

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH POLICE OFFICERS' RETIREMENT FUND
MAY 20, 2020**

1. CALL TO ORDER, ROLL CALL

Chair Weber called the meeting to order at 9:02 a.m.

Due to the virtual nature of the Board meeting, Chair Weber read a prepared script. Script made part of these Minutes.

Board Members present via communication media technology: Chair Paul Weber, Vice-Chair Jim Hoesley, Secretary Jeffrey Rasor, Henry "Chip" Dickson, and Scott Privitera.

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

Guests present via communication media technology: John Mainville

2. AGENDA ADOPTION

MOTION made by Mr. Hoesley, seconded by Mr. Dickson, to adopt the May 20, 2020 Agenda. In a voice vote by the members, **Motion** passed 5-0.

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 25, 2020 Regular Meeting Minutes
- b. Warrant Ratification (#235)
- c. Warrant Approval (#236)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities
- e. Amendment No. 1 to the Agreement with Caler, Donten, Levine, Cohen, Porter & Veil

MOTION made by Mr. Hoesley, seconded by Mr. Dickson, to approve Consent Agenda Items 4.a.-e. In a voice vote by the members, **Motion** passed 5-0.

5. REPORTS

- a. Caler, Donten, Levine, Cohen, Porter & Veil
 - i. September 30, 2019 Audit Report
Report made part of these Minutes
Mr. Porter reviewed the draft September 30, 2019 Audited Financial Statement report emphasizing that the auditor's opinion was "unmodified," meaning it was the best opinion to receive. 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. Dickson, seconded by Mr. Hoesley, to accept the September 30, 2019 Audit Report. In a voice vote by the members, **Motion** passed 5-0.

b. 2019 State Report – Lisa Castronovo
Report made part of these Minutes

Ms. Castronovo stated she needed Board approval to submit the 2019 State Report to the Florida State Division of Retirement now that the September 30, 2019 Audit Report was accepted. Ms. Castronovo stated she was comfortable with the information contained in the 2019 State Report and that it had been reviewed by Scott Porter who had provided his approval and by City employees who provided their approval. Ms. Castronovo reminded the Board the State uses the information provided in the annual State report to release the State Chapter money.

MOTION made by Mr. Dickson, seconded by Mr. Hoesley, that the information provided for the annual State Report had been reviewed by the Board and was approved to be submitted to the State. In a voice vote by the members, **Motion** passed 5-0.

d. Gabriel, Roeder, Smith & Company (“GRS”) – Jeffrey Amrose

i. October 1, 2019 Actuarial Valuation Report
Report made part of these Minutes

Highlights of the October 1, 2019 Actuarial Valuation Report:

- The City's required contribution increased from \$7,181,108 for the 2019-20 fiscal year to \$7,854,175 for the 2020-21 fiscal year, a dollar increase of \$673,067 increase, but a 1.18% decrease as a percent of payroll. The components accounting for the change in the required contribution were: 1) a \$175,000 increase in the normal cost and 2) a \$500,000 increase in the amortization payment on the Unfunded Actuarial Accrued Liability.
- If the City wished to pay the required contribution on the first day of the fiscal year as done in the past, the contribution would be \$7,566,614.
- There were no benefit revisions.
- There were no actuarial assumption changes.
- The Fund experienced a net actuarial loss of \$4,483,000 for the year meaning actual experience was less favorable than anticipated. The loss was due primarily to higher than expected salary increases (13.4% actual compared to 5.5% expected) and investment return being less than expected (6.6% compared to 7.0% expected).
- The funded ratio on October 1, 2019 was 62.5% compared to 62.2% on October 1, 2018.
- The market value of assets was less than the actuarial value of assets by \$1,491,000. The deficit would gradually be recognized over subsequent years resulting in an increase in the required contribution.

ii. 2019 Experience Study Results
Report made part of these Minutes

Mr. Amrose reminded the Board that actuarial assumptions do not control how much the contributions are to a retirement plan but rather control when those contributions will be made. For example: the mortality assumption could be set to assume that every retiree dies at age 60 with the result being an immediate reduction in the required contribution, but as retirees live beyond age 60 the required contribution in future years will go up significantly due to losses from the mortality assumption not being an accurate reflection of actual mortality. The only thing that controls the overall cost of the plan are the plan benefits as detailed in the City Ordinance. The only role of actuarial assumptions is to level out the required contributions over time. The end goal is for the assumptions used to be within a reasonable range and to align with future experience.

