

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND
SEPTEMBER 12, 2019**

1. CALL TO ORDER, ROLL CALL

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

Board Members present: Chair Gregory Giaccone, Thomas Glanfield (departed at 11:36 a.m.), Alan Kirschenbaum, Craig Mahoney (arrived at 9:10 a.m.) and Jack Warner.

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: Tyler Adams, John Mainville, James Smith

2. AGENDA ADOPTION

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to adopt the September 12, 2019 regular Board meeting Agenda. In a voice vote by the members present, **Motion** passed 4-0.

3. COMMENTS

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

4. CONSENT AGENDA

Ms. Castronovo noted that the Fund paid Lewis, Longman & Walker's (LLW) June 2019 invoice twice resulting in a credit to be used toward LLW's July, August & September 2019 invoices.

MOTION made by Mr. Glanfield, seconded by Mr. Kirschenbaum, 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
Report made part of these Minutes

After a brief discussion, Mr. Mendell stated that per the Board's direction, in December 2019, ICMA-RC will equitably distribute the Administrative Allowance Account balance as of March 31, 2019 to the DROP participants.

Mr. Mendell reviewed the June 30, 2019 Quarterly Report noting specifically: 1) the majority of the investment funds performed as expected for the quarter, 2) close to 50% of members' funds in the DROP at ICMA-RC were held in cash/cash alternatives but that as expected most of those with money in cash were over age 65, and 3) three funds – Fidelity Puritan, Fidelity Diversified International, and Fidelity Select Technology – appeared on the watch list for the first time (Diversified International) or second time (Puritan and Select Technology) in the quarter ended June 30, 2019.

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The Board discussed the advisability of keeping Fidelity Select Technology. Mr. Mendell said he was not concerned with its performance but questioned whether it should be kept considering it was not performing as well as hoped coupled with the fact that it was a very niche fund with few investors. Mr. Mendell continued that he would continue to monitor it for the next few months to ensure it rebounded with an eye to replacing it if it did not. The Board decided to keep it as an option until at least the next quarter.

b. AndCo Consulting – Brendon Vavrica

i. Portfolio Performance Review – Quarter End June 30, 2019

Report made part of these Minutes.

Mr. Vavrica presented the Investment Performance Review Report for the quarter ended June 30, 2019 noting that though the Fund did well, the quarter was very volatile with several ups and downs. The Fund's net return was 3.9% for the quarter and 3.6% fiscal year-to-date.

Mr. Vavrica briefly reviewed the presentation Mr. Gilbert Garcia from fixed income manager Garcia, Hamilton & Associates made to the General Employees' Retirement Plan Committee at their August meeting. At that meeting, Mr. Garcia stated his belief that interest rates will remain stable or increase thereby making his current short-term investment decisions correct whereas most other fixed income managers are wrong.

ii. August 2019 Flash Report

Report made part of these Minutes

Mr. Vavrica noted that the markets continued their volatility into July and August which was reflected by the fiscal year return through August at 3.23%. Mr. Vavrica stated that as of the date of the meeting, September 12th, it was his hope that the Fund would finish the fiscal year with a net return of approximately 5.0%.

iii. Review Vanguard Fund Balance and Reallocation

Mr. Vavrica stated that the Fund's cash account at Salem Trust did not have enough funds to cover the upcoming October 1st retirement benefit payments. Mr. Vavrica recommended taking \$350K from Mellon BNY to cover the payments. In addition, since the City would make its annual contribution to the Fund of approximately \$6.94M on or about October 1st, Mr. Vavrica proposed retaining \$2.1M in the Vanguard Total Stock Market fund (to cover six months of benefit payments) and for the remaining balance (approximately \$4.84M) transfer: 1) 20% to Garcia Hamilton, 2) 5% to Templeton, 3) 20% to Polen Capital, 4) 20% to BNY Mellon, 5) 15% to Harding Loevner, 6) 10% to Vanguard Mid-Cap Index, and 7) 10% to Great Lakes. Discussion ensued regarding reducing the percentages to fixed income managers Garcia Hamilton and Templeton and increasing the percentages to the equity managers.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to disperse the incoming City contribution as suggested by Mr. Vavrica but with no funds transferred to the fixed income managers and with the final transfer amounts/percentages determined by Mr. Vavrica. In a voice vote by the members present, **Motion** passed 5-0.

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iv. Cashflow Projection and Asset Allocation

Report made part of these Minutes

Mr. Vavrica presented an asset allocation analysis which was based in part on a cashflow analysis prepared and provided by Gabriel, Roeder, Smith & Company's Jeffrey Amrose. GRS's cashflow analysis detailed the contributions, benefits, and administrative and investment expenses expected in each of the next 20 years. Mr. Vavrica in turn summarized the cashflow analysis by determining the total net cash flow on a by-year basis and also a cumulative total. The premise of the cashflow analysis was to determine the total cash needed to be set aside or "immunize" for a given number of years to cover all outgoing cashflow needs with the idea to then invest at will all funds not immunized.

