

FIRE PENSION BOARD MINUTES
Wednesday, November 20, 2019 – 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

Excused Absence: Duane Bluemke

1. CALL TO ORDER

The Chairman called the meeting to order at 10:09 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

The Chairman requested that they move item 8-A) up on the agenda and discuss it after item 5).

Mr. Losey made a motion to adopt the agenda as amended. Mr. Middleton seconded the motion and it passed unanimously adopted.

3. ELECTION OF OFFICERS

A) Chairman

Mr. Losey nominated Mr. Zokvic to remain Chairman. Mr. Middleton seconded the motion and it passed unanimously.

B) Secretary/Treasurer

Mr. Losey nominated Mr. Middleton to remain Secretary/Treasurer. Mr. Zokvic seconded the motion and it passed unanimously.

4. APPROVAL OF MINUTES

A) August 21, 2019 Meeting Minutes

Mr. Losey made a motion to approve the August 20, 2019 minutes. Mr. Middleton seconded the motion and it passed unanimously.

5. PUBLIC COMMENTS

None

6. REPORTS

A) Highland Capital Management

Mr. Todd Wishnia, with Highland Capital, talked about what has been going on in the market and the volatility of the third quarter. He said that consumer spending remained pretty strong. He reported that for the quarter, the top performers included utilities, up 8.4%; real estate, up 6.9% and staples, up 5.9%. He went through their Investment Review report for the period ending September 30, 2019 (on file in the City Clerk's office). He explained with the amount of volatility during the quarter, it was difficult to maintain any kind of solid positioning. He went over the chart on page 9, Performance Returns for Various Periods. He pointed out they had a pretty strong October and as of November 18, the value portfolio was up 4.6% and the index was up 4.1%. He pointed out they are underweight in real estate and utilities. He went over page 10, Domestic Equity Sector Allocation. He said for the fiscal year to date (FYTD), International was up 19.9% against index at 17.1%. Currently they are in line with the index. He reviewed the chart on page 13, International Equity Country Allocation and page 14, Fixed Income Sector Allocation.

Mr. West talked about the two (2) different viewpoints regarding a recession. He said they previously have taken a more conservative approach and asked how they are positioning themselves and what are they expecting going forward.

Mr. Wishnia explained that they had started the third quarter pretty defensive with utilities and towards the end, they then moved out into the cyclicals. He said they do not see a recession on the horizon. He said earnings are a little better than expected and he thinks with consumer spending the way it is, this quarter should make for a nice holiday quarter. Next year, he thinks earnings will be tough to beat as far as last year, but he thinks they will be stronger than anticipated by the media.

Mr. Zokvic referred to the new page in their report on page 5, 3Q19 Large Cap Value Equity Commentary. He said he would like that page to remain in the report because it easily shows all the sectors additions and sales in one (1) place. Mr. Wishnia said they had added it this quarter since it had been a very active trading quarter, but they could continue to add it in the report every quarter.

B) Salem Trust

1. Class Action Report

Mrs. Russo referred to their Class Action Report for the period July 1, 2019 through September 30, 2019 (on file in the City Clerk's office). She reported there was one (1) class action filed on behalf of the plan during the period with Citibank ADR FX Settlement and they did not receive any settlements during the quarter.

Mrs. Russo added that they are looking into allowing their clients to have access to the CCC website so they can pull this type of information up.

2. Service Report Summary

Mrs. Russo referred to the Salem Trust Service Report Summary for the period ending September 30, 2019 (on file in the City Clerk's office). She reminded them of Salem's service pledge that if at any time they feel Salem is not meeting their expectations, they will talk about it and potentially they would get a quarterly discount on their fee.

Mrs. Russo said that the last time she was here, she talked about the acquisition of Salem. They have been using the back office for operations from their prior company and that will change effective March 1, 2020. They are going to continue to use the same system, which is SunGuard Advantage, but the operations backroom will be different. Some of the things that may change might be where they send in their contributions, and their delivery instructions for investment managers. She is not sure if their account numbers will change, but they are trying to minimize any changes and trying to minimize any disruptions to clients.

Mr. Zokvic remarked as long as everyone is kept in the loop and they do not have any breaks in service, they would be good.

Mrs. Russo added that they feel strongly about that too.

Mr. Zokvic said a couple of years ago, they filed paperwork for recouping foreign tax monies through GlobeTax. He asked if they have ever received a report showing they received any monies.

Mrs. Russo said that she could pull transactions up and look at what has posted to the account. She said that they can see that on a statement and it would show as GlobeTax in the description. She said she would bring a report for them to the next meeting.

C) AndCo Consulting

Mr. Dave West, with AndCo Consulting, said he had three (3) things to discuss today, the quarterly report, the Investment Policy Statement, and also an updated recapture letter, which he was tasked with. He said it is in the works, but he has not finished it for today's meeting.

Mr. West referred to their Investment Performance Review report for the period ending September 30, 2019 (on file in the City Clerk's office). He talked about the four (4) primary things that impacted them this fiscal year. He referred to the bottom right chart on page 2, Major Market Index Performance. He commented that domestic equities total return was very disappointing and the S&P 500 was up only 4.3% for the year and they need more than that to meet the required rate of return. He pointed out that the Russell 2000 was down -8.9%.

Mr. West continued in his report, going over the Asset Allocation vs. Target Allocation chart on page 12. He commented that going forward, it is going to be more challenging to meet the actuarial rate of return and they need to keep rebalancing and increasing the quality of their portfolio on their radar. He suggested they continue to overweight the real estate portion going forward. He went to page 19, Comparative Performance Trailing Returns, going over the Total Fund (Net) returns for the quarter, FYTD, and annual numbers. He reviewed the international component on page 20. He reported that PIMCO had a good year and for the FYTD, they were a little under 9.54% (19th) vs the index, which was up 10.83%. He commented that their three (3) and five (5) year returns were spectacular and they were in the top first percentile. He reviewed Intercontinental's returns, pointing out that their strategy has worked out very well and for the FYTD, they were up 8.3% (30th).

