

MINUTES
MAY 18, 2023 REGULAR BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT SYSTEM

1. CALL TO ORDER, ROLL CALL

Chair Giaccone called the meeting to order at 1:03 p.m.

Board Members present: Chair Gregory Giaccone, Vice-Chair Craig Mahoney, Secretary Thomas Glanfield (departed at 3:00 p.m.), Alan Kirschenbaum (departed at 3:47), and Jack Warner.

Also present: Matt Dickey (NFP Retirement, Inc.), Scott Montgomery (Marcum LLP), Jeffrey Amrose (Gabriel, Roeder, Smith & Company), Brendon Vavrica (AndCo Consulting), Pedro Herrera (Sugarman, Susskind, Braswell, & Herrera as designated by City Attorney), Lisa Castronovo (City of Delray Beach), and Elizabeth Brown (City of Delray Beach)

Public attendees: Tyler Adams

2. AGENDA ADOPTION

MOTION made by Mr. Mahoney, seconded by Mr. Warner, to adopt the May 18, 2023 Regular Board Meeting Agenda. In a voice vote by the members present, **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. March 9, 2023 Regular Meeting Minutes
- b. Warrant Ratification (#271)
- c. Warrant Approval (#272)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities

MOTION made by Mr. Warner, seconded by Mr. Mahoney, to approve the Consent Agenda. In a voice vote by the members present, **Motion** passed 5-0.

5. REPORTS

- a. NFP Retirement Inc. March 31, 2023 Quarterly Report – Matt Dickey
Report made part of these Minutes

Mr. Dickey provided several updates: 1) NFP was working with MissionSquare and other record-keeping providers to begin implementation of certain parts of SECURE Act 2.0, specifically the catch-up provision for those earning over \$145k that must be in place by January 1, 2024; 2) Florida governor Ron DeSantis signed legislation prohibiting all Florida public funds from investing in any asset containing pecuniary factors geared toward environmental, social and governance factors (ESG); 3) NFP does not give preference to ESG funds so there were no issues with any of the funds MissionSquare offered for DROP participants; and 4) MissionSquare had not yet disbursed the Administrative Allowance Account nor could they provide a timetable for when the distribution would be made.

Mr. Dickey said MissionSquare executives acknowledged their missteps with the rollout of their new website in late 2022 and as a result had recently replaced their CEO, Human Resources director, and chief legal advisor. MissionSquare's record-keeping service fees for all of the City plans, including the three DROP plans, is approximately 3 basis points. Mr. Dickey said he

found that if only the Firefighters' DROP plan moved to a different provider, the fees would be 14-15 basis points. If both the Firefighters' and Police DROP plans moved, the fees would be 12-14 basis points and if all three DROP plans moved, the fees would be approximately 10-11 basis points, and if all of the City's plans moved, the fees would be similar to MissionSquare's 3 basis points.

Mr. Warner asked Mr. Dickey if he thought things would get better at MissionSquare with new management in place. Mr. Dickey responded he was hopeful it would but to date had not seen any significant changes. Mr. Mahoney asked why the City did not want to move their respective plans to a new provider. Mr. Dickey said it was likely due to the amount of administrative work involved to shift everything from one provider to another. Mr. Herrera asked Mr. Dickey if he thought a move to a new provider was worth it, to which Mr. Dickey said probably not, at least not for one DROP plan alone, due to the significant fee increase.

MOTION made by Mr. Mahoney, seconded by Mr. Warner, contingent on the General Employees' Retirement Committee joining the Firefighter and Police boards, send a letter to the City urging the City to join the Boards in an RFP for record keeping services for all of the City's plans served by MissionSquare. In a voice vote by the members present, **Motion** passed 5-0.

Mr. Dickey said he was told by MissionSquare representatives that on May 19, 2023, they will close Invesco Emerging Markets Select Equity, Invesco Global, American Funds Washington Mutual, Fidelity Contrafund, and T. Rowe Price Growth Stock Advantage funds and make available Victory RS Global R6 and AB Large Cap Growth all as authorized by the Board in late 2022.

b. Marcum LLP

September 30, 2022 Audit Report
Report made part of these Minutes.

