

**CITY OF DAYTONA BEACH POLICE AND FIRE PENSION FUND
PENSION BOARD OF TRUSTEES QUARTERLY MEETING
City Hall, Council Chambers
301 S. Ridgewood Ave, Daytona Beach, FL 32115
Tuesday, August 4, 2020, 8:30AM**

TRUSTEES PRESENT: Mark Eisner
Gregg Gurdak
Erin Masters
Michael Rowley

TRUSTEES ABSENT: None

OTHERS PRESENT: Pedro Herrera, Sugarman & Susskind
Bill Cottle, Milliman
Steven Cottle, Milliman
Kristina Milberg, Adams Street Partners
Morgan Holzaepfel, Adams Street Partners
Kate Hurley, J.P. Morgan Asset Management
Rob Cousin, J.P. Morgan Asset Management
Hannah Strasser, Sky Harbor
Ryan Carrington, Sky Harbor
Kristen Rice, Sky Harbor
Mike Salice, Sky Harbor
Kevin Campbell, Taurus
Eric Wilcomes, Taurus
Jim Sexton, HR Director
Brad Heinrichs, Foster & Foster
Ferrell Jenne, Foster & Foster

- I. **Call to Order/Roll Call/Determination of a Quorum** – Mark Eisner called the meeting to order at 8:31am.

- II. **Public Comment**
 - A. Jim Sexton requested an impact study be done to determine the impact of allowing members to cease their contributions once they reach their maximum benefit. Brad Heinrichs commented typically Chapter 175/185 members must contribute at least 0.5%. Mark Eisner commented this will impact only a few members and reminded Brad there is a list of officers that can exceed the \$5,500 cap.
 - B. The Board requested Brad Heinrichs to do an impact study with an effective date of October 1, 2020, for all members.

The Board authorized Foster & Foster to do an impact study of reducing member contributions to 0.5% upon reaching the maximum benefit amount with an effective date of October 1, 2020, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 4-0.

Note: Pedro Herrera arrived at 8:38am.

- III. **Chairman's Comments**
 - A. Mark Eisner asked about a possible offset for Gerald Skinner. Pedro Herrera commented he needs a copy of the settlement agreement and would like to know how this has been treated in the past. Pedro commented typically only wage replacement constitutes an offset, but the Ordinance has very broad language. Mark commented typically an impairment benefit is paid out prior to retirement, so this was a unique circumstance. Pedro stated he will review everything and offer an opinion later.

IV. Approval of Minutes

The Board voted to approve the May 5, 2020, quarterly meeting minutes and the June 2, 2020, special meeting minutes, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 4-0.

V. New Business

- A. Proposed 2020-2021 budget
- i. Pedro Herrera reviewed the budget requirement.

The Board voted to accept the 2020-2021 budget as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 4-0.

VI. Reports (Attorney/Consultants)

- A. Foster & Foster, Brad Heinrichs, Board Actuary
- i. Presentation of experience study
 - i. Brad Heinrichs reviewed the reason for the experience study, stating the study compares the actual plan experience to the current assumptions.
 - ii. Brad Heinrichs reviewed the amortization method and the current Unfunded Actuarial Accrued Liability (UAAL). Brad commented when assumptions are aggressive, there tends to be a loss. Brad stated all gains and losses are currently amortized over 30 years and recommended amortizing the gains and losses over 15 years to save on interest. Brad stated that if the amortization period were reduced to 15 years, there would be no cost impact this funding year.
 - iii. Brad Heinrichs reviewed the inflation rate and stated the current 2.3% assumption is reasonable.
 - iv. Brad Heinrichs reviewed the current 7.50% investment return assumption and commented the plan's portfolio is very diversified. Brad stated the 7.50% assumption is reasonable, but the investment consultant should opine. Brad stated the national average is 7.25% and they did cost out if the plan reduces the investment assumption by 25 BPS.
 - v. The Board briefly reviewed the amortization schedule again and the possible cost impact to the City if they moved to a 15-year amortization schedule. Brad stated that for \$1 million in UAAL, the proposed 15-year amortization method would yield a savings of approximately \$780,000 in interest payments.
 - vi. Steven Cottle stated when the asset allocation study was done, they used the 7.50% investment return assumption. Steven commented if the Board reduced the investment return assumption, they would adjust the allocations accordingly. Steven stated future returns are expected to be lower than 7.50%.
 - vii. Brad Heinrichs reviewed the salary assumption and recommended changing the assumed rates so they are based on service rather than age. Brad commented the rates were adjusted downward at all service points based on the experience that was observed. Brad stated the change would result in reducing the funding requirements by approximately \$187,000.
 - viii. Brad Heinrichs reviewed the administrative expenses and commented this is a part of the normal cost. Brad recommended changing the assumption to use the average of the last two years. Brad commented if the plan compares themselves to plans of similar size, they will find they are on the lower end regarding administrative expenses. The assumption change would increase the funding requirements by approximately \$156,000.

