

**CITY DAYTONA BEACH POLICE AND FIRE PENSION FUND
PENSION BOARD OF TRUSTEES QUARTERLY MEETING
City Hall, Council Chambers
301 S. Ridgewood Ave, Daytona Beach, FL 32115**

Monday, May 6, 2019, 8:30AM

TRUSTEES PRESENT: Mark Eisner
Michael Rowley
Gregg Gurdak

TRUSTEES ABSENT: Erin Masters

OTHERS PRESENT: Pedro Herrera, Sugarman & Susskind
Brad Heinrichs, Foster & Foster
Steven Cottle, Milliman
Marty LaPrade, Sawgrass
Jean Barnard, Kennedy Capital
Chuck Bryant, Kennedy Capital
Misti Howley, Bichler, Oliver, Longo & Fox (via phone)
Seamus Browne, Dimensional Fund Advisors
Gary Gustovich, Dimensional Fund Advisors
Jeanine Bittinger, Davidson, Jamieson & Cristini
Richard Cristini, Davidson, Jamieson & Cristini
Mike Scudiero, PBA Rep
Jim Sexton, City HR Manager
Members of the Public
Members of the Plan

- I. **Call to Order/Roll Call/Determination of a Quorum** Mark Eisner called the meeting to order at 8:34am.
- II. **Public Comment**
 - A. Mike Scudiero represents the PBA. Mike commented they begin negotiations next week. Mike stated the membership had voiced a desire to return to a 2% Cost-of-Living-Adjustment (COLA). Mike commented he understood this needed to be negotiated but wanted to make the board aware of the request. Mike asked the board to have the actuary run a cost study to accomplish this.

The board approved a cost study to be done by Foster & Foster to have a 2% COLA using the COLA reserve monies, upon motion by Gregg Gurdak and second by Mike Rowley; motion carried 3-0.

III. **Chairman's Comments** - None

IV. **Approval of Minutes**

The board approved the February 4, 2019, quarterly meeting minutes and the March 4, 2019, disability meeting minutes upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

V. **New Business**

- A. Aaron Tucker, application for disability, non-In-Line-Of-Duty (non-ILOD)
 - i. Misti Howley commented Aaron Tucker agreed to a non-ILOD disability. Misti confirmed Aaron was medically terminated by the City. The board discussed the effective date of the disability payment.

The board awarded Aaron Tucker a non-ILOD disability effective May 6, 2019, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

- B. Update on 5th trustee seat
 - i. Mark Eisner commented Gregg Gurdak's position was ratified by the City Council on March 6, 2019. Mark asked Jim Sexton if the City had found another City-appointed trustee. Jim commented they had not.

VI. **Reports (Attorney/Consultants)**

- A. Kennedy Capital, Jean Barnard/Chuck Bryant, Investment Manager
 - i. Quarterly Report as of March 31, 2019
 - i. Chuck Bryant commented the board had two accounts with Kennedy. Chuck gave a firm update and reviewed the new hires that occurred during 2018. Chuck commented both accounts were up through last week compared to the benchmark. Chuck commented they were going to be launching a mutual fund opportunity for the first time.

Note: Pedro Herrera arrived at 8:50am

- ii. Chuck Bryant reviewed the recent fee structure change and commented the core fund fees had been lowered by 10 basis points.
 - iii. Jean Barnard gave an overview of her experience and commented she was the new portfolio manager. Jean reviewed the portfolio's analysts and characteristics.
 - iv. The 2019 year-to-date return net of fees was 18.0%.
 - v. Jean Barnard commented they are looking to hire one to two junior analysts over the next year. Jean commented they have 7-10 interns each summer.
- B. Dimensional Fund Advisors (DFA), Gary Gustovich/Seamus Browne, Investment Managers
 - i. Quarterly Report as of March 31, 2019
 - i. Gary Gustovich gave a brief overview of the firm. Gary commented they had \$576 billion in global assets under management. Gary reviewed the investment team and commented they had 19 PHDs, 84 research professionals, and 146 portfolio management professionals.
 - ii. Seamus Browne briefly reviewed the firm's investment philosophy. Seamus reviewed the dimensions they used to analyze expected returns. Seamus reviewed the yearly and historical observations of premiums.
 - iii. Seamus Browne reviewed what happened in the market over the previous 12-months.
 - iv. The annualized returns of the US Large Cap Value Portfolio as of March 31, 2019, was 10.79%, underperforming the benchmark (Russell 1000 Value Index) of 11.93%. The 1, 3, and 5-year trailing returns were 0.24%, 11.41% and 7.68% respectively compared with the benchmarks of 5.67%, 10.45% and 7.72% for the same respective periods. Since inception (March 1993), the return is 9.90%, outperforming the benchmark of 9.46%.
 - v. Seamus Browne reviewed the full history of the portfolio and commented the portfolio outperformed 53% of the time out of 299 observations. Seamus commented the percentages increase as you look at the 3, 5, and 10-year trailing periods.

- C. Sawgrass Asset Management, Marty LaPrade, Investment Manager
 - i. Quarterly Report as of March 31, 2019
 - i. Marty LaPrade commented they are the large cap value manager and have been with the plan for just over 10 years.
 - ii. For the quarter ending March 31, 2019, the portfolio had a net return of 12.87%, underperforming the benchmark (Russel 1000 Growth) of 16.10%. The 1, 3, and 5-year trailing net returns were 16.34%, 13.59% and 11.28%, respectively, compared with the benchmarks of 12.75%, 16.53% and 13.50% for the same respective periods.
 - iii. Marty LaPrade commented they are not an aggressive manager. Marty briefly reviewed the top portfolio holdings and sector breakdown.

