

WEST PALM BEACH FIREFIGHTERS' PENSION FUND
MINUTES OF MEETING HELD
JUNE 3, 2021

1. Dave Merrell called an electronic meeting of the Board to order at 1:33 PM. Mr. Baur called roll for the Board. Those persons present included:

TRUSTEES

Dave Merrell, Chair
Elizabeth Fugler
Guy Montante
Mark Parks

OTHERS

Scott Baur, Administrator (Resource Centers)
Dan Johnson, Investment Consultant (AndCo)
Bonni Jensen, Attorney (Klausner Kaufman Jensen & Levinson)
Kate Hurley & Garrett Washenko, Investment Manager (JP Morgan)
Rebecca Brown, JP Morgan Real Estate Investment Specialist
Joshua Hemmert, JP Morgan Income Builder Fund
Jeff Stefaniak, Member
Rick Dorey, Member

2. **APPROVAL OF MINUTES**

The Board deferred approval of the May 6, 2021 minutes.

3. **REPORTS**

Investment Manager: JP Morgan (Kate Hurley, Garrett Washenko, Rebecca Brown, Joshua Hemmert)

Kate Hurley introduced the team. She and Garrett Washenko represent the client service team, while Rebecca Brown is a real estate investment specialist, and Joshua Hemmert will address the Income Builder Fund.

Rebecca Brown reviewed the Strategic Property Fund and the Special Situations Property Fund. While COVID had some impact on property values during the last year, low borrowing costs helped property values to rebound. Property also provides a more attractive hedge against inflation. JP Morgan concentrates the Strategic Property Fund holdings in high quality assets in growth markets. The Fund also invests in some development opportunities in those markets as well. The Fund had a gross return of 1.86% for the quarter ending March 31, projecting a return of 6.5% to 7% for the current year. The manager reduced exposure in the portfolio to office and retail holdings in recent years, increasing industrial and residential holdings. As a result of these adjustments, the portfolio substantially outperformed the ODCE benchmark. Ms. Brown reviewed cash flows through the Fund and reported that properties remained 92% leased with few pending lease rollovers. The high quality retail holdings remaining in the portfolio continue to be productive. JP Morgan expects retail properties to be 95% leased by the end of 2021. Industrial properties, meanwhile, continue in high demand with increasing rents. Ms. Brown reported that JP Morgan is now moving away from urban residential properties to the suburbs, following the migration of millennials.

The Special Situations Property Fund expects to outperform the benchmark by 2% over a full property cycle. Ms. Brown reviewed the characteristics of the current portfolio, noting that properties have an average age of 4 years due to development activity. The portfolio gained 4.1% for the quarter ending March 31 compared to a gain of 2.3% for the benchmark. She provided examples of recent and pending development activity. This fund devotes only about 4% of assets to 3 retail holdings. The manager continues to sell office properties, realizing strong gains on trophy properties. JP Morgan continues to increase the allocation of assets to industrial properties through continued development opportunities.

Dan Johnson asked about single housing family developments in the Strategic Property Fund. Ms. Brown explained the Strategic Property Fund actually engages in a modest amount of development activity. She addressed the property in question, a development of small single family rental homes. The properties actually function like a multi-family residential property with exceptional demand as millennials leave cities

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for the suburbs. The properties deliver an excellent return from rents beyond the appreciation in market value.

Joshua Hemmert provided an update for the Income Builder Fund. Initial concerns over COVID have given way to concerns over inflation, with strong growth driven by policy. He compared the first quarter of 2020 to the first quarter of 2021, noting the portfolio substantially increased equity holdings and reduced positions in agency securities and cash. The portfolio has less volatility than the 60/40 equity/ fixed income benchmark with a 93% higher yield and returns consistently in the top 20% for the category. The Income Builder Fund gained 7% net of fees for the trailing 12-month period to finish in the top 23%. The Fund historically held up well in rising interest rate environments, with positive returns in 14 out of 15 periods and performance over the US Aggregate Bond Index 100% of the time.

