

**CITY OF VERO BEACH POLICE OFFICERS' RETIREMENT TRUST FUND
BOARD OF TRUSTEES
QUARTERLY MEETING MINUTES
City Hall, Council Chambers
1053 20th Place, Vero Beach, Florida 32960**

Wednesday, February 19, 2020, at 12:20 p.m.

TRUSTEES PRESENT: Gregory Budde
Matt Harrelson
Harry Offutt
Ann Thompson
David Farquharson

TRUSTEES ABSENT: None

OTHERS PRESENT: Ken Harrison, Sugarman & Susskind
Dave West, AndCo Consulting
Cindy Lawson, Finance Director
Karen Russo, Salem Trust
Greg Peters, Dana Investment Advisors
Clarke Moody, Harding Loevner Equity
Siera Feketa, Foster & Foster
Brad Heinrichs, Foster & Foster

- I. **Call to Order** – The meeting was called to order at 12:28 p.m. by Matt Harrelson.
- II. **Roll Call** – As reflected above.
- III. **Public Comments**
 - a. The Board agreed by consensus to move New Business to the next agenda item.
- IV. **New Business**
 - a. Notification letter from City auditors for any findings
 1. Matt Harrelson reviewed the audit letter commenting he was not sure if a separate letter was necessary to be issued for the State.
 2. Cindy Lawson briefly reviewed the audit of the plan being done as part of the City's audit. Cindy commented if there were any deficiencies found in the plan, they would be reported in the audit. Cindy commented the State received the Comprehensive Annual Financial Report (CAFR), which would reflect any issues.
 3. Ann Thompson commented she originally raised the issue and that answered her question.
- V. **Approval of Minutes**
 - a. November 20, 2019, quarterly meeting

The minutes from the November 20, 2019, quarterly meeting were approved, upon motion by Ann Thompson and second by Gregory Budde; motion carried 5-0.

- VI. **Reports (Attorney/Consultants)**
 - a. Foster & Foster, Brad Heinrichs, Board Actuary
 1. October 1, 2019, actuarial valuation report
 1. Brad Heinrichs gave a brief overview as of the valuation date in comparison to when the City makes their contribution.
 2. Brad Heinrichs reviewed the minimum required contribution commenting the City had access to a prepaid contribution of \$38,885.93.
 3. Plan experience was unfavorable overall on the basis of the plan's actuarial assumptions. Sources of actuarial loss included an average

- salary increase of 12.03%, which exceeded the 4.97% assumption and an investment return of 7.21% (Actuarial Asset Basis) which fell short of the 7.65% assumption. There were no significant sources of actuarial gain.
4. Brad Heinrichs reviewed the actuarial gains and losses commenting the plan did not meet the assumed rate of return. Brad commented the biggest loss this year was salary increases.
 5. Brad Heinrichs reviewed the Market Value of Assets (MVA) for the plan in comparison to the Actuarial Value of Assets (AVA) commenting the AVA was not exceeding the MVA.
 6. Brad Heinrichs reviewed the liabilities commenting the total liabilities increased by \$2.5 million.
 7. Brad Heinrichs reviewed the funded ratio commenting the funded ratio was 89.0%, which was a decrease from 90.5%.
 8. Brad Heinrichs reviewed the unfunded liability, which increased from \$4,453,245 to \$5,424,675.
 9. Brad Heinrichs reviewed the pension cost commenting the administrative expenses had gone down.
 10. Brad Heinrichs commented the net loss for the plan was \$1,170,836, mostly due to investments.
 11. Brad Heinrichs reviewed the 5-year comparison of actual and assumed salary increases commenting there was a loss in police officers within the department.
 12. Matt Harrelson asked the length of the smooth used by the plan. Brad Heinrichs commented it was a 5-year smooth and reviewed the smoothing technique.
 13. The Board and Brad Heinrichs discussed the recognized gains and losses.
 14. Matt Harrelson asked Brad Heinrichs to review the age and service distribution of past service. Brad reviewed the age and service distribution.
2. Further discussion of experience study
1. Brad Heinrichs reviewed the experience study commenting the last one was done in 2012. Brad reviewed the assumptions that were analyzed with the experience study. Matt Harrelson asked if that would help them in analyzing their assumed rate of return. Brad Heinrichs commented yes, it was evaluated with the experience study.
 2. Brad Heinrichs and the Board discussed the assumed rate of return. Brad reviewed inflation. Brad reviewed the components that should be reviewed commenting he recommended having the assumed rate reviewed in conjunction with the other components.
 3. Matt Harrelson and Brad Heinrichs discussed the change in the mortality table. Brad commented he did recommend using the new mortality table with the next valuation. Brad and Matt discussed the impact to the plan. Brad commented the impact would be shown in the experience study.
 4. The Board discussed the fee of the experience study. Brad Heinrichs commented it was \$7,500. Matt Harrelson asked what the turn-around was. Brad suggested doing it in the summer. The Board and Brad discussed the timing of the experience study and when they would hope to have the new assumptions approved.

