

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT FUND
MAY 12, 2021**

Chair Weber read a prepared script. Script made part of these Minutes.

1. CALL TO ORDER, ROLL CALL

Chair Weber called the meeting to order at 11:00 a.m.

Board Members present via communication media technology: Chair Paul Weber, Vice-Chair Jim Hoesley (departed at 2:12 p.m.), Secretary Jeffrey Rasor, and Scott Privitera. Trustee Meer Deen was absent.

Also present via communication media technology: Board Attorney Janice Rustin (Lewis, Longman & Walker as designated by City Attorney), Scott Porter (Caler, Donten, Levine, Cohen, Porter & Veil, P.A.), Jeffrey Amrose (Gabriel, Roeder, Smith & Company), Brendon Vavrica (AndCo Consulting), and Pension Administrator Lisa Castronovo.

Guests present via communication media technology: John Lege, John Mainville

2. AGENDA ADOPTION

MOTION made by Mr. Hoesley, seconded by Mr. Rasor, to adopt the May 11, 2021 Agenda. In a roll call vote of the members, **Motion** passed 4-0.

3. COMMENTS

- a. Public
None
- b. Board of Trustees of Police Officers' Retirement System
None
- c. Active and Retired Members of the Plan
None

4. CONSENT AGENDA

- a. February 17, 2021 Regular Meeting Minutes
- b. Warrant Ratification (#247)
- c. Warrant Approval (#248)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities

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

5. REPORTS

- a. AndCo Consulting – Brendon Vavrica
 - i. Portfolio Performance Review – Quarter End March 31, 2021
Report made part of these Minutes.
Mr. Vavrica reported the System's net rate of return for quarter ended March 31, 2021, was 4.07% compared to its benchmark of 2.47%. For the fiscal year through March 31, 2021, the System's rate of return was 15.91% with all asset classes performing well. The System's market value increased from \$126.4M on December 31, 2020, to \$129.4M on March 31, 2021.

Mr. Vavrica noted that large cap equity manager Boston/BNY Mellon had come back strong after a bit of underperformance in 2020 and that Polen Capital was doing okay by slightly outperforming their respective benchmark since their inception in early 2019. Mr. Vavrica reminded the trustees that even though Polen was behind its benchmark for the year it was not unexpected as they were a conservative manager and as such would slightly underperform in high growth quarters but outperform in sideways or down quarters. Mr. Hoesley asked Mr. Vavrica to look more closely at Polen Capital and Clarkston Partners due to their recent underperformance. Mr. Vavrica replied that Clarkston Partners, like Polen Capital, was selected by the Board for their defensive investment strategy that would outperform in down markets while they would lag somewhat in up markets. Since inception in early 2018, Clarkston Partners outperformed its benchmark 13.1% vs. 9.1%.

ii. Flash Report – April 2021

Due to the timing of the Board meeting, Mr. Vavrica did not have a flash report to present, but he reported the System's market value was 4.12% higher (approximately \$5M) on May 10, 2021 than it was on March 31, 2021.

iii. Value Equity Managers Review & Discussion

Report made part of these Minutes

Mr. Vavrica presented information on five large cap equity value investment managers: Brandywine Global Investment Management, Dodge & Cox, MFS Investment Management, Vanguard Group (subadvisor Wellington Management) and existing manager Mellon Investments Corporation. Mr. Vavrica stated that though Mellon had struggled for a few quarters in 2019, it had outperformed its respective benchmark over the last several quarters. He agreed that of the five managers presented, Mellon was the lowest performer. Mr. Vavrica stated that both Mellon and Dodge & Cox were high-octane managers meaning they do very well in up markets, but also can do poorly in down markets as they are not very defensive. Of the five managers, Vanguard Group was the most defensive with Brandywine and MFS in between Mellon and Vanguard.

Mr. Hoesley asked Mr. Vavrica if he recommended changing from Mellon to one of the other four managers. Mr. Vavrica stated Mellon was a strong manager, but that the ride with Brandywine would likely be smoother though they would not capture the up-market as well as Mellon. Mr. Vavrica added that Mellon outperformed their benchmark through all of the trailing periods so from that metric they were doing very well, though they did take more risk. Mr. Vavrica said the question before the trustees was whether they wanted more down-side protection than what Mellon could provide.

