

WEST PALM BEACH FIREFIGHTERS' PENSION FUND

MINUTES OF MEETING HELD

October 7, 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
Jeff Stefaniak

OTHERS

Scott Baur, Administrator (Resource Centers)
Brendon Vavrica, Investment Consultant (AndCo)
Bonni Jensen, Attorney (Klausner Kaufman Jensen & Levinson, Electronically)
Sophia Loren Taylor, Assistant City CFO
Steve Loncar & Brett Barner, Investment Manager (Ceredex)
Dave Kaplan, Investment Manager (Baron)
Coleman Hubbard, Jim McClure, Eric Shornberg (Barrow Hanley)
Nate Rusbosin and Randy Renfrow (DePrince, Race, & Zollo)
Mike Almeida, Member

2. APPROVAL OF MINUTES

The Board reviewed the draft minutes for the September 2, 2021 regular meeting.

- Elizabeth Fugler made a motion to approve the minutes for the September 2, 2021 meeting. The motion received a second from Elizabeth Fugler, passed by the Trustees 4-0.

3. REPORTS

Investment Manager: Baron (Dave Kaplan)

Mr. Kaplan reported that Baron remains true to the small cap growth orientation of the firm, although the manager now offers additional but similar strategies to the small cap growth fund. The manager looks for companies with a competitive advantage with exceptional management. Baron also considers the current valuation of the companies added to the portfolio. Baron does not engage in any momentum investing.

Baron has a very stable management team. Ron Baron, founder of the firm, still manages the small cap growth mandate for the West Palm Beach Firefighters Pension Fund. The portfolio nearly doubled the gain for the index on a cumulative basis, with about 300 bp of excess performance annually since inception. Mr. Kaplan then reviewed the performance for the top holdings in the portfolio. The manager sold Zymergen, now the subject of class action litigation, which detracted from overall performance. He also reviewed gains and losses by market sector. Baron avoids semiconductor and pharmaceutical stocks, due to the high risk attached to these companies. The manager constructs the portfolio from bottom up through securities selection, holding issues for long periods with less than 4% annual turnover for the portfolio. Baron will trim positions from winners in the portfolio. With such long holding periods, the manager knows the securities and the companies for each holding in the portfolio well. Baron does not have preset sell targets.

The portfolio currently overweights financial holdings but not banks. Mr. Kaplan reviewed the overall growth

Manager Presentation: Barrow Hanley (Coleman Hubbard, Eric Shornberg, Jim McClure)

Eric Shornberg introduced the firm, which focuses on value investing. The long tenure for the management team translates into continuity of thought and process. Barrow Hanley manages \$51 billion in total assets with \$2.5 billion in the small cap value strategy. To know a company well, the manager holds fewer companies in the portfolio over longer periods. Barrow Hanley focuses entirely on individual stock selection. The portfolio has an average annual turnover of 20%. Mr. Shornberg described the process to identify companies with depressed earnings and valuation but strong prospects.

The manager maintains a model for each holding internally to help forecast potential and compare investment opportunities. The process historically yielded 300 bp of excess return relative to the

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benchmark. The manager does not consider sector weightings in the construction of the portfolio. The very targeted portfolio with long holding periods creates a very focused long term investment portfolio. Barrow Hanley also likes to take advantage of buying opportunities when the market goes down. The manager often uses conferences and a continual discovery process to screen potential new additions to the portfolio.

The process leads to a higher-than-average beta or volatility for the portfolio, since new additions typically have very low earnings. Perpetual recently acquired Baron from another holding company; Perpetual offers distribution channels and opportunities for the manager to attract investors outside the US. More than half of Barrow Hanley employees still have equity ownership in Barrow. The manager will close the portfolio when insufficient opportunities exist for the manager to deploy new capital.

Investment Manager: DePrince, Race, & Zollo (Nate Rusbosin and Randy Renfrow)

Mr. Rusbosin introduced DRZ, formerly a small cap value manager for the Pension Fund. DRZ is a focused independent value manager with \$4.3 billion in assets between 5 value strategies. The manager has 15 Florida public clients. The small cap value strategy has a track record that now spans 30 years. The team also has long term continuity, all members with equity ownership in the firm.

