FIRE PENSION BOARD MINUTES
Wednesday, February 20, 2019 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Members: Kent Middleton and Norman Wells **Also Present**: Records Retention Specialist, Heather McCarty

Excused Absence: Duane Bluemke

1. CALL TO ORDER

The Chairman called the meeting to order at 10:00 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

Mr. Zokvic requested to add to item 6-A) the results of the election for Mr. Middleton and himself.

3. APPROVAL OF MINUTES

A) November 21, 2018

Mr. Losey made a motion to approve the November 21, 2018 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

A) Highland Capital Management

Mr. Todd Wishnia, with Highland Capital Management, said that this was a pretty rough quarter and was the worst equity performance for a quarter since 2008 and the worst December that they have seen since 1931. He added that most asset classes were negative for the year. He talked about the three (3) things that caused the change in the market, which were 1) that the Fed raised rates once again, which was the fourth rate hike in 2018, 2) trade war concerns continued to grow and 3) they saw global growth slowing down. He said financials and housing struggled and then eventually the entire market followed. He said the market has since come up since Christmas Eve.

Mr. Wishnia went over *Total Return Summary* shown on page 10. He then reviewed the returns on page 11, *Performance Returns for Various Periods*. He said they do not see a recession ahead and do expect things to bounce back and in fact, this quarter is looking a little bit better. This quarter, their fixed income is right in line with the index and is up about 1.1% and so far it has been a nice bounce back. He did note that history has shown when they have a January and February this strong, the whole year has been strong.

B) Salem Trust

1. Class Action Report

Mrs. Karen Russo, with Salem Trust, went over the Class Action Report for the period October 1, 2018 through December 31, 2018 (on file in the City Clerk's office). She reported that there were no class actions filed on behalf of the Plan during the period and the Plan did receive in two (2) class action settlements from Haliburton ($321.77) and Genworth Financial ($191.66).

2. Salem Trust Service Report

Mrs. Russo talked about the Salem Trust Service Report Summary for the period ending December 31, 2018 (on file in the City Clerk's office).

3. Signature Authorization Form

Mrs. Russo said since there is a new Board member, they might want to update their Signature Authorization Form that is on file with them. The Board members in attendance signed the Authorization Form.

Mrs. Russo reported that their Deerfield Beach office is relocating to Hollywood. She will remain their relationship manager, but she will be supported by the Tampa office. She added that nothing changes and everything is still submitted the same way.

C) AndCo Consulting

This item was discussed after item 6-C).

Mr. Dave West, with AndCo Consulting, recommended coming back to the next meeting with an asset study that looks at the probability math surrounding future and past market assumptions and taking a look at volatility reduction and looking at the current 6% assumption and the impact of going to 5.75% or 5.50%.

Mr. Amrose agreed. He added that if the sole purpose of the asset allocation is geared towards the Plan still getting the State money, he would recommend waiting until they have their numbers next year. Mr. West agreed with that perspective.

Mr. Zokvic asked how many plans have their return rate at 5.5% or 5.75%. Mr. Amrose said the average of his plans is 7.15% to 7.2%. However, he doesn't have many plans that are closed and this mature. He commented they are the most mature Plan he has and he thinks it is at a good rate.

Mr. West said if the Board is comfortable with this conversation, that will bring closure for now. They would recommend that they keep that item on the radar and come back with the appropriate recommendations based on the financial status at the next valuation.

Mr. Zokvic said a couple of weeks ago, before the first, he signed a transfer approval for $70,000 to be able to pay the retirees, which was lower than his original request of $320,000, and he said he would discuss that at this meeting along with reallocation. Mr. West said the reallocation ties into the discussion they've been having and he is requesting that they table that until the next valuation.

Mr. Zokvic said he wants to make sure that sometime between now and the end of the month, that they make the allocation of money to make sure they have the money to pay the retirees. Mr. West said from an operational standpoint, they would work closely with Salem Trust and if they do need to raise the minimum operating balances with a letter of direction, they would make adjustment to do that. He said they are trying to work with a more immediate forecast. He said to the degree that they need to modify their operating cash balances, he will need to coordinate with Mrs. Russo. He said over the near term, they are making the necessary adjustments and hopefully they are doing it one (1) time, rather than multiple times during the month because that is a little too disruptive administratively. He said they are adjusting that on an ongoing basis and if they do need some semi permanent adjustment to the operating cash balances, they will certainly do that.

Mr. Zokvic questioned why he changed the amount to $70,000 and wondered if they would have enough for the other months. Mr. West said there was a misinterpretation of the timing of that particular cash flow, which was more immediate as opposed to a month end and he erroneously assumed it was for a month end. He was trying to get all the numbers aggregated so they go in one (1) direction and everything gets done on time and as minimally disruptive administratively as possible.

