

WEST PALM BEACH FIREFIGHTERS' PENSION FUND
MINUTES OF QUARTERLY MEETING HELD
AUGUST 1, 2024

1. Brian Walker called a Quarterly Meeting of the Board to order at 1:32 PM in the Training Room at Fire Station 5. Those persons present included:

TRUSTEES

Dave Merrell, Chair
Brian Walker, Secretary
Julian Cover (Electronically)
Elizabeth Fugler
Jeff Stefaniak

OTHERS

Bonni Jensen, Board Counsel (Klausner, Kaufman, Jensen & Levinson) Electronically
Scott Baur & Sarah Vandergon, Administrator (Resource Centers)
Brendon Vavrica (Electronically), Investment Consultant (AndCo)
David Kaplan, Investment Manager (Baron)
Jennifer Jackson & Catherine Verri, Investment Manager (Carlyle)
Brian Kendall, Pete Mitchell, & Terence Clerkin, Investment Manager (Pennant Park)
Rick Dorey, Member
Brian Lamb, Member
Rick Roberts, Member
J Sanchez

- Elizabeth Fugler made a motion to allow Julian Cover to participate electronically due to exigent circumstances. The motion received a second from Jeff Stefaniak, approved by the Trustees 5-0.

2. **APPROVAL OF MINUTES**

Bonni Jensen provided a correction to the draft minutes for the June 13 Special Meeting, noting that Trampas Manor would have 20 days to appeal the Board decision. Jeff Stefaniak also provided a correction to the minutes for the regular meeting on June 13.

- Brian Walker made a motion to approve the minutes for the special and regular meetings on June 13, 2024 as amended. The motion received a second from Jeff Stefaniak, approved 5-0 by the Trustees.

3. **REPORTS**

Investment Manager: Baron (David Kaplan)

Mr. Kaplan reported on personnel updates at Baron. The firm had recent retirements and a new COO unrelated to the management of the small cap growth strategy.

He then reviewed the criteria for holdings in the portfolio. Baron invests in companies with significant growth potential, durable competitive advantages, exceptional management, and compelling valuations. At the age of 81 Ron Baron is still actively engaged in the management of the strategy. The small growth strategy performed under the benchmark so far for the current year to date, which rarely happens. Most of the underperformance resulted from companies that Baron chose not to hold, rather than investments included in the portfolio. Over rolling 10-year periods, however, the strategy has outperformed the benchmark 100% of the time. Mr. Kaplan further reviewed contributors and detractors from performance. The Pension Fund has invested in the strategy now for 20 years. While the market had no unusual events during the quarter, the market did not reward the higher quality growth companies favored by Baron.

Mr. Kaplan further reviewed additional holdings included in the portfolio. Baron does not invest to match the benchmark sector weights. The strategy has 20% less volatility than the benchmark as well. Ms. Fugler questioned the plan for succession in place at the firm. Mark Nuber co-manages the strategy with Ron Baron. Brendon Vavrica reported that the portfolio performed well during the month of July.

Baron has a November 15 conference at the Lincoln Center in New York. The event draws about 5,000 people annually. Trustees must have tickets if they wish to attend.

WEST PALM BEACH FIREFIGHTERS' PENSION FUND
QUARTERLY MEETING OF AUGUST 1, 2024

Investment Manager: Carlyle (Jennifer Jackson & Catherine Verri)

Jennifer Jackson provided an overview of Carlyle. The firm manages \$425 in assets with over 700 professionals and 28 offices in 16 countries. The strategy presented by the firm invests in senior secured debt, first in line for repayment. The open-end evergreen portfolio has 66 holdings currently, all without any performance issues.

Catherine Verri reviewed the portfolio structure. Carlyle has one of the few open-end evergreen offerings available. The product has a flat 1.25% management fee. The strategy targets debt at a 1:1 ratio to equity. In the evergreen product, the manager automatically reinvests capital. The strategy is therefore easier to administer. After an initial 2-year lock-up period, the Board can draw from the portfolio with quarterly liquidity. The strategy has a 20% net IRR (internal rate of return) and 10.3% net dividend yield. Ms. Verri introduced the direct lending team as a differentiator and advantage over offerings from competitors. Carlyle calls capital within a 2-year period. The manager cannot negotiate the 125 bp fee. The firm will aggregate assets through Mariner, however, for any fee consideration.