The Board approved the October 1, 2019, valuation report, upon motion by Ann Thompson and second by David Farquharson; motion carried 5-0.

5. Ann Thompson asked if the experience study would show the impact if the assumed rate was changed. Brad Heinrichs reviewed the experience study commenting it showed the impact of each change.

The Board approved the experience study to be prepared by Foster & Foster to be presented at the quarterly meeting in May, upon motion by Ann Thompson and second by Gregory Budde; motion carried 5-0.

3. Further discussion of portal
 1. Matt Harrelson commented they were going to hold off on the portal, but they might be interested in it in the future.

The Board voted the declaration rate of return for the plan at 7.65% for the next year, the next several years, and the long-term thereafter net of investment related expenses, upon motion by Ann Thompson and second by Gregory Budde; motion carried 5-0.

- b. City of Vero Beach, Cindy Lawson, Finance Director
 1. Financial statement as of December 31, 2019
 1. Cindy Lawson briefly reviewed the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.
 2. Cindy Lawson reviewed Attachment B, Refunds Payable, commenting there were refunds payable for members who were not going to receive a future benefit as they were not vested. Siera Feketa commented officers could leave their funds in the plan for up to five years.
 3. Matt Harrelson requested the plan administrator send a letter to the non-vested terminated people to prove we tried to contact the members to inform them they had funds there. Matt requested to include the amount they were due, and they could leave the funds for up to five years. Matt requested the letters be sent out in March.
- c. Salem Trust, Karen Russo, Custodian
 1. Service report summary as of December 31, 2019
 1. Karen Russo commented the Service Report had been provided to the Board for their review.
 2. Class action report as of December 31, 2019
 1. Karen Russo briefly reviewed the Class Action Report commenting they did not file anything, but the plan did receive \$396.76.
 3. Karen Russo gave a brief update on the transition and reviewed the letters sent to the clients. Ann Thompson asked if they had received any pushback from the investment managers. Karen commented there had been no pushback.
 4. Karen Russo gave an overview of the changes that would be taking place commenting the account numbers and wiring instructions would change effective March 1, 2020. Karen commented she would get with Siera Feketa on the changes in the account numbers. Karen commented she got with Cindy Lawson on the changes to the wiring instructions for the contributions. Karen commented the statements would look the same. Karen reviewed the minor changes in the statements commenting Cindy was fine with the changes.
 5. Karen Russo commented the March 1, 2020, payments would go out as usual, but the funding date would be February 28, 2020. Karen commented there would be two 1099-Rs sent out to retirees for 2020. Karen commented a letter would be sent to the retirees closer to the end of the year.
 6. Karen Russo commented if they received any lump sum distributions the next week, they would hold them for the following week.
 7. Ken Harrison reviewed the changes previously made with Salem Trust and the issues at that time. Karen Russo reviewed the differences in that situation in comparison to this situation. Ann Thompson commented last time there was a system conversion and there was not a conversion here.
 8. Ken Harrison expressed his concern in the change commenting it might cause the same problems it had before. Karen Russo commented the managers needed to instruct the brokers to update the delivery instructions. Karen and Ken discussed the potential concerns. Karen reviewed the process they took when they could not get in touch with the investment managers.
 9. Karen Russo commented the Board received the Service Report and there might be a small delay in the next one, but they would continue to receive the Quarterly Service Report.

