LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
February 9, 2023

An electronic meeting was held beginning at 9:00 A.M. Those persons present were:

TRUSTEES	OTHERS
Rich Seamon	Margie Adcock, Administrator
Barry Ruf	Adam Levinson, Attorney
Valerie Hurley	Brad Hess, Investment Monitor
Theodore McMorrough	Nicolas Lahaye, Actuary
Kevin Carson	Eric Leventhal & Khaled Ali, Auditor

PUBLIC COMMENTS

There were no public comments.

ADDITIONS AND DELETIONS

There were no additions or deletions.

MINUTES

The Trustees reviewed the minutes of the meeting of November 8, 2022. A motion was made, seconded, and carried 5-0 to accept the minutes of the meeting of November 8, 2022.

AUDITOR REPORT

Eric Leventhal and Khaled Ali appeared before the Board. They presented the draft Annual Audit as of September 30, 2022. They stated that they would be issuing a clean unmodified opinion. They reviewed Management's Discussion and Analysis. They reviewed the Statement of Net Fiduciary Position as of September 30, 2022. The total assets were $49,338,370 with most of the money in investments. Total liabilities were $17,174. Total net position restricted for pensions was $49,321,196, with $30,233,817 restricted for defined benefits and $19,007,379 restricted for DROP benefits. They reviewed the Statement of Changes in Net Fiduciary Position. They stated that there were total additions of a negative $5,182,252 and total deductions of $4,446,282 leaving a decrease in the Plan net position of $9,628,534. The biggest driver of the decrease was investment performance.

Eric Leventhal and Khaled Ali reviewed the schedule of administrative expenses. They stated that they think the administrative expenses are reasonable and appropriate compared to what they see in other plans. They reviewed the notes to the financial statements. They reviewed the supplementary information. They reviewed the schedules of changes in the employer's net pension liability and related ratios. They stated that there were no substantive changes to any of the disclosures. They stated that they found no significant internal control issues. They received full cooperation from management and the service providers. A motion was made, seconded and carried 5-0 to accept the Annual Audit as of September 30, 2022. A motion was made, seconded and carried 5-0 to authorize the Chair to execute the Management Representation Letter.

Eric Leventhal and Khaled Ali departed the meeting.

ACTUARY REPORT

Nick Lahaye appeared before the Board. He presented the Actuarial Valuation as of October 1, 2022. He reviewed the annual required contribution. He noted that the assumed rate of return stayed at 6.7%. The total required contribution for the plan year ending September 30, 2024 would be $3,622,350. This is a slight decrease from last year. He stated that with contributions from Division II of $14,513, the City's contribution would be $3,607,837 versus the City's contribution from last year of $3,610,456. Mr. Lahaye stated that while the fiscal year was not a great year for assets, the contribution is pretty close to last year due to the smoothing of assets. He stated that this will have an affect down the road, but not at this point. He noted that 2021 was a great year which helped soften the blow.

Mr. Lahaye noted that there were no revisions in benefits. There were no changes in the assumptions or methods. He stated that the actuarial assumed rate stayed the same at 6.70%. He stated that given the Plan is closed and consists primarily of retirees collecting a benefit, he would recommend lowering the assumed rate of return to somewhere between 5.5% and 6% over time.

Mr. Lahaye stated that there was a net actuarial gain of $88,913 for the year, which means that the actuarial experience was more favorable than expected. The gain was primarily due to the higher than expected return of 8.1% versus the expected return of 6.7%. The actuarial gain was partially offset by more retirements than expected; lower than expected inactive mortality; and salary increases being higher than expected. Mr. Lahaye stated that there would be no 13th check because the Plan experienced a cumulative actuarial loss. The funded ratio was 75.9% versus 70.6% last year.