Mr. Hoesley said he did not like the fact that Mellon had not been in the top quartile for several quarters which was where he believed all of the Fund's managers should be. Mr. Hoesley pointed out that Brandywine ranked fairly high in each trailing period without taking as much risk as Mellon and their fees were less than Mellon's. Mr. Hoesley stated he wanted to keep a large cap value manager and Mellon was okay, but he would like to switch to Brandywine.

MOTION made by Mr. Hoesley, seconded by Mr. Rasor, to get a contract in place with Brandywine and transfer the monies held at Mellon to Brandywine once the contract was signed. If there was a problem getting a contract in place with Brandywine, hold off transferring any funds out of Mellon until further discussion at the next quarterly meeting. In a roll call vote of the members, **Motion** passed 4-0.

iv. Emerging Markets Equity Review & Discussion

Report made part of these Minutes

Mr. Vavrica presented information on four emerging markets equity investment managers: ABS Investment Management, RBC Global Asset Management, Wellington Management, and Wells Fargo Asset Management. Mr. Vavrica noted that emerging markets was the most volatile of all equity asset classes. Mr. Vavrica stated that Wellington and Wells Fargo were high-octane managers while ABS and RBC were both lower risk managers. Mr. Vavrica said one thing of interest was that ABS hired outside managers to manage their fund making them a bit more administratively cumbersome to work with.

Mr. Vavrica stated that any investment in emerging markets would be a new asset allocation for the Fund since the Fund was invested in emerging markets only through its investments with international equity manager Harding Loevner. Mr. Vavrica warned that the emerging markets equity asset class typically was the poorest performer of all equity classes since it was the most volatile.

Mr. Hoesley asked Mr. Vavrica from where would funding for emerging markets equity come. Mr. Vavrica recommended taking most of it from the current fifteen percent (15%) allocation to international equity and 1-2% from domestic equity. Mr. Hoesley said he would like to invest about \$4M in emerging markets with the funds coming from mostly from Harding Loevner and some from Fidelity mid-cap domestic equity. Mr. Vavrica said the entire amount could come from Harding Loevner which was at its target allocation of 15%. Discussion ensued.

MOTION made by Mr. Hoesley, seconded by Mr. Rasor, to allocate four percent (4.0%) of the total fund to emerging markets equity with three percent (3.0%) coming from international equity (Harding Loevner) and one percent (1.0%) from domestic equity (Fidelity Total Fund). In a roll call vote of the members, **Motion** passed 4-0.

v. Real Estate Diversification Review & Discussion

Report made part of these Minutes

Mr. Vavrica reported that based on the Trustees' decision made at the February 2021 Board meeting, \$620K had already been redeemed from American Core Realty and invested in a REIT.

Mr. Vavrica presented information on Carlyle Investment Management and Harrison Street Real Estate Capital who offer open-end real estate funds like that offered by American Realty. Though both funds were structured similarly to American Realty, neither fund had exposure to office space. Like American Realty, both would make capital calls when they were ready to invest it, which could take two to four quarters after a contract was signed.

Mr. Vavrica explained that REITs have a higher correlation to equity markets than open-end funds do but in the long-run, both open-end funds and REITs end up with similar rates of return. Mr. Vavrica recommended against moving money from American Realty, an open-end fund, to a REIT as a long-term investment. The only time he would recommend a REIT investment was if the money coming in was coming from an equity asset.

Mr. Hoesley asked Mr. Vavrica from where would funds come to invest in a new open-end fund. Mr. Vavrica stated that since he was comfortable with a ten percent (10%) allocation

to real estate, but the current real estate allocation was only 6.3%, monies to fund either Carlyle or Harrison Street would come from American Realty as it was redeemed with additional funds coming from domestic equity since the Fund was overweight in that asset class. Mr. Hoesley said he was comfortable with a \$5M investment in a new open-end fund. Chair Weber said he was concerned about how Harrison Street had dipped over the past couple of years. Mr. Razor said he liked Carlyle Investment Management as it was more evenly spread across the board.

MOTION made by Mr. Hoesley, seconded by Mr. Razor, to allocate \$5 million to Carlyle Investment Management from the Fidelity REIT as it becomes available with the other needed funds to come from the System's overweight position in domestic equity with the Chair's approval upon advisement of the investment consultant. In a roll call vote of the members, **Motion** passed 4-0.

vi. Investment Policy Update

Mr. Vavrica recommended increasing domestic equity target allocation to 49%, increasing the target allocation for international equity to 16% with a 12% allocation to the existing international allocation and a new 4% allocation to emerging markets, and leave the real estate allocation at 10%.

