

MINUTES
FEBRUARY 29, 2024 REGULAR BOARD MEETING
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

1. CALL TO ORDER, ROLL CALL

Chair Rasor called the meeting to order at 8:31 a.m.

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

Also present: Brendon Vavrica (AndCo Consulting), Pedro Herrera (Sugarman, Susskind, Braswell & Herrera as designated by City Attorney), and Elizabeth Brown (City of Delray Beach). Pension Administrator Lisa Castronovo was absent.

Public attendees: Ron Cohen, Nicole Lucas, Victoria Neil

2. AGENDA ADOPTION

MOTION made by Mr. Deen, seconded by Mr. Rasor, to adopt the February 29, 2024 Agenda. In a voice vote by the members present, **Motion** passed 4-0.

3. COMMENTS

- a. Public Comments – None
- b. Board of Trustees of Police Officers' Retirement System
Mr. Rasor asked about the status of a report listing all officers who had taken leave without pay. Ms. Brown presented a report from the current payroll system that listed all officers who had taken leave without pay. Chair Weber asked that a more succinct, simplified list be provided at the next Board meeting.
- c. Active and Retired Members of the System - None

4. CONSENT AGENDA

- a. November 30, 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. Deen, seconded by Mr. Rasor, to approve the Consent Agenda. In a voice vote by the members present, **Motion** passed 4-0.

5. REPORTS

- a. Investment Reports, AndCo Consulting
 - i. Consent Form for Mariner's Acquisition of AndCo Consulting, Inc.
Mr. Vavrica told the Board that effective April 1, 2024, Mariner, LLC was acquiring AndCo Consulting, Inc. The two primary changes for AndCo: 1) Mariner's ownership of it, and 2) AndCo's name change to Mariner Institutional. Other than the two changes, AndCo's clients would not see a difference as AndCo/Mariner Institutional would continue its dedication to providing institutional investment consulting with the same consultants and staff currently providing such services under AndCo.

MOTION made by Mr. Hoesley, seconded by Mr. Deen, to authorize the signing of AndCo's Consent for Assignment of Investment Advisory Contract to Mariner. In a voice vote of the members present, **Motion** passed 4-0.

ii. Portfolio Performance Review – Quarter End December 31, 2023

Report made part of these Minutes.

Mr. Vavrica reported the Retirement System's net rate of return for the quarter ended December 31, 2023, was 9.00% compared to its benchmark of 8.64%. The System's market value increased from \$123.7M on September 30, 2023 to \$141.4M on December 31, 2023.

iii. Flash Report – January 2024

Report made part of these Minutes.

For the month ended January 31, 2024, the Plan's return was 0.02% vs. the benchmark of 0.18%.

Mr. Hoesley voiced concern regarding some of the managers' relative poor performance over the prior three-year period when compared to other public pension plans. He specifically noted Clarkston Partners' poor performance and that the Board had kept some managers when they would have been better off replacing them. Mr. Vavrica replied that Clarkston was one of the extreme examples since they were a very defense-oriented manager who did very well when in down markets but would not and could not keep up in up markets. Mr. Vavrica added that Clarkston's defensive nature was the main reason the Board brought them on several years ago.

Mr. Vavrica said the Fund was close to target in terms of its overall allocation but was off somewhat off in its emerging markets and international equity allocations. He said the way to fix the issue was to revise the investment policy to remove the emerging markets allocation and add its percent to the international equity allocation.

iv. Asset Allocation & Investment Manager Review

Report made part of these Minutes.

In the Asset Allocation Analysis report, Mr. Vavrica summarized the Fund's projected mean returns, risk, and return per unit of risk under its current investment policy statement and current asset allocation, plus four alternative asset allocations: 1) reducing the core real estate allocation and adding value-added real estate, 2) reducing US aggregate bonds and core real estate and adding value-added real estate, 3) reducing US aggregate bonds and core real estate, increasing private equity, and adding direct lending, and 4) reducing US aggregate bonds and core real estate and increasing private equity.

Mr. Hoesley wondered what asset allocation would provide a 9-10% annual return. He said it likely would be a larger investment in private equity (PE) since over the last 20 years, PE had higher returns than domestic equity. He asked Mr. Vavrica to bring other asset allocation mixes to the next meeting with larger allocations to PE. Mr. Vavrica said 9-10% returns might be possible but would require a major portfolio shift and he would bring to the next meeting various asset allocation scenarios that would show how to get there.

Mr. Vavrica began his review of the Fund's current investment managers by comparing the two growth managers, RhumbLine Growth and Polen, to MainStay, Fred Alger, and MFS. All four active managers had performed worse than the Russell 1000 Growth index which led Chair Weber to ask why the Board didn't invest all domestic growth assets in an index fund. Mr. Vavrica responded there was a danger with investing the entire large cap growth allocation in an index fund because, since the Russell 1000 had become concentrated in just ten companies (over 50% of its holdings), if any one of those companies faltered, the entire index would also, and the Fund would lose a significant amount of money. Active managers, on the other hand, invest in more than just the top ten companies and thus diversify the portfolio and risk. Mr. Vavrica encouraged the Board to remain with an active manager because of the risk associated with putting the entire allocation in an index fund.

