

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND
MAY 16, 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 and Jack Warner.
Board Members absent: Alan Kirschenbaum, Craig Mahoney

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, M. Hudson

2. AGENDA ADOPTION

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to adopt the May 16, 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 3-0.

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

Ms. Castronovo noted the following Item e. needed to be added to the Consent Agenda: "Ratification of direction to Gabriel, Roeder, Smith & Company to provide an estimate to the Board of the Retirement System's cash needs over the next ten (10) years."

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to approve Consent Agenda Items 4.a.-e. In a voice vote by the members present, **Motion** passed 3-0.

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. Warner, seconded by Mr. Glanfield, 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 3-0.

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) over 50% 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 Select Technology – 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 (\$4,632).

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to reimburse the City for the Firefighters' 401(a) plan portion of Fiduciary First's December 31, 2016, March 31, 2017 and June 30, 2017 invoices. In a voice vote by the members present, **Motion** passed 3-0.

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. Warner, seconded by Mr. Glanfield, to accept the September 30, 2018 Audit Report. In a voice vote by the members present, **Motion** passed 3-0.

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. 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 voice vote by the members present, **Motion** passed 3-0.

- 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 \$6,759,636 for the 2018-19 fiscal year to \$7,673,340 for the 2019-2020 fiscal year, a \$913,700 increase and a 0.90% increase as a percent of payroll. The components accounting for the change in the required contribution were: 1) a \$125,000 increase in the normal cost, 2) a \$297,000 increase in the amortization payment on the Unfunded Actuarial Accrued Liability, and 3) a \$492,000 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 \$7,376,752.
- Because the City paid excess contributions in the past, the City can apply the excess contributions to decrease future required contributions or reduce the unfunded actuarial accrued liability (“UAAL”).
- 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 \$1,496,000 for the year meaning actual experience was less favorable than anticipated. The loss was due primarily to more than expected retirements 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 \$135,000.
- The funded ratio on October 1, 2018 was 61.6% compared to 62.0% on October 1, 2017. Before the change in assumed rate of return, the funded ratio was 63.3%
- The market value of assets exceeded the actuarial value of assets by \$2.6M. The excess would gradually be recognized over subsequent years resulting in a decrease in the required contribution.
- The Fund's normal cost should trend down in future years since all new hires after September 2016 have benefits lower than those hired before October 2016.
- 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 \$37.4M, to be paid off in 2034.

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 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).

The Board discussed having GRS perform an experience study to determine if the current actuarial assumptions align with the Retirement System's actual experience. Mr. Amrose reviewed the assumptions that were reviewed in an experience study: assumed rate of return, inflation rate, rates of salary increase, mortality table (must follow the table used by the Florida Retirement System), and rates of retirement, disability and withdrawal. After further discussion, the Board requested Mr. Amrose to provide a cost estimate before the next Board meeting of GRS's fee to perform an experience study.

Mr. Warner stated he was eager to continue reducing the actuarial assumed rate of return.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, 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 3-0.

MOTION made by Mr. Glanfield, seconded by Mr. Warner, 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 3-0.

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 8.6% for the quarter and -0.41% 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

Mr. Vavrica presented a US SMID cap core equity manager analysis due to Lazard Asset Management's relatively poor performance in the last few years. 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: Clarkston Partners, Great Lakes Advisors, or a split between them.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to terminate Lazard Asset Management and transfer all monies managed by them to Great Lakes Advisors as soon as administratively feasible. In a voice vote by the members present, **Motion** passed 3-0.

f. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin noted that Senate Bill 426, which provided benefits for firefighters with cancer, was approved.

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.

g. Pension Administrator – Lisa Castronovo

Ms. Castronovo reported 1) all 118 retirees/beneficiaries responded to the annual 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 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. Mr. Warner requested more detailed accounting of the budgeted expenses versus the actual expenses.

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 Giaccone and then authorize its distribution to the Retirement System participants.

MOTION made by Mr. Glanfield, seconded by Mr. Warner, 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 Giaccone. In a voice vote by the members present, **Motion** passed 3-0.

c. Miscellaneous Items

Ms. Castronovo reported that were eight (8) ex-firefighters due refunds less than \$1,000 who, after repeated attempts, had yet to return the documents needed to process their refunds. Ms. Castronovo continued that while she was preparing the SPD, she found an Ordinance section stating a member's contributions in excess of \$1,000 can only be refunded upon the member's written request. Since the Ordinance only expressly required a member's written request for refunds in excess of \$1,000, it is the opinion of legal counsel that refunds less than \$1,000 can be paid out without the member's written consent. Ms. Castronovo requested Board approval for her to issue refunds to the eight individuals who were due refunds of less than \$1,000 without their written request.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to authorize Ms. Castronovo to issue refund checks to eight ex-firefighters who were due refunds of less than \$1,000 without their written consent. In a voice vote by the members present, **Motion** passed 3-0.

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. The Board approved Ms. Castronovo's attendance at the conference.

ADJOURNMENT

MOTION made by Mr. Glanfield, seconded by Mr. Warner, to adjourn the meeting. Meeting adjourned at 12:20 p.m.

I, Gregory Giaccone, the undersigned, am the Chair 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 15, 2019 regular meeting of said body. These Minutes were formally approved and adopted by the Board on September 12, 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.