

WEST PALM BEACH FIREFIGHTERS' PENSION FUND

MINUTES OF MEETING HELD

May 5, 2022

1. Dave Merrell called a quarterly meeting of the Board to order at 1:43 PM. Mr. Baur called roll for the Board. Those persons present included:

TRUSTEES

Dave Merrell, Chair
Brian Walker, Secretary
Elizabeth Fugler (Electronically)
Bridget Souffrant
Jeff Stefaniak

OTHERS PHYSICALLY

Scott Baur, Administrator (Resource Centers)
Brendon Vavrica, Investment Consultant (AndCo)
Bonni Jensen, Attorney (Klausner Kaufman Jensen & Levinson)
Charlotte Cagle, Visitor

OTHERS ELECTRONICALLY

Brad Armstrong, Actuary (GRS Consulting)
Casey Finneran, Wes Stueve and Connor McFarland, Investment Manager (PIMCO)

2. APPROVAL OF MINUTES

The Trustees deferred approval of the April 7, 2022 minutes.

3. REPORTS

Actuary: GRS (Brad Armstrong)

Brad Armstrong reviewed the contribution requirements for FY23, noting that the City typically makes a lump sum contribution at the beginning of the fiscal year. He reviewed the normal cost and payments on the Unfunded Accrued Actuarial Liability. The City has a small additional contribution requirement due to the many recent new hires and increase in the active member payroll. The City must contribute 32.59% of covered pay for fiscal year 2023 or \$7,446,383 at the beginning of the fiscal year.

The revised report marked assets to market, triggering the payment of a supplemental distribution. The grandfathered pool has a 7% return threshold for the supplemental distribution based on the old earnings assumption rates. The Pension Fund will distribute a total of \$5,721,782 to retired members. The updated valuation report includes a \$10 million funding reserve to moderate future contribution volatility for the City. The Board reconsidered a draft funding policy from 2014, since the Board will control the use of the funding reserve. City contributions will fund the reserve over the next 10 years with increasing contribution amounts that match the 4.1% member wage inflation assumption. Mr. Armstrong noted that City contributions decreased in each of the last 4 years.

Mr. Armstrong explained that the 4-year smoothing of investment returns will restart on the next valuation report. He provided an example that negative experience might have on the funding reserve. The proposed policy also would address how the actuary credits the reserve with earnings. Mr. Baur suggested that the actuary credit the reserve with the same earnings assumption of not less than 0% and not more than 8% to protect the reserve from exposure to market volatility.

- Brian Walker made a motion to accept the amended valuation report for September 30, 2021. The motion received a second from Jeff Stefaniak, approved by the Trustees 5-0.
- Based on the advice of the investment consultant, Brian Walker made a motion that the Board expects to achieve a 7.5% return on assets for the next year, the next several years, and for the long term thereafter. The motion received a second from Jeff Stefaniak, approved by the Trustees 5-0.

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Investment Manage: PIMCO (Casey Finneran, Wes Stueve, and Connor McFarland)

Casey Finneran stated that PIMCO manages 2 strategies for the Pension Fund. Wes Stueve and Connor McFarland reported on the alternative and multi-strategy opportunistic strategies managed by PIMCO. The diversified income fund is a global multi-sector credit strategy to capture best ideas at PIMCO. The diversified income fund trailed the bench by 40 bp for the most recent quarter due to higher exposure to emerging market and high yield debt. Historically the portfolio has generated 15 bp of excess returns. Mr. Finneran explained that bond yields account for most of the return with interest rates and rate spreads acting as diversifiers in the portfolio.

Connor McFarland discussed the PIMCO DISCO III portfolio performance. The strategy returned an annualized return of 16.27% so far with a gain of .084% for the first quarter of 2022. The manager called only 40% of the initial commitment and already distributed 38% of that capital with another 5% pending distribution on May 6, 2022. The manager continues to de-risk the remaining assets. The strategy relies on wider credit spreads which have not become available in the recent market. The DISCO III fund should wind down in the summer of 2022 as PIMCO launches a contingent DISCO IV fund.

