

# WEST PALM BEACH FIREFIGHTERS' PENSION FUND

## MINUTES OF MEETING HELD

March 5, 2020

Dave Merrell called the meeting to order at 1:33 PM in the Training Room at Fire Station 5, 700 N Congress Avenue, West Palm Beach, Florida. Those persons present included:

### TRUSTEES

Dave Merrell, Chair  
Brian Walker, Secretary  
Ron Frano  
Guy Montante

### OTHERS

Scott Baur, Administrator (Resource Centers)  
Bonni Jensen, Attorney (Klausner Kaufman Jensen & Levinson)  
Brad Armstrong, Actuary (GRS)  
Brendon Vavrica (AndCo)  
Dave Kaplan (Baron Capital)  
Visitors

### ACTUARY REPORT: GRS (BRAD ARMSTRONG)

Actuary Brad Armstrong provided a handout to explain the Supplemental Distribution rules. He explained the term "Supplemental Distribution", historically referred to as the "13<sup>th</sup> and 14<sup>th</sup> Checks" by the members. He reviewed the history of the supplemental distributions, and the requirement originally imposed by state actuary Charles Slavin that the plan must have positive cumulative experience from inception of the benefit before paying a distribution to members. Mr. Armstrong reviewed possible additional sources of experience gains and losses other than investments, using disability benefits as an example. As of 2019, Brad Armstrong reported that the Plan still has \$39,098,806 of negative cumulative experience to make up before paying another supplemental distribution. The Pension Fund last paid a supplemental distribution in 2007.

Mr. Armstrong confirmed that the lower investment return assumption helps the Pension Fund recognize experience gains when assets perform above the assumption rate. After the gains in the 1990s, the Pension Fund was impacted by negative investment experience from 2000-2 until coming even again in 2007. Then the market correction the following year created a new negative experience bank for the Pension Fund to overcome before paying the next supplemental distribution. Visitors present at the meeting considered experience gains and losses generated by the active and retired plan members. They also discussed the 4-year smoothing of investment gains and losses, as well as the further amortization of experience gains and losses. Finally, the actuary responded to questions about the funding of the Pension Fund and how that funding relates to the current cumulative experience loss that the Pension Fund must first make up before paying the next supplemental distribution.

Chair Dave Merrill moved to David Kaplan on the Agenda.

### INVESTMENT MANAGEMENT REPORT: BARON CAPITAL (DAVE KAPLAN)

Mr. Kaplan reported that Baron now manages \$31 Billion in the SMID (Small to Mid) growth mandate. He reviewed the criteria for holdings in the portfolio. The manager typically has very low turnover, as the manager holds assets for long periods. Baron looks for companies with a sustainable competitive advantage, exceptional management, and compelling valuations. Ron Baron, the founder, now has 50 years of experience managing the portfolio. Baron has now managed this mandate for the Pension Fund for 16 years, with an 11.37% average annual return since inception compared to a gain of 8.57% for the Russell 2000 Growth portfolio benchmark. The manager outperformed the benchmark 94% of the time over 5-year rolling periods.

Mr. Kaplan emphasized the long-term outlook for the portfolio over gains and losses in shorter periods. He reviewed the characteristics for current portfolio holdings and the sector attribution for performance. The portfolio now holds 46 stocks in total.

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**ACTUARIAL VALUATION: GRS (BRAD ARMSTRONG)**

Brad Armstrong presented the Valuation report for October 1, 2019. He reviewed the components of the contributions requirements for the fiscal year starting October 1, 2020. The plan has a total contribution requirement of 60.95% of payroll, down slightly from 61.23% for the current fiscal year. After the 13.1% member contribution, the City will have a net contribution for 2021 of 47.85% of covered payroll. The City makes the entire \$9,750,119 required dollar contribution amount at the start of the fiscal year.

The plan had an overall experience gain of \$3,923,612 for fiscal year 2019, resulting from smoothed investment gains and lower than expected salary increases. The gains were partially offset by losses from lower mortality. The funded ratio increased from 71.2% the prior year to 73.8% in 2019. The plan now has negative cash flows, with assets generating more of the amounts needed to pay benefits from investment gains. Mr. Armstrong advised that updating the mortality used for the valuation will lower the contribution requirement.

