

WEST PALM BEACH FIREFIGHTERS' PENSION FUND

MINUTES OF MEETING HELD

March 3, 2022

1. Dave Merrell called a regular 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 (1:35 PM)
Jeff Stefaniak

OTHERS PHYSICALLY

Scott Baur, Administrator (Resource Centers)
Brendon Vavrica, Investment Consultant (AndCo)
Karen Russo, Custodian (TMI Salem)
Bonni Jensen, Attorney (Klausner Kaufman Jensen & Levinson)
Brad Armstrong, Actuary (GRS)

OTHERS ELECTRONICALLY

Kate Hurley, Josh Hemmert, and Matthew Jaffe, Investment Manager
(JP Morgan)
Dan Johnson, Consultant (AndCo)

2. NEW TRUSTEE: BRIDGET SOUFFRANT

Mr. Baur reported that the City of West Palm Beach appointed new CFO Bridget Souffrant to replace Sophia Loren Taylor.

3. APPROVAL OF MINUTES

The Trustees reviewed the minutes for the February 3, 2022 regular meeting.

- Brian Walker made a motion to approve the minutes for the February 3, 2022 regular meeting as presented. The motion received a second from Jeff Stefaniak, passed by the Trustees 3-0.

4. REPORTS

Actuary: GRS (Brad Armstrong)

Brad Armstrong reported that the Pension Fund had strong gains for the fiscal year ending September 30, 2021. He recommended the Board use the gains to establish a contribution stabilization reserve fund for the City. With many new hires by the City, the Pension Fund should also reach the point where the City does not need to make additional contributions to the Pension Fund due to flat payroll. Finally, the Pension Fund will soon retire some amortization bases from prior experience losses. Brad Armstrong advised that if approved by the Board, he would treat the reserve as a liability in the plan assets.

The Board considered the current manner to amortize experience gains and losses. Mr. Armstrong advised that the Board can change the amortization policy once the funded state reaches 100%. The current funded ratio increased from 78% to an expected 90.5% at the market value of assets, including the recent gains. No changes should be needed to the Special Act for the Board to establish a funding reserve. The Board also considered how a policy change to establish a reserve might impact bargaining. The reserve would add another form of smoothing in addition to the current 5-year investment smoothing and amortization of experiences gains and losses. A reserve would not affect the calculation of any future possible supplemental distribution to retired members. While the recent gains will bring the Pension Fund close to paying another supplemental distribution, Mr. Armstrong does not yet believe the plan will meet the required threshold for positive cumulative historical experience.

- Elizabeth Fugler made a motion to direct Mr. Armstrong to provide further analysis of the funding reserve. The motion received a second from Jeff Stefaniak, approved by the Trustees 4-0.

Auditor: Saltmarsh (Chuck Landers)

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Mr. Landers presented the fiscal year 2021 audit report. He reported that Jeanine Bittinger will officially retire on March 15, and he thanked the various other service providers for their support and cooperation during the audit process. He presented a clean (unmodified) opinion. Total assets increased to \$308,152,989 from \$252,230,683 in 2020. Contributions decreased slightly, while investments gained \$60,386,163. Benefit payments also increased modestly, while the net pension liability decreased to \$32,330,049. Mr. Landers also reviewed gains on investments in recent years. The Pension Fund has a net ratio of 46bp for all expenses of the plan, evidence of very efficient operation.

- **Jeff Stefaniak made a motion to approve the audited financial statement for the fiscal year ending September 30, 2021. The motion received a second from Elizabeth Fugler, passed by the Trustees 4-0.**
- **Elizabeth Fugler made a motion to execute the management representation letter dated March 3, 2022. The motion received a second from Jeff Stefaniak, approved by the Trustees 4-0.**

Mr. Landers presented the audit engagement letter for the next 3 years. The engagement adds new language required by auditing standards and Florida statutes. Saltmarsh proposed fees of \$22,500 for the 2022 audit, \$23,500 for the 2023 audit, and \$24,500 for the 2024 audit. The Board then negotiated a 4-year engagement with a smaller fee increase.

- **Brian Walker made a motion to approve a 4-year engagement with fees of \$22,000, \$23,000, \$24,000, and \$25,000. The motion received a second from Elizabeth Fugler, approved by the Trustees 4-0.**

Custodian: TMI Salem (Karen Russo)

Ms. Russo reviewed assets held by Salem Trust for the Pension Fund. She also presented the Board with a list to update signature authorizations on file.

Karen Russo reported that Chicago Clearing Corp files class actions for the Pension Fund. PCG, subject of a class action, subsequently filed for bankruptcy. Chicago Clearing Corporation therefore wants to engage counsel to represent the Pension Fund in the bankruptcy proceedings. The Board can hire the firm as recommended, hire another firm, or do nothing. Ms. Jensen advised the Trustees that the Board has some advantage to joining the larger group in the matter. The Pension Fund recorded a \$66,000 loss on the PCG holding. The loss may not be large enough for the Trustees to separately pursue the matter.

