

MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND
AUGUST 12, 2021

1. CALL TO ORDER, ROLL CALL

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

Board Members present: Chair Gregory Giaccone, Vice-Chair Craig Mahoney, Alan Kirschenbaum (departed at 11:35 a.m.). Thomas Glanfield (departed at 11:35 a.m.) and Secretary Jack Warner participated via communication media technology.

Also present (all 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 Lege, John Mainville, Laura Thezine

2. AGENDA ADOPTION

MOTION made by Mr. Kirschenbaum, seconded by Mr. Mahoney, to adopt the August 12, 2021 Agenda. In a voice vote by the members, **Motion** passed 5-0.

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 11, 2021 Regular Meeting Minutes
- b. May 26, 2021 Regular Meeting Minutes
- c. Warrant Ratification (#257-258)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirements/DROP/Vested/Death Annuities

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

- e. Retirement Benefit & DROP Account Correction
Ms. Castronovo explained that upon preparing DROP participant Rylan Rose's retirement paperwork, she determined his original monthly retirement benefit was not correctly calculated since his final payroll immediately preceding his date of DROP entry had not been included in his final average earnings calculation. Ms. Castronovo said she requested and received from the actuaries a revised benefit calculation for Mr. Rose based on updated final average earnings. Ms. Castronovo further explained that Mr. Rose owed the retirement fund additional employee contributions, but in turn the fund owed his DROP account additional DROP deposit money. Ms. Castronovo asked the Board to approve payment of the revised retirement benefit as well as additional deposits to Mr. Rose's DROP account.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Mahoney, to approve payment of the revised retirement benefit to Mr. Rose and an additional deposit to Mr. Rose's DROP account once the actual deposit amount (as reduced for the additional member contribution Mr. Rose owes the retirement fund) was confirmed by NFP. In a roll call vote of the members, **Motion** passed 5-0.

f. Administrative Expense Budget for 2021-22

Ms. Castronovo provided a draft Administrative Expense Budget for fiscal year 2021-22 with a proposed budget of \$400,000. The Firefighters' plan's actual administrative expenses October 1, 2020 – July 21, 2021 were \$250,000 versus the \$350,000 maximum budget set for fiscal year end 2021.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to approve the Administrative Expense Budget of \$400,000 for fiscal year 2021-22. In a roll call vote of the members, **Motion** passed 5-0.

5. REPORTS

a. NFP Retirement Inc. June 30, 2021 Quarterly Report – Matt Dickey
Report made part of these Minutes

Mr. Dickey reviewed NFP's June 30, 2021 quarterly report. Mr. Dickey explained that Roth IRA's can be set up within 457 plans but not DROP plans since such plans are 401(a) plans. Mr. Dickey noted that for a variety of reasons, many retirees older than 50 were transferring their DROP funds out of the DROP and into their 457. He also noted that on June 23, 2021, the IRS had updated their hardship distribution rules.

For the quarter ended June 30, 2021, Mr. Dickey noted 1) US equities continued to be very strong and were up over 15% in the first six months of 2021, 2) international equity performed well in the second quarter and was up about 9%, 3) fixed income was down as the markets moved money out of fixed income and into equity, 4) growth stocks were once again outperforming value stocks. 5) China continued to be the bogey for all international markets while Mexico, Brazil, India, struggled due to their response to COVID, 6) commercial real estate had picked up as employers and employees started going back to offices to work, and 7) residential real estate was on fire all over the nation, not just Florida.

Mr. Dickey made note that three funds were on the watch list: American Funds Washington Mutual (a large cap blend fund) for the first time, Fidelity Contrafund (a large cap growth fund) for the third consecutive quarter, and Janus Henderson Small Cap fund for the second time in the last four quarters. The rest of the lineup was very good with strong returns and great up/down captures. International landscape continues to change so Mr. Dickey cautioned against changing international managers since as soon as one does so, they would want to change them again in six months.

b. AndCo Consulting – Brendon Vavrica

i. Portfolio Performance Review – Quarter End June 30, 2021
Report made part of these Minutes.

Mr. Vavrica reported that everything was great through June 30, 2021 and continued to do well to date. For the quarter ended June 30, 2021, the Retirement System's return, net of fees, was 6.23% vs. 5.61% for the benchmark and for the fiscal year through June 30th the return was 23.1% vs. the benchmark of 18.5%. Since March 31, 2021, the System's assets increased from \$142.2M to \$148.9M.

ii. Flash Report – July 2021

Report made part of these Minutes.

Mr. Vavrica reported through July 31, 2021, the fiscal year-to-date return, net of fees, was 24.8% and with the 1.4% return for July 2021, the total fund was ahead of its benchmark for the 5-year trailing returns.

Mr. Glanfield asked if the fund should move from international equities to domestic equities given the current uncertainty in the international markets. Mr. Vavrica responded that buying domestic equities was getting expensive and further it made sense to stay invested in international equities as they were expected to do better over the next five years compared to the prior five years. When asked if international manager Harding Loevner was doing a good job, Mr. Vavrica said they were and had outperformed the benchmark over the last three years (11.5% vs. 9.4%).

iii. Cash Flow Projection/How to Invest Upcoming City and State Contributions

Mr. Vavrica provided various options regarding ways to invest the upcoming City contribution and recommended allocating \$5M to core and non-core fixed income with the remaining \$5M allocated to real estate and/or direct lending. Mr. Kirschenbaum said he was not a fan of fixed income and thus did not want to invest \$5M in it.

iv. Fixed Income Investment Manager Review

Report made part of these Minutes

Mr. Vavrica provided information on five candidates to replace core fixed income manager Garcia Hamilton & Associates who had struggled over the last two years to meet their benchmark: Agincourt Capital Management, Baird Advisors, C.S. McKee, Harbor Capital Advisors, and Franklin Templeton Investments (Western Asset Management Company). Mr. Vavrica noted Garcia Hamilton was very concentrated in 32 investments whereas Baird Advisors had over 1,400 investments and Western Asset had over 2,500. Mr. Vavrica also noted that the five candidates had duration periods of six or more years while Garcia Hamilton was less than five.

