

FIRE PENSION BOARD MINUTES
Wednesday, August 19, 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 10:15 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

The Chairman requested to move item 5-C)-2 up on the agenda to be heard after item 4).

3. APPROVAL OF MINUTES

A) May 20, 2020

Mr. Losey made a motion to approve the May 20, 2020 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

At this time, item 5-C)-2 was discussed.

5. QUARTERLY REPORTS

A) Highland Capital Management

This item was discussed after item 5-B).

Mr. Todd Wishnia, with Highland Capital, was present for today's meeting. He talked about some of what has been going on in the market. He said yesterday, the S&P hit an all-time high and things are looking brighter. He noted the market did come up 20.5% last quarter, which was the best quarter since 1998. He talked about the \$2.8 trillion pumped into the economy to stabilize the markets. He said as expected in a risk-on environment, technology and consumer discretions were the key components. He reported that consumer discretionary was the top performer with Amazon up about 41% and Technology was second best, up 30.5%.

Mr. Wishnia said with this market rebound they continue to see dispersion with value and growth, which Mr. West would be talking about. He pointed out that ending July 31,

2020, there was a difference of about 35% with value stocks and growth stocks. He said a key note is the top three (3) weightings of the growth index, Microsoft, Apple, and Amazon, now account for 28% of that index.

Mr. Wishnia went to their Investment Review Report for the period ending June 30, 2020 (on file in the City Clerk's office), and went over the chart on page 10, Performance Returns for Various Periods. He reported that value was up 14.4%, versus the index at 14.29%. He went over the graphs on page 11, Domestic Equity Sector Allocation. He said the fiscal year to date (FYTD) numbers in the report don't look so great, but a lot has happened since the end of the quarter through last Friday. He added that for the period ending June 30, 2020, value FYTD was down -10.07% and as of last Friday, it was down -4.4% and International FYTD was down -7% and as of Friday, it was up 3%.

At this time, item 5-C) was discussed.

B) Salem Trust

1. Class Action Report

Mrs. Karen Russo, with Salem Trust (attended via GoTo Meeting), reviewed their Class Action Report for the period April 1, 2020 through June 30, 2020 (on file in the City Clerk's office). She reported there were two (2) class actions they could have filed on behalf of the plan. The third page lists out the claims and there were two (2) claims, GSE Bonds Antitrust Litigation and Valeant Pharmaceuticals, but there were four (4) accounts that had those securities and met the parameters of the class action. The fourth page showed more details of the claims and that there was a recognized loss of \$4,776.35 with an estimated payout of \$330.91. She added there were no settlements received during this quarter.

2. Annual Verification Letter Update

Mrs. Russo reported that the Annual Verification letters were mailed out last Friday and the return date is September 8, 2020. She will let them know which ones they receive by the deadline and they can discuss how they want to proceed.

Mr. Zokvic commented there were four (4) turned in today at this meeting.

Mr. Zokvic asked if she has been contacted by Ms. Ann Rankin, with Indian River County about the changes to their insurance. He said they wrote everyone a letter telling them that they had a certain time limit to make changes to their insurance.

Mrs. Russo said she hasn't received any notices to make any changes. She said she would reach out to Ms. Rankin and make her aware of when their deadlines are.

At this time, Mrs. Russo exited the meeting.

Item 5-A) was discussed next.

C) AndCo Consulting

1. Quarterly Report

This item was discussed after item 5-A).

Mr. Dave West, with AndCo Consulting (attended via GoTo meeting), talked about how everything is affecting the economy and how growth stocks have dominated the scene. He commented that they usually don't see this level of performance dispersion between value and growth. He took them in his Investment Performance Review report for the period ending June 30, 2020 (on file in the City Clerk's office) to the new page 16. He noted that all in, the total fund has outperformed the self-imposed policy index. He explained the purpose of the new chart was to show the net contributions, or net flow going in and out of the fund. He reviewed the graph on page 15, Schedule of Investable Assets. He commented that the program has been successful and they have been able to keep the plan assets pretty steady as far as the total market value goes, which is a huge positive. He explained that most recently, there has been a huge disparity between growth managers and value managers, and the Highland approach does have a value orientation. He added that value stocks are still negative, even though the S&P 500 has recouped 51% because those larger stocks, such as Amazon, account for 31% of the total return within that index. He went over the performance numbers on page 20, Comparative Performance Trailing Returns – Total Fund. He reported that for the quarter, the total fund was up 10.44%; however the FYTD total fund was still down -3.9%. He pointed out that Highland Equity is a value orientation. He said they did well against their benchmark, but unfortunately for this period of time, the difference in returns between value and growth was so big that it resulted in very disappointing performance on a FYTD. He went over the rest of the portfolio's FYTD figures, as well as the three (3) and five (5) year numbers shown on pages 20 through 23.