MOTION made by Mr. Razor, seconded by Mr. Hoesley, to increase domestic equity target allocation to 49%, increase international equity target allocation to 16% (with 12% allocation to existing international allocation and new 4% allocation to emerging markets), and leave real estate allocation at 10%. In a roll call vote of the members, **Motion** passed 4-0.

b. Gabriel, Roeder, Smith & Company ("GRS") – Jeffrey Amrose

i. October 1, 2020 Actuarial Valuation Report
Report made part of these Minutes

Highlights of the October 1, 2020 Actuarial Valuation Report:

- The City's required contribution increased from \$8,325,653 for the 2020-21 fiscal year to \$8,416,213 for the 2021-22 fiscal year, an increase of \$90,560 and 3.43% as a percent of payroll. The components accounting for the change in the required contribution were a \$295,000 increase in the amortization payment on the Unfunded Actuarial Accrued Liability and a \$205,000 decrease in the Normal Cost.
- If the City wished to pay the 2021-22 required contribution on October 1, 2021, the first day of the fiscal year as done in the past, the contribution would be \$8,119,171.
- There were no benefit or actuarial assumption revisions.
- The plan experienced a net actuarial loss of \$1,956,000 for the year meaning actual experience was less favorable than anticipated. The loss was due primarily to more retirements and fewer withdrawals than expected. The losses were slightly offset by a small investment gain (6.8% compared to 6.75% expected).
- The funded ratio on October 1, 2020 was 63.6% compared to 62.2% on October 1, 2019.
- The market value of assets exceeded the actuarial value of assets by \$412,000. The excess would gradually be recognized over subsequent years resulting in decreased required contributions.
- The estimated required City contribution for fiscal year end 2023 is \$8,650,000 assuming a 5.67% increase in total covered payroll and no gains, losses, or assumption changes.

Mr. Hoesley asked Mr. Amrose for his opinion on the City issuing a pension bond obligation. Mr. Amrose said he had seen bond obligations work really well but also had seen them fail miserably. Mr. Amrose added that if the returns were not there, bond obligations were not worth it. If the City had issued them ten years ago, it would have been a good move, but if it had done it three – four years ago, everyone would be very upset right now.

Mr. Amrose concluded the actuarial valuation presentation by stating in his opinion the trustees had done a good job adjusting the actuarial assumptions to help even out future actuarial gains and losses with the result of such adjustments showing up this year with a more reasonable increase in the required contribution from last year to this year.

MOTION made by Mr. Rasor, seconded by Mr. Hoesley, to accept the October 1, 2020 Actuarial Valuation Report. In a roll call vote of the members, **Motion** passed 4-0.

MOTION made by Mr. Privitera, seconded by Mr. Hoesley, to adopt a rate of return of 6.75% for this year and the next several years. In a roll call vote of the members, **Motion** passed 4-0.

Mr. Amrose reported that his team had completed programming the System's benefit provisions into the new pension administration software and was currently working with Ms. Castronovo on extracting the member data. Once the member data was uploaded, they would start testing the system and benefit estimator.

c. Caler, Donten, Levine, Cohen, Porter & Veil

i. September 30, 2020 Audit Report

Report made part of these Minutes

Mr. Porter reviewed the draft September 30, 2020 Audited Financial Statement report emphasizing that the auditor's opinion was "unmodified" which was the best opinion that can be issued. Upon the completion of his report overview, Mr. Porter stated there were no material weaknesses, significant deficiencies, or non-compliance issues.

MOTION made by Mr. Hoesley, seconded by Mr. Privitera, to accept the September 30, 2020 Audit Report. In a roll call vote of the members, **Motion** passed 4-0.

d. 2020 Annual State Report – Lisa Castronovo

Report made part of these Minutes

Ms. Castronovo stated she needed Board approval to submit the 2020 Annual State Report to the Florida State Division of Retirement now that the September 30, 2020 Audit Report was accepted. Ms. Castronovo said she was comfortable with the information contained in the 2020 Annual Report and that it had been reviewed by Scott Porter and his team at Caler, Donten, Levine. Ms. Castronovo reminded the Board the State uses the information provided in the annual report to issue Chapter 185 premium tax distributions.

MOTION made by Mr. Rasor, seconded by Mr. Hoesley, that the information provided for the 2020 State Report had been reviewed by the Board and was approved to be submitted to the State. In a roll call vote of the members, **Motion** passed 4-0.

e. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin reminded the trustees that they have to file their financial information with the State by June 30, 2021.