Investment Consultant: AndCo (Dan Johnson)

Dan Johnson reviewed the S&P 500 performance since 2007, now at an all time high. The Pension Fund assets surpassed \$302 million as of May 30 for a fiscal year-to-date gain of 20.5% or \$52 million of additional assets. The assets gained 4.3% for the current quarter to date. Value continues to outperform growth. Only Garcia Hamilton, the fixed income manager, posted losses so far in the current fiscal year. Mr. Johnson provided recommendations to rebalance assets, taking \$5 million from BNY Mellon and \$2 million from TSW, investing the proceeds in \$5 million of the Vanguard Total Stock Index and \$2 million in Garcia Hamilton to reduce risk. The Board considered the recommendations, and the higher quality fixed income portfolio managed by Garcia Hamilton, likelier to protect assets in periods of uncertainty.

- ***Elizabeth Fugler made a motion to approve the rebalance recommendations. The motion received a second from Mark Parks, approved by the Trustees 4-0.***

Mr. Johnson then addressed TSW, providing further updates regarding the manager. Despite recent gains, TSW continues to perform under the benchmark. An Australian equity firm is acquiring TSW, which creates some uncertainty but may actually prove positive over the longer term. The manager has underperformed the benchmark in recent years, especially with a higher allocation to mid-cap holdings. Dan Johnson provided a detailed analysis of performance for the manager that showed TSW generated less returns with less volatility than the benchmark. Originally the Board invested in TSW for less volatility; however, TSW captured less of the market upside than the market downside. TSW replaced the DePrince Race Zollo small value allocation due to the wide lack of correlation to the benchmark by that manager. Mr. Johnson recommended the addition of a manager to complement TSW.

Dave Merrell requested a broader manager search, and Guy Montante questioned when TSW provided greater value as a manager over the benchmark. Mr. Johnson will bring updated search results to the next meeting. TSW did capture 85% of the market upside and only 77% of the market downside. Elizabeth Fugler questioned the mid-cap holdings in the allocation, one reason the TSW portfolio performed under the benchmark. She stated that a pure small cap value allocation would better suit the current diversification of Pension Fund assets.

Attorney Report: Klausner Kaufman Jensen & Levinson (Bonni Jensen)

Ms. Jensen reviewed the Election Policy, along with changes suggested by the Administrator to include electronic elections. In addition to the recommended changes to the Policy, the Trustees considered whether historically a new Trustee filling a vacancy on the Board started a new 4-year term or finished the remainder of the vacated term. The Board also noted, based on the current terms and expirations, that the City may not have routinely updated the appointments for Mark Parks in 2019. The Board discussed at length whether an elected Trustee required the majority of members voting or the vote of a majority of the members eligible to vote. The current Policy in effect since 1999 indicates that an elected Trustee requires only a majority of the members voting in an election. Brian Walker and Guy Montante reported the current election is running smoothly.

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Brad Armstrong will provide the updates to the Summary Plan Description for the next meeting Agenda.

Administrator Report: Resource Centers (Scott Baur)

Mr. Baur confirmed the Trustees attending the annual FPPTA Conference at the end of June. The Board also considered the electronic format of the meeting, expecting to meet in person again for August at Station 5 as the current emergency COVID orders expire.

4. PLAN FINANCIAL REPORTS

The Board received the interim financial statement through April 30, 2021. The Trustees then reviewed the warrants for payment of expenses.

- *Elizabeth Fugler made a motion to approve the Warrants dated June 3, 2021, for paid and pending invoices. The motion received a second from Guy Montante, approved by the Trustees 4-0.*

5. BENEFIT APPROVALS

The Board reviewed the benefit approvals for Brian Dunbar and Dave Dudley.

- *Guy Montante made a motion to approve the benefits. The motion received a second from Elizabeth Fugler, approved by the Trustees 4-0.*

6. OTHER BUSINESS

The Board had no other business for discussion.

7. ADDITIONAL REPORTS

The Trustees received additional investment manager reports.

8. PUBLIC COMMENTS

No members of the public had any comment.

9. ADJOURNMENT

There being no further business and the Board having previously scheduled the next regular meeting for Thursday, August 5, 2021 @ 1:30 P.M., the meeting adjourned at 3:47 PM.

Brian Walker, Secretary