Randy Renfrow reviewed the investment process. Dividends contribute substantially to performance over time, with an inherent bias to high quality companies with a strong balance sheet. The manager identifies potential holdings based on dividend yield and strong relative valuations with a growth catalyst. Company management and leadership are important to DRZ. The manager sells once the dividend yield falls below 1%, valuation targets are achieved, or the fundamental catalyst fails. The portfolio typically includes 50 to 75 names. Randy Renfrow illustrated the investment process using Scholastic as an example. A loss of revenue driven by the pandemic led to a reduction in costs and a change in management at Scholastic.

The small cap value portfolio typically has 80 – 100% annual turnover.

Investment Consultant: AndCo (Brendon Vavrica)

Brendon Vavrica reviewed the presentations. The Trustees favored the consistent and repeatable process presented by DRZ; Barrow Hanley failed to articulate a clear process. The Board also considered assets under management for the small cap value mandate at each firm. The Trustees reviewed the definition of “small cap” for each potential manager, firm ownership, management team stability, and fees. With the market near all time highs, the Board also considered historical beta, upside, and downside capture. The Trustees also considered splitting the portfolio between two managers.

Brendon Vavrica may introduce further options for investment such as direct lending.

- **Brian Walker made a motion to move from TSW to DePrince Race Zollo. The motion received a second from Elizabeth Fugler, passed by the Trustees 4-0.**

Brendon Vavrica reported preliminary results for the fiscal year ending September 30, 2021. The assets finished the fiscal year with \$304,775,101, a gain of 23.2% for the year. Value outperformed growth for the past 12 months. Mr. Vavrica recommended that the Board allocate the \$8.5 million City contribution with \$2.5 million to the Pimco Diversified Income Fund, \$2 million to the JP Morgan Special Situations Property Fund, and \$4 million to the JP Morgan Strategic Property Fund. Until JP Morgan calls the capital, however, he recommended that \$3 million go temporarily to Blackrock and to the JP Morgan Income Fund.

- **Jeff Stefaniak made allocate the \$8.5 million City contribution with \$2.5 million to the Pimco Diversified Income Fund, \$3 million to Blackrock, and \$3 million to the JP Morgan Income Builder Fund. The motion received a second from Brian Walker, passed by the Trustees 4-0.**

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

Ms. Jensen reported that the Board may not take the role as lead plaintiff in the Zymergen class action, since some other investors suffered losses similar to the Pension Fund.

- **Elizabeth Fugler made a motion to approve counsel seeking lead plaintiff status in the Zymergen class action case. The motion received a second from Brian Walker, passed by the Trustees 4-0.**

Bonni Jensen then reported that Jeff Barndt has one more day to appeal the decision regarding his disability pension application. Her office also received the final requested records for another pending disability application. She discussed in detail the timing and difficulties often encountered in the disability application process, which often requires an extended time period from start to end. Finally, Ms. Jensen reported that she received the medical records for the most recent employees hired by the Fire Department.

Brendon Vavrica advised that he may consider use of a transition manager to transition the small cap value equity portfolio from TSW to DRZ.

- **Elizabeth Fugler made a motion to authorize Brendon Vavrica to use a transition manager as needed for the small cap value transition. The motion received a second from Brian Walker, passed by the Trustees 4-0.**

Administrator Report: Resource Centers (Scott Baur)

Mr. Baur reported that one retired member remained with a suspended benefit after failing to respond during the verification process. He explained some alternative death search and missing person locator services that he may recommend as an alternative to the recently completed member audit going forward.

4. PLAN FINANCIAL REPORTS

The Board received and reviewed the interim financial statement through August 31, 2021. The Trustees then reviewed the warrants for payment of expenses.

- ***Brian Walker made a motion to approve the Warrants dated October 7, 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. The motion received a second from Jeff Stefaniak, 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.

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9. ADJOURNMENT

There being no further business and the Board having previously scheduled the next regular meeting for Thursday, November 4, 2021 @ 1:30 P.M., the meeting adjourned at 4:39 PM.

Brian Walker, Secretary