

Item 3.A.
July 21, 2022 Regular
Meeting Minutes

MINUTES
REGULAR RETIREMENT COMMITTEE MEETING
CITY OF DELRAY BEACH GENERAL EMPLOYEES' RETIREMENT PLAN
JULY 21, 2021

1. Call to Order

Chair Ellingsworth called the meeting to order at 12:33 p.m.

Ms. Castronovo informed the Retirement Committee ("Committee") that Ms. Oberhofer requested to participate in the meeting via MSTeams because she was out of town.

Roll Call

Committee Members present: Chair Howard Ellingsworth, Hugh Dunkley, Adam Frankel, and Thomas MacManus. Committee Member absent: Joanna Oberhofer.

MOTION made by Mr. Frankel, seconded by Mr. Dunkley, to allow Ms. Oberhofer to participate in the meeting via electronic devices. In a voice vote by the members present, **Motion** passed 4-0.

Also present: Scott Montgomery (Marcum LLP), Jeffrey Amrose (Gabriel, Roeder, Smith & Company), Pedro Herrera (Sugarman, Susskind, Braswell & Herrera as designated by City Attorney), Brendon Vavrica (AndCo Consulting), Lisa Castronovo (City of Delray Beach), and Elizabeth Brown (City of Delray Beach)

Agenda Adoption

MOTION made by Mr. MacManus, seconded by Mr. Frankel, to adopt the July 21, 2022 Agenda. In a voice vote by the members present, **Motion** passed 4-0.

2. Public Comments

There were no public comments.

3. New Retirement Committee Member Introduction

The Committee welcomed new member Hugh Dunkley, City of Delray Beach Finance Director.

4. Consent Agenda

- A. February 17, 2022 Regular Meeting Minutes
- B. Ratification of Plan Expenses and Termination Refunds
- C. Approval/Ratification of New Retirement/DROP/Vested/Death Annuities

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

5. Marcum, LLP - Scott Montgomery

Pertinent Report pages made part of these Minutes

Mr. Montgomery reviewed the pertinent section of the City's September 30, 2021 Annual Comprehensive Financial Report. Mr. Montgomery stated the auditor's opinion was "unmodified" which was the best opinion that can be given. Mr. Montgomery concluded his report by stating there were no material weaknesses or significant deficiencies found during the audit.

MOTION made by Mr. MacManus, seconded by Mr. Frankel, to accept the September 30, 2021 financial information as presented. In a voice vote by the members present, **Motion** passed 4-0.

6. GABRIEL, ROEDER, SMITH & COMPANY – Jeffrey Amrose

A. October 1, 2021 Actuarial Valuation Report
Report made part of these Minutes

Highlights of the October 1, 2021 Actuarial Valuation Report:

- The City's required contribution decreased from \$2,930,166 for the 2021-22 fiscal year to \$2,396,413 for the 2021-22 fiscal year, a \$533,753 decrease and a 2.74% decrease as a percent of payroll. The components accounting for the change in the required contribution were the expiration of an unfunded actuarial accrued liability base and an experience gain.
- If the City wished to pay the 2022-23 required contribution on October 1, 2022, the first day of the fiscal year as done in the past, the contribution would be \$2,357,598.
- There were no benefit or actuarial assumption revisions.
- The Fund experienced a net actuarial gain of \$6,791,000 for the year meaning actual experience was more favorable than anticipated. The actuarial gain was due primarily to the recognized return on the actuarial value of assets being greater than expected (11.5% actual vs. 6.75% expected). The gain caused the required contribution to decrease by approximately \$580,000.
- The funded ratio on October 1, 2021 was 101.0% compared to 96.2% on October 1, 2020.
- The market value of assets exceeded the actuarial value of assets by \$25.8M. The excess would gradually be recognized over subsequent years resulting in decreased required contributions.
- The estimated required contribution for fiscal year 2023-24 is \$2,470,000 assuming a 3% increase in total covered payroll for FYE 2022 and no gains, losses, or assumption changes.

Mr. Amrose stated the Plan was in excellent position to ride a market downturn if one should occur. Mr. MacManus asked Mr. Amrose his opinion about how other plans would weather any market downturns due to current inflation concerns and market volatility. Mr. Amrose responded that this Plan, unlike a lot of other plans he worked on, would withstand almost anything due to how well it was funded. Mr. Amrose said less well-funded plans would suffer somewhat when there was a market downturn but to keep in mind that all pension plans were designed for the long-term and thus would withstand market volatility over time. One thing that helps Florida pension plans in particular is the State's requirement that all municipalities make the actuarially determined minimum contribution which keeps them funded whereas plans in other states are often not funded because the respective state do not require municipalities to meet minimum funding.