Mr. Lahaye reviewed the actuarially determined contribution. He reviewed the actuarial value of benefits and assets. He reviewed the calculation of the employer normal cost. He reviewed the liquidation of the unfunded actuarial accrued liability. He stated that the unfunded liability is scheduled to be paid off October 1, 2026. He reviewed the historical investment rate of return from 1972 to 2022. He reviewed the calculation of the actuarial value of assets. He stated that unless there is a gain this year, he is expecting losses next year and for the next few years. He stated that the Fund would need about 17% this year r to make up for the losses that will be recognized next year. He noted that anything above 6.7% will help soften the blow. There was further discussion on lowering the investment return assumption. Mr. Lahaye stated that it would increase the contribution by a little over $100,000 to go from 6.7% to 6.5%. He noted that the expected contribution is already expected to increase regardless of whether the investment return assumption is lowered. It was noted that FRS is at 6.7%. Many plans have taken a pause on lowering the assumed rate of return because of the bad market performance. He thinks 6.7% is reasonable and that lowering it down the road would be a good decision. Mr. Hess stated that the landscape has dramatically changed over the last 12 to 18 months. The expectation is for bonds to be much higher than they have been in the last decade. He suggested conferring with the City before making any change to the assumed rate of return. A motion was made, seconded and carried 5-0 to approve the Actuarial Valuation as of October 1, 2022.

It was noted that the Board needs to formally determine the expected rate of return for the short term and long term, as is required by the State. It was noted that the Board just approved the return of 6.7% in the Valuation. Mr. Hess stated that it was reasonable to assume that the assets would return 6.7% over the short term, mid-term and long term. A motion was made, seconded and carried 5-0 to determine the expected rate of return using the rate of 6.7%. Mr. Hess stated that they would prepare the letter to be sent to the State.

INVESTMENT MONITOR REPORT

Brad Hess appeared before the Board. He provided an update on the firm. He stated that the firm has $90 billion in client assets under advisement as of December 31, 2022. The firm has had 22 straight years of revenue growth. They have reinvested 100% of the net profits back into the organization. They have 93 team members. In 2022 and added three more partners. He reviewed their organizational chart.

Mr. Hess discussed the market environment for the quarter ending December 31, 2022. He stated that there was a nice bounce back in the quarter for equities and fixed income. International socks were especially strong. Everything was positive for the quarter, yet negative for the year. He stated that 2022 was the worst year for bonds since 1926. The Fed increased rates three times during the quarter, 75 basis points in October and November and 50 basis points in December. Mr. Hess stated that things are slowing in terms of economic factors. The economy is resilient, especially as shown by the labor market. The unemployment rate is at 3.4%. He stated that the market will see some sort of recession at the end of 2023. He thinks it will be much milder than the past historical recessions. He stated that because of how strong the labor market is, that will dampen any type of recession.

Mr. Hess reviewed the performance as of December 31, 2022. The total market value as of December 31, 2022 was $50,739,290. Mr. Hess discussed Brandywine. He stated that Brandywine converted their investment from a mutual fund to an ETF. The impact would be a lower fee but the Fund would not be able to reinvest capital gains or dividends. He would prefer to reinvest dividends into equities. He recommended transferring out of the EFT and open a separate account. This would have Brandywine managing the same stocks. There would be a fee savings from 4.9% to 4.5%, which would be about $3,000 a year. There would be a one-time legal fee to set up the separate account as Mr. Levinson would need to review the necessary agreement. Mr. Hess stated that he recommended the Board open up a new account at Regions and transfer the Brandywine EFT to that separate account and enter into an agreement with Brandywine. There was discussion on the fee that Regions would charge for the new account. Mr. Hess stated that Regions is paid only on the assets that they custody. He stated that there is no charge on a flat fee basis fee to open a new account. He stated that he understands that Regions would charge 4 basis points on the assets. A motion was made, seconded and carried 5-0 to open up a new account at Regions and transfer the Brandywine EFT to that separate account and enter into an agreement with Brandywine, provided that Regions does not charge an unreasonable fee. If Regions is going to charge an unreasonable fee the Board stated that Mr. Hess should pause on moving forward.

Mr. Hess discussed Alger. He stated that they recently offered a separate account to their clients at a reduced fee of 55 basis points. He stated that if Alger agrees to managing a separate account at 55 basis points here, he recommends opening up an account at Regions and Alger manage the portfolio as a separate account. He noted that the fee savings would be $16,000 a year. There would be a one-time legal fee to set up the separate account as Mr. Levinson would need to review the necessary agreement. A motion was made, seconded and carried 5-0 to open up a new account at Regions if Alger agrees to manage a separate account at 55 basis points and enter into an agreement with Alger, provided that Regions does not charge an unreasonable fee. If Regions is going to charge an unreasonable fee the Board stated that Mr. Hess should pause on moving forward.

