

FIRE PENSION BOARD MINUTES
Wednesday, May 20, 2020 – 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton
Also Present: Records Retention Specialist, Heather McCarty

1. CALL TO ORDER

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

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

Mr. Zokvic added item 6-C) Discussion of TASC under New Business.

3. APPROVAL OF MINUTES

A) February 19, 2020 Minutes

Mr. Middleton made a motion to approve the February 19, 2020 minutes. Mr. Zokvic seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

A) Salem Trust

Mrs. Karen Russo, with Salem Trust, joined the meeting via speakerphone. She referred to the Class Action Report for the period of January 1, 2020 through March 31, 2020 (on file in the City Clerk's office). She explained that the report does look different this quarter and it is specific to their Plan. She went through what was covered on each page. She reported there was one (1) claim filed for the Plan for the period that included two (2) accounts in the claim. She pointed out for that claim, they recognized a loss of \$4,059 in damages, with an estimated payout of \$57.23. They did receive in a settlement of \$280.34 during the period that came in from a previous claim.

Mrs. Russo talked about their transition, which was effective March 1, 2020. She said the transition went well. There were some trading issues in the beginning, but they worked everything out. She said they worked closely with investment managers and brokers to resolve any issues going forward. She pointed out the trading volume had increased at least 50% more

than the normal trading volume at the beginning of the transition. The first new statements came out in April. She noted that everyone's benefit payments were paid with no interruption. At this time, item 6-C) was discussed.

B) Highland Capital Management

Mr. Dave West, with AndCo Consulting, wanted to make some comments and ask Highland Capital to address a couple unique market dynamics that had a dramatic impact on the portfolio performance relative to their benchmark. He explained that their numbers were terrible in March relative to their established benchmarks. He asked Mr. Wishnia to address how they are more diversified and are still using the S&P as their benchmark. He said this was an extreme exception period and there was such a huge return disparity between large cap and small cap.

Mr. Todd Wishnia, with Highland Capital, stated that it was a horrible quarter overall. The S&P was down about -19.6% and it was the worst loss since the financial crisis of 2008. He explained that it was very disappointing overall, but especially for managers like themselves whose portfolio is structured as a value portfolio predominately large cap.

Mr. Wishnia went to their Investment Review report for the period ending March 31, 2020 (on file in the City Clerk's office). He went over the chart on page 12, Domestic Equity Sector Allocation vs. R1000V. He talked about what has been going on in the economy and some of the effects they saw from COVID-19. He pointed out that they were overweight in healthcare, which affected the portfolio in a large way. He said that they did not see the performance from pharmacies as was expected. He talked about each of the sectors. He said they think they will eventually see some reversals, but it will take a little time. He said there has been some nice recovery in energy and quarter to date, their value portfolio is up 11.3% against the value index. He said so far, halfway through the quarter, they are having a good quarter. He explained that they are measured against the S&P, and without technology stocks, like Amazon, Apple and Facebook, it makes it hard to keep up with that index.

Mr. West said he went back to the Investment Policy Statement (IPS) they recently reviewed and approved. He questioned if they need to change or address anything. He said the IPS has them against the core benchmark and asked if they need to change the benchmark, or do they need clarification. He pointed out that they have the ability with their equity allocation to make those changes.

Mr. Wishnia said they could change the benchmark to the value benchmark, or they could get the Board to approve them taking 10 to 15% into growth or something like that to make it a little more in line with that core index.

Mr. West said they could review their engagement agreement and see if there is anything style specific, but he does not think so. Mr. Wishnia said that he would take a look at it.

Mr. West said he wanted to make sure they have the ability to fairly perform to the benchmark that has been established. He clarified that they do have the authorization to manage that core mandate as they see fit. He said if that requires some movement from the Highland strategies, they have that discretion.

Mr. Wishnia wanted to confirm that they have the discretion to move. Mr. West answered yes. He does not want them to be hampered unnecessarily because they are stuck playing ball on the left side of the court while all the action is on the right side.

Mr. Wishnia said he would check on that. Mr. West asked if they need confirmation in the form of a letter with the Board's acceptance for their compliance. He said he thinks the policy is pretty clear, but wants to make sure they have what they need.

Mr. Zokvic commented that he thought they fixed that when they updated the IPS so they could go with either one at their discretion. Mr. West agreed.