Mr. West said projecting ahead, they suggest they leave the manager allocation intact. He said they are already seeing a change in the market appetite. He said if there is any negative returns coming out of total return and investment grade bonds, they could look at that on a meeting-by-meeting basis and look to rebalance.

Mr. West reviewed the cash flow on page 16, Financial Reconciliation Fiscal Year to Date. He reported they opened the fiscal year on October 1, 2018 with a market value of \$7,943,359 and closed on September 30, 2019 with \$7,619,838. He said that this was one (1) of the first years in the last several years that they saw a net decline. With the five (5) year smoothing method, there may be a modest impact from the investment shortfall this year because they are going to be dropping off 2014, which was a banner year at 10.37% and substituting 3.1%. He added that next year they would have to earn only 1.27% to have a neutral impact.

Mr. Zokvic noted that the premium tax money keeps going down every year, which hurts them. He said he thinks this year it is possible that they are not going to get a supplemental payment. He talked about how the State determines the supplemental amounts.

Mr. West said they would continue to monitor the cash flow. They do work closely with Salem Trust and Mrs. Russo. He added they do have a standing rebalance letter and if any revisions need to be made to that letter, they would do that.

Mr. Zokvic commented that being a closed plan, they need to keep a close eye on what is going on.

Mr. West reviewed the Compliance checklist on page 38.

Mr. West referred to their Investment Policy Statement (IPS). He said he has gone through his annual review of the IPS, which was last amended in February 2016 when they changed the rate of return assumption to 6%. He said he reviewed the IPS and there are no required changes to the document and they have no observational changes

to make to the document. He submitted for the record that they did a complete review of the Policy and the document can stand as it was last amended.

Mr. Losey made a motion to accept their consultant's suggestion on the Investment Policy Statement. Mr. Middleton seconded the motion and it passed unanimously.

7. NEW BUSINESS

A) Approval of 2020 Meeting Dates

Mr. Zokvic read the proposed 2020 meeting dates, which were Wednesday, February 19th, May 20th, August 19th, and November 18th (on file in the City Clerk's office). He added that they are the same dates that the Police Pension Board is proposing.

Mr. Middleton made a motion to accept the proposed meeting dates. Mr. Losey seconded the motion and it passed unanimously.

8. OLD BUSINESS

A) Cyber Liability Insurance Coverage

This item was discussed after item 5).

Ms. Cindy Lawson, Finance Director, said they have a very sophisticated I.T. Department for a small City. She said she couldn't discuss specifics, but protection is there. She said since cyber-attacks started hitting the news, the I.T. Department has attended conferences and relooked at their protocols and made sure they are as protected as they could be. She said they do have coverage through the Florida League of Cities through Florida Municipal Insurance Trust (FMIT) for the City. She asked the League about it and was told that the coverage is for the City, the City employees, and the data that resides on the City's computers system relative to this Pension. She said that coverage doesn't extend to any third parties that are supporting the Pension Board, whether it be their Actuary, Salem Trust, or anyone else that has data relative to the Pension. She said that anything that the City has for them, such as payroll data, census data, etc... that they have on the City's system is protected and has insurance coverage.

Mr. Zokvic commented that according to State Pension law, the City is responsible for the money and to make sure that the money is there to pay the retirees.

Ms. Lawson read the response from the League, which was "If the Pension Board was created by the City, is administered by the City or its employees, and the pension files are stored on City infrastructure, the City's FMIT coverage extends to the Pension Board. It will not extend to third parties involved with the plan."

Mr. Zokvic said that an attorney at the last conference he attended said if the Pension Board doesn't have their own computer system to pay out the retirees themselves, then the cyber insurance should be through the City and the people that the Board hires.

Ms. Lawson clarified that the League is saying that the parts of their Pension plan's data that are stored on the City's infrastructure are covered by the City's plan, but if they have third parties that have data or are responsible for their plan, they need to work with those third parties to figure out how they've covered it. She added that banking coverage is a little different from pure cyber-attack coverage in terms of guaranteeing deposits.

Mrs. Russo referred to the copies of Salem Trust's insurance certificates that were included in their backup (on file in the City Clerk's office). She said they do have a two million dollar cyber security insurance policy. She clarified that Salem Trust is not a bank. Their core business is acting as a custodian for government and institutional clients. She added they do have other layers of insurance and depending on what the crime is, it could fall under a different layer of their coverage. She explained Salem has certain policies in place and training that they go through to help them determine when an email is not valid.

Ms. Lawson said that Cyber-attacks are a huge problem and that is where firewalls and backups are and making sure you can recover your data without paying someone to recover it. She said that there are different kinds of security breaches and it would constitute a crime if someone tried to take over someone's bank account. She agreed that there are many layers to insurance.

Mr. West said that AndCo has five million dollars of specific cyber insurance coverage. He said that they don't have access to critical data, such as Social Security numbers and personal information, but as a fiduciary and an investment consultant, they do have the coverage. He said he would furnish a copy of that and include it every other year going forward.

Mr. Wishnia said they are the same as AndCo, in that they don't have any of the critical information, such as social security numbers. They do have coverage and for the sake of public pension clients, they don't hold anything that would need the insurance. They do have cyber insurance because they do have individuals that they manage. He did not know what the coverage amount was, but he would find out.

Mr. Zokvic said the Board would like to get a copy of everyone's cyber insurance policy for their files.

9. CHAIRMAN'S MATTERS

None

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:19 a.m.

/hm