

Item 5.a.

December 5, 2023 Regular Meeting Minutes

MINUTES
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT SYSTEM
DECEMBER 5, 2023 REGULAR BOARD MEETING

1. CALL TO ORDER, ROLL CALL

Chair Giaccone called the meeting to order at 1:32 p.m.

Board Members present: Craig Mahoney, Thomas Glanfield (virtual), Jay Gunsten, Alan Kirschenbaum, and Jack Warner.

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

Public attendees: Tyler Adams, Gregory Giaccone

2. AGENDA ADOPTION

MOTION made by Mr. Gunsten, seconded by Mr. Kirschenbaum, to adopt the December 5, 2023 Regular Board Meeting Agenda. In a voice vote by the members present, **Motion** passed 5-0.

3. ADMINISTRATIVE ITEMS

a. Annual Board Officers' Election

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, for Craig Mahoney to serve as Board Chair. In a voice vote by the members present, **Motion** passed 5-0.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, for Jay Gunsten to serve as Vice-Chair. In a voice vote by the members present, **Motion** passed 5-0.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, for Thomas Glanfield to serve as Secretary. In a voice vote by the members present, **Motion** passed 5-0.

b. 2024 Board Meeting Schedule

Schedule made part of these Minutes.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Warner, to approve the proposed 2024 quarterly Board meeting schedule. In a voice vote by the members present, **Motion** passed 5-0.

c. Fiduciary Liability Insurance

MOTION made by Mr. Kirschenbaum, seconded by Mr. Warner, to accept the fiduciary liability insurance policy for \$5M coverage with a premium not to exceed \$17,000.00. In a voice vote by the members present, **Motion** passed 5-0.

d. Pre-approve Service Incurred Death Benefit

MOTION made by Mr. Gunsten, seconded by Mr. Warner, to approve Ray Keith's death as a service incurred death. In a voice vote of the members present, **Motion** passed 5-0.

4. COMMENTS

a. Public

None

b. Board of Trustees of Firefighters' Retirement System

None

c. Active and Retired Members of the Plan

None

5. CONSENT AGENDA

- a. September 20, 2023 Regular Meeting Minutes
- b. Warrant Ratification (#276)
- c. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities

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

6. REPORTS

- b. **Investment Reports**, AndCo Consulting, Inc., Brendon Vavrica
 - i. Portfolio Performance Review – Quarter End September 30, 2023
Report made part of these Minutes.
Mr. Vavrica reported the Plan's net rate of return for the quarter ended September 30, 2023, was -3.15% compared to its benchmark of -3.13%, but for fiscal year end September 30, 2023, it was 11.22% versus the benchmark of 12.96%. The Plan's market value decreased from \$148.6 on June 30, 2023 to \$143.4M on September 30, 2023.
 - ii. Flash Report – October 2023
Report made part of these Minutes.
For the month ended October 31, 2023, the Plan's return was -2.43% vs. the benchmark of -2.42%. November 2023 saw returns substantially higher than the returns seen August – October 2023.

Mr. Vavrica said funds would be needed over the next three months to cover monthly benefits and expenses. He asked the trustees if they wanted to move money between funds or use the cash in the mutual fund, noting that the overall asset allocation was in line, so a reallocation of assets was not needed at this time.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Gunsten, to use the cash in the mutual fund to cover upcoming monthly expenses. In a voice vote by the members present, **Motion** passed 5-0.

- iii. Asset Allocation with New Capital Market Assumptions
Presentation report made part of these Minutes
Mr. Vavrica directed the trustees' attention to page 2 of the report on which information – mean return, standard deviation, Sharpe ratio – was provided for the current target allocation, the current portfolio, and four alternative asset allocations.

Mr. Glanfield asked what managers were there to select from in the private credit (aka direct lending) space. Mr. Vavrica responded that there was a basket of managers from which to choose, not just Crescent Capital and Deerpath. Mr. Glanfield said the Board must look at how private credit managers have performed in the last 6-9 months considering how interest rates had recently increased significantly.

