

City of Marco Island Florida Fire Pension
MINUTES OF MEETING HELD December 8, 2023

1. Steve Gaskill called the meeting to order at 9:06 AM in the training room 2nd floor of new fire station. Those persons present included:

TRUSTEES

Steve Gaskill, Chair
Tom Kirstein, Trustee
Leslie Shade, Trustee
Michael Shone, Trustee – Electronically
Jake Clemmons, Secretary

OTHERS

Scott Baur & Toby Rabelo, Administrators (Resource Centers)
Scott Owens – (Greystone)
Bob Sugarman – (Sugarman, Susskind, Brasswell & Herrera)

2. ROLL CALL

Each person present was accounted for and Trustee Shone appeared via ZOOM.

3. Exigent Circumstances for Trustees Joining Electronically were approved

4. PUBLIC COMMENT

No members of the public had any comment.

5. APPROVAL OF MINUTES

The Board reviewed the minutes for the September 8, 2023 meeting.

- Jake Clemons made a motion to approve the September 8, 2023 minutes with the one correction of the word manipulate to change in Item 6. The motion received a second from Leslie Shade. Approved unanimously

6. REPORTS

Investment Consultant (Scott Owens – Greystone)

Scott Owens provided an overview for the trustees at the Chairs request; Scott Owen indicated he has been working with Trustee Shone on various asset allocation and manger performance topics. Greystone has a manager search for fixed income longer term Duration Manager. Scott indicated Greystone is very proud to announce that last year the Marco Fire Police, which is managed similar to Fire, was the #5 best performing in the State of Florida. Scott spoke about how the FED has handled the economy thus far and the expectations of the FED moving forward. Inflation trending down and economy in stall so expect interest rates to go down, however, volatility is expected. Diversification right now is moving in the same direction, referring to page 4 of the consultants packet, Scott pointed out the one year for Russel 1000 growth and the 3 year value out performing growth as examples of everything moving in the same direction. Scott hen referred to Page 6 and page 7. And how the quarter ended at a negative but since the fund is up. Scott went over the performance since inception.

Michael Shone stated he looked over the performance and it seems we are 100 basis points or more and under our absolute return target, “losing to policy index and actuarial assumed return”. Michael also stated almost every manager is below the policy benchmark and how this is extremely concerning. Scott Owens agreed with Michael’s overview of the history of performance. T. Kirstein asked would we have been better if we were passive. Scott replied, “Yes, in this market”.

Leslie Shade asked if Graystone has ever had a passive option, Scott said no.

Today, Scott Owens brought a passive option in “VANGUARD”

L. Shade asked if there were no rules/constraints – i.e. allocation guidelines would the performance have been better. Scott said yes. Chair Gaskill asked what exactly is the flexibility and Attorney Sugarman said

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there is an exemption via local ordinance. M Shone said the ordinance cap is 65%. Scott Owens said they target 60% to have wiggle room so as to not exceed the 65% cap. He explained how the market performance can take the portfolio over the cap max, causing rebalancing issue.

L Shade reminded Scott of his request to work on recommendations on an unconstrained portfolio, and Scott said yes that is what we have for you today. M Shone asked what does the ordinance say vs State Law.

Per Attorney Sugarman, there are two State hard rules, 1. Not more than 25% in Foreign Securities and 2. A prohibition on State Sponsors of Terror. Mr. Sugarman stated state law says you cannot have more than 5% in any one stock and not more than 50 % in stocks but Marco Fire has used the exception via the ordinance to go up to 65% stocks max.

M. Shone stated the amended ordinances should have new language to change cost to "at market" and have a target for each asset class, as well as, a range.

Scott referred to page 13 to show how the fund was right on asset class targets. Graystone does not recommend trying to time the market. Scott gave an example of buy and hold strategy but asset managers trade everyday and therefore there is a new cost because of the frequency in trades. T. Kirstein said then there is no benefit to the cost being in the ordinance. Scott said no not if you have an active manager.

M Shone highly recommends they remove cost from the ordinance. M. Shone asked if these managers are separate or in a comingle vehicle? Scott Owens replied, all separately managed accounts - all individual securities are separately managed accounts.