Mr. Hess reviewed performance for the Fund for the quarter ending December 31, 2022. He reviewed the asset allocation. He reviewed different asset mixes for the Board to consider. One mix would increase bonds from 25% to 30% and reduce small cap and large cap equities accordingly. The other mix would be to increase bonds from 25% to 35% and reduce domestic equities by 10%. He stated that he thinks it makes sense to take some equity risk off the table. There was a lengthy discussion. Mr. McMorrough stated that he would like to look at the information more before making a decision. There was discussion on whether this could wait until a future meeting. Mr. Hess stated that he did think the Board should do something. He stated that he was going to stick with his recommendation. He thinks it is prudent in the long term. There was further discussion. A motion was made, seconded and carried 4-1 to increase the bond asset allocation target from 25% to 30% and reduce domestic equities accordingly and update the Investment Policy Statement. Mr. McMorrough opposed the motion. Mr. Hess stated that based on that motion, he recommended reducing Cambiar by 2.5% and reducing the Total Stock Market by 2.5% and increasing the allocation to Garcia Hamilton by 5%. A motion was made, seconded and carried 4-1 to reduce Cambiar by 2.5% and reduce the Total Stock Market by 2.5% and increase the allocation to Garcia Hamilton by 5%. Mr. McMorrough opposed the motion.

Mr. Hess presented a fee increase to the Board. He stated that his firm has been under the same fee agreement since 2008. He stated that the partnership and results they have brought to the Plan have been very strong. He highlighted a few of their accomplishments. He stated that they were proposing to increase the fee from $29,500 to $45,000. The fee would be guaranteed for three years. There was a lengthy discussion. Mr. McMorrough stated that he did not think it was a good time to raise fees and was concerned what the City would think. Mr. Hess stated that the Mayor is on the Police and General Employees Pension Plans and approved similar increases on both of those Pension Plans. Mr. Levinson reviewed the options for the Board: approve; issue a RFP, or do not approve. Mr. Levinson stated that if the Board wanted to do a RFP, AndCo would be at the bottom in terms of the fee. The Board can also take into consideration that the other two Pension Plans already approved the fee increase. A motion was made, seconded and carried 4-1 to accept the fee increase presented to be effective March 1, 2023. Mr. McMorrough opposed the motion.

Mr. Hess provided the Board with the follow up letter he sent to the Commissioner that was inquiring about investment managers Garcia Hamilton and Cambiar, as they are out of state managers. He stated that he responded and the Commissioner seemed satisfied with the information. A motion was made, seconded and carried 5-0 to accept the Investment Monitor Report.

ADMINISTRATIVE REPORT

The Board was presented with a list of benefit approvals which included DROP distributions. A motion was made, seconded and carried 5-0 to approve the benefit approvals.

The Board reviewed the financial statements for the period ending December 31, 2022.

The Board was presented with disbursements, including the investment manager disbursements. A motion was made, seconded and carried 5-0 to pay the listed disbursements.

ATTORNEY REPORT

Mr. Levinson provided four Memorandums to the Board: Memorandum Regarding Delaware Law Change Permits Companies to Insulate Corporate Officers from Liability for Reckless Conduct dated November 2022; Memorandum Regarding SEC Proxy Voting Disclosure Rules dated November 2022; Memorandum Regarding the SECURE 2.0 Act dated January 5, 2023; and Memorandum Regarding Maintaining Internal Controls to Protect Against Fraud and Abuse Regarding Public Safety Officer Support Act of 2022 dated November 2022. He stated that he would review the information at the next meeting.

OTHER BUSINESS

The Board discussed future meeting dates. The Board decided to schedule future meetings on the second Wednesday of the second month of each quarter by Zoom.

There being no further business, the Trustees adjourned the meeting.

Respectfully submitted,

Rich Seamon, Secretary