

MINUTES
SEPTEMBER 12, 2024 REGULAR BOARD MEETING
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

1. CALL TO ORDER, ROLL CALL

Chair Weber called the meeting to order at 8:30 a.m.

Board Members present: Chair Paul Weber, Vice-chair Jim Hoesley, Secretary Jeffrey Rasor, Meer Deen, and Scott Privitera.

Also present: Brendon Vavrica and Jorge Friguls (Mariner Institutional), Pedro Herrera (Sugarman Susskind Braswell & Herrera as designated by City Attorney), Lisa Castronovo and Elizabeth Brown (City of Delray Beach)

Public attendees: Ronald Cohen, Robert Buschel, Nicole Lucas

2. AGENDA ADOPTION

MOTION made by Mr. Privitera, seconded by Mr. Hoesley, to adopt the September 12, 2024 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 Police Officers' Retirement System
Chair Weber would like to move management of Mission Square's DROP account from the trustees to the Deferred Compensation Plan Committee. The trustees agreed Mr. Herrera needed to provide an opinion if such a move was possible considering the trustees were the fiduciaries of all pension fund money.
- c. Active and Retired Members of the Plan
None

4. CONSENT AGENDA

- a. May 16, 2024 Regular Meeting Minutes
- b. Warrant Ratification (#274)
- c. Warrant Approval (#275)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities
- e. Administrative Expense Budget for 2024-25 Fiscal Year

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

5. REPORTS

- a. Investment Review – Mariner Institutional
 - i. Portfolio Performance Review – Quarter End June 30, 2024
Report made part of these Minutes.

Mr. Vavrica said the overall market did very well in the 1st and 2nd quarters of the fiscal year, stalled a bit in the 3rd quarter, became volatile in July 2024, but smoothed out in August. All signs pointed to an interest rate cut in September. Since the summer began, the labor market was unbalanced with many large companies reporting changes in consumer behavior (less spending) and a shift from employees working one fulltime job to working multiple part-time ones.

Mr. Vavrica reported the Plan's net rate of return for the quarter ended June 30, 2024, was -0.65% compared to its benchmark of 1.85% with a fiscal year to date return of 13.65% versus the benchmark of 16.54%. The Plan's market value decreased from \$146.0M on March 31, 2024 to \$142.6M on June 30, 2024.

- ii. Flash Report – August 2024
August 2024 flash report was not available.

The July 2024 flash report was presented (made part of these Minutes). For the month ended July 31, 2024, the Plan's return, net of fees, was 2.45% vs. the benchmark of 1.84%. The fiscal year to date return was 16.43% vs. the benchmark of 18.68%.

- vii. Cashflow Projection/Where to Invest Incoming City and State Contributions (taken out of order)

Mr. Vavrica provided a suggested allocation for \$8M of the incoming \$9.6M City and State contributions: for domestic equity, \$5M between Fidelity Total Market, Clarkston Partners SMID, and Mass Mutual Small Cap; for fixed income, \$2M between Baird, Loomis Sayles, and MainStay; and for real estate \$1M to the real estate index fund.

Mr. Hoesley said he did not want to invest any money in fixed income at this time. Chair Weber suggested putting the entire \$8M in an equity index fund until the next Board meeting. Mr. Rasor said he did not want to invest any funds in real estate.

MOTION made by Mr. Hoesley, seconded by Mr. Rasor, to invest \$4M in Fidelity Total Market and \$4M in Fidelity S&P 500 Index. In a voice vote by the members present, **Motion** passed 5-0.

- iii. Large Cap Growth Equity Manager Review
Report made part of these Minutes.

Mr. Vavrica presented information on three active large cap growth equity money managers as an alternative to already terminated Polen Capital: ClearBridge, MFS Investment Management, and Nuveen Asset Management (sub-advised by Winslow Capital Management). Mr. Vavrica stated that no active large cap growth equity manager outperformed the index over the prior ten years since they all faced the same intense headwind of the top 10 performing stocks (Apple, Nvidia, Meta, Microsoft, etc.) that made up over 50% of the index.

Mr. Hoesley asked Mr. Vavrica to "strip" the "magnificent 7" stocks from each recommended manager to determine how each performed which would show how good each manager was at picking stocks. He said he did not want to select another large cap growth manager until Mr. Vavrica presented the requested information. When asked why he presented the three managers he did, Mr. Vavrica said it was based on their strategies, fees, and investment style.

- v. International Equity Manager Review (taken out of order)
Report made part of these Minutes.

Mr. Vavrica presented information on four international equity managers as alternatives to Harding Loevner: Dimensional Fund Advisors (DFA), Neuberger Berman, T. Rowe Price, and Capital Group (American Funds). Mr. Vavrica noted that DFA, T. Rowe Price, and Capital Group were less expensive than Harding Loevner. Of the five managers, Neuberger Berman was the most concentrated going up to DFA as the least concentrated. DFA leaned toward value investments, T. Rowe Price, Harding Loevner, and Neuberger Berman mainly core investors, and American Funds leaned toward growth investments. American Funds had the most exposure of the five managers in emerging markets.