Mr. Vavrica stated that the Board has a 3% target allocation to direct lending, equal to about \$9 million, with \$3 million already committed to Deerpath.

Investment Manager: Pennant Park (Brian Kendall, Pete Mitchell, and Terence Clerkin)

Brian Kendall introduced the Pennant Park team. Pete Mitchell provided an overview of the firm, located in Miami Beach. Pennant Park manages \$7.5 billion in assets targeting private equity backed domestic middle market companies with earnings between \$10 and \$50 million. The manager issues floating rate loans, so the strategy earns a spread over market interest rates. The private equity capital is subordinated to debt issued by Pennant Park. The manager has a consistent team and a consistent process to drive consistent results. The manager also gets some upside participation through co-investments in private equity. Loans issued by Pennant Park generally have lower leverage with higher spreads over the market.

Target companies have leading market positions with significant competitive advantages, established sponsors, proven management, and low debt multiples. Terence Clerkin reviewed the senior debt strategy and other Pennant Park offerings. The investment team has substantial experience with little turnover. Pennant Park looks for opportunities through middle market private equity sponsors, and the manager covers close to 80% of the private equity firms.

Mr. Clerkin reviewed a case study for a lending opportunity and the due diligence process conducted by the management team prior to issuing a loan. A loan can go into default if a company fails to meet profit targets. Pennant Park has a low default rate with a strong track record of recovery. The strategy has a 23% realized net IRR.

Mr. Clerkin then reviewed the opportunistic credit strategy. The strategy focuses on opportunities created by market dislocation. Some of the Pennant Park offerings are coming up on a final close. Loans are typically made for 5-6 years get often get paid within 3 years. The Opportunity Fund IV has a 4-year investment period and a 3-year harvest period. Pennant Park aggregates Mariner clients for fee consideration. The manager earns an incentive fee over a return threshold. The product requires completed documents by the end of August.

Investment Consultant: AndCo (Brendon Vavrica)

Brendon Vavrica differentiated Pennant Park from Carlyle, which offer different investment structures. Pennant Park also takes more equity opportunities in the portfolio than Carlyle. Mariner generally prefers the evergreen offerings. Ms. Fugler sees Pennant Park as a more focused manager compared to Carlyle, which has a much broader range of credit offerings. The Opportunity Fund IV extends 7-years from the final close. The Board will also hear a presentation from Deerpath on an additional evergreen vehicle at the September meeting. Dave Merrell stated that he preferred the simplicity of the evergreen vehicles. The Trustees further discussed the Pennant Park offering, which targets an overall return of 8-10% annually. Carlyle, meanwhile, has a current 10% annual distribution rate. The Board considered risk and the size of a possible commitment.

WEST PALM BEACH FIREFIGHTERS' PENSION FUND
QUARTERLY MEETING OF AUGUST 1, 2024

- **Brian Walker made a motion to allocate \$3 million to Pennant Park. The motion received a second from Elizabeth Fugler, approved by the Trustees 4-1.**

Julian Cover voted against the motion. He stated that he preferred the evergreen strategies and wanted the Board to hear additional presentations before committing capital.

Mr. Vavrica reported that most of the managers of the Pension Fund assets performed under benchmarks for the June 30 quarter. The assets gained 11.48% for the fiscal year to date and declined 64 bp for the June 30 quarter, compared to a 1.66% gain for the Pension Fund target benchmark. Small cap managers posted losses for the quarter, and Polen also continued to perform under the benchmark underweighting investments in the "Magnificent 7" companies driving benchmark returns. The assets gained 2.5% in July as growth rotated to value holdings and larger companies to smaller cap holdings. The Pension Fund raised cash from the Vanguard Total Stock Index Fund for recent distributions.

Mr. Vavrica reviewed recent performance for Garcia Hamilton, the fixed income manager, and reviewed some alternatives. He compared results and portfolio composition to 4 other managers and the benchmark. Recently Garcia Hamilton has been wrong or early on duration bets in the portfolio. The manager also makes sector bets. Accordingly, the portfolio has a significantly higher beta or volatility over other fixed income strategies. The Board will hear from Garcia Hamilton at the September 10 meeting.