GRS's cashflow analysis showed that the Fund would need to immunize \$21M to cover the expected cash outflows over the next ten years (through fiscal year end 2029). Based on that conclusion, Mr. Vavrica presented five different asset class allocations with each immunizing \$21M but with various asset class allocations of varying aggressiveness with the intent of increasing the Fund's mean return above the current asset allocation's expected mean return (5.9%), but with less risk. One scenario was more domestic equity heavy than the current allocation, another was more emerging markets equity heavy, one was heavily invested in private equity and direct lending, a fourth was very heavy in private equity and value-added real estate, and the final one was very diversified across several alternative investment asset classes. While all of the presented scenarios showed a higher rate of return than the Fund's current allocation, all came with more risk. Further, only two scenarios had returns close to the Fund's 7.0% assumed rate of return, but they were the two most heavily invested in alternative investments, specifically private equity.

Lengthy discussion ensued. Mr. Kirschenbaum stated he was concerned about the optics of aggressive investments (i.e. private equity, direct lending) and the scrutiny the City would place on the Board in down markets when those investments were likely to perform very poorly. Chair Giaccone stated he felt any discussion regarding new investment allocations should include the City. Mr. Glanfield said he felt the Fund needed to move forward with a new allocation since the Board already knew it would be very hard for the Fund to achieve the 7.0% assumed rate of return without any significant investment change. Mr. Warner voiced his concern about investing heavily in private equity since an investor never knew what they were getting. Mr. Warner also said in his opinion the assumed rate of return should be decreased so that the target return rate was lower and thus the Board wouldn't have to invest in the more risky alternative investments.

The Board thought it would be a good idea to get more information on various alternative investments so Mr. Vavrica agreed to research and bring back information on private equity, direct lending, and value-added real estate investment managers. Mr. Vavrica offered to bring to an upcoming Board meeting a couple of AndCo's private equity research analysts.

MOTION made by Mr. Mahoney, seconded by Mr. Glanfield, to engage Gabriel, Roeder, Smith & Company to do an experience study as outlined in their June 28, 2019 letter. In a voice vote by the members present, **Motion** passed 5-0.

c. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin updated the Board on Senate Bill 426 which will provide benefits for firefighters with cancer noting that the impact of the Bill on the City may be greater than expected since the provisions and benefits provided by it may be applied retroactively.

Ms. Rustin provided a memorandum summarizing the procedures related to disability retirement benefits. Ms. Rustin recommended that the Board adopt a two-step hearing procedure that allows for an initial hearing based on documentary evidence and then a full hearing where the parties present and cross-examine witnesses. Ms. Rustin also recommended that the Board adopt a policy for following up on members who were currently receiving disability retirement benefits from the Plan.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Warner, to approve the disability hearing procedure. In a voice vote by the members present, **Motion** passed 4-0.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to send a letter every two years beginning in January 2020 to members receiving disability retirement benefits from the Plan to confirm their continued disability. In a voice vote by the members present, **Motion** passed 4-0.

d. Pension Administrator – Lisa Castronovo

Ms. Castronovo provided two financial items: 1) financial statement of the Retirement System as of March 31, 2019, and 2) a comparison of the 2018-19 administrative expense budget versus actual administrative expenses through August 31, 2019. Ms. Castronovo also provided a draft Administrative Expense Budget for fiscal year 2019/20 with a proposed budget of \$393,000. After comparing the actual expenses for fiscal year end 2019 with adopted Administrative Expense Budget of \$350,000, the Board decided they wanted the proposed for fiscal year end 2020 to be \$350,000.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Mahoney, to adopt an Administrative Expense Budget of \$350,000 for fiscal year end 2020. In a voice vote by the members present, **Motion** passed 4-0.

Ms. Castronovo informed the Board that the Florida Division of Retirement approved the 2018 State Report and would release the State Premium Tax of \$1.13M in a few weeks. Ms. Castronovo told the Board members to let her know if they wanted to attend either the upcoming FPPTA Fall Trustees School or the Division of Retirement's annual Police Officers' and Firefighters' Pension Conference.

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6. ADMINISTRATIVE ITEMS

- a. Administrative Expense Budget for 2019-20

This item was discussed under the Pension Administrator Report.

- b. Miscellaneous Items

Ms. Castronovo directed the Board's attention to the sample Funding Policy in their backup that they had requested from GRS. There was no discussion.

Ms. Castronovo requested Board approval for her attendance at the FPPTA Fall Trustees' School with the cost of her attendance to be split evenly with the Police Officers' Board of Trustees.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Mahoney, to approve Ms. Castronovo's attendance at the FPPTA Fall Trustees' School with the cost of her attendance to be split evenly with the Police Officers' Retirement Plan. In a voice vote by the members present, **Motion** passed 4-0.

ADJOURNMENT

MOTION made by Mr. Kirschenbaum, seconded by Mr. Mahoney, to adjourn the meeting. Meeting adjourned at 12:13 p.m.

I, Gregory Giacom, the undersigned, am the Chairperson of the Board of Trustees of the City of Delray Beach Firefighters' Retirement System ("Board"). The information provided herein is the Minutes of the September 12, 2019 regular meeting of said body. These Minutes were formally approved and adopted by the Board on 11/21/2019.



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.