The trustees discussed Polen's performance compared to MainStay, Fred Alger, and MFS, who all performed as well or better over different time spans. Mr. Vavrica explained the only way for active managers to perform well over the past few years was to be heavily invested in the top ten companies. When asked how he expected Polen to perform over the next few years, he replied very well since they have in the past done very well after periods of relatively poor performance.

Moving to large cap equity value managers, RhumbLine Value and Brandywine, Mr. Vavrica presented four managers for comparison purposes: BNY Mellon, MFS Investment Management, Dimensional Fund Advisors, and Allspring Global. Brandywine had a difficult year but performed well over a 3-year and 5-year period. Allspring and BNY Mellon were strong performers over all time periods. Since inception, Brandywine was only a few basis points behind the other managers, and they had a stable team and process.

Mr. Hoesley said he did not want to get rid of Brandywine but didn't want to give them any more money either. He said BNY Mellon looked like a good alternative given their high ranking in each measured time period. Mr. Vavrica reminded the trustees that they had BNY Mellon until 2021 when they replaced them with Brandywine given BNY's greater volatility when the trustees wanted a bit more consistency. The Board said they would like to look at Brandywine again at the end of the current quarter to determine if they performed any better.

For comparison to the Fund's current small-to-mid (SMID) cap manager Clarkston Partners, Mr. Vavrica presented three managers – Ancora Advisors, Eaton Vance Management, and Reinhart Partners. All four managers had very concentrated holdings with at most only 87. Per the report, Clarkston did not perform as well as the other three, though they did outperform the benchmark. Due to Clarkston's defensive style, they protected capital in down markets but underperformed in up markets.

Mr. Vavrica asked if the trustees were comfortable with only one manager, with a very defensive strategy, in the SMID-cap space. He noted Clarkston's defensive style was somewhat offset by exposure in mid-cap with the Fidelity Mid Cap Index fund and in small cap with Mass Mutual.

MOTION made by Mr. Rasor, seconded by Mr. Deen, to liquidate the investment in Fidelity Mid Cap Index Fund and put one-third of the funds in MassMutual Small Cap Opps and two-thirds in Clarkston Partners. In a voice vote of the members present, **Motion** passed 4-0.

Mr. Vavrica concluded the investment manager review by presenting the international equity manager analysis comparing current manager Harding Loevner with Dimensional Fund Advisors, Dodge and Cox, and Capital Group. Mr. Vavrica noted that all international equity managers were struggling with performance due to the strength of the dollar throughout the global financial community. Mr. Vavrica didn't think the Fund should exit international investments completely, but maybe should scale it back. Mr. Hoesley agreed that he liked the exposure to international equity.

MOTION made by Mr. Deen, seconded by Mr. Hoesley, to transfer funds from Harding Loevner to DFA International Core Equity so that both managers have 50% of the total assets in international equity on the date of transfer. In a voice vote of the members present, **Motion** passed 4-0.

v. Investment Policy Review

Mr. Vavrica said that while it was likely the Investment Policy would be changed in the near future to reflect new allocations to private equity and credit, in the immediate it could be updated to reflect the discontinuance of the 4% allocation for emerging markets with that 4% added to the existing 12% international equity allocation for a total international equity allocation of 16%. Discussion followed regarding a few other changes needed to clean up the Policy which Mr. Vavrica said he would work on with Mr. Herrera.

MOTION made by Mr. Rasor, seconded by Mr. Deen, to update the Investment Policy Statement to reflect the discontinuance of the 4% allocation for emerging markets with the 4% added to the existing 12% international equity allocation for a total international equity allocation of 16%. In a voice vote of the members present, **Motion** passed 4-0.

b. Legal Report

i. Selection of Medical Panel for Ofc. Lucas Disability Application

Mr. Herrera summarized motions made at the January 17, 2024 special meeting at which the Board agreed to select a physician other than Dr. Goldschmidt to perform Ms. Lucas's independent medical evaluation (IME). Mr. Herrera reported he had recently informed Ron Cohen, Ms. Lucas's attorney, of the selection of Dr. Eric Kaplan for the IME and that Mr. Cohen accepted the selection. Mr. Herrera recommended the Board approve the selection of Dr. Eric Kaplan to the Board's medical board.

MOTION made by Mr. Deen, seconded by Mr. Hoesley, to include Dr. Eric Kaplan as one of the physicians on the Board of Trustees' medical board per Ordinance Section 33.62(E)(3).

Mr. Cohen asked Mr. Herrera what he meant when he said he recommended adding Dr. Eric Kaplan as "one of the physicians" to the medical panel. Mr. Herrera responded that Dr. Kaplan would be one of the medical panel members and would be the physician performing Ms. Lucas's IME. Mr. Cohen asked Mr. Herrera who else he was recommending be added to the medical panel to which Mr. Herrera responded Dr. Lisa Feraldo.