Mr. Kirschenbaum said if the Board adopts one of the proposed allocations, the direct lending allocation would be increased from 1.5% to 5.0%, but would only be about 3.0% invested a year from now. Mr. Vavrica said that was correct with the Plan being at 5.0% in about three years given regular, consistent investments over a 3-year period. Mr. Kirschenbaum asked if the Board would use the current managers or new ones, to which Mr. Vavrica responded they could since Deerpath was still raising capital and Crescent Capital was in the process of closing one fund and thus would likely open a new one in the next few months.

iv. Private Debt Review

Presentation report made part of these Minutes

Mr. Vavrica presented three direct lending investment manager candidates: Brightwood Capital, Carlyle Global Credit Investment Management, and Deerpath Capital Management. Mr. Vavrica said Carlyle Capital is an open-ended strategy and thus more likely to call capital quickly, while Deerpath Capital was the more expensive option for the first several years.

Mr. Warner asked if the trustees were making a decision “today” to which Mr. Vavrica responded not necessarily especially considering Crescent Capital had not yet opened its new fund. Mr. Vavrica asked the Board if they wanted to change asset allocation, specifically by increasing the direct lending allocation from 1.2% to 5.0%, which, he reiterated, would increase returns but with less risk than the current target allocation. Chair Mahoney suggested the Board adopt a new asset allocation now but wait to commit to a fund until Crescent Capital opened its new fund. Mr. Kirschenbaum and Mr. Glanfield agreed. Chair Mahoney asked Mr. Vavrica for the difference between the Deerpath Capital in which the Plan was already invested and the one Mr. Vavrica presented in his report. Mr. Vavrica replied the only difference was the one in his presentation was the newer one that was open and accepting commitments for funding 2025-2027. Mr. Glanfield said he liked the proposed asset allocation that decreased U.S. aggregate bonds, U.S. large cap equity, and mid-cap equity while increasing small cap equity and direct lending. Chair Mahoney, Mr. Warner, and Mr. Kirschenbaum said they liked the proposed allocation that decreased only U.S. aggregate bonds and increased only direct lending, and they liked a Deerpath Capital and a new commitment to Crescent Capital when they opened a new fund.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to change the target asset allocation from 21.3% US Aggregate Bonds/1.2% Direct Lending to 17.5% US Aggregate Bonds/5.0% Direct Lending (all other target allocations remain unchanged). In a voice vote of the members present, **Motion** passed 5-0.

Mr. Vavrica the trustees how much they wanted to commit to a new direct lending fund, noting the manager typically calls 70% of the commitment with the remaining 30% coming from investment returns.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to commit \$2.5M to the Deerpath Capital Advantage VII fund. In a voice vote of the members present, **Motion** passed 5-0.

b. **Actuarial Impact Study Results**, Gabriel, Roeder, Smith & Company, Jeff Amrose

Presentation report made part of these Minutes

As Mr. Amrose began his presentation, he reminded the Board that a plan’s benefits control the cost of a plan, not the assumptions. The assumptions used by the actuary only control how the plan cost is funded over time. Per the Board’s request at the September 2023 Board meeting, Mr. Amrose performed a study only on the effect of changing the investment return assumption.

Mr. Amrose reminded the trustees the investment return assumption used in the October 1, 2021 and October 1, 2022 actuarial valuations was 6.625%. Mr. Amrose reviewed his report noting specifically that when fiduciaries set the actuarial investment return assumption (the discount rate), they need to set it with a forward-thinking philosophy, rather than a backward-looking one, since the discount rate is to reflect an expectation of events to come, not events that already occurred.

To perform the study, Mr. Amrose used a building block approach in which the expected real returns for each asset class in which the Plan was invested was estimated and multiplied by the asset allocation percentage of that asset class. GRS is not an investment consultant, but they maintain a survey of forecasts of capital market assumptions from eleven (11) major national investment consulting and forecasting firms. To provide their study results, GRS mapped the target asset allocation to the best fit asset class of each of eleven investment consultants.

For the Firefighters' Retirement System, the average short to mid-term capital market assumptions return for the eleven consulting firms was 6.92%. The average long-term capital market assumptions return for the seven consultants who do long-term forecasting was 7.11%. Due to market volatility, GRS recommended against over-reliance on this year's returns (preceding), but rather a somewhat conservative approach in setting the investment rate assumption.