Mr. Amrose presented the results of the 2019 Experience Study which covered the 7-year period of October 1, 2012 to September 30, 2019. This time period provided sufficient data to form a basis for recommending updates in demographic and financial assumptions used in future annual actuarial valuations.

Recommended changes included updating:

- future salary increase assumption to reflect the higher observed than expected real salary increases;
- assumed future retirement rates to reflect generally the higher observed than expected actual retirement experience;
- assumed rates of future employment separation to reflect generally lower observed than expected actual employment separations;
- assumed rates of future mortality to reflect updated mortality assumptions used in the July 1, 2019 Actuarial Valuation of the Florida Retirement System;
- the escalator on the \$108,000 annual retirement benefit limit; and
- the net investment return assumption.

Effect on FYE 2021 City Contribution of each recommended change:

- salary increase assumption: \$79,000;
- retirement rates: \$50,000;
- employment separation rates: \$186,000;
- updated mortality table: \$(375,000);
- increase escalator on annual benefit limit from 0% to 1%: \$270,000
- increase escalator on annual benefit limit from 0% to 2%: \$340,000
- lower net investment return assumption from 7.00% to 6.75%: \$535,000
- lower net investment return assumption from 7.00% to 6.50%: \$1,092,000
- all assumption changes, 0% escalator, 6.75% net investment rate of return: \$471,000
- all assumption changes, 1% escalator, 6.75% net investment rate of return: \$829,000
- all assumption changes, 2% escalator, 6.75% net investment rate of return: \$939,000

- all assumption changes, 0% escalator, 6.50% net investment rate of return: \$1,020,000
- all assumption changes, 1% escalator, 6.50% net investment rate of return: \$1,395,000
- all assumption changes, 2% escalator, 6.50% net investment rate of return: \$1,511,000

Chair Weber stated he didn't think it was necessary to increase the escalator on the \$108,000 annual benefit limit since new hires have a lower benefit multiplier and thus the issue won't raise itself for several years, if ever.

MOTION made by Mr. Hoesley, seconded by Mr. Privitera, to adopt the proposed salary increase assumptions, updated retirement rate assumptions, updated employment separation assumptions, updated mortality table, and a 6.75% assumed rate of return. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Rasor, seconded by Mr. Dickson, to approve the October 1, 2019 Actuarial Valuation subject to the adopted assumption changes voted on at this meeting. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Hoesley, seconded by Mr. Dickson, to approve an expected rate of return of 6.75% for the current year, the next couple of years, and long-term thereafter. In a roll call vote of the members, **Motion** passed 5-0.

d. AndCo Consulting – Brendon Vavrica

i. Portfolio Performance Review – Quarter End March 31, 2020

Report made part of these Minutes.

Mr. Vavrica presented the Investment Performance Review Report for quarter end March 31, 2020 noting that while the first four months of the fiscal year had been exceptional, all gains were erased by the market downturn in March 2020 due to market fears related to Covid-19 and the shut-down of businesses and stay-at-home orders. The Retirement System's rate of return, net of fees, for quarter end March 31, 2020 was -13.84%. Mr. Vavrica continued that all equity classes experienced losses in the quarter, while fixed income remained fairly stable. In general, the markets were very news-driven so they experienced gains when good news was released and experienced losses when bad news came out. Therefore, the way the world advances in the next months to reopen, develop tests and vaccines, and resume normal activities will be a big determinate of how the markets will rebound.

Mr. Vavrica noted growth equity manager Clarkston Partners while experiencing an overall loss, when compared to its benchmark, it had performed exceptionally well. Mr. Vavrica applauded the Board for its selection of Clarkston as a provider of downside protection.