Mr. West talked about the AndCo firm update written by Mr. Mike Welker, President/CEO, shown on page 1 in their Investment Performance Review report for the period ending December 31, 2018 (on file in the City Clerk's office).

Mr. West briefly went over page 21, *Comparative Performance Fiscal Year Returns*. He noted that the real estate allocation worked extremely well last year and provided a rock solid allocation element for the December market correction. He said everything else was under pressure. He reviewed the chart on page 2, *Major Market Index Performance*. He said they need to be prepared to stick with the long-term program and policies and procedures they have in place. He went over the returns shown on page 19, *Comparative Performance Trailing Returns.* He reported that the total fund (net) declined -8.29%, which put their one (1) year number at -5.08%. Highland equity was down -12.39% and the Vanguard 500 index was down -13.53%. He continued with the returns on page 20, pointing out that their international composite was down -15.66%. He said they have seen a rebound in January. He reported that the PIMCO fund was down -1.26%; however, they ranked first in their three (3), five (5) and seven (7) year returns. He added that Intercontinental was up 2.14% for the quarter and annualized at 10.73%. He reviewed the chart on page 12, *Asset Allocation vs. Target Allocation*. He said they have no action recommendations at this time. He added that with the 5% rebalance rule that they are on, it does require some time and some material logging of differences between asset valuations before they would actually take an action. With the recovery in January, it has put them back over the target on their equity allocation and the international allocation has moved back up closer to the target. Going forward, his recommendation is that they slowly and gradually, under the current asset allocation strategy, de-risk and take some of the bets off the table, and manage this program much closer to the long term policy targets going forward. He said bottom line, there are no action recommendations from a rebalancing standpoint at this time.

Mr. West pointed out in the compliance checklist from the September 30, 2018 report, which carried over to this report, there was a bond that is checked off as being non-compliant, which is not correct. He said he would make that correction and re-send those pages out.

Mr. Middleton recommended they accept the AndCo report for the quarter. Mr. Wells seconded the motion and it passed unanimously.

6. NEW BUSINESS

A) Election of Fifth Board Member – Henry Losey

Mr. Zokvic reported that the election with the retirees for his and Mr. Middleton's positions on the Board came back unanimous to reappoint them.

Mr. Wells made a motion that they reappoint Mr. Losey to the Board. Mr. Middleton seconded the motion and it passed unanimously.

B) Actuarial Valuation Report – Gabriel, Roeder, Smith

Note: This item was discussed after item 5-B).

Mr. Jeff Amrose, with Gabriel, Roeder and Smith, was at their meeting to present the Actuarial Valuation report as of October 1, 2018 (on file in the City Clerk's office). He reported that the Plan is in very good shape and that the funded ratio is 87.6%, which is very good considering the realistic assumptions used. He said the required City contribution in their closed plan has been very stable.

Mr. Amrose began going through the report on page 1, *Comparison of Required Employer Contributions*. He pointed out the required employer contribution last year was $146,657 and this year, it decreased $22,000 down to $124,205. He explained the main reason why was that one (1) of the charged bases expired in the amount of $28,000. On page 2, he reviewed that there was a net actuarial loss of $26,005, which was due to the Plan not losing any retirees in the past year. He pointed out the funded ratio is 87.6%, compared to 85.8% last year. He explained if that goes to 100%, the State money would stop for that year. He noted it is getting closer to 100% and they don't want to lose that major funding source. He said the return for fiscal year 18/19 would need to be 14% to 15% for them to be at 100% and that doesn't look promising. They are going to have to have that conversation eventually. He explained that to help avoid losing the State money, the Board may want to consider talking with AndCo about lowering the risk appetite of the plan.

Mr. Zokvic thought the 13th check was to help prevent that. Also they could do a benefit change and pay cash for it. He added that they don't take the State money away the first year you hit 100%. Their Plan has been over 100% for a couple years. Mr. Amrose said he would rather not leave it up to chance. For example, if they were to get a 20% return next year which would push them over 100%, he would want to look at options to bring it down before submitting it to the State.

Mr. Amrose explained that the 13th check is not based on the assumptions; it is based on cumulative gains or losses. He said if they lower the assumption, the unfunded would go up, but that would not change the gains or losses. He said they can make decisions when he does the report next year if they reach 100% funded.

Mr. West said at their last meeting, they had a discussion about adjusting and de-risking the portfolio, but he did defer that pending this conversation today with the actuary. Under their circumstance, he deferred to the Actuary in setting what the rate of return assumption is. He said he would be receptive and recommend that they take the issues that Mr. Amrrose is pointing out and be prepared to de-risk the investment portfolio.

Mr. Amrose cautioned that they don't want to lower the risk appetite so much that the City contribution dramatically increases.