- *Brian Walker made a motion to approve the revised Valuation dated October 1, 2019, using the updated mortality table. Ron Frano seconded the motion, approved by the Trustees 4-0.*

The Board briefly considered the fixed interest rate credited to current and grandfathered members of the plan, with over \$100 million of combined DROP and Share Account assets remaining in the plan.

**INVESTMENT CONSULTANT: ANDCO CONSULTING (BRENDON VAVRICA)**

Brendon Vavrica reported that the Pension Fund is still positive for the fiscal year, estimating a gain of 0.8% from October 1, 2019. He reviewed the target asset weightings and current asset allocation. He addressed market volatility, with virus impacts now spreading to travel and related industries. The ultimate impact remains to be seen. He considered past virus scares, which actually had initial impacts on the market similar to COVID-19. Just 3 weeks ago, the market reached an all-time high. Notwithstanding the virus impacts, Brendon Vavrica advised that the market moves are actually normal so far.

Finally, Mr. Vavrica reviewed market performance during election years back to 1948.

**ATTORNEY'S REPORT: KLAUSNER KAUFMAN JENSEN & LEVINSON (BONNI JENSEN)**

Bonnie Jensen had no separate report.

**MINUTES**

The Board reviewed the minutes of the meetings of February 6, 2020.

- *Brian Walker made a motion to approve the minutes of the February 6, 2020 meeting. Ron Frano seconded the motion, approved by the Trustees 3-0.*

**ADMINISTRATOR REPORT: RESOURCE CENTERS (SCOTT BAUR)**

Mr. Baur reviewed preparations in place in his office in preparation for a global pandemic. He reviewed three separate areas of mission critical tasks: board level functions such as plan administration, oversight, communication, and asset decisions; essential functions related to the payment of pension benefits; and continuity of local office staffing and processes to support operations. He explained the measures in place to continue each task group in a quarantine-like situation. He also addressed how his office would respond to emergency situations in the absence of Board oversight. Finally, he considered extreme scenarios that included the loss of essential services locally.

The Resource Centers already possesses the capability to completely decentralize staffing and operations at any moment while maintaining continuity of essential processes and normal communication. Mr. Baur does

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foresee an increase in cyber fraud and other fraud related attempts in a pandemic scenario, where opportunistic players engage in "looting" during an emergency situation. His office has already implemented the processes needed to sustain Board level tasks, essential processes such as benefit payments, and office operations. He thanked the Board, for his office and staff truly enjoy and appreciate the relationships that they have with many of the plan members.

**DISBURSEMENTS AND FINANCIAL STATEMENTS**

The Board reviewed the interim financial statement through January 31, 2020. The Board then reviewed the Warrants for paid and pending invoices dated March 5, 2020.

- *Brian Walker made a motion to approve the Warrants dated March 5, 2020, for paid and pending invoices. Guy Montante seconded the motion, approved by the Trustees 4-0.*

**BENEFIT APPROVALS**

The Board reviewed the benefits pending approval for March 5, 2020, consisting entirely of account distributions for April 1.

- *Ron Frano made a motion to approve the benefits for March 5, 2020. Guy Montante seconded the motion approved by the Trustees 4-0.*

**OTHER BUSINESS**

The Board briefly considered the system conversion just completed by Salem Trust, custodian for the Pension Fund.

Brad Armstrong will review the Division of Retirement memo at the May 7, 2020 quarterly meeting.

**PUBLIC COMMENTS**

Members of the plan present further considered how the DROP and Share Account balances remaining in the plan added to or potentially detracted from cumulative experience gains and losses. The members also reviewed experience resulting from changes in expected mortality in great detail.

**ADJOURNMENT**

There being no further business and the next Pension Board meeting having been previously scheduled for Thursday, April 2, 2020 @ 1:30 P.M., the meeting adjourned at 3:49 PM.

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Brian Walker, Secretary