Mr. Vavrica noted that fixed income managers Garcia Hamilton and Templeton Global had performed quite poorly during the quarter. Mr. Vavrica said he sent a letter to Garcia Hamilton noting all three Board's concerns with their performance and the fact that they were out of compliance with each Board's investment policy. Regarding Templeton Global, Mr. Vavrica said he will bring to the next meeting information about possible replacements for them.

In response to a request at the last meeting about Molpus Timber Fund, Mr. Vavrica stated that the fund was set to expire in 2022, but the managers were looking to liquidate it before its expiration date. They had hoped to liquidate in 2020, but the world-wide shut down put them back a few quarters. They now hoped to liquidate in 2021.

Mr. Vavrica shared information regarding Term Asset-Backed Securities Loan Facility (TALF). TALF was originally launched during the financial crisis in 2008 and is considered to have been one of the tools that had a significant impact of improving market conditions during the economic downturn in 2008 and 2009. TALF has been re-launched and is currently expected to begin lending operations in June 2020 and will remain open through September 30th, 2020. Return yields are expected in the mid to upper single digits.

ii. April 2020 Flash Report

Report made part of these Minutes

Mr. Vavrica reviewed the April 2020 investment returns noting the System's total net return for April was 7.07% compared to the benchmark of 7.73% and while it did not make up for the severe losses experienced in March 2020, it helped bring the System's net return for the fiscal year to date to -2.33%. Mr. Vavrica noted that Garcia Hamilton's returns improved significantly in April 2020 while Templeton Global's returns still lagged its respective benchmark. Mr. Vavrica concluded by stating that through May 19, 2020, returns continued to be positive and the total estimated net return for the fiscal year to date was approximately 0%.

Mr. Vavrica stated that approximately \$1.7 million needed to be transferred into the cash account to cover administrative expenses, benefit payments and DROP deposits for the upcoming four months. Mr. Vavrica recommended taking \$700,000 from Garcia Hamilton, \$500,000 from Templeton Global, and the remaining \$500,000 from Polen Capital since it was slightly overweight.

Discussion followed. Mr. Hoesley said he wanted to take at least \$1.0 million from Garcia Hamilton and the remaining \$700,000 from Templeton Global due to their recent poor performance.

MOTION made by Mr. Hoesley, seconded by Mr. Dickson, to transfer \$1,000,000 from Garcia Hamilton and \$700,000 from Templeton Global to the Vanguard Total Stock Market Index fund in order to maintain the required cash position to meet upcoming monthly expense and benefit payment requirements. In a roll call vote of the members, **Motion** passed 5-0.

e. Lewis, Longman & Walker – Janice Rustin

i. Administration of Deferred Vested Members' Benefit Distributions

Ms. Rustin stated that at the last Board meeting she was requested to try to find out what the normal retirement date is for officers who separate employment from the City with 10 or more years of service but less than 20 years. Ms. Rustin found after extensive research that prior Board's determined that unless a member left with 20 or more years of service, their retirement date will be the first of the month following their 55th birthday. Ms. Rustin recommended that this distinction be added to the next Ordinance amendment.

ii. Disability Beneficiary Recipients Due Benefit Enhancements

Ms. Rustin stated that at the last Board meeting she was requested to find out if a provision that allowed for a specific group of disability retirees to receive annual benefit enhancements extended to their beneficiaries. Ms. Rustin found after researching the matter, that per everything she found, the intent was clear that the benefit enhancements would extend to the disability retiree's beneficiary. Based on her findings and Ms. Castronovo's identification of the two beneficiaries due past benefit enhancements, Ms. Rustin said she felt the only thing that needed to be decided was how much interest should be credited to the missed payments to the two beneficiaries.

MOTION made by Mr. Hoesley, seconded by Mr. Privitera, to pay the disability retiree beneficiaries the monies due them with 5% compounded interest as reviewed and approved by Gabriel, Roeder, Smith & Company. In a roll call vote of the members, **Motion** passed 5-0.

ADJOURNMENT

MOTION made by Mr. Dickson, seconded by Mr. Privitera, to adjourn the meeting. Meeting adjourned at 11:46 a.m.

I, Pat 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 May 20, 2020 regular
meeting of said body. These Minutes were formally approved and adopted by the Board
on 9/16/20.

Pat Weber
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 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.delraybeachfl.gov.