well as a phased-in decrease in the years future unfunded actuarial assumption bases will be amortized from the current 20 years to 15 years in the next 5 years. In a roll call vote of the members, **Motion** passed 4-0.

- d. AndCo Consulting – Brendon Vavrica
 - i. Portfolio Performance Review – Quarter End March 31, 2020
Report made part of these Minutes.

Mr. Vavrica presented the Investment Performance Review Report for quarter end March 31, 2020 noting that while the first four months of the fiscal year had been exceptional, all gains were erased by the market downturn in March 2020 due to market fears related to Covid-19 and the shut-down of businesses and stay-at-home orders. The Retirement System's rate of return, net of fees, for quarter end March 31, 2020 was -15.02%. Mr. Vavrica continued that all equity classes experienced losses in the quarter, while fixed income remained fairly stable. In general, the markets were very news-driven so they experienced gains when good news was released and experienced losses when bad news came out. Therefore, the way the world advances in the next months to reopen, develop tests and vaccines, and resume normal activities will be a big determinate of how the markets will rebound.

Mr. Vavrica noted that fixed income managers Garcia Hamilton and Templeton Global had performed quite poorly during the quarter. Mr. Vavrica said he sent a letter to Garcia Hamilton noting all three Board's concerns with their performance and the fact that they were out of compliance with each Board's investment policy. Regarding Templeton Global, Mr. Vavrica said he will bring to the next meeting information about possible replacements for them.

Mr. Vavrica said that in response to a request from the Police Officers' Board, he had reached out to the manager of the Molpus Timber fund to get an update on its close-out. He was informed that though the fund was set to expire in 2022, the managers were looking to liquidate it before its expiration date. They had hoped to liquidate in 2020, but the world-wide shut down put them back a few quarters. They now hoped to liquidate in 2021.

Mr. Vavrica shared information regarding Term Asset-Backed Securities Loan Facility (TALF). TALF was originally launched during the financial crisis in 2008 and is considered to have been one of the tools that had a significant impact of improving market conditions during the economic downturn in 2008 and 2009. TALF has been

re-launched and is currently expected to begin lending operations in June 2020 and will remain open through September 30th, 2020. Return yields are expected in the mid to upper single digits.

ii. April 2020 Flash Report

Report made part of these Minutes

Mr. Vavrica reviewed the April 2020 investment returns noting the System's total net return for April was 7.49% compared to the benchmark of 7.73% and while it did not make up for the severe losses experienced in March 2020, it helped bring the System's net return for the fiscal year to date to -3.16%. Mr. Vavrica noted that Garcia Hamilton's returns improved significantly in April 2020 while Templeton Global's returns still lagged its respective benchmark. Mr. Vavrica concluded by stating that through May 19, 2020, returns continued to be positive and the total estimated net return for the fiscal year to date was approximately 0%.

Mr. Vavrica stated that approximately \$2.2 million needed to be transferred into the cash account to cover administrative expenses, benefit payments and DROP deposits for the upcoming four months. Mr. Vavrica recommended taking \$1,450,000 from Garcia Hamilton and the remaining \$750,000 from Polen Capital since it was slightly overweight.

Discussion followed. Chair Giaccone said he wanted to take the \$750,000 million from Templeton Global due to their recent poor performance.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to transfer \$1,450,000 from Garcia Hamilton and \$750,000 from Templeton Global to the Vanguard Total Stock Market Index fund in order to maintain the required cash position to meet upcoming monthly expense and benefit payment requirements. In a roll call vote of the members, **Motion** passed 4-0.

Mr. Vavrica presented an updated asset allocation chart showing five possible allocations the Board could choose. Each was a slight variation of the current allocation but introduced more diversification through alternative investments. Mr. Vavrica said that any proposed asset allocation mix was a target to be worked toward over many months, not something to achieve all at once.

- e. Lewis, Longman & Walker – Janice Rustin
 - i. Update on Fire members who were in the General Employees’ Retirement Plan
Ms. Rustin reminded the Board that a few months ago it was brought to her attention that some employees who should have been members of the Firefighters’ Retirement System were incorrectly allowed to participate in the General Employees’ Retirement Plan instead. After considerable research and dialogue, the employees were recently moved into the Retirement System (confirmed by Ms. Castronovo). The only issue pending was to make the Retirement System whole regarding the contributions the employees should have made to it but were incorrectly contributed to the General Employees’ Retirement Plan.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to direct Ms. Castronovo to determine the final contribution amounts owed the Firefighters’ Retirement System for the two firefighters who were incorrectly placed in the General Employees’ Retirement Plan and then present the City with an invoice for those contribution amounts. In a roll call vote of the members, **Motion** passed 4-0.

ADJOURNMENT

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to adjourn the meeting. Meeting adjourned at 12:52 p.m.

I, _____, the undersigned, am the _____ of the Board of Trustees of the City of Delray Beach Firefighters’ Retirement System (“Board”). The information provided herein is the Minutes of the May 21, 2020 regular meeting of said body. These Minutes were formally approved and adopted by the Board on _____.

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 Firefighters’ 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.