- **Elizabeth Fugler made a motion to engage RKS to represent the Board in the PCG bankruptcy proceeding, subject to review by counsel. The motion received a second from Jeff Stefaniak, approved by the Trustees 4-0.**

Ms. Russo thanked the Board for the 22-year relationship.

Manager Presentation: JP Morgan (Matthew Jaffe, Josh Hemmert, and Kate Hurley)

Matthew Jaffe reported that the Board first invested in the JP Morgan Strategic Property Fund 15 years ago. The strategy has a 50-year track record with \$69 billion in assets, the largest of core open-end real estate funds. The management team includes 170 professionals holding 380 properties. The manager focuses on core holdings in high growth markets. The Strategic Property Fund gained 20.9% in 2021, projecting further gains of 8-10% over the next 3 years. Rents recovered well after COVID, costs to service debt decreased, and real estate values still look attractive compared to other fixed income assets. The manager increased allocations to industrial and residential properties, while decreasing retail and office holdings. The industrial property holdings gained 54.2% in 2021 compared to 5.8% for office space. The Board considered the outlook for office properties. JP Morgan prefers creative office holdings, providing examples.

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The Special Situations Property Fund has increased development, re-development and lease-up, and value-added properties. The manager looks to stabilize and hold properties for less than 4 years. While the strategy generates less income than the Strategic Property Fund, the manager looks to beat the NCREIF ODCE index by 2% over time on appreciation of the holdings. The Special Situations Property Fund gained 24.3% in 2021 with an average annual gain of 13.3% for the trailing 10 years. Both the Strategic Property Fund and the Special Situations Property Fund have holdings in South Florida.

Josh Hemmert then reviewed the Income Builder Fund. The strategy has a balanced risk profile targeted to a 60/40 stock/bond asset allocation fund. Mr. Hemmert reviewed the current market environment and challenges, and he compared the current portfolio asset class weightings to historical weightings. The manager actively allocates assets by sector and asset class.

Investment Consultant: AndCo (Dan Johnson)

Dan Johnson reviewed the history of market drawdowns since 2007, noting the recent markets without even the typical intra-year declines. He also reviewed the time to recover from the various market drawdowns, as well as the cost of missing the best and worst days in the market. He illustrated a histogram of S&P and bond market returns since 1926.

The Pension Fund had total assets of \$304,481,119 as of 02/28/22, a decrease of 1.5% for the current fiscal year to date overall. Mr. Johnson also reviewed individual manager performance during the current quarter. Domestic equities declined by -1.2%, international equities by -12.4%, fixed income by -5%, and alternatives by -1.8%, while real estate gained 11.5%. AndCo expects to fund Deerpath flexibly depending on the asset allocation when the Board receives calls for capital.

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

Ms. Jensen reported that work on a side letter for Deerpath continues, but she has the subscription agreements available. The manager has substantial penalties potentially for any default or miss on a capital call, while the Board remains obligated to meet future capital call commitments. The Board considered the possible issues with the proposed investment. Dan Johnson explained that such investments often include similar language in the agreements. While the Pension Fund has not missed capital calls for other managers previously, the Trustees must be comfortable with the commitment. Deerpath calls capital with 10 days advance notice. Dan Johnson recommended that the Board table further consideration of the issues with the proposed agreement until the next meeting, and the consultant will review the language in the Golub subscription documents. Deerpath closes in September 2022, while Golub closes their portfolio in 2023.

Ms. Jensen also reported that the current legislative session ends on March 11. She does not expect the bill to recognize presumptions for COVID to pass.

Administrator Report: Resource Centers (Scott Baur)

Mr. Baur had no separate reports for the Board.

5. PLAN FINANCIAL REPORTS

The Board received and reviewed the interim financial statement through January 31, 2022. The Trustees then reviewed the warrants for payment of expenses.

- *Brian Walker made a motion to approve the Warrants dated March 3, 2022, for paid and pending invoices. The motion received a second from Elizabeth Fugler, approved by the Trustees 4-0.*

6. BENEFIT APPROVALS

The Board reviewed and deferred approval of the benefits for the next meeting, to include revisions to the approval for retired member Dan Gore.

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7. OTHER BUSINESS

The Board discussed updates for the next retirement dinner.

8. ADDITIONAL REPORTS

The Trustees received additional investment manager reports.

9. PUBLIC COMMENTS

No members of the public had any comment.

10. ADJOURNMENT

There being no further business and the Board having previously scheduled the next regular meeting for Thursday, April 7, 2022 @ 1:30 P.M., the Chair adjourned the meeting at 3:55 PM.

Brian Walker, Secretary