Mr. Wishnia said if that is what the Policy says, they should be good. He said he would double check and see what they have and why they have been strictly value.

Mr. Wishnia talked about their fixed income portion. He explained that their lack of ability to purchase those lower quality bonds helped them this quarter.

Mr. Zokvic asked if had any thoughts on when the stock market would recover, whether this year or next. Mr. Wishnia said nobody knows. He added that it doesn't look like airlines are going to pick up for another year or two (2).

C) AndCo Consulting

Mr. Dave West, with AndCo Consulting, referred to their handout, Asset Allocation Report as of May 19, 2020 (on file in the City Clerk's office). He explained that the single most important event that impacted their investments occurred around March 17th, when the Federal Reserve came in with two (2) very critical market support programs. He talked about bond performance and the different sectors. He explained there were a lot of influences making life very difficult for all investment managers. He went over performances for the March quarter, pointing out that the worst performer was the value style and also small-cap and mid-cap stocks. He noted that the Russel 2000 value index was down -35%, the Russel 2000 was down -30% and the value index was down -26%. He talked about some of the reasons for the performance disparity.

Mr. West went to their Investment Performance Review report for the period ending March 31, 2020 (on file in the City Clerk's office). He reviewed the quarter performance chart on page 2, Major Market Index Performance. He noted that real estate continued to perform very well for them and was a big help to saving some of the down side. He talked about the Asset Allocation vs. Target Allocation chart on page 12. He went over pages 19 through 22, Comparative Performance Trailing Returns. He reported the Total Fund (Net) was down -18.11% for the

quarter and fiscal year to date (FYTD) was down -12.97%. He explained it was a very unusual period of time. He commented that they want to stay well diversified in equity, but for this period of time, that didn't pay off. He wanted everyone to understand that and that they are not suggesting making any changes. He reviewed the performance figures for each of the component pieces of their portfolio. He pointed out that it was another good quarter for Intercontinental and their FYTD was up 3.5% (17th) and for the 1-year, they were up 7.62% (11th). He talked about how COVID-19 had no impact on real estate in March and most real estate managers were completely unscathed. He said there are definitely concerns that returns will be impacted this quarter and especially in December. He explained that Intercontinental has aggressively gone in and identified industries that are most vulnerable and already renegotiated some of the lease provisions to keep those tenants in place. He said they also went in aggressively and negotiated an extension of all their lines of credit. He talked about all the dynamics going on in the Real Estate market and the impacts they likely would start seeing.

Mr. West went back to his handout dated May 19, 2020. He reported that the total fund appreciated back about \$700,000, so they are back up to \$6.6 million asset value. He said they are still not in a good position FYTD and are still materially negative, but they are seeing a reversal and some closure of some of the underperformance, particularly in the last couple of days. He said there has been a definite change in stock leadership in the market. He commented that as of May 19th, it looks close enough that they could finish with a positive year.

Mr. West said they have no change recommendations for asset allocation changes and suggested they stay the course with the current allocations.

Mr. Zokvic asked if they have had any problems with replenishing their R&D money for retirement payments with Salem Trust since the new system was put in. Mr. West said Salem Trust is great to work with and if there were any issues that came up, they handled it proactively and got it resolved.

6. NEW BUSINESS

A) 2020-2021 Annual Budget

Mr. Zokvic referred to the proposed 2020/2021 Administrative Expenses Budget that was included in their backup (on file with the City Clerk's office). He said they are staying with the same structured budget as they have in the past with an allocation of \$70,000. He noted that they do have a cushion so they don't have to reallocate anything. He added that in 2019/2020 they have not spent any money under schools and meetings.

Mr. Losey made a motion to approve the 2020/2021 budget as presented. Mr. Middleton seconded the motion and it passed unanimously.

B) Annual Commission on Ethics Form 1 – Statement of Financial Interests

Mr. Zokvic said their Attorney sent them a copy of Form 1 – Statement of Financial Interests. He said they will be receiving one (1) from the County in the next couple weeks like they normally do.

Mr. Losey expressed concern with Part G – Training and what training they need to be certified in. Mr. Zokvic said they are supposed to attend a school and have an ethics class.

Mr. Losey questioned if that is every year. He doesn't know if there is a time limit on these. He said over the years he has sat through a number of them and wondered if a class is good for a year or more.