Mr. West reviewed the asset allocation chart on page 13. He explained that due to the lagging in equities, their real estate allocation has moved outside their permitted policy range so they do need to submit a rebalancing request. They are at 16.4% in Intercontinental and the top end of their range is 15%. He said their recommendation for this is to comply with Policy and submit a rebalancing request to Intercontinental to redeem \$300,000. They will have to wait until the real estate manager releases those funds, but they will have a record of submitting that redemption request, which will comply with the intent of the policy to get that back in line.

Mr. Zokvic said that the money would go back into their fund at Salem Trust to reinvest.

Mr. West said that is correct. Their recommendation would be to allocate that money into the investment grade bond allocation, Highland Fixed income, which is pretty underweight.

Mr. Losey made a motion to adjust the real estate investment per their manager's recommendation. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West said he would put together the redemption form that would need to be submitted to Intercontinental with the appropriate authorizations, which would put them in the que and would address the policy violation to the best of their ability.

Mr. West said his next item is a discussion of growth versus value. He explained that he is not sure now is the best time to add growth or potentially increase their current investments in the Vanguard S&P index fund, but they do need to talk about it because the bias to value has had a disproportional impact on their investment returns. He explained some options would be: 1) increase the allocation to the S&P 500 index fund; 2) give Highland a manager sub-policy that gives them the discretion to determine when and how that growth mandate would be managed; or 3) have AndCo do a growth manager search and include Highland.

Mr. Wishnia said he agrees with Mr. West about the timing. He thinks all three (3) options are viable and good. He said they have been waiting for value to take over and the dispersions have just gotten bigger. He agreed it would help this plan to do something of this nature.

Mr. Zokvic said that he did not want to jump in to something too quickly if they could wait another quarter to see what is going on after the election and with the economy. He said there are too many variables and personally he's a little hesitant to jump in and move. He commented that if they think that Highland should try to move in that direction between now and their next meeting and see if anything has improved, that would be an option. He said personally, he does not know if he is ready to add another growth manager to the system yet without a little more thought and investigation.

Mr. Losey said that he was not ready to step off that board yet either. Mr. Middleton agreed with waiting a little bit.

Mr. Zokvic asked Mr. West, as their Advisor, if he thinks they should give Highland between now and November to adjust a little and see what happens with everything that is going on.

Mr. West said he appreciates their comments. He said that was his reasoning for the new slide, which was to show that this program given enough time through market cycles has been very successful and has worked very well. He wants to identify the problem and solutions but he is very concerned about the timing. He feels the Board is comfortable working with Highland and they do have a long history with them. He added they all share concerns about the timing. He said he is making a soft recommendation now in how they could proceed.

Mr. Zokvic asked if they let Highland proceed to come up with a new strategy, is that going to affect their new IPS in any way. Mr. West stated that was one of the reasons

behind broadening the language in the Policy. It gives them full latitude to make the adjustments that they need to make. He pointed out that Highland would not be introducing a new strategy; they would be funding a strategy that they have had for a long time. He pointed out Highland has been serving as their balance manager for years.

Mr. Zokvic said he thinks they should give Highland the chance and re-visit this in November and go from there.

Mr. Wishnia asked if they are wanting him to go back to his investment team and see what they recommend and then wait until November when he can tell the Board the recommendation; or go ahead and implement something and see how that turns out at the end of the quarter. He thinks what they will say is to take the money from value and either split it 50-50, or take 10% to 15% and put it into growth. Or he can come back in November and let the Board know what they recommend.

Mr. West said he thinks there is enough information here that he could go back to his team and come back at the next meeting in November and see what's evolved. He said the only thing they need to do is provide Highland with a manager policy that specifically allows them to include the growth strategy. He said they could do it now but the documentation is not ideally lined up. He explained they could cover that at the next meeting when Highland comes back with an alternative.

Mr. Zokvic confirmed that Mr. Wishnia is going to go back and talk with his people and come back in November with their recommendations and they will go from there.

Mr. Wishnia said if that is what the Board would like them to do, they won't make any style changes or jump into anything until they come back at the next meeting in November. He said or they could go ahead and put 5% - 10% in growth at this point and then if they want to add more at the next meeting, they can do that as well.

Mr. Losey confirmed they are moving \$300,000 from real estate. He feels they should start small and work into it rather than jump in. He said things could change very drastically and he would like to go a little bit at a time until they see how it goes and they can always increase it. He said if they are going to go with this strategy, he would prefer to work in to it.

Mr. Zokvic suggested to tell Highland to invest 10% in growth starting now and give them a report in November and then they can decide if they want to go any further. Mr. Losey agreed that he would feel better with that.

Mr. West said they should be giving discretion to the professionals and in this case, he thinks it is important to give that discretion to the investment manager. He said he thinks what they are suggesting is that they (AndCo) provide the appropriate documentation so that Highland is comfortable taking that discretion and letting them run with it. He thinks Mr. Wishnia agrees that any addition to growth would be small and needs to be looked at a longer term time horizon and carefully added in. Mr. Wishnia agreed.