MOTION made by Mr. Deen, seconded by Mr. Hoesley, to move all of Harding Loevner's position to Neuberger Berman International Select I. In a voice vote by the members present, **Motion** passed 5-0.

iv. Small- and Mid-Cap Equity Manager Review (taken out of order)

Report made part of these Minutes.

Mr. Vavrica said he brought the SMID cap analysis to the trustees due to Clarkston Partners' recent underperformance which was due primarily to an investment in one stock that did very poorly. Because Clarkston Partners was very concentrated, when the one stock did poorly, it brought down the performance of the entire investment. Mr. Vavrica reminded the trustees that Clarkston Partners was hired specifically for their downside capture performance.

While Mr. Vavrica believed Clarkston Partners would rebound, he presented information on three alternative SMID cap equity managers: Ancora Advisors, Eaton Vance Management/Morgan Stanley (with Atlanta Capital Management as subadvisor), and Reinhart Partners.

Mr. Hoesley said he was inclined to give Clarkston Partners another quarter, or at least until the next meeting. Mr. Rasor said he would like to split the SMID cap allocation between Eaton Vance Atlanta Capital and Reinhart Partners. Mr. Hoesley proposed splitting the allocation evenly between Clarkston Partners and Eaton Vance Atlanta Capital. Mr. Rasor suggested investing some funds with Reinhart, but Mr. Friguls pointed out it was not really necessary since the Plan already had exposure to small cap equity with its MainStay investment.

MOTION made by Mr. Rasor, seconded by Mr. Hoesley, to take 50% of Clarkston Partners funds and invest with Eaton Vance Atlanta Capital. In a voice vote by the members present, **Motion** passed 5-0.

vi. Investment Policy Review (taken out of order)

Mr. Vavrica recommended revising the Investment Policy Statement (IPS) to remove Timber as an asset class, use the Russell 3000 instead of the Wilshire 5000 as the benchmark index for Domestic Equity, and to set the objective return of the portfolio to equal or exceed the prevailing actuarial earnings assumptions without a reference to inflation protection.

MOTION made by Mr. Rasor, seconded by Mr. Privitera, to approve the updated Investment Policy Statement as presented by Mr. Vavrica. In a voice vote by the members present, **Motion** passed 5-0.

A five-minute break was taken.

6. Initial Disability Hearing (continued)

a. Nicole Lucas

Mr. Herrera explained the hearing was a continuation of Ofc. Lucas's initial disability hearing that was initiated when she filed a service-connected disability application in 2022. Mr. Herrera said a second independent medical evaluation was done by Dr. Eric Kaplan in April 2024 as requested by Ofc. Lucas and her attorneys. Dr. Kaplan's report should be considered in addition to the disability binder Mr. Herrera's office provided in 2023.

Mr. Herrera said that once Ofc. Lucas's case was presented by herself or her attorneys, the trustees must decide, based on a preponderance of the evidence, three items: 1) grant a service-connected disability benefit, 2) deny the service-connected disability benefit, or 3) table the item.

Mr. Cohen presented Ofc. Lucas's case. After the presentation, Mr. Deen stated Ofc. Lucas was not the same person today that she was when he went through basic training and worked with her 10-15 years ago.

Mr. Privitera asked Mr. Herrera if an officer was found "not fit for duty" did that automatically make them eligible for a disability benefit. Mr. Herrera responded not necessarily as "not fit for duty" could reference either something short-term or long-term. However, the trustees can use "not fit for duty" in its determination if the underlying disability was total and permanent. When the City terminated Ofc. Lucas in 2022, the City determined her disability was "total" so that part was done; the trustees now had to determine if the disability was permanent and work-related. Mr. Herrera said the provided records indicated the disability was not permanent or work-related.

Chair Weber said per State Statute 112 and the City's Ordinance, Ofc. Lucas did not meet the criteria for PTSD. Mr. Cohen responded that while that was true, neither State Statute 112 or the City Ordinance prohibited the Board from granting a disability benefit if they found her disability to be total and permanent. Mr. Buschel asked the officers on the Board if they thought Ofc. Lucas could serve as a police officer again. Knowing what they know, would they want her to be their back-up; that was the decision they needed to make.

Chair Weber read aloud page 17 of Dr. Kaplan's report for the record. Mr. Cohen said from an MMI point of view, while a person might get better, it did not mean they could work again as a police officer. Chair Weber asked Mr. Cohen why didn't Ofc. Lucas apply for a nonservice-connected disability to which Mr. Cohen responded it was because she believed her disability to be service connected.

Mr. Deen stated Ofc. Lucas could no longer be a police officer since she could not and would not carry a gun. However, the trustees needed to make a decision on Ofc. Lucas's disability application as trustees, not police officers. Mr. Deen said he felt Ofc. Lucas qualified for a service-connected disability under Florida Chapter 185. Chair Weber said he believed the board had two options: service-connected or nonservice-connected disability, adding that the professionals who examined Ofc. Lucas state her disability is not service-connected.

