

WEST PALM BEACH FIREFIGHTERS' PENSION FUND

MINUTES OF MEETING HELD

August 5, 2021

1. Dave Merrell called an electronic meeting of the Board to order at 1:30 PM. Mr. Baur called roll for the Board. Those persons present included:

TRUSTEES

Dave Merrell, Chair
Brian Walker, Secretary
Elizabeth Fugler
Guy Montante

OTHERS

Scott Baur, Administrator (Resource Centers)
Brendon Vavrica and Dan Johnson, Investment Consultant (AndCo)
Bonni Jensen, Attorney (Klausner Kaufman Jensen & Levinson)
Trey Smith and Dan Coppen, Investment Manager (Blackrock)
Mike Almeida, Member

2. APPROVAL OF MINUTES

The Board reviewed the draft minutes for the June 3, 2021 regular meeting.

- Brian Walker made a motion to approve the minutes for the June 3, 2021 meeting. The motion received a second from Elizabeth Fugler, passed by the Trustees 4-0.

3. REPORTS

Investment Manager: Blackrock (Trey Smith and Dan Coppen)

Daniel Coppens reviewed the Multi-Asset Income Fund for Blackrock. The strategy first manages risk and then yield for the total income fund. The portfolio has an unconstrained investment universe. And finally, the manager uses a tactical process to manage risk to a 50/50 ceiling of a stock/bond portfolio. Fixed income assets delivered negative returns in the first calendar quarter of 2021, while the Multi-Asset Income Fund gained 2.1%. The strategy gained another 3.3% for the June 30 quarter. Mr. Coppens then reviewed the asset classes contributing to the total returns for the year to date. He explained that the portfolio also uses duration hedges to mute risk from rising interest rates on fixed income securities held in the portfolio.

Trey Smith reviewed the current portfolio allocation. Blackrock has the highest allocation right now in the portfolio to equities in recent years. Bank loans, collateralized loan obligations, and high yield bonds make up 50% of the fixed income assets. The portfolio does not have a target asset allocation, adjusting the asset weightings based on the market. The portfolio has a current yield of 4.13%, delivering a high yield with reduced risk. Mr. Vavrica asked about the impact of the dollar on international holdings and currency hedging in the strategy, noting that governments have injected about 4 times the liquidity into the market during the pandemic over the global financial crisis in 2008-09. Blackrock foresees more controlled inflation keeping the dollar stable. The manager does not make active currency bets in the portfolio, with most of the assets trading in US dollars.

Investment Consultant: AndCo (Brendon Vavrica and Dan Johnson)

Dan Johnson thanked the public safety officers for their service during the pandemic. Brendon Vavrica reported that the current momentum in the market continued through the end of the June 30 quarter. The fixed income assets also rebounded some from modest losses during the first calendar quarter. Growth stocks outperformed value stocks for the quarter, while the yield curve for fixed income securities also steepened. Mr. Vavrica believes that some of the shift from value back to growth resulted from the resurgence of COVID, with the market simply coming back to equilibrium. Mr. Vavrica reviewed the current asset allocation, with assets of \$305,996,416 as of June 30 up \$57,349,733 for the current fiscal year-to-date. The gain of 22.66% for the current fiscal year compared to 20.25% for the benchmark ranks in the top 19% of the public universe, while the 10-year average annual gain of 10.52% ranks in the top 2%. Mr. Vavrica then reviewed the performance for the individual managers of the overall portfolio, noting that the

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Pimco DISCO Fund will not call all the committed capital due to a lack of opportunities for the strategy. Pimco runs a distressed debt fund.

As of July 31, the assets gained 23.8% for the fiscal year to finish at \$307,903,032.

Mr. Vavrica reviewed direct lending opportunities for possible additional diversification in the portfolio into alternative asset classes. Pimco released \$1 million of the \$5 million committed by the Board, and the manager may release more of the commitment. Mr. Vavrica discussed 3 direct lending strategies, explaining that senior debt has more protections. The direct lending vehicles typically have a fund-raising period followed by an investment phase. The funds generally target returns of 9 – 13% with a minimum \$5 million commitment. Plans investing in debt generally ladder the maturities of the debt holdings. Fees for the direct lending portfolios range from about 1.25% to 1.4% of assets. The managers also typically earn a performance fee based on the returns. Brendon Vavrica reviewed the returns produced by the lending managers.

Mr. Vavrica updated the manager search results for the possible TSW replacement, including some comparable smid- strategies. He reviewed the market capitalization of holdings by the possible replacement managers, and he addressed the differences between the small and small to mid (“smid”) strategies. While the small cap managers general have greater volatility and return expectations over time, a smid manager can let the winners in the portfolio run longer before trimming or eliminating the positions. Mr. Vavrica also reviewed the historical performance, volatility, and market up- and down- capture ratios for the various managers detailed in the search results. The Trustees considered the managers to make a presentation to the Board, choosing Barrow Hanley, Ceredex, DRZ, and Integrity. Dan Johnson tended to favor the more aggressive small cap managers, while Brendon Vavrica favored a more conservative and less volatile option.