- ix. Brad Heinrichs reviewed the demographic assumptions. Brad reviewed the mortality tables and recommended using the Florida Retirement System (FRS) tables which include appropriate risk and collar adjustments based on plan demographics. The assumption change would decrease the funding requirements by approximately \$180,000.
- x. Brad Heinrichs reviewed the retirement rates and the current normal retirement requirements. Brad commented police officers and firefighters are retiring earlier than assumed and recommended adjustments to the normal retirement rates. The assumption change would increase the funding requirements by approximately \$443,000.
- xi. Brad Heinrichs reviewed the withdrawal rates, commenting police officers had a lower withdrawal rate and firefighters had a higher withdrawal rate. Brad recommended adjustments to the assumed rates of withdrawal, with fewer withdrawals for police officers and more withdrawals for firefighters. Brad stated the assumption change would increase the funding requirements by approximately \$126,000.
- xii. Brad Heinrichs reviewed the disability rates and commented they did not recommend making any changes to the current assumption.
- xiii. Brad Heinrichs reviewed all the recommended changes and the impact of reducing the investment return assumption to 7.25%.
- xiv. Brad Heinrichs commented in five years the City's required contribution would decrease by approximately \$2.7 million.
- xv. The Board discussed the experience study and the recommendations that were made.

The Board voted to approve all the recommended changes while leaving the assumed rate of return at 7.5% with an effective date of October 1, 2020, upon motion by Gregg Gurdak and second by Erin Masters; motion carried 4-0.

- xvi. The Board discussed changing the amortization schedule to 15 years in a year that the plan had a gain.

The Board voted to approve moving to a 15-year amortization schedule when the plan experiences a gain, upon motion by Erin Masters and second by Gregg Gurdak; motion carried 4-0.

- B. Adams Street Partners, Kristina Milberg/Morgan Holzaepfel, Investment Manager
 - i. Quarterly Report as of June 30, 2020
 - i. Kristina Milberg introduced herself and reviewed the firm's experience. Kristina commented they have tactical and primary strategies.
 - ii. Kristina Milberg commented as of March 31, 2020, the Net Internal Rate of Return (IRR) was 0.52%. Kristina commented the plan has committed \$10 million and they have currently called approximately 24% of the capital. Kristina reminded the Board it will take approximately two years to be fully committed.
 - iii. Morgan Holzaepfel reviewed the top ten and the bottom ten partnerships based on cumulative performance. Morgan commented they expect quarter two to be flat to slightly positive.
- C. JP Morgan (Global Private Equity), Kate Hurley/Rob Cousin, Investment Manager
 - i. Quarterly report as of June 30, 2020
 - i. Kate Hurley introduced herself and gave a firm update.
 - ii. Rob Cousins reviewed their investments by vintage year and distributions by calendar year. Rob commented there is a \$10 million commitment to the Global Private Equity VII Fund, with

\$3.6 million invested as of June 30, 2020. Rob commented they invest in small to mid-cap markets.

- iii. Rob Cousins reviewed their active monitoring that is taking place due to the COVID-19 pandemic. Rob commented the top ten direct investments represent 54% of the total remaining value in GPE VII.

D. Dodge & Cox, Stephanie Notowich, Investment Manager

- i. Ferrell Jenne stated Stephanie Notowich was not on the call.

E. Sky Harbor, Hannah Strasser/Ryan Carrington/Mike Salice

- i. Quarterly report as of June 30, 2020
 - i. Hannah Strasser reviewed the significant portfolio changes. Hannah commented they are moving the portfolio in a more opportunistic direction for quarter two.
 - ii. Hannah Strasser reviewed the portfolio characteristics. Hannah commented the biggest impact on the portfolio is they are underweight in the energy sector.
 - iii. Mike Salice reviewed future opportunities. Mike reviewed the upcoming election and how elections have historically impacted the market.

F. Taurus, Kevin Campbell/Eric Wilcomes, Investment Manager

- i. Quarterly report as of June 30, 2020
 - i. Kevin Campbell reviewed the portfolio construction, investment strategies, underlying fund sizes, and geography. Kevin commented 80% of investments will be with leveraged buyout funds. Kevin stated they only invest in North American funds so there is no currency risk.
 - ii. Eric Wilcomes commented four of the six private equity managers have made investments and approximately 90% of the portfolio has yet to be invested. Eric stated they expect to complete a total of five investments in 2020. Eric commented 8.25% has been called from investors and no additional capital calls are planned in the next 30-45 days.
 - iii. Kevin Campbell reviewed the J-Curve and commented their goal is to push out of the J-Curve as soon as possible.
 - iv. Kevin Campbell provided a firm update and discussed new team members who have been added.