Mr. Herrera reiterated that the trustees need to decide if Ofc. Lucas's disability is total, permanent, and work-related based on the application as filed for a service-connected disability. Chair Weber said based on the opinion of five professionals, Ofc. Lucas's disability was not work-related. Mr. Hoesley said he felt Chapter 185 provided latitude regarding what the Board could decide and thus he wanted to rely on it; Mr. Deen agreed.

Mr. Herrera said if the trustees denied Ofc. Lucas's service-connected disability benefit, she could not turn around and apply for a nonservice-connected disability since she was no longer a City employee. Mr. Cohen asked if Ofc. Lucas could change her application from a service-connected one to a non-service connected one before the vote; Mr. Herrera responded she could.

A ten-minute break was taken.

When the meeting resumed, Mr. Cohen stated Ofc. Lucas would like to amend her application from a service-connected disability to a non-service connected one. Mr. Herrera stated that the requirement the disability be work-related no longer applied, so all the trustees had to consider was if it was permanent.

MOTION made by Mr. Razor, seconded by Mr. Privitera, to approve a nonservice-connected disability benefit for Nicole Lucas based on credited service from her date of hire through September 8, 2022 with the monthly benefit payable starting October 1, 2024. In a roll call vote, **Motion** passed 5-0.

Mr. Herrera told the trustees to destroy all records they had regarding Ofc. Lucas's disability application as they were HIPPA protected.

b. Legal Report - Sugarman, Susskind, Braswell & Herrera

Mr. Herrera said he sent a draft Ordinance amendment to the City Attorney to remove the annual guaranteed interest payment on refunds.

Mr. Deen told Mr. Herrera there were officers who purchased up to three years of military service for Plan credited service purposes but who continued to serve in the military and were accruing a military benefit after reporting to the Pension Administrator they would not receive a benefit from "another governmental agency." Mr. Deen asked Mr. Herrera how was this allowed considering other City officers due benefits from other municipalities were not allowed to purchase their prior governmental service for Plan credited service purposes. Mr. Herrera agreed no one could "double dip" on credited service, so the officers serving in and due a future military benefit based on their total military service should not be allowed to purchase up to three years' service for Plan credited service purposes. Mr. Herrera said that prior service buy-backs could be undone if it was found the individual was "double dipping."

Mr. Deen suggested adding another line to the prior employment verification form asking the employee if they expected to receive a benefit in the future based on continued military service. It was also suggested to add a line that the employee would have the service they purchased under the Plan returned to them if it was determined in the future that such service was also being used by the military for a military benefit. Mr. Razor suggested that the appropriate Chapter 185 language be added to the employment verification form.

c. Pension Administrator's Report

Ms. Castronovo provided the trustees the 2023-24 administrative expense budget versus actual expenses through early September. Ms. Castronovo told the Board the Pension office was collecting new, updated designation of beneficiary forms for all active City employees with the new forms for police officers and support staff to be sent in late September.

Ms. Castronovo reminded the trustees the employee-elected and City Commission-appointed trustee positions expired October 31, 2024. She said the City Commission would make their appointments at their October 1, 2024 meeting and the Police department would hold its election in mid-October.

Ms. Castronovo provided the trustees an agreement update for Salem Trust explaining how Salem Trust's representative, Karen Russo, requested Board approval of the agreement to reflect Salem Trust's new parent company, Argent Institutional Trust Company.

MOTION made by Mr. Deen, seconded by Mr. Privitera, to approve the agreement update as provided by Salem Trust. In a voice vote of the members present, **Motion** passed 5-0.

7. ADMINISTRATIVE

- a. Gabriel, Roeder, Smith & Company Proposed Contract Extension
Ms. Castronovo told the trustees the Retirement Committee for the General Employees' Retirement Plan approved a three-year extension of the GRS's actuarial services contract. After reminding the Board they must follow what the General Employees' Retirement Plan does, she asked the trustees to approve GRS's proposed contract extension for the Retirement System for three years.

MOTION made by Mr. Privitera, seconded by Mr. Rasor, to approve GRS's contract for the three fiscal years ending September 30, 2026. In a voice vote by the members present, **Motion** passed 5-0.


- b. Return of Employee Contributions (Refunds)
Ms. Castronovo reported the Pension Office had directed refund payments to four people. As of September 10, 2024, the Pension office had not been successful in communicating with one person due a refund so it remained outstanding. Mr. Weber said he would reach out to the individual to acquire his address for the Pension office.

Mr. Deen said he would like the trustees to consider reducing the assumed rate of return for actuarial purposes as well as lowering the amortization period from 20 years to 15 years like the Firefighters' Retirement System had done. The trustees agreed they want GRS to present information at their next meeting showing the required contribution amounts for lowering the amortization period immediately from 20 years to 18 years and lowering the assumed rate of return from 6.75% to 6.50% and 6.25%.

ADJOURNMENT

The meeting adjourned at 12:20 p.m.

I, Paul Weber, the undersigned, am the Chair of the City of Delray Beach Police Officers' Retirement System Board of Trustees ("Board"). The information provided herein is the Minutes of the September 12, 2024, regular meeting of said body. These Minutes were formally approved and adopted by the Board on 12/10/24.



Board of Trustees, City of Delray Beach
Police Officers' 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 Police Officers' 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.