Scott agreed with L. Shade that the less constraints the better. L. Shade said all changes should be made at the same time.

Chair Gaskill reminded board that the Board has historically been risk adverse and the fund is still over funded. It's important to understand how funded ratios determine strategies.

Scott Owens referred to Page 10 and 11 for NET returns. See Consultant Packet

M Shone asked Scott Owens to explain his June 8, 2023 meeting statement of having to report GROSS Investment Returns but now they are reporting NET. Scott Owens replied I have both. Industry standards are gross but the BOARD asked for NET so we supplied it. Scott said he believes in a positive Alpha and Alpha should be higher than the cost of the manager.

M Shone referred to page 26 of the large report and discussed up capture ratio and how does not see improvement. Scott said he is trying to show individual manager performance, some managers have been on one year some three years etc. Scott does agree that the managers have under performed. Scott referred to page 14 of summary.

Blackrock and Clearbridge lower risk lower alpha M. Shone said he would focus on down capture, higher risk and lower alpha. Scott will present on down capture. See summary report for specifics performance

As of November 30, 2023 the fund is up 4.2 percent since September 30, 2023.

Scott reminded BOARD the managers over 100 % down capture was Clearbridge over 100 % and American Realty 110 % Down Capture. L. Shade asked, "Didn't we discuss moving away from Clearbridge but decided to hold. Scott Owens said yes. Scott explained where Clearbridge gets in trouble during wild market swings.

L. Shade asked to go down the list of managers and identify who would be a good switch to passive investments. Scott said the Large Cap Asset class is best for passive investment management. Scott has passive options for all managers except for American Realty.

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M Shone referred to fees page 34, understands bill in advance, the fees have gone down effective July 1, 2024. Have you corrected fees on 3rd and 4th quarter? Scott Owens said the FEES will be corrected via invoices retro to July 1, 2023. Scott Owens will provide Resource Centers the last quarterly statement for last four quarters and the reconciled invoice for retroactive fee adjustment. Michael Shone wants to review last year's fees to ensure the adjustment is accurate.

Tab 4 Wealth Strategy Analyses

7% with lowest risk – reviewed page 3 of 24 all columns and rows and highlighted how important the SHARP Ratio is.

Page 4 of 24 Probability of Positive Return

T. Kirstein asked about the assumption time horizon and was referred to page 12 of 24 for response.

Chair asked for 5 min BREAK

Meeting resumed at 1053 AM

Scott recommends Attorney Sugarman draft more flexible language for an amendment to the ordinance to allow for more investments in equities. Mr. Sugarman asked BOARD do we want some restriction verbiage or broad range. Example: Any investments allowed by law.

Board directed Attorney Sugarman to have a draft ready for Trustee Shade to work with City Council with broad constraints, ex stocks up to 80% at market. Use verbiage like should not exceed XX percent...

Chair Gaskill directed Attorney Sugarman and Scott Owens to work together to have a draft ready for review at the next meeting on March 8, 2023. Attorney Sugarman provided feedback on definitions and indicated no real clear definition of equities. *BOARD agreed to all allowable investments with a cap of 80 % maximum in stocks at market.* L. Shade said we need proof to show how the current constraints if removed would provide better results. Attorney Sugarman said a special meeting would be needed because there is a 31 day toll before the new ordinance can go into effect once City Council approves. BOARD would then ask for a variance from the City after the Special Meeting. Scott Baur suggested the BOARD could make a motion to approve pending approval of the new ordinance. The BOARD discussed this but ultimately no motion was made to approve pending City approval of ordinance.

Search for Fixed Income – Scott Owens feels the BOARD should add another Fixed Manager with a longer duration strategy. Board agreed to table Manager Search till March 2024 meeting. M. Shone stated how treasury yields have come down since the end of the 3rd quarter.

Passive Index – SEE Last Tab of Consultants packet

M. Shone asked Scott Owens only presented ETFs and not mutual funds. Scott Owens, ETFs have lower fees and Vanguard has the lowest fee with typically the best results. There was discussion on Mutual Funds vs ETFs as well as asset allocations. Attorney Sugarman informed BOARD of legal protections using an active manager who have a fiduciary responsibility.