- d. Dana Investment Advisors, Greg Peters, Investment Manager
 - 1. Quarterly report as of December 31, 2019
 - 1. Greg Peters briefly reviewed the portfolio summary. Greg commented the S&P was up 9.07% for the quarter, which was successful.
 - 2. Greg Peters reviewed the market environment for the quarter. Greg reviewed the changes in the rates commenting they came full circle. Greg reviewed the factors that impacted the market. The Board and Greg discussed the impact of Coronavirus. Greg commented despite the worries the market continued to hit new highs.
 - 3. Greg Peters reviewed the growth versus value markets commenting it would revert back to value soon.
 - 4. Greg Peters reviewed the strategy profile.
 - 5. Greg Peters reviewed the detractors and attractors.
 - 6. Greg Peters reviewed the characteristics overview data as of December 31, 2019, commenting it showed the valuation discounts. Greg commented they wanted to be higher than the benchmark and wanted to show some growth characteristics.
 - 7. Greg Peters commented the market was continuing to be strong in the 1st quarter, commenting the Russell Value Index was up 0.9% and their portfolio was up 1.93%.
- d. Harding Loevner Equity, Clarke Moody, Investment Manager
 - 1. Quarterly report as of December 31, 2019
 - 1. Clarke Moody introduced himself and gave an overview of Harding Loevner. Clarke gave a brief introduction to the international investments commenting they did not invest in countries, but rather individual companies.
 - 2. Clarke Moody reviewed the history of Harding Loevner commenting they had grown significantly and reached \$73 billion in total assets at the end of last year. Clarke commented they were 40% owned by employees, but they had full control over their business.
 - 3. Clarke Moody gave an overview of the investment team and culture within Harding Loevner.
 - 4. Clarke Moody reviewed the benefits of having their team located internationally. Clarke commented fundamentally as a company they were business analysts.
 - 5. Clarke Moody reviewed the quality and growth investment philosophy. Clarke commented the average holding period in this portfolio was 6 to 7 years.
 - 6. The total fund net return for the quarter ending December 31, 2019, was 9.96%. The 1-, 3-, and 5- year trailing total net returns were 22.81%, 10.54%, and 6.67%, respectively, comparing to the benchmarks of 22.13%, 10.40%, and 6.01%, respectively. Since inception (1/1/2010) the total fund net returns were 6.84% outperforming the benchmark of 5.44%.
 - 7. Clarke Moody commented since the fund had been invested with them, they had performed 150 basis points above the benchmark, net of fees.
 - 8. Clarke Moody the MSCI ACW ex-US index total returns by quality, growth, and value rank. Dave West commented the system was on as fiscal year and reviewed the poor years and asked Clarke if he recollected the reasons for the poor performing years. Clarke reviewed the factors that caused poor returns for the 4th quarter of 2018, commenting the market had not stopped going up since the day after Christmas in 2018. Clarke reviewed the factors that impacted the 2016 returns.

Note: Matt Harrelson left at 1:56 p.m.

- 9. Clarke Moody reviewed how they invested commenting they invested in companies, not countries, and they did well when the stock they invested in did well.

Note: Matt Harrelson returned at 1:59 p.m.

- 10. Clarke Moody reviewed the interest rates.