Mr. Zokvic asked if they need to tell AndCo to make a directive and to give Highland the latitude to do what they feel is necessary.

Mr. West answered yes, they would be telling him and also telling Highland. Then he will include in the final IPS packet the changes to the Highland documents that would allow them to do that.

Mr. Zokvic brought up the 30 day waiting period while the State reviews it.

Mr. Wishnia said now that is on record with the Board, they could do it as soon as Friday most likely, although having the executed document would be good.

Mr. Zokvic reviewed that Mr. West is going to draw up the document to include AndCo and Highland about switching over the little bit of money to growth and Highland is then going to have the latitude to do wherever they feel is necessary.

Mr. Losey made a motion that Mr. West goes ahead and starts the paperwork to move forward. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West said he will get that documentation drawn up shortly and get it to them for signatures and then at that point, it will be distributed. He said he thinks this is a great solution.

Mr. Losey made a motion to approve the Investment Policy Statement. Mr. Middleton seconded the motion and it passed unanimously.

Mr. Zokvic asked if their Board Attorney needs to review this. Mr. West said that he has already signed off on it so they are good.

At this time, item 6) was discussed.

2. Investment Policy revisions

Note: This item was discussed after item 4).

Mr. West went over their intentions behind the Investment Policy Statement (IPS) revisions. He explained they want to completely update the Policy and incorporate some other language with specific regard to adding a little more flexibility as far as the ranges and permissions, along with some rebalancing and allocating monies within the broad categories. Their objective is to get a little more operating flexibility and maneuvering in them. He went through each of the recommended changes in the IPS (on file in the City Clerk's office) beginning on page 2, with the Target Allocations.

Mr. Zokvic asked if they could allow their Board Attorney an opportunity to speak on the changes since he is on limited time.

Mr. Adam Levinson, with Klausner and Kaufman (attended via GoTo Meeting), thanked them for allowing everyone to attend remotely because of COVID-19. He pointed out there is an Executive order that allows them to all meet this way.

Mr. Levinson wanted to remind everyone of the Form 1 disclosures deadline. He reported good news with their Premium Tax money amount, which went up about 6% from \$133,271 to \$141,264 this year.

Mr. Levinson said on the IPS, Mr. West is an expert on Investment Policies and is trying to give them more flexibility. He stated he has no objections with it and he is comfortable with the proposed format. He reminded them that once it is approved, a copy needs to be sent to the State and they have to wait 30 days to begin making changes.

The Trustees did not have any questions for Mr. Levinson.

Mr. Levinson asked Mr. West if had any quarter to date numbers. Mr. West reported that through the end of June, they added about another 3% to their returns. He said the news is very good. One issue they will be talking about today is the returns here are not quite as strong as they might be because of the value orientation of the Highland equity focus. Most of the large returns have been earned by larger mega-caps in the S&P 500 index.

At this time, Mr. Levinson exited the meeting.

Mr. West continued going through the changes in the target allocations. He talked about the somewhat new category they are adding, non-core fixed incomes, which is comprised of Global Bond and Tiff's and is where some of the flexibility changes come in. He continued going over all of the targets and ranges for all of the asset classes shown on page 2. He explained they are going to use the strategy index of whatever the management approach is. He went over the change that was recommended by the Attorney, which was changing, "The *investment consultant* will monitor the aggregate asset allocation of the portfolio," to "The *Trustees* will monitor the aggregate asset allocation of the portfolio."

Mr. West reviewed the changes shown on pages 3, under III. Investment Performance Objectives. He went over the definition for the new category, Non-Core Fixed Income. He went through the rest of the changes to the IPS. He said he would make the change on page 2, with changing the lower number on the range for Broad Market Fixed Income from 15% to 10%. He commented that with this revised IPS, it should be good for the next couple of years.

Mr. Zokvic asked about the Highland Capital Management Addendums and if they have discussed the changes with them. Mr. West said he did review the entire document set with Highland Capital Management to make sure they didn't have any issues and they are ready to sign off on their addendums.

Mr. West talked about how Highland's focus has been on large-cap value products and the more recent performance has been lagging a little, which is not a manager related issue. He explained the issue pertains to the fact that there is really no allocation to growth stocks or the specific style of growth investing. He pointed out the bulk of the assets have been invested under the Highland value orientation, which is fine going forward as it has worked over cumulative periods of time. He explained the thought process is if they want to add a growth orientated management approach to balance off the value orientated approach.

Mr. Zokvic interrupted Mr. West and asked at this point before he gets into that, if they could allow Salem Trust to give their presentation.

Mr. West agreed. He asked if there were any other questions on the IPS revisions and if not, his objective today would be to seek their approval of the document and then they will file it with the State and move forward with this document for future reports.

Mr. Zokvic said he would like to approve all three (3) of them at the same time after they discuss the Highland Addendums.

At this time, item 5-B) was discussed.

6. NEW BUSINESS

None

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Zokvic reported that the State cancelled their annual conference due to COVID-19.

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:54 a.m.