Mr. Montgomery reviewed the draft September 30, 2022 Financial Statements emphasizing the auditor's opinion was clean and "unmodified" meaning it was the highest opinion that could be issued. Upon the completion of his report overview, Mr. Montgomery stated there were no material weaknesses, deficiencies in internal controls, or non-compliance issues.

MOTION made by Mr. Mahoney, seconded by Mr. Warner, to accept the September 30, 2022 Financial Statements as presented by Marcum LLP. In a voice vote by the members present, **Motion** passed 5-0.

c. 2022 Annual State Report – Lisa Castronovo

Report made part of these Minutes

Ms. Castronovo said she needed Board approval to submit the 2022 annual State Report to the Florida Division of Retirement now that the September 30, 2022 Financial Statements were accepted. Ms. Castronovo reminded the Board the State uses the information provided in the annual State Report to issue Chapter 175 premium tax distributions.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, that the information provided for the 2022 State Report had been reviewed by the Board and was approved to be submitted to the Florida Division of Retirement. In a voice vote by the members present, **Motion** passed 5-0.

- d. Gabriel, Roeder, Smith & Company (“GRS”) – Jeffrey Amrose
- i. October 1, 2022 Actuarial Valuation Report
Report made part of these Minutes
Highlights of the October 1, 2022 Actuarial Valuation Report:
- The City’s required contribution increased from \$8,726,916 for fiscal year end September 30, 2023 to \$8,964,943 for fiscal year end September 30, 2024, an increase of \$243,525 and 1.00% as a percent of payroll. The increase was due primarily to actuarial losses.
 - If the City paid FYE 2024 required contribution on October 1, 2023, the first day of the fiscal year as done in the past, the contribution would be \$8,636,502.
 - There were no revisions in benefits or actuarial assumptions.
 - The amortization period was decreased from 18 years to 17 years (with the period to be lowered by one (1) year each year until a 15-year amortization period is attained).
 - The plan experienced a net actuarial loss of \$2.58M meaning actual experience was less favorable than anticipated. The loss was due primarily to a lower-than-expected investment return. There were also losses from more retirements than expected, lower than expected mortality among retirees, and higher salary increases than expected. The loss was partially offset by gains from a lower-than-expected return in the COLA Reserve Account.
 - The funded ratio on October 1, 2022, was 70.6% compared to 69.2% on October 1, 2021.
 - The estimated required City contribution for fiscal year end 2025 was \$9,35M assuming a 5.55% increase in total covered payroll and no gains, losses, or assumption changes.

MOTION made by Mr. Warner, seconded by Mr. Mahoney, starting October 1, 2023, change the amortization period to 15 years for each new base.

Discussion ensued regarding changing the amortization period as well as lowering the assumed rate of return. The Board decided to wait to consider any actuarial assumptions until the November 2023 Board meeting. Motion was withdrawn. GRS will present information.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to accept the October 1, 2022 Actuarial Valuation Report as presented. In a voice vote by the members present, **Motion** passed 4-0 (Mr. Glanfield had departed the meeting).

Mr. Amrose and Mr. Vavrica recommend using 6.625% as the expected rate of return.

MOTION made by Mr. Warner, seconded by Mr. Mahoney, to approve an expected rate of return of 6.625% for the current year, the next couple of years, and long-term thereafter as recommended by the Plan’s actuary and investment consultant. In a voice vote by the members present, **Motion** passed 4-0.

MOTION made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to authorize GRS for a fee not to exceed \$4,500, to perform an impact study on lowering the assumed rate of return. In a voice vote by the members present, **Motion** passed 4-0.

- e. AndCo Consulting – Brendon Vavrica
 - i. Portfolio Performance Review – Quarter End March 31, 2023
Report made part of these Minutes.

Mr. Vavrica summarized the March 31, 2023, performance report noting that overall, the quarterly returns were good. All equity investments had positive returns, with growth significantly outperforming value (about 14% to 1%). The top eight growth companies had returns over 17%. The under-performance of value equity drug down the overall performance of the fund. Fixed income continued to perform well. The Plan's total net return for the quarter ended March 31, 2023, was 3.98 vs. the benchmark of 5.35%. The Plan's assets increased from \$142.3M on December 31, 2022, to \$145.7M on March 31, 2023.