11. Clarke Moody commented while they had exposure to some UK business, they were all larger multinationals. Clarke commented they tend to like multinational businesses.
 12. Clarke Moody commented the portfolio was invested in emerging markets, but they were slightly underweight in emerging markets. Clarke reviewed the reasons why they stayed underweight in emerging markets.
 13. Clarke Moody briefly reviewed the performance for the 12-month period commenting it was strong.
 14. Clarke Moody reviewed international vs. US relative valuation commenting it showed the importance of the international investment.
 15. Matt Harrelson asked Clarke Moody if there were any countries they would not invest in and what their policies were, if any, to not invest in certain countries. Clarke commented they did invest in Russia, they did with their eyes wide open. Clarke reviewed the different companies in which they invested in Russia. Clarke commented they would not invest in Turkey and reviewed the reasons why.
- e. AndCo Consulting, Dave West, Investment Consultant.
1. Quarterly Report as of December 31, 2019
 1. Dave West reviewed the firm update and letter from Mike Welker thanking the Board for their business. Dave West commented they remained 100% employee owned.
 2. Dave West reviewed the asset allocation commenting they had been advocating to stay overweight in domestic equities and were suggesting staying underweight in fixed income. Dave commented there was no recommendation to change the asset allocation at this time.
 3. The market value of assets as of December 31, 2019, was \$46,325,640.
 4. The total fund net returns for the quarter were 5.24%. The 1-, 3-, 5- and 7-year trailing total net returns were 19.53%, 10.85%, 7.52%, and 9.02% respectively, compared with the benchmarks of 20.35%, 10.21%, 7.99%, and 9.31% respectively. Since inception (1/1/1998) the total fund net returns were 6.98% outperforming the benchmark of 6.77%.
 5. Dave West commented the 1-year return had been a phenomenal period. Dave commented the difference between the top percentile and bottom percentile for the 1-year period was very small.
 6. Dave West briefly reviewed the returns of the different investment managers. Dave commented Garcia Hamilton & Associates (GHA) made the correct call with the economic outlook. Dave commented now that had been confirmed, they needed the next step to happen before seeing the turnaround.
 2. Discussion of UBS Trumbull Investment
 1. Dave West commented the situation was still very fluid. Dave briefly reviewed the discussion from the last meeting. Dave briefly reviewed the *Wall Street Journal* article published regarding UBS. Dave commented the basis of their recommendation was to seek better opportunities, not a stress termination. Dave reviewed the other factors that led to their recommendation at the time the recommendation was made. Dave commented UBS had now announced a new person at the helm of the company.
 2. Dave West reviewed the loyalty agreement now being offered by UBS and the fee discount associated with the loyalty agreement.
 3. Dave West gave an update on the status of the queue. Dave commented he and the Board discussed rebalancing since it would help get the funds back sooner. Dave commented this was a good tactic since they had now come out with the loyalty agreement. Dave commented if they just submitted a redemption it would take 4 to 5 years to get the funds. Dave commented it looked like it would be a 4 to 5-year distribution period. Dave commented it made sense to continue with the rebalancing and to engage the loyalty agreement. Dave commented Ken Harrison's firm had reviewed the document and was comfortable with the way it read.
 4. Dave West recommended engaging in the loyalty agreement to receive the 20% discount for the remaining dollars with UBS.

5. The Board discussed the benefits of the loyalty agreement.
6. Dave West reviewed the anticipated returns of UBS, commenting the market value of assets was \$2.7 million.
7. Ken Harrison reviewed the recommendation of Dave West. Matt Harrelson and Ken discussed when the fund could pull the remaining funds from UBS. Ken commented they were committing to leaving what was there if they agreed to the loyalty agreement. Ken commented they had requested \$1 million and they would leave \$1.7 million.
8. Dave West and the Board discussed the potential for UBS to turn things around.

The Board approved AndCo Consulting's recommendation to engage in the loyalty agreement with UBS, upon motion by Ann Thompson and second by David Farquharson; motion carried 5-0.

The Board approved AndCo Consulting's December 31, 2019, report, upon motion by Gregory Budde and second by Ann Thompson; motion carried 5-0.

3. Investment Policy Statement (IPS) Amendment
 1. Dave West commented he reviewed the IPS, and only one change needed to be made. Dave commented the assumed rate of return should be changed. Dave commented since this number was fluid, he recommended removing the assumed rate of return entirely. Ann Thompson commented leaving the actual number out was the correct decision. The Board discussed the IPS amendment.

The Board approved the removal of the assumed rate from the Investment Policy Statement, upon motion by Ann Thompson and second by Gregory Budde; motion carried 5-0.