MOTION made by Mr. Frankel, seconded by Mr. MacManus, to approve the October 1, 2021 Actuarial Valuation. In a roll call vote of the members, **Motion** passed 4-0.

Mr. Amrose and Mr. Vavrica recommend using 6.75% as the expected rate of return.

MOTION made by Mr. MacManus, seconded by Mr. Dunkley, to approve an expected rate of return of 6.75% for the current year, the next couple of years, and long-term thereafter as recommended by the Plan's actuary and investment consultant. In a voice vote of the members present, **Motion** passed 4-0.

7. AndCo Consulting – Brendon Vavrica

- A. Portfolio Performance Review – Quarter End March 31, 2022
Report made part of these Minutes.

Mr. Vavrica reported the Retirement Plan's net rate of return for the quarter ended March 31, 2022, was -4.0% compared to its benchmark of -4.8%. For the fiscal year through March 31, 2022, the Plan's net rate of return was 1.8%. All asset classes performed poorly in the quarter. The Plan's market value decreased from \$184.6M on December 31, 2021, to \$175.4M on March 31, 2022.

- B. Flash Report – June 2022

Mr. Vavrica reported the Plan's market value was \$152.4M on June 30, 2022, which was 13.1% lower than what it was on March 31, 2022. The Plan's rate of return for the nine months ended June 30, 2022, was -10.6% compared to the benchmark return of -12.1%. Mr. Vavrica said that every asset class in the Plan's portfolio – domestic and international equity, fixed income, and real return funds – had negative returns in the quarter ended June 30, 2022.

- C. Small Cap Equity Review

Mr. Vavrica presented information on four small cap strategies – Delaaward Small Cap Core, Hartford Schrodgers US Small Cap Opps, JP Morgan US Small Company R6, and MassMutual Premier Small Cap I – with management fees ranging from 0.66% to 0.95% and \$0 - \$5M minimum investment. All four funds were considered "core" funds made up by approximately 50% growth equity stocks and 50% value equity stocks.

Discussion ensued. Mr. MacManus said he was in favor of a dedicated small cap investment. When asked by Mr. Ellingsworth from which existing asset class would the money be pulled, Mr. Vavrica recommended taking it equally from growth and value equity, split equally between large cap and mid cap. Mr. Vavrica said \$1M was needed in the Vanguard Total Stock Market fund to cover upcoming benefit payments but could then invest \$7.5M in small cap. Mr. Vavrica suggested taking money JPMorgan Income Builder Fund and Blackrock Multi-Asset Income Fund since the Plan was overweight in that particular asset class. Mr. MacManus said that if there was a belief that actively managed funds would perform better than passively managed funds over the next several quarters, then more money should be taken from the passively managed RhumbLine funds rather than the funds actively managed by Newton and Polen.

MOTION made by Mr. MacManus, seconded by Mr. Frankel, to transfer \$1.5M from Newton, \$1.5M from RhumbLine Mid-Cap, \$1.0M from Rhumbline Growth, \$1.0M from JPMorgan Income Builder Fund, and \$1.0M from Blackrock Multi-Asset Income Fund to \$1.0M to Fidelity Total Stock Market fund, \$2.5M to MassMutual Premier Small Cap I (MSOOS), and \$2.5M to Delaaward Small Cap Core R6 (DCZRX). In a voice vote of the members present, **Motion** passed 4-0.

- D. Review Near Term Cash Requirements and Possible Asset Rebalancing

Mr. Vavrica stated that with the transfer of money just approved, there would be sufficient funds to cover the August 1st retirement benefit payments.

8. Sugarman, Susskind, Braswell & Herrera – Pedro Herrera

Mr. Herrera reminded the Committee members that their annual financial statements should have been filed with the State on or before July 1, 2022.

9. PENSION ADMINISTRATOR REPORT

Ms. Castronovo provided a detail of the actual administrative and investment-related expenses for October 1, 2021 through July 14, 2022. Ms. Castronovo reported that all 331 benefit verification letters mailed in January had been returned.

10. OTHER BUSINESS

None

ADJOURNMENT

The meeting adjourned at 2:34 p.m.

W. Howard Ellingsworth, Chair

Date

DRAFT