Connor McFarland differentiated between the Diversified Income fund and the DISCO III strategy, which is more opportunistic. The Diversified Income fund is an evergreen strategy, a portfolio that does not have an end date, whereas the DISCO Fund invests only in situations where the market experiences a severe dislocation that creates investment opportunities.

Investment Consultant: AndCo (Brendon Vavrica)

Brendon Vavrica reported that nearly the entire investment universe had losses during the March 31 quarter as the market corrected. Value stocks fared much better than growth stocks, which have greater sensitivity to rising interest rates due to higher valuations. Value also got a boost from the utilities and energy sectors, the only two sectors of the market with gains for the quarter. Interest rates, meanwhile, increased dramatically.

The Pension Fund finished the March 31 quarter with \$307,197,491 in total assets. Mr. Vavrica reported that current allocations in the portfolio remain in line with investment policy targets. The overall portfolio returned -4.55% for the March 31, 2022 quarter compared to -3.87% for the benchmark to still finish in the top 32%. Fiscal year to date the assets returned -0.18% compared to a modest gain of 1.94% for the benchmark. Brendon Vavrica reviewed individual manager performance, noting strong relative performance by BNY Mellon. The EuroPacific Growth Fund, with a strong growth bias, trailed the international benchmark. The fixed income portfolio managed by Garcia Hamilton performed well in a rising interest rate environment. The real estate holdings also continued to have strong gains for the quarter.

Dave Merrell departed the meeting due to a prior commitment.

Brendon Vavrica then updated performance for April 2022, which does not look so good. He does not have much information available on the PIMCO DISCO IV contingency fund. He further discussed the differences between evergreen strategies and closed-end funds. The DISCO III Fund has an original 3-year investment timeline.

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

Ms. Jensen reported that the Deerpath Agreement is now complete.

Administrator Report: Resource Centers (Scott Baur)

Mr. Baur reviewed the details and data used to allocate the supplemental distribution to eligible retired members. He thanked Rick Dorey for his contribution to the process and careful review.

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- *Jeff Stefaniak made a motion to approve the supplemental distribution to retired members. The motion received a second from Bridget Souffrant, approved by the Trustees 4-0.*

Bridget Souffrant also departed the meeting due to a conflict.

The Board considered a proposed fee increase by the administrator to the basic retainer charged by the firm. Mr. Baur explained that the increase related primarily to the change in the number of active and inactive plan members over the last 10 years since the last such increase. He agreed to delay the increase until June 2022.

- *Elizabeth Fugler made a motion to approve the \$1,000 increase to the monthly retainer charged by the administrator, waiving the increase until June 2022. The motion received a second from Jeff Stefaniak, approved by the Trustees 3-0.*

4. PLAN FINANCIAL REPORTS

The Board received and reviewed the interim financial statement through March 31, 2022.

The Board then reviewed the administrative expenses for fiscal year 2021 and the proposed administrative expense budget for fiscal year 2023.

- *Elizabeth Fugler made a motion to approve the administrative expense budget for fiscal year 2023. The motion received a second from Jeff Stefaniak, approved by the Trustees 3-0.*

The Trustees reviewed the warrants for payment of plan expenses.

- *Jeff Stefaniak made a motion to approve the Warrants dated May 5, 2022, for paid and pending invoices. The motion received a second from Elizabeth Fugler, approved by the Trustees 3-0.*

5. BENEFIT APPROVALS

Brian Walker noted that one member selected other than the normal form of pension benefit payment, very rare for the Pension Fund members historically. Mr. Baur will review the selection. The Trustees deferred approval of the benefits.

6. OTHER BUSINESS

Mr. Baur reported on recent record requests from former plan member Rick Curtis, a vested member who took a refund of contributions in 2011. He also reported on the upcoming annual FPPTA Conference.

Brian Walker plans the next Retirement Dinner to follow after March 2023.

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, June 9, 2022 @ 1:30 P.M., the Chair adjourned the meeting at 3:59 PM.

Brian Walker, Secretary