2. Dave West commented he would send the IPS to Siera Feketa to have the Chairman sign. Dave reviewed the process to update the IPS.
- f. Sugarman & Susskind, Ken Harrison, Attorney
1. Secure Act and IRS Limits Memo
 1. Ken Harrison briefly reviewed the special report commenting the biggest impact to the DB plan was the Required Minimum Distribution (RMD) age being 72 rather than 70.5. Ken briefly reviewed some other items covered in the special report.
 2. Legislative Update
 1. Ken Harrison commented he could not find anything being pre-filed under pensions.
 2. Ken Harrison briefly reviewed one pre-filed bill relating to banking. Ken commented it would require the trustees to participate in a required training regarding ethics. Ken commented there was a direct conflict between this bill and Chapter 112.
 3. Ken Harrison briefly reviewed a bill that was pre-filed regarding fire plans. Ken commented if the bill passed, it might cause a domino effect. Ken commented the bill was to include unincorporated premium tax money where they provided full service.
 4. Ken Harrison commented the session was in, but it did not seem pensions were a high priority in this session.
 5. Ken Harrison briefly reviewed the ADA compliance issues. Ken commented to make sure the plan was only posting the minimally required documents.
 6. The Board discussed different lawsuits involved with ADA compliance. Siera Feketa reviewed the SB 534 requirements commenting some Cities had been sending them back for conversion. Matt Harrelson commented we would wait and see what the City said. Siera commented she would have an update at the next meeting regarding the SB 534 posting requirements.
 7. Ken Harrison briefly reviewed the cyber liability and ransomware issues.
 8. Ken Harrison briefly reviewed how the hackers were getting into the system. Ken commented when using public WIFI to be careful.

VII. **Consent Agenda**

- a. Siera Feketa briefly reviewed the consent agenda.
- b. Invoices for Ratification
 - 1. Warrant #36, #37, and #38
 - 2. Quarterly Fund Activity Report for November 13, 2019 through February 12, 2020

The Board approved the consent agenda as presented, upon motion by Ann Thompson and second by Greg Budde; motion carried 5-0.

VIII. **New Business**

- a. Notification letter from City auditors for any findings.
 - 1. This was discussed earlier in the meeting.

IX. **Old Business - None**

X. **Staff Reports, Discussion and Action**

- a. Foster & Foster, Siera Feketa, Plan Administrator
 - 1. Cyber liability quote
 - 1. Siera Feketa briefly reviewed the cyber liability quote commenting there were a few options and she sent it to Ken Harrison for his review and recommendation.
 - 2. Ken Harrison commented he recommended the Board purchase the cyber liability insurance as it was an important issue.
 - 3. Siera Feketa briefly reviewed Foster & Foster's decision to increase cybersecurity.
 - 4. Dave Farquharson asked what data they had to protect as a Board. Siera Feketa commented she could confirm the City's coverage and the Board could discuss this again at the next meeting. The Board agreed by consensus to discuss the cyber liability quote at the next meeting.
 - 2. Siera Feketa commented the fiduciary liability policy would be expiring on June 12, 2020 and would be on the next agenda.
 - 3. Siera Feketa commented the Summary Plan Description (SPD) was last done on May 16, 2018 and, therefore, would be on the next agenda. The Board discussed who would prepare the next SPD and agreed to discuss who would prepare the SPD at the next quarterly meeting.
 - 4. Educational opportunities
 - 1. Siera Feketa reviewed the FPPTA 36th Annual Conference, from June 28, 2020 through July 1, 2020 in Orlando, FL.
 - 2. Siera Feketa briefly reviewed the change in Continuing Education Units (CEUs) for the CPPT commenting the Annual Conference was now worth 10 CEUs.

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

XII. **Public Comments** – None.

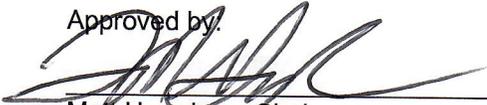
XIII. **Adjournment** – The meeting was adjourned at 3:10 p.m.

XIV. **Next Meeting** – The next quarterly meeting, June 30, 2020 at 12:20 p.m.

Respectfully submitted by:


Siera Feketa, Plan Administrator

Approved by:


Matt Harrelson, Chairman

Date Approved by the Pension Board:

6/30/2020