Mr. Cohen voiced his objection to the addition of Dr. Feraldo since she was not a medical doctor. Mr. Herrera replied there was nothing in the Ordinance that precluded the Board from adding Dr. Feraldo. Mr. Cohen argued the Ordinance states the medical board was to be made up of one or more physicians trained in the science of medicine and not any other field in which one could acquire a PhD. Mr. Herrera read Ordinance Section 33.62(E)(3) for the record. He noted that "medical" was not defined in the Ordinance. Mr. Cohen raised his objection again regarding adding Dr. Feraldo since she was not a medical doctor.

In a voice vote of the members present, **Motion** passed 4-0.

Mr. Herrera recommended the Board add Dr. Lisa Feraldo to the medical panel per Ordinance Section 33.62(E)(3).

MOTION made by Mr. Rasor, seconded by Mr. Deen, to include Dr. Lisa Feraldo as one of the members of the Board of Trustees' medical board per Ordinance Section 33.62(E)(3). In a voice vote of the members present, **Motion** passed 4-0.

MOTION made by Mr. Rasor, seconded by Mr. Hoesley, to include Trustee Meer Deen as one of the members of the Board of Trustees' medical board per Ordinance Section 33.62(E)(3). In a voice vote of the members present, **Motion** passed 4-0.

For the record, Mr. Cohen objected to the appointment of a trustee to the medical board.

ii. Gabriel, Roeder, Smith & Company Contract Extension

Mr. Herrera reported that the actuarial services contract with Gabriel, Roeder, Smith & Company (GRS) was due for renewal and Board approval was needed to extend the contract another year. Mr. Rasor asked if the 3% annual fee increase could be negotiated to 1%. Mr. Herrera replied that either he or Ms. Castronovo could ask GRS to lower their annual fee increase percentage from 3% to 1%. The trustees authorized Chair Weber to sign off on the contract extension once an answer was received regarding the 3% fee increase.

iii. Robbins Gellar Contract Agreement

Mr. Herrera reported that Robbins Gellar, a law firm the Police and Firefighters' Board hired to monitor the Fund's securities, requested the Board sign a new contract exclusively between the Firefighters' Retirement System and Robbins Gellar.

MOTION made by Mr. Deen, seconded by Mr. Hoesley, to authorize the Chair to sign the Robbins Gellar contract agreement. In a voice vote by the members present, **Motion** passed 4-0.

iv. Staggered Trustee Terms

Mr. Herrera explained how the Firefighters' Board directed him to draft a proposed Ordinance amendment providing staggered trustee terms. The trustees collectively agreed they would like staggered terms and directed Mr. Herrera to draft a similar Ordinance amendment for the Police Officers.

v. Changes to Annual Financial (Form 1) Filing Requirements

Mr. Herrera told the Board that per an amendment to Chapter 112.3145, all pension fund trustees must file their annual financial disclosure (Form 1 – Statement of Financial Interests) electronically with the State via an online portal rather than with their respective county of residence Supervisor of Elections office.

Mr. Vavrica stated the Plan needed funds in the immediate to cover upcoming benefit payments.

MOTION made by Mr. Hoesley, seconded by Mr. Deen, to transfer \$2M from BlackRock to Goldman Sachs for upcoming benefit payments and to reevaluate next quarter. In a voice vote of the members present, **Motion** passed 4-0.

c. Pension Administrator Report

Ms. Brown presented the Pension Administrator's Report noting that the 2023-24 administrative expense budget versus actual expenses through February 21, 2024 was included, and that through February 21, 2024, 123 of the 148 benefit verification letters that she mailed in early January 2024 had been returned.

6. Administrative Items

a. Recommended Fund Changes for DROP 401(a) Plan at MissionSquare

Chair Weber said that per a report provided by NFP, Inc.'s Matt Dickey, he (Mr. Dickey) was recommending the replacement of Invesco Global A with Victory RS Global R6.

MOTION made by Mr. Deen, seconded by Mr. Rasor, to have NFP direct MissionSquare to replace Invesco Global A with Victory RS Global R6 as recommended by Mr. Dickey. In a voice vote by the members present, **Motion** passed 4-0.

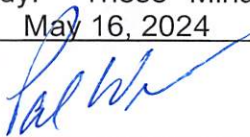
Chair Weber added that Mr. Dickey also recommended replacing Western Asset Core Bond I with American Funds Bond Fund of America R4.

MOTION made by Mr. Rasor, seconded by Mr. Deen, to have NFP direct MissionSquare to replace Western Asset Core Bond I with American Funds' Bond Fund of America R4 as recommended by Mr. Dickey. In a voice vote by the members present, **Motion** passed 4-0.

ADJOURNMENT

The meeting adjourned at 11:20 p.m.

I, Paul Weber, the undersigned, am the Chair of the Board of Trustees of the City of Delray Beach Police Officers' Retirement System ("Board"). The information provided herein is the Minutes of the February 29, 2024 regular meeting of said body. These Minutes were formally approved and adopted by the Board on May 16, 2024.



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.