MOTION made by Mr. Mahoney, seconded by Mr. Warner, to ratify Ms. Castronovo's election, based on Mr. Vavrica's recommendation, of liquidation options of Dune Real Estate Fund III. In a voice vote by the members present, **Motion** passed 4-0.

Mr. Vavrica reported Molpus Woodlands Timberland was fully liquidated as of December 31, 2022. Mr. Vavrica also reported that Angelo Gordon was being acquired by TPG and Deerpath Capital by PGIM, but at least for the time being, neither acquisition would be an issue since both managers expected to be left alone by the acquiring companies so they would continue to operate as they had been.

- ii. Flash Report – April 2023
Report made part of these Minutes.
For the month ended April 30, 2023, the Plan's return, net of fees, was 0.78% vs. the benchmark of 0.93%. The fiscal year to date return was 11.62% vs. the benchmark of 12.51%.

Mr. Vavrica said the fund was overweight in equity and thus the trustees should consider reallocating \$4M to bring the fund back to target. Mr. Warner and Mr. Kirschenbaum said they would like to remain in equity and not reallocate at this time. Mr. Vavrica responded that that would be okay since the fund was still inside the allocation parameters.

- iii. Short-term Fixed Income Analysis
Mr. Vavrica presented information on five managers who offered shorter-term fixed income options: R. W. Baird & Co., Vanguard, PIMCO, Goldman Sachs, and Federated. Mr. Vavrica said with the Federal Reserve increasing interest rates, there was not a lot of advantage to investing in short-term fixed income assets.

Chair Giaccone asked Mr. Vavrica if the trustees wanted to move funds out of equity, where would he suggest the trustees invest it. Mr. Vavrica responded with cash or in the Fidelity sweep fund. Mr. Warner said he was uncomfortable with the Fund being invested in real estate, even though American Core Realty was a high-class real estate fund. Mr. Vavrica responded that of all his clients, this Fund was the only one underweight in real estate.

Mr. Vavrica reiterated that if the Fund was to follow policy, approximately 4.75M needed to be pulled out of equity and invested in a different asset class. With all else being equal, if money is invested in equity when it's underweight, then it should be pulled out when it's overweight. The trustees decided to leave everything as it was and readdress at the next Board meeting.

Mr. Vavrica said the investment policy will need to be updated to reflect the new non-ESG law. Practically speaking, it won't change anything since the Fund does not have any investments specifically in ESG. Further, the Fund will have to file a report by the end of 2023 regarding ESG investments, though as of now, no information was available on what will have to be provided in the report.

- f. Sugarman, Susskind, Braswell & Herrera – Pedro Herrera
Adding to what Mr. Vavrica said about the new non-ESG law, Mr. Herrera said that 99% of the plans he worked on would not have an issue with complying with the new law since they all only consider pecuniary factors – making the most money with the least amount of risk - when making investment decisions. No Florida government body will be allowed to issue bonds for environmental purposes, i.e., fight sea-level rise. Certain disclaimer language would have to be added to future investment documents and proxy voting policies would need to be updated. Under the new law, government bodies would only be able to vote a certain way, so each government would likely have to carve out their own proxy voting. The law was murky and ambiguous so government agencies across Florida were waiting for guidance from the State and courts. The Firefighters' Retirement System was fine, but work would need to be done to figure out the logistics on how to keep it fine.

Mr. Herrera reminded the Trustees to file their financial disclosure forms with the State on or before June 30, 2023.

When asked by Chair Giaccone about the status of a recent disability application, Mr. Herrera responded that the applicant had been seen by the physician hired by the Board. Mr. Herrera also reviewed the disability hearing process since that would be the next step the Board will take.

- e. Pension Administrator – Lisa Castronovo
Ms. Castronovo: 1) provided the trustees with the 2022-23 administrative expense budget versus actual expenses through mid-May; and 2) told the Trustees to let her know if they wanted to attend FPPTA's upcoming annual conference.

ADJOURNMENT

The meeting adjourned at 12:23 p.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 June 20, 2022 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 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