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

Ms. Jensen and Mr. Vavrica provide an update on the new fee agreement for Newton. Newton proposed to lower the fixed annual fee by 5 bp but increase the participation rate or incentive fee by 5 bp. If Newton continues to outperform the portfolio benchmark, the performance fee can therefore increase but still tops out at 1% in total. In some years with more moderate results, the new fee would be slightly lower.

Ms. Jensen provided proposed meeting dates for 2025.

She then reported that the Board prevailed in the Moelis litigation, which actually impacts corporate governance and possible "super powers" allowed in management. BLBG litigated the case, which is now under appeal. The owner of Moelis sold a majority ownership of the company but retained the ultimate authority to make decisions.

PGE settled litigation with the Board for \$7,500, the most apparently paid so far to any stakeholder.

- **Brian Walker made a motion to formally approve the \$7,500 settlement offered by PGE. The motion received a second from Jeff Stefaniak, approved by the Trustees 5-0.**

Ms. Jensen provided the Board with an update on the appeal by Rick Curtis. The court asked for a brief to show cause why the Board should not grant Mr. Curtis a pension benefit. Her firm filed a brief supporting the Board decision, asked for oral arguments, and requested attorney fees. The Klausner firm defends the Board decision. The appeals court still has the matter under review without a specific time frame to render a decision. Counsel for Mr. Curtis filed a "writ of certiorari" asking the court to overturn the decision denying Mr. Curtis a benefit. The Board has a right to request attorney fees if the appeals court upholds the Board decision.

Ms. Jensen reported that Saxena White wants the Board to bring a class action against Lamb Weston. The company created a new software system to manage the distribution of potatoes. The conversion to the new system went badly, impacting revenue by 12% and profits by 28%. The Board held the stock for a long time, with \$27,000 in recent losses and \$127,000 in losses overall.

- **Brian Walker made a motion to engage Saxena White to pursue the litigation. The motion received a second from Elizabeth Fugler, approved by the Trustees 5-0.**

Ms. Jensen will ask Saxena White if the investment manager must continue to hold shares of the stock.

WEST PALM BEACH FIREFIGHTERS' PENSION FUND
QUARTERLY MEETING OF AUGUST 1, 2024

Administrator: Resource Centers (Scott Baur)

Ms. Jensen discussed the use of AI by Board service providers. Mr. Baur reviewed a model or template policy created by his firm for the use of generative AI in the operation of the Pension Fund. The Board considered specific examples and uses of AI. The model policy, designed for simplicity, requires transparency and oversight.

Mr. Baur reported the Division of Management Services approved the Annual Report filed by his firm on behalf of the Board. The DMS has not yet released the upcoming Chapter 175 premium tax distributions amounts for 2023.

He also provided updates with the meeting documents on additional updates provided by Salem Trust as the custodian of assets and JP Morgan as the manager of private real estate investments for the Board through 2 separate strategies.

4. PLAN FINANCIAL REPORTS

The Board received and reviewed the interim financial statement through June 30, 2024. The Trustees then reviewed the warrant for payment of plan expenses.

- **Brian Walker made a motion to approve the Warrant dated August 1, 2024, for payment of invoices. The motion received a second from Elizabeth Fugler, approved by the Trustees 5-0.**

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 5-0.**

6. OTHER BUSINESS

The Board will continue discussion on the use of generative AI in Pension Fund operations at the next meeting. Brian Walker reported that the Fire Department will hire 10 new employees. The City is also changing service providers used for the new hire physicals. The administrator should receive reports from the completed physicals.

Louis Gonzales, a vested deferred member, has a very good experience working with Sarah Vandergon at the office of the administrator as he commenced receipt of his benefits.

7. ADDITIONAL REPORTS

The Trustees received additional investment manager reports.

8. PUBLIC COMMENTS

No members of the public had any further comment.

9. ADJOURNMENT

There being no further business and the Board having previously scheduled the next regular meeting for Thursday, September 12, 2024 @ 1:30 PM, Dave Merrell adjourned the meeting at 4:54 PM.

Brian Walker, Secretary