After much discussion, Scott Owens recommended removing Clearbridge and moving 4.9 million from Clearbridge to Russell 1000 growth index.

Discussion: Can the custodian report as a holding -

T. Kirstein asked to review page 16 and 17 and pointed out the discrepancy on Russell 1000 vs 3000 on Net of fees page. Scott Owens said that was an error but either way underperformance is more in the NET category.

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MOTION by M. Shone, based on the consultant's recommendation, recommended terminating Clearbridge and invest all of the proceeds in the Russell 1000 growth passive investment. (ETF or Mutual Fund). Motioned second by S. Gaskill, Motion passed unanimously 5-0.

Chair Gaskill asked Trustee Shone to summarize asset allocation and Liability Study and his talks with GRS. Shone stated that a study would provide protection as to when the City would have to increase their contributions based on our funded ratio as one of the iterations of a liability study. This type of information Michael believes we will make more meaningful decisions. GRS gave some quotes based on scope of work. M. Shone said benefits would be to measure what the liability of our decisions would be. Perhaps more protection based on the informed decisions.

Attorney Sugarman weighed in by stating public sector has constraints – one method could be for the City to agree to create a stabilization reserve account with funds from outstanding return years to defray contributions when the assumed rate is not met.

If approved, the PLAN pays for the study now and the City next year will effectively pay for the study via reimbursement to the plan.

MOTION by L. Shade and a second from S. Gaskill to approve the asset liability study based on the letter/quote received by GRS with the changes made to item 2-4-6, of the GRS Quote Trustee Michael Shone received from GRS -Wed 12/6/2023 11:13 AM – see below. Motion passed unanimously 5-0

Hi Michael,

As requested, we are provided you with a fee quote for preparing a 20-year projection study for the Marco Island Firefighters Pension Plan reflecting the deterministic scenarios detailed below. Our study would show the Required City Contribution, Funded Ratio, and Unfunded Accrued Liability (or surplus amount) over a 20-year period for each of these scenarios. Our fee for this study would be based on our time charges but would not exceed \$4,000 if four deterministic scenarios are studied or \$5,000 if all six deterministic scenarios are studied. Please let me know if the Board would like us to prepare this study. (3:50 mark on recording)

- 1. Reflect that the fund returns 7.0% per year for the next 20 years*
- 2. Reflect that the fund returns 8.0% per year for the next 20 years*
- 3. Reflect that the fund returns 5.5% for the first 10 years and 7.0% for the next 10 years*
- 4. Reflect that the fund returns 6.5% for the first 10 years and 8% for the next 10 years*
- 5. Reflect that the returns for the first ten years of the projection period are equal to the previous fund returns from 10/1/1999 to 9/30/2009 (the average annual return during this time frame for the Marco Island Fire Plan was 2.3%) and then 7.0% for the next ten years*
- 6. Reflect that the fund earns 0.5% less than the annual returns from #5 above to reflect additional investment risk the Board is considering taking on 1.8 % for the first ten years (starting now) and 8% for the last ten years*

Attorney Report (Pedro Herrera, Sugarman, Susskind, Brasswell & Herrera))

Bob Sugarman via ZOOM provided an overview of changes in FRS and affirmed that Pedro is working with the City to amend the ordinance to include the 4 changes which were minimum and mandatory stipends, DROP 5 to 8 years, Interest rate from 1.3 to 4 percent and normal retirement age to 55.

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must be in a public meeting. This affects you and the other four trustees. You can speak to others but you can not use them as a conduit.

M. Shone provided the example of his email exchanges where Scott Owens replied with all trustees. To clarify, Attorney Sugarman said questions are one on one. Information to all trustees goes to Resource Centers and Resource Centers provide to the trustees.

Jake Clemmons asked Bob Sugarman to amend the ordinance to read highest 5 years. The amendment to the ordinance will also change cost to market value and define the term "year".

MOTION by L. Shade Second T. Kirstein to define compensation to include benefit pay. Motion Passed 5-0

Member contribution and/or pay must be addressed for pension calculations. Bob Sugarman said the BOARD has the authority (22-52 #1) to define compensation. If City Code is not clear BOARD can interpret and define what salary means. "Is benefit considered compensation?"