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

Ms. Jensen stated that the disability order for member Jeff Barndt required signatures. Dave Merrill advised that he preferred to serve the order on Jeff Barndt using a process service rather than an overnight delivery verification.

Brad Armstrong incorporated updates to the draft Summary Plan Description that he received from Brian Walker and Jeff Stefaniak. Ms. Jensen offered some additional corrections. Brad Armstrong, present for the meeting, thanked Brian and Jeff for their input.

- **Brian Walker made a motion to approve the Summary Plan Description with the updates and additional corrections. The motion received a second from Elizabeth Fugler, passed by the Trustees 4-0.**

BLBG, a securities monitoring firm retained by the Board, provided an updated agreement that included E-Verify compliance. Ms. Jensen recommended that the Board execute the updated portfolio monitoring agreement.

- **Elizabeth Fugler made a motion to approve the revised agreement with BLBG. The motion received a second from Brian Walker, passed by the Trustees 4-0.**

The Board discussed the firms monitoring the portfolio for possible class action matters. The Board currently has 6 such firms engaged to provide these services at no charge other than to become counsel for any possible matters identified by that firm. An additional firm wants to also make a presentation; the Board agreed to hear the presentation by another firm.

Ms. Jensen had 3 of the firms contact the Board related to a possible case with Zymergen, a company that makes wearable sensor and foldable screen materials. The Pension Fund owns the security. Apparently, management touted the product prior to the initial public offering of the stock, then failed to deliver following the IPO. The Pension Fund suffered an estimated \$86,000 loss on the holding as a result. Ms. Jensen will contact Baron, the manager holding the security, to hold the shares in the portfolio.

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Ms. Jensen advised that her firm has not raised fees in 4 years. She proposed an hourly rate increase from \$265 to \$300 per hour, guaranteed for 4 years. The proposed rate still falls below the market average for the services that the Board receives from Ms. Jensen and her firm.

- **Elizabeth Fugler made a motion to approve the fee increase from \$265 per hour to \$300 per hour, guaranteed for 4 years. The motion received a second from Brian Walker, passed by the Trustees 4-0.**

Administrator Report: Resource Centers (Scott Baur)

Mr. Baur reviewed in detail the list of members failing to respond to the payment verification request. The members received 3 notices, each with an opportunity to respond. Those failing to respond to the third and final notice will have their payments suspended as of September 1, pending verification that the retired member receiving payments is still alive. The Trustees considered each person on the list, noting in some cases retired members known to be alive. Mr. Baur stated that members known to be alive should get paid on September 1, even as his firm completes the verification process. Moreover, his payment team will simply turn off the direct deposit to those members failing to respond. Once his office hears from and confirms the member, his office will immediately release a physical check to that person for the September 1 payment only.

Mr. Baur also reported that the Division of Management Services approved the 2020 Annual Report for the Pension Fund. The Division has not yet released the amounts for the 2020 Chapter 175 premium tax distributions.

Mr. Baur reported that his office completed the most recent SSAE-18 ("SOC 1") audit report, now for the 15th year, without any exceptions noted. The audit externally reviews the stated internal controls and procedures in place at his firm, including payments, transactions, account reconciliations, approvals, and cyber issues. Mr. Baur emphasized the importance of the process and the results, particularly during a period where the majority of his office shifted to a remote working environment during the year. Many of the controls also address cyber issues and security, so Mr. Baur again detailed some of the controls in place at his firm. He provided the Board with a recently released list of recommendations by the Department of Labor for cyber security for pension plans. His firm exceeds the recommended controls by the Department of Labor in every respect. Some plans are recently having difficulty renewing cyber coverage, with renewal premiums in the past few weeks ranging from 65% to over 1000% increases.

Mr. Baur provided the Trustees with an updated list of conferences and educational opportunities, including the next FPPTA Trustee School from October 3 – 6 and the annual Division of Management Services conference for public safety pension funds at the beginning of November. The Board policies recommend that the Trustees obtain continuing education related their roles on the Board.

4. PLAN FINANCIAL REPORTS

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

- ***Brian Walker made a motion to approve the Warrants dated August 5, 2021, for paid and pending invoices. The motion received a second from Elizabeth Fugler, approved by the Trustees 4-0.***

5. BENEFIT APPROVALS

The Board reviewed the benefits for approval.

- ***Brian Walker made a motion to approve the benefits with corrections. The motion received a second from Elizabeth Fugler, approved by the Trustees 4-0.***

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The Board clarified that the retainer fee increase approved for Ms. Jensen and guarantee period will begin as of August 2021.

6. **OTHER BUSINESS**

The Board confirmed that the tablets for Guy Montante and Ron Frano were accounted for.

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, September 2, 2021 @ 1:30 P.M., the meeting adjourned at 4:16 PM.

Brian Walker, Secretary