

**MINUTES  
REGULAR PENSION BOARD MEETING  
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND  
FEBRUARY 21, 2019**

**1. CALL TO ORDER, ROLL CALL**

Chair Giaccone called the meeting to order at 9:02 AM.

Board Members present: Chair Gregory Giaccone, Vice-Chair Craig Mahoney (arrived at 9:43 a.m.), Trustee Thomas Glanfield (departed at 11:55 a.m.), Trustee Alan Kirschenbaum, and Trustee Jack Warner. Also present: Board Attorney Janice Rustin (Lewis, Longman & Walker as designated by the City Attorney), Investment Consultant Brendon Vavrica (AndCo Consulting), Joseph Mendell (Fiduciary First), and Pension Administrator Lisa Castronovo.

Guests: Susan Grant, Duane D'Andrea, Laura Thezine, Nancy Graham, Glenda Rivera

**2. AGENDA ADOPTION**

**MOTION** made by Mr. Warner, seconded by Mr. Glanfield, to adopt the February 21, 2019 regular Board meeting Agenda as presented. In a voice vote by the members present, **Motion** passed 4-0.

**3. COMMENTS**

a. Public  
None

b. Board of Trustees of Firefighters' Retirement System

Mr. Warner provided the Board with an article regarding forecasted long-term stock and bond returns noting that the long-term projections are for much lower overall rates of return and thus the Board should consider reducing the actuarial assumed rate of return. Mr. Warner also provided a draft letter to the City Manager offering the Board's assistance in completing the September 30, 2018 CAFR and other related financial reports. Assistant City Manager Susan Grant noted that the City was on track to complete the CAFR by the end of March 2019.

c. Active and Retired Members of the Plan  
None

**4. CONSENT AGENDA**

**MOTION** made by Mr. Warner, seconded by Mr. Kirschenbaum, to approve Consent Agenda Items 4.a.-d. In a voice vote by the members present, **Motion** passed 4-0.

**5. REPORTS**

a. AndCo – Brendon Vavrica

i. Portfolio Performance Review – Quarter End December 31, 2018

Report made part of these Minutes.

Mr. Vavrica presented the Investment Performance Review Report for the quarter ended December 31, 2018 noting the very poor returns for all equity classes. The poor returns were slightly offset by a slight uptick in fixed income returns due to the sell-off of equities and purchase of bonds. Mr. Vavrica noted that once the Fed announced in late-December that it would do more due diligence before increasing interest rates in the future, the downward slide stopped with the markets rebounding significantly.

Mr. Vavrica reviewed a checklist regarding the Fund's overall compliance as well as the individual investments' compliance with various items of importance and noted that ultimately one wants to see all boxes marked "yes." In the Fund's case, some boxes were marked "no" indicating areas for improvement and/or concern.

Discussion ensued. Mr. Glanfield asked if a game plan was in place to ensure that all investments would move into compliance. Mr. Vavrica responded that the major changes in the past couple of years of replacing under-performing managers with higher performing ones was the main way to address the non-compliance issue and while there was still room for improvement, no further major changes were warranted.

Discussion changed to the overall Fund investments with Mr. Glanfield and Mr. Kirschenbaum stating they would like the Fund to move out of fixed income almost entirely and switch over to a combination of various equities and alternatives. Mr. Kirschenbaum acknowledged it would be very aggressive, but he would like to see the Fund invested 80-90% in equities as long as the Board maintained careful watch over the equity managers. The Board agreed that while the Fund's fixed income investment was a liquidity provider and shock absorber in down markets, such investment was dragging the Fund's overall performance down.

ii. January 2019 Flash Report

Report made part of these Minutes

Mr. Vavrica reported the equities markets rebounded significantly in January 2019 after a very negative 2018 fourth quarter. The Fund's return for the month ended January 31, 2019 was 5.14% compared to the policy index of 5.40%.

Mr. Glanfield asked Mr. Vavrica's opinion about moving the fixed income investment managed by Garcia Hamilton to Templeton since Templeton was performing better. Mr. Vavrica responded that while it could be done, he did not recommend it since Templeton can underperform at times.

iii. Draft Letter of Direction for Salem Trust re: Monthly Benefit Payments

Draft letter made part of these Minutes.

Mr. Vavrica recommended the establishment of a mutual fund within the Fund's Receipts and Disbursements (R&D) account so that transfers of needed cash to cover monthly benefit payments could be made on a quarterly basis rather than a monthly one with the excess cash held in a fund that would produce returns. Mr. Vavrica stated the General Employees fund set up a Vanguard stock index fund within their R&D account and the moving of funds on a monthly basis was working smoothly. Mr. Vavrica introduced a draft letter for the Board's consideration directing Salem Trust to set up a stock index fund within the Receipts and Disbursements (R&D) account with the guideline that all monies in excess of \$350,000 would be held in the index fund. There followed a brief discussion regarding why Mr. Vavrica suggested a stock index fund to which he replied that generally the monies used to fund monthly benefit payments generally came from the equity accounts.