MOTION by S. Gaskill directing Attorney Sugarman to include the definition of a "year" as, "A year shall be any non-overlapping 12 month period with the highest five years." The Motion received a second from J. Clemmons. The Motion passed unanimously via a roll call 4-0

Chair Gaskill directed Scott Baur to inform the City of the BOARDs decision.

Administrator Report (Scott Baur & Toby Rabelo, Resource Centers)

Scott Baur provided a report to include updates on:

- 1) Pension Pay: Benefit Allowance
- 2) 2024 Conferences
- 3) Proposed 2024 Meeting Dates

Item One – Scott Baur provided the overview of the language in the Collective Bargaining Agreement (CBA) and what we see in payroll records. Benefit pay is not included in their pension calculations. But when someone retires, the City does include the benefits in the amount for calculations. The actuary uses all calculations, to include benefit pay, for calculations.

Need a decision on either remove benefit pay or include benefit pay

The City's position is these are two different sections of the CBA.

Attorney Sugarman recommended we have a meeting with all stakeholders (City Hall /Union etc.) to discuss this topic before the board decides.

Attorney Sugarman informed the BOARD of the CBA verbiage and the questions which arise from that verbiage keeping in mind 22-54 of the ordinance which says the BOARD determines what the term salary/compensation means. Chair Gaskill informed the attorney this same issue was dealt with by Police a few years ago and it was determined it was included in the final average. Scott Baur clarified how the City settled the matter with Police by removing the benefit pay.

Chair Gaskill provided the example of Jake Clemmons being a "non CBA Pension Member" and salary employee. There was discussion on this matter. Attorney Sugarman wants to make sure what the command staff gets in their calculation. Seems as if they are using the actual pay and what portion of benefits the employee used as pay for calculations. Scott provided the Johnathan Harris example with figures which were provided by Brandi Garwood. Chair Gaskill stated that Harris was a 25% benefit employee. So we need another Fire Example

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There was further discussion on what a "year" is. There is no definition for a year. Ex: 12 month period that produces the highest average of the highest 5 12 month periods that do not overlap.

The BOARD discussed having a meeting with all stakeholders but decided to define compensation as allowed by the ordinance. Chair Gaskill asked Scott Baur to conduct the vote via ROLL CALL.

MOTION by L. Shade, based on the attorney's recommendation, the BOARD interprets the word compensation under the definition of "Salary" in section 22-52 City Code / ORDINANCE to include fringe benefit allowance, as set forth in Article 14 of the Collective Bargaining Agreement CBA, which is paid or payable to members of the pension plan.

The Motion received a second by T. Kirstein. The Motion passed unanimously via a roll call vote of 4-0

Mr. Scott Baur was directed to inform the City of Marco Island of the BOARDS decision.

7. APPROVALS

The Trustees reviewed the Warrant dated December 8, 2023 for payment of plan expenses, as well as Brown and Brown Fiduciary Liability Insurance.

- S. Gaskill made a motion to approve the Warrant dated December 8, 2023 for payment of expenses, as well as accepting the annual premium of \$3,103.00 for the period of January 1, 2024 to January 1, 2025 from Brown and Brown for Fiduciary Liability Insurance. The motion received a second from Jake Clemmons. Motion Approved Unanimously. (Note: Trustee Shone left the meeting at 2:37 PM prior to this motion.)

There were no benefit approvals for this meeting.

8. NEW BUSINESS

Collective Bargaining Agreement
COLA

9. OLD BUSINESS

N/A

10. Board Member Comments

N/A

11. PUBLIC COMMENTS

No members of the public had any comment.

12. ADJOURNMENT

There being no further business and the Board having previously scheduled the next regular meeting for Friday, March 8, 2024 at the new starting time of 9:30AM. (As of 12-15-23)

S. Gaskill made a motion to adjourn the meeting at 3:27 PM. The motion received a second from J. Clemmons, Motion Approved Unanimously 4-0.



Jake Clemmons, Secretary

As Amended by Trustee Shone