G. Milliman, Steven Cottle/Bill Cottle, Investment Consultant

- i. Quarterly report as of June 30, 2020
 - i. Steven Cottle commented the Market Value of Assets (MVA) as of June 30, 2020, was \$190,807,917 and the plan was able to post positive returns for the quarter.
 - ii. Steven Cottle reviewed the current asset allocations and reminded the Board that the private equity additions are early investments and it will take approximately one to two years to be fully invested in this asset class. Steven commented they are slightly overweight in the international equity portfolio.
 - iii. The total fund gross returns as of June 30, 2020, were 14.8%, outperforming the benchmark of 11.2%. The 1, 3, and 5-year trailing total fund gross returns were 6.4%, 8.1% and 6.8% respectively, compared with the benchmarks of 1.6%, 5.2% and 5.7% for the same respective periods.
 - iv. Steven Cottle commented the large cap domestic equity market outperformed the S&P500 market as of June 30, 2020.
- ii. Asset Allocation Ranges memo
 - i. Steven Cottle reviewed the memo dated July 29, 2020, regarding the asset allocation ranges. Steven commented they are proposing to narrow the ranges. Steven reviewed the

recommended changes by asset class. Steven commented that upon approval they will update the Investment Policy Statement (IPS), and the updated ranges will be reflected in the quarter three report.

Based upon the recommendation from Milliman, the Board voted to approve the proposed allocation policy ranges as presented and to update the IPS, upon motion by Erin Masters and second by Gregg Gurdak; motion carried 4-0.

- H. Sugarman & Susskind, Pedro Herrera, Board Attorney
 - i. Update on disability applicant, Aaron Paro
 - i. Pedro Herrera reviewed Aaron Paro's disability application. Pedro commented they are in the process of scheduling the Independent Medical Examination (IME), but it is taking longer than usual due to the COVID-19 pandemic.
 - ii. Update on Charles Connally/Robert Mays overpayments
 - i. Pedro Herrera updated the Board on the overpayments made to Robert Mays and Charles Connally. Pedro reminded the Board Robert Mays passed away. Pedro stated he spoke to Charles Connally, who said he wanted to repay the money but would need a repayment plan.
 - ii. Pedro Herrera reviewed the repayment options with the Board and stated he will work with the Chairman to come up with an option that is acceptable to the Board and to the member.
 - iii. Pedro Herrera commented he is working with the estate of Robert Mays and the plan is on the list of creditors. Pedro stated he will continue to update the Board as the estate is opened.
 - iii. Proposed Ordinance
 - i. Pedro Herrera reviewed the proposed Ordinance that amends in the SECURE Act. Pedro commented there will be no cost impact to the plan for this amendment. Pedro reminded the Board they did a Plan Restatement and he confirmed with the City that it was adopted. Pedro commented the City opted not to amend in the cancer presumption language because it is already State law.

The Board voted to approve the proposed Ordinance and send to the City for first reading, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 4-0.

- iv. Pedro Herrera reminded the trustees to file their financial disclosure forms, as they were due on July 1, 2020. Ferrell Jenne commented she checked online, and all trustees had filed their forms.

VII. **Old Business** – None

VIII. **Consent Agenda**

- A. Payment ratification
 - i. Warrants #70, #71 and #72
- B. New invoices for payment approval
 - i. None
- C. Fund Activity report for period April 29, 2020 – July 28, 2020

The Board voted to approve the consent agenda as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 4-0.

IX. **Staff Reports**

- A. Foster & Foster, Ferrell Jenne, Plan Administrator
 - i. Fiduciary liability policy renewal
 - i. Ferrell Jenne reviewed the fiduciary liability policy which was set to expire on 08/10/2020. Ferrell commented she reached out to the carrier and completed all paperwork to get a renewal quote.

Ferrell commented the 2020-2021 premium is \$11,921 which is \$18 higher than the expiring premium.

The Board voted to approve binding the 2020-2021 fiduciary liability policy as presented, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 4-0.

ii. Educational Opportunities

i. Ferrell Jenne reviewed the upcoming educational opportunities.

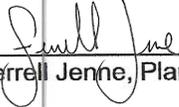
B. Pedro Herrera commented the next meeting will require a physical quorum unless the Governor extends his Order.

X. **Trustee Reports, Discussion, and Action** – None

XI. **Adjournment** - The meeting adjourned at 11:06am

XII. **Next Meeting** – Quarterly Meeting, November 3, 2020, at 8:30am

Respectfully Submitted By:



Ferrell Jenne, Plan Administrator

Approved By



Mark Eisner, Chairman

Date Approved by the Pension Board: November 3, 2020