**MOTION** made by Mr. Glanfield, seconded by Mr. Kirschenbaum, to send a letter to Salem Trust directing them to set up the Vanguard Total Stock Index Fund within the Receipts and Disbursements account to hold all cash in excess of \$350,000. In a voice vote by the members present, **Motion** passed 5-0.

Assistant Finance Director Laura Thezine shared a memorandum with the Board that outlined how the City's Finance department tracks the Plan's expenses, benefit payments, and contributions. Ms. Thezine also provided a status update on the September 30, 2018 financial audit. The Board requested Ms. Castronovo to provide a quarterly report on actual expenses compared to the adopted administrative expense budget.

iv. Asset Allocation Education

Informational material made part of these Minutes.

Per the Board's request at their November 2018 meeting, Mr. Vavrica presented an asset allocation analysis specifically noting that asset allocation is an effective tool to manage portfolio risk. Mr. Vavrica noted that asset allocation is the more effective way to manage portfolio risk than managing it via investment manager selection.

Mr. Vavrica's report showed that the Plan's forecasted rate of return, based on its current asset allocation, was 6.06%. Mr. Vavrica presented alternative asset allocations that would increase the forecasted rate of return from 3 to 41 basis points while keeping the standard deviation and Sharpe ratio about the same as it currently was (9.65 and 0.63, respectively). He noted that the five mixes shown were only small tweaks from the current allocation but were forecast to produce a slightly higher rate of return.

Lengthy discussion ensued regarding asset allocation, investment manager selection, reducing the assumed rate of return, 100% funding the unfunded actuarial accrued liability. An idea put forth was to determine the Plan's cash flow needs for the next 7-10 years, immunize the funds needed to provide the cash flow in investments that would liquidate on an annual basis as required, and then have available all remaining monies for investing freely however the Board deemed fit.

The Board collectively agreed that rather than adopt one of the asset allocation mixes suggested in Mr. Vavrica's asset allocation analysis report, they wanted to dig deeper to get a much better handle of the Plan's long-term cash needs and then build an investment portfolio around those cash needs. Mr. Vavrica said he would reach out to the actuaries to find out if they could provide a cash flow/liquidity analysis after which the Board could hold a special meeting to discuss in more detail.

To address the upcoming retirement of the portfolio manager of Westwood Income Opportunities Fund, the Plan's current global tactical asset allocation ("GTAA") fund, Mr. Vavrica presented a GTAA manager analysis. Mr. Vavrica recommended the Board move the money invested in the Westwood fund to one of three other GTAA managers: BlackRock Advisors, JPMorgan Investment Management, or Pacific Investment Management. Mr. Vavrica recommended the Westwood monies be moved to BlackRock since its GTAA fund was the most similar to the Westwood fund.

Mr. Kirschenbaum suggested moving the Westwood investment entirely into an equity investment since the Plan was likely going to start investing more heavily in equities. Mr. Vavrica suggested moving 50% of the Westwood funds into the newly established Vanguard stock index fund in the R&D account with the remaining 50% split evenly between equity managers Polen Capital and The Boston Company.

**MOTION** made by Mr. Kirschenbaum, seconded by Mr. Warner, to sell the Plan's investment in the Westwood Income Opportunities Fund with 50% of the proceeds moved into the Vanguard Total Stock Index Fund, 25% moved to Polen Capital, and 25% moved to The Boston Company. In a voice vote by the members present, **Motion** passed 5-0.

**MOTION** made by Mr. Warner, seconded by Mr. Mahoney, to hold a special meeting to discuss changing the investment policy. In a voice vote by the members present, **Motion** passed 5-0.

Chair Giaccone suggested that a letter be sent from the Board to the City Manager to keep him up-to-date on the fact that the Board will be discussing various investment policy changes. Ms. Rustin stated she would draft a letter for the Board.

b. Lewis, Longman & Walker – Janice Rustin

i. Approval of CAPIS Agreement

Ms. Rustin stated that the CAPIS Agreement that the Board members had been provided in the Board meeting backup needed to be signed. Mr. Vavrica explained that CAPIS provided commission recapture services which 10-15 years ago was quite lucrative when commission fees were quite high and the respective fees caught and returned to recipient funds was significant. However, once commission fees reduced to the level they were currently at, commission recapture only returned pennies. That being said, CAPIS was the provider of commission recapture services and their contract needed to be updated due to the recent hire of Polen Capital.

**MOTION** made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to execute the CAPIS agreement. In a voice vote by the members present, **Motion** passed 4-0.

ii. Review Plan's Reimbursement to City of Pension Administrators' Expenses

This Item was taken out of order.

Ms. Rustin reminded the Board that in December 2017, the Trustees of the Firefighters' Retirement System, General Employees' Retirement Plan, and Police Officers' Retirement System, agreed to share equally (1/3, 1/3, 1/3) the total administrative costs associated with the administration of the three retirement plans. There was further agreement that the pay arrangement would be reviewed after one year.