Mr. Zokvic asked if the five (5) year smoothing is the average of most actuaries. Mr. Amrose answered yes, for the asset smoothing. Mr. Zokvic asked about how going down to four (4) years would impact the plan. Mr. Amrose said with the lower smoothing period they use, the more volatile the City's required contribution would be. He added that almost all of their plans use five (5) years to reduce volatility.

Ms. Lawson asked if the State looks at the actuarial funded ratio or the GASB funded ratio. Mr. Amrose explained the State has confirmed that it is the market value of assets that determines the funded ratio. He referred to page 2, and pointed out that if the market value had been the basis for this valuation, the funded ratio would have been 93.8% and that is the number the State would look at and if that goes over 100%, that is where they would have a problem with the State money.

Mr. Amrose said if they have more years like the last 10, they will more than likely see the required contribution from the City go down. Also, if they have years like 2008 and 2009, they will likely see it go up. He reviewed the chart on page 11, *UAAL Amortization Period and Payments*. He explained that they keep having bases expire that they pay of and those payments go away. He went to page 6, *Chapter Revenue*, pointing out the past year, they received $138,704 in State money. He went over the chart on page 7, *Participant Data*. He pointed out that the average age went up one (1) year, from 74.2 to 75.2 and the average annual benefit went up from $65,478 to $66,788. He then reviewed the chart on page 8, *Actuarially Determined Employer Contribution*, explaining how they calculate the required contribution.

Mr. Amrose continued going through the report, going over page 10, *Calculation of Employer Normal Cost*, and page 11, *Liquidation of the Unfunded Actuarial Accrued Liability.* He reviewed the five (5) year smoothing method shown on page 27, *Development of Actuarial Value of Assets*. He referred them to pages 30-35, which are the GASB 67 actuarial calculations.

Mr. West said he had a couple questions. First, is there anything else, in regards to minimizing the City contribution volatility going forward, that the Trustees can do within their power to adopt the assumption or the methodology to minimize contribution volatility. The second part is if there are any provisions or actions that the sponsors taking could help minimize future contribution volatility. Mr. Amrose thinks the assumptions and methods are set in a good way. He likes that they are paying off the unfunded over 10 years and would not recommend going longer than that with a closed plan that is this mature. He added that mortality is a source of volatility in that each year someone doesn't die, the Plan is going to experience a small loss and when someone does die, the Plan is probably going to get a large gain. He explained on the investment side, a way to reduce volatility is through their asset allocation. He reviewed page 18, *Recent History of Required and Actual Contributions*.

C) Annual Report

Ms. Cindy Lawson, Finance Director, said the Annual Report (on file in the City Clerk's office) mirrors the financial information from the Actuarial Valuation presented to them and the CAFR. She added the rest of report is compliance data. She referred to the Detailed Accounting Report included in the backup (on file in the City Clerk's office). She said that needs to go on the City's website for compliance. She added they are looking for their approval to submit the Annual Report to the State.

Mr. Losey made a motion to approve the Annual Report and submit it to the State. Mr. Middleton seconded the motion and it passed unanimously.

Ms. Lawson commented that the plan is in great shape in terms of the assumptions they are making.

D) Expected Annual Rate of Return

Mr. West stated that they are comfortable that the current allocation has a reasonable probability of obtaining a 6% return over the long term and over the intermediate term. He said the State also requires that they forecast the individual fiscal year. He added he would forward the letter for the State to the Clerk's office for Mr. Zokvic to sign.

E) Klausner Memos

1) House Bill 265 (proposed)

Mr. Zokvic referred to the Klausner memo on the proposed House Bill 265 (on file in the City Clerk's office). He stated that they already do everything that is being proposed, except for possibly not having at least two (2) hard copies of every item on the agenda. He said their Attorney wanted them to be aware of it because apparently there are a lot of Boards that don't do some of it.

2) Data in the Division of Retirement's Annual Report

Mr. Zokvic referred to Klausner's memo on data in the Division of Retirement's Annual report (on file in the city Clerk's office).

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Zokvic said that the State class is usually in May. He asked that the Clerk's office email the information on the class to the members.

Mr. Zokvic explained that Mr. Bluemke is worried that because he doesn't attend all the meetings it might hinder the Board. He said Mr. Bluemke questioned if the Board would like him to resign, or to remain on the Board.

Mr. Middleton said that under the circumstances that the State requires them to have five (5) members, whether Mr. Bluemke is present or not, they show five (5) Board members. Mr. Wells agreed they should keep Mr. Bluemke on the board.

Mr. Losey said that it is not a problem when he is not here. He added that when he is here, he is an asset.

Mr. Middleton made a motion that Mr. Bluemke remain on the Board. Mr. Wells seconded the motion and it passed unanimously.

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:29 a.m.

/hm