Mr. Amrose concluded that he believed the current investment rate assumption of 6.625% was inside the range of reasonableness, but the Board could consider lowering the assumption of 6.50% or 6.25%, which would increase the required City contribution by approximately \$351k and \$1.1M, respectively.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to decrease the investment rate assumption from 6.625% to 6.25%. In a voice vote of the members present, **Motion** passed 4-1 (Mr. Glanfield opposed).

a. **September 30, 2023 Fiduciary Investment Review**, NFP Retirement Inc., Matt Dickey
Report made part of these Minutes

Mr. Dickey told the trustees that in the past several years they authorized the disbursement of 75% of prior March 31st administrative allowance account balance to all participants in the DROP on the date of the disbursement. Mr. Dickey added that he would explicitly direct MissionSquare to make the disbursement in cash rather than as a dividend share as it did in 2022.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to disburse in December 2023, 75% of the March 31, 2023, Administrative Allowance Account balance in cash to all participants with funds in their DROP account at MissionSquare on the date of the distribution. In a voice vote of the members present, **Motion** passed 5-0.

Mr. Dickey said of the new SECURE 2.0 Act provisions on which he reported in September 2023, to date there was only one major change: the required Roth provision for employees earning more than \$145,000 which was slated to be effective January 1, 2024, was changed to be effective January 1, 2026 instead.

As Mr. Dickey began reviewing NFP's September 30, 2023 quarterly report, he told the Board they had never officially adopted an investment policy statement which included the Scorecard System Methodology NFP used to quantitatively and qualitatively evaluate fund managers and their investment strategies. The Scorecard System Methodology was built around a pass/fail criterion and had the ability to measure active, passive, and asset allocation investing strategies.

MOTION made by Mr. Warner, seconded by Mr. Gunsten, to adopt the use of the Scorecard System Methodology as used by NFP. In a voice vote of the members present, **Motion** passed 5-0.

Mr. Dickey reported two funds on the watch list: 1) Invesco Global – third quarter below a 7, but not too concerned as it was starting to rebound; and 2) Western Asset Core Bond – third quarter in a row below a 7, but not too concerned as it was performing better since October 1, 2023. That said, if the two funds were on the watch list at quarter end December 31, 2023, NFP will recommend replacement funds.

d. **Legal Report**, Sugarman, Susskind, Braswell & Herrera, Pedro Herrera

Mr. Herrera said the Florida Department of Management Services (DMS) had begun implementing House Bill 3, the law prohibiting public pension plans from considering non-pecuniary factors when making investment decisions. Specifically, DMS will require each public plan submit a comprehensive report on the plan's investment policies. Mr. Herrera said the comprehensive report will be a one-page report that the Committee can submit along with its Investment Policy Statement. To get everything set before the filing deadline (December 15, 2023), Mr. Herrera recommended the Board make two motions, the first one authorizing the Pension Administrator to file the required report on the Board's behalf.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, authorizing the Pension Administrator to file the required reports with the Division of Management Services on the Board's behalf. In a voice vote of the members present, **Motion** passed 5-0.

The second motion Mr. Herrera recommended was for the Board to officially certify its compliance with Chapter 2023-28 authorizing the filing of the pecuniary factors report subject to final legal approval.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to officially certify its compliance with Chapter 2023-28 authorizing the filing of the pecuniary factors report subject to final legal approval. In a voice vote by the members present, **Motion** passed 5-0.

Mr. Herrera reminded the members of the State's reporting requirements if they accepted any gift. Mr. Herrera added that Sugarman, Susskind, et. al. would make a \$25 contribution in the Board's name to a local foodbank.

e. **Pension Administrator**, Lisa Castronovo

Ms. Castronovo shared her quarterly report. Ms. Castronovo recommended that Mr. Gunsten attend the FPPTA 2024 Winter Trustees School and start the course work to earn his Certified Public Pension Trustee (CPPT) designation, but than in order for him to attend the conference, the Board would have to join FPPTA.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, that the Board of Trustees join FPPTA effective immediately. In a voice vote of the members present, **Motion** passed 5-0.

Ms. Castronovo presented Mr. Giaccone a plaque to honor his service on the Board of Trustees for the past 21 years.

ADJOURNMENT

The meeting adjourned at 3:38 p.m.

I, Craig Mahoney, 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 December 5, 2023 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.