Ms. Rustin requested that Ms. Castronovo explain how the work was divided between herself and the City's other pension administrator, Nancy Graham. Ms. Castronovo stated that while both administrators did work for all three plans, she worked primarily on the Firefighters and Police Officer plans and Ms. Graham worked primarily on the General Employees' plan.

Discussion ensued regarding whether the Boards should continue to share the costs equally or whether the General Employees' plan pay 50% of the costs and the Firefighters and Police Officers plans split the other 50%. The Board collectively agreed that it would be the most administratively feasible to split 100% of Ms. Castronovo's salary and City-provided benefits equally between the Firefighters and Police Officers' plans and have the General Employees' plan pay 100% of Ms. Graham's salary and City-provided benefits.

**MOTION** made by Mr. Mahoney, seconded by Mr. Kirschenbaum, to split 100% of Lisa Castronovo's salary and respective City-paid benefits equally (50/50) between the Firefighters' Retirement System and the Police Officers' Retirement System, pending approval by the Police Officers' Board. In a voice vote by the members present, **Motion** passed 5-0.

Mr. Warner questioned how the other pension-related administrative costs would be paid, specifically the pension administration software system, as it was understanding that it wasn't just the pension administrators' earnings and benefits to be paid equally by the three plans but also all administrative expenses. Chair Giaccone stated that the payment agreement could be re-addressed in the future as needed.

c. Fiduciary First – Joseph Mendell

Mr. Mendell presented the quarter end December 31, 2018 update of the 401(a) DROP account with ICMA-RC. Mr. Mendell stated that the asset allocation account that he had discussed at the previous Board meeting had been established and would soon be funded with saved administrative costs. Once the account was funded, the Board could then decide how to appropriate the funds – reduce members' expenses, use the funds to reduce Board-related expenses. Mr. Warner asked if the saved monies could automatically be used to reduce members' costs to which Mr. Mendell responded they could and that he would bring information regarding automatic payments to members to the Board at its next meeting.

Mr. Mendell noted that only two of the funds available for members to invest in were on the watch list. However, upon digging deeper, one of the two accounts, Oppenheimer Global Opportunities ("OGO"), shouldn't be on the watch list since the benchmark to which it is measured is not a true benchmark to its particular style of investment. In fact, it was noted that the OGO fund was actually performing remarkable well.

d. Pension Administrator – Lisa Castronovo

Ms. Castronovo informed the Board: 1) the annual Alive & Well letters were sent to all current retirees and beneficiaries at the end of January with a return date request of February 28, 2019 and that the majority of the letters had been returned; 2) the financial data and the census data for the October 1, 2018 actuarial valuation was submitted to the actuary on February 7<sup>th</sup> and 11<sup>th</sup>, 2019, respectively; 3) the member data used for the annual State report was prepared and once the auditors completed the September 30, 2018 audit, all would be reviewed in preparation for submittal to the State in the next few weeks; 4) the City Manager provided written confirmation on January 2, 2019 that the Board of Trustees of the City of Delray Beach Firefighters' Retirement System was acting within the "Safe Harbor" provision of the collective bargaining agreement between the

City and the IAFF; 5) Hagens Berman, one of the Board's securities litigation monitoring law firms, provided a quarterly report on the System's exposure to securities cases; 6) there was a proposed State of Florida House Bill that would amend Florida's Open Meetings Law and impose additional procedural requirements if adopted; and 7) it had been legally determined that Fire participants did not need to wait until they met 5 years of City employment to be eligible to purchase previous military/government service which was a change in policy from prior years.

**6. ADMINISTRATIVE ITEMS**

a. Fiduciary Liability Insurance

This Item was taken out of order.

Ms. Castronovo reported that the Board's fiduciary liability insurance was renewed effective January 1, 2019 with a \$1M limit of liability. Ms. Castronovo stated the General Employees' and Police Officers' Boards had recently increased their liability limit to \$5M and inquired if the Firefighters' Board would like to do the same.

**MOTION** made by Mr. Warner, seconded by Mr. Kirschenbaum, to increase the Board's fiduciary liability insurance liability limit to \$5M. In a voice vote by the members present, **Motion** passed 4-0.

**ADJOURNMENT**

**MOTION** made by Mr. Kirschenbaum, seconded by Mr. Warner, to adjourn the meeting. Meeting adjourned at 12:19 PM.

I, Gregory Giacco, the undersigned, am the Chair of the Board of Trustees of the City of Delray Beach Firefighters' Retirement System ("Board"). The information provided herein is the Minutes of the February 21, 2019 regular meeting of said body. These Minutes were formally approved and adopted by the Board on May 16, 2019.

  
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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 Firefighters' Retirement System. Minutes will become official Minutes 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.mydelraybeach.com](http://www.mydelraybeach.com).