Mr. Zokvic pointed out that every conference has ethics training. He said he will put the same date on the form as last year because nobody has had any classes recently. He said this item was just on the agenda to remind them. He said the County is very good in sending them out and they should be getting them at the end of May or the beginning of June from the Supervisor of Elections.

C) TASC

This item was discussed under 5-A).

Mr. Zokvic stated Mr. Losey was among one of the retirees who received a letter that their health and life insurance had been cancelled so he was aware of the issue (on file in the City Clerk's office). Mr. Middleton said he did not receive a letter and was not aware.

Mr. Zokvic explained that TASC sent Ms. Ann Rankin, Benefits Administrator with Indian River County, a letter stating they were delinquent in their health insurance payments and they were going to cancel their health and life insurance. Mrs. Russo sent them records of FedEx delivering the checks and from the bank cashing the checks. He said TASC did an investigation into why the computer kicked a report stating that they were delinquent. He said the County was not aware that TASC also sent letters to the retirees. The County put together a letter to send to the retirees stating that it was not correct. As far as he knows, everyone still has insurance. The County has not received any explanation from TASC as to why the computer kicked them out even though payments were received. He explained that every retiree in the County is linked in the same account at TASC, including those in FRS. He asked Mrs. Russo if he gave an accurate depiction of what occurred.

Mrs. Russo said he is correct in what he stated. She got involved in the beginning when Ms. Rankin sent her an email asking why they cancelled their insurance. She said the first thing she did was to make sure that the payments were cashed and found that the April 1st and May 1st

payments were cashed. As TASC was investigating, they found that they had cashed the May 1st check, but not the April 1st check. So she sent them a copy of the cancelled April 1st check and they were not sure why there was an issue with it. She said she just received an email from TASC. She read the letter that TASC sent Ms. Suzanne Boyll, Human Resources Director with Indian River County (on file in the City Clerk's office). It said that the mailroom had not been sure where to apply the payments, but they are expediting having the funds applied to the participants' accounts as soon as possible.

Mr. Zokvic said that he still expects a letter from either the County or TASC stating they have corrected the problem and there won't be any problems in the future. He added that they still have everybody lumped together and if they don't separate them so they can tell who is FRS and who is Vero Beach Fire, they are going to have the same problem every time they get a new employee. He asked Mrs. Russo if she feels that they have solved the problem.

Mrs. Russo said she could not say that they've solved the problem. She said they solved this issue, but they probably haven't solved the issue going forward. She said the checks they send TASC are paid to the order of TASC and have an account number that it is for. She was not sure why they weren't able to identify what it was for and if they need to put a secondary flag to identify Vero Retirees, that might help. If TASC wants a different reference on the check, they can change that. She thinks it is worth continuing conversation between them and the County and TASC about what they are going to do to keep this from happening in the future.

Mr. Losey pointed out that it is just one (1) of many things TASC has done since the County went with them. Mr. Zokvic added that the Board has never received anything from TASC since they started, even when they increased their yearly cost.

Mr. Losey said he thinks the County is the one that needs to put pressure on TASC, but they may need to put pressure on the County.

Mr. Zokvic said that the County had a meeting to discuss the problem because they said they have had other problems.

Mrs. Russo said that when Mrs. Rankin came to her originally, there was a report that showed termination of benefits but she is not sure how they get that report. She suggested they could look at it more quickly to identify that payments have been applied in a timely manner.

Mr. Zokvic commented that if they missed the first payment, then they are delinquent in 30 days. He questioned why they didn't email Mrs. Rankin at that time rather than waiting 60 days and then writing a letter that it's being cancelled. There was no time in between for anybody to investigate it. He added that TASC makes it sound like they can cancel their insurance, but they don't have the authority to do that, only the County does.

Mr. Losey made a motion to have someone stay on top of this issue and have Indian River County give them a letter for their record stating that this whole problem is fixed and that everyone knows that they are paying their bills and they have the coverage.

Mr. Losey said he didn't know if that should be Mr. Zokvic, or if they should get their Attorney involved.

Mr. Zokvic did not think that they would need to involve their Attorney at this time, but in the long run, they might need to.

Mr. Middleton seconded the motion and it passed unanimously.

Mr. Zokvic said that he would be in touch with the County.

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Zokvic said his matters had already been discussed.

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:22 a.m.

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