Mr. Kirschenbaum asked if the Board could get rid of Garcia Hamilton and put all the money PIMCO. Mr. Vavrica explained that would not be a good idea since PIMCO was not a core fixed income fund and the System really needed to keep some assets in core fixed income.

v. Senior Direct Lending Review

Report made part of these Minutes

Mr. Vavrica stated Crescent Capital was the System's current direct lending manager, but that they were not accepting new investments at this time as they had no open funds for which they were seeking investments. Mr. Vavrica explained that direct lending managers, such as Crescent Capital, issue capital calls to their investors over the first three years of the investment followed by a few years in which they will distribute the funds plus earnings back out. The System was in the redemption phase with Crescent Capital. Once Crescent Capital finished distributing the System's investment, all money the Board committed to direct lending would be back in the System unless the Board moved to invest in another direct lender.

Mr. Vavrica provided an overview of senior direct lending and then specific information on three senior direct lender candidates accepting new investments: Deerpath Capital Management, GC Advisors (Golub), and Monroe Capital Management Advisors. All three candidates had very robust investment teams with Deerpath and Monroe investing in the lower to middle markets and Golub investing in larger markets.

Mr. Vavrica recommended committing \$2M to one of the three candidates now and then committing \$2M again in 12-18 months to Crescent Capital when they open their next fund which by so doing would keep the System actively invested in direct lending.

Mr. Warner stated he would like to invest with the direct lending manager most similar to Crescent Capital since he really liked Crescent's strategy. Mr. Vavrica said Deerpath and Monroe were the most similar to Crescent since they tended to avoid lending to non-private equity owned borrowers. Mr. Glanfield said he liked Deerpath and Monroe over Golub and said he would be fine committing \$2M to both Deerpath and Monroe now. Mr. Vavrica reminded the Board that whatever they committed would be called over three years.

Mr. Glanfield asked Mr. Vavrica if he was comfortable shifting funds out of core fixed income to direct lending. Mr. Vavrica recommended leaving the funds currently invested in fixed income there but decrease core fixed income's target allocation from 20.5% to maybe 18.0%.

Discussion ensued. Mr. Glanfield suggested investing \$2.5M in both Deerpath and Monroe. Mr. Glanfield said he did not want to get out of domestic equities, but he definitely wanted to get out of Garcia Hamilton. He further suggested leaving the money in cash until Deerpath and Monroe made their respective capital calls. Mr. Warner asked what would the Board do if Crescent opened a new fund in the next 12-18 months. Mr. Kirschenbaum asked if a 5% allocation to direct lending was reasonable. Mr. Vavrica responded that Crescent was likely to start fund-raising again in mid- to late-2022 and a 5% allocation to direct lending was reasonable since the System would only ever have about \$4.5M actively invested in direct lending since it was tough to know how much money would come and go at any one point in time. Mr. Vavrica warned against committing too much money to direct lending given how such investments were illiquid.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to liquidate Garcia Hamilton and split the fixed income investment evenly between Baird Advisors and Western Asset Management. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to invest \$1.5M in both Deerpath Capital Management and Monroe Capital Management Advisors. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Glanfield, to commit from the incoming City contributions, an additional \$3.5M to American Realty Advisors now and \$3.5M to whichever domestic equity manager was underweight compared to the others at the time the City contribution was received in the System. In a roll call vote of the members, **Motion** passed 5-0.

d. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin reviewed the actuarial valuation summary she prepared for the three retirement plans and shared with the City Manager Terrence Moore.

i. Premium State Tax Money Database

Ms. Rustin reviewed the memorandum she sent to City Attorney Lynn Gelin on behalf of the System. In brief, the memorandum requested the City's assistance in updating the Florida Department of Revenue Address/Jurisdiction database to ensure the City receives the full amount of insurance premium tax money it is due. Ms. Rustin explained she prepared the memorandum after speaking to IAFF President Craig Mahoney who told her it appeared the City's database was missing many addresses resulting in smaller premium tax monies being issued by the State. The intent was that once the City provided the State with a current list of all the addresses within its jurisdiction, the City would benefit because the Firefighters' Retirement System would receive larger premium tax monies. There was nothing the Board needed to do regarding this item.

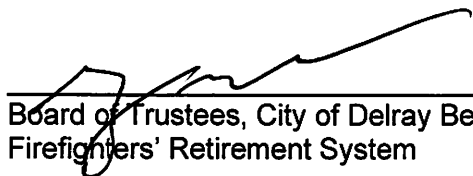
e. Pension Administrator – Lisa Castronovo

Ms. Castronovo provided the trustees the Retirement System's financial statement as of June 30, 2021, and the 2020-21 administrative expense budget versus actual expenses through August 5, 2021. Ms. Castronovo reported that of the 20 DROP participants eligible to extend their DROP participation date, to date 13 had elected to do so, 3 declined to do so, 1 retired, and 3 had not yet contacted her to let her know what they intended to do.

ADJOURNMENT

The meeting adjourned at 11:53 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 August 12, 2021 regular meeting of said body. These Minutes were formally approved and adopted by the Board on December 9, 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.