- D. Milliman, Steven Cottle/Bill Cottle, Investment Consultant
 - i. Quarterly Report as of March 31, 2019
 - i. Steven Cottle reviewed the current asset allocation and reviewed the targets that will be reduced due to the asset allocation study. Steven commented the private equity managers are still calling capital.
 - ii. Steven Cottle commented he expects the BlackRock commitment to be fully returned by the end of 2020. Steven reviewed the most recent commitments that had been made.
 - iii. Steven Cottle reviewed the cash allocation. Steven commented he did not recommend having a large amount of cash in the account, as this would cause a drag on the portfolio. Steven reviewed a BlackRock ETF fund that could be used for cash flow and confirmed there was no account minimum. Steven recommended bringing in BlackRock to the next meeting to discuss this product.
 - iv. The market value of assets was \$192,396,792 as of March 31, 2019, an increase of \$16,594,210 from the prior quarter.
 - v. For the quarter ending March 31, 2019, total fund gross performance was 9.8%, outperforming the benchmark of 8.9%. Trailing gross returns for the 1, 3, and 5-year periods were 6.6%, 9.2% and 6.0%, compared with 5.0%, 8.2%, and 6.2% for the same respective periods.
 - vi. Steven Cottle reviewed the performance of each manager. Steven commented Salem Trust was not able to buy the Nuveen mutual fund on their platform. Steven commented he would follow-up with Salem Trust on this issue since they were recently acquired.

- E. Davidson, Jamieson, & Cristini, Jeanine Bittinger/Richard Cristini, Board Auditor
 - i. September 30, 2018, audit report
 - i. Richard Cristini reviewed how ADRs were categorized by Salem Trust versus BNY Mellon.
 - ii. Richard Cristini commented the State Monies were up for both the police and fire plans. The total liabilities decreased from \$323,088 to \$321,241, and total assets increased from \$176,526,818 to \$185,211,988.
 - iii. Richard Cristini reviewed the contributions and deductions that occurred during the fiscal year.
 - iv. Richard Cristini reviewed the net increase in the realized and unrealized appreciation/depreciation of investments.
 - v. Richard Cristini reviewed the net pension liability of the City. Richard commented the City would need to book a \$64,835,851 pension liability.
 - vi. The board briefly reviewed the sensitivity of the net pension liability to changes in the discount rate.

- vii. Richard Cristini commented the board was under 1% in all categories for administrative expenses, which was good.

The board approved the September 30, 2018, audit report as presented, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 3-0.

- F. Sugarman & Susskind, Pedro Herrera, Board Attorney
 - i. Legislative update
 - i. Pedro Herrera gave a legislative update. Pedro commented the firefighters' cancer bill had been signed by the Governor. Pedro commented the bill amended Chapter 112, but there would be some changes to how some firefighter disability claims were processed and reviewed. Pedro confirmed an Ordinance amendment would be needed. Pedro commented they do not expect any other bills to pass.
 - ii. Plan Restatement
 - i. Pedro Herrera reviewed the Plan Restatement. Pedro commented there were no major changes, it was mostly formatting changes. Pedro commented he would get the Plan Restatement over to the City for review.

The board approved the Plan Restatement as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

- iii. Updated Summary Plan Description (SPD)
 - i. Pedro Herrera commented the last SPD was done in November of 2017. Pedro commented this needs to be updated at least every 2 years. The board briefly reviewed the negotiations that were occurring. The board requested Pedro to have a draft SPD at the next quarterly meeting.
 - ii. The board discussed the need for an actuarial impact statement for the Plan Restatement with the addition of the cancer bill that just passed. By consensus, the board directed Pedro Herrera to add the recently passed cancer bill to the Plan Restatement. Brad Heinrichs commented this would change the actuarial statement from a no impact letter to an actuarial impact letter. Brad commented they would specifically state that the impact is solely due to the recently passed cancer bill.

The board approved Foster & Foster to do an Actuarial Impact Statement once the City has reviewed the Plan Restatement, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

- G. Foster & Foster, Brad Heinrichs, Board Actuary
 - i. October 1, 2018, actuarial valuation report
 - i. Brad Heinrichs reviewed the difference between the market value and actuarial value of assets. Brad reviewed the current smoothing technique. Brad advised the smoothing technique helped with volatility. Brad reviewed ASOP 44 and commented the prior actuary was using a bias that was no longer permitted. Brad recommended a change and reviewed the cost impact of the change. Brad commented the new recommended smoothing technique would smooth everything earned over 7.5%.
 - ii. The City Required Contribution for fiscal-year-ending September 20, 2020 would be \$8,405,315 compared to \$7,930,893 for the fiscal-year-ending September 30, 2019.
 - iii. The Minimum Required Contribution showed an increase when compared to the results determined in the October 1, 2017, actuarial valuation report. The increase was attributable to unfavorable plan experience on the basis of the plan's actuarial assumptions. Sources of unfavorable experience included an

investment return of 5.99% (Actuarial Asset Basis), which fell short of the 7.5% assumption and a larger number of retirements than expected. These losses were offset in part by a gain with more inactive deaths than expected.

- iv. In conjunction with this actuarial valuation, a fresh start of the actuarial asset value was implemented to be equal to the market value of assets. Effective October 1, 2018, the asset valuation method was such that all assets were valued at market value with an adjustment to uniformly spread investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The previous method projected an expected actuarial value of assets to end of the year and adjusted the value by 20% of the difference between the actuarial value and the market value. Since the previous method did not converge to the market value, the asset valuation method was changed to a method that would converge to the market value.
- v. In addition, the previous valuation report did not include the value of the Cost of Living Adjustments (COLA) fund in the assets or liabilities reported. This valuation included the COLA fund in the asset values as well as in the liabilities.
- vi. The board reviewed the difference between the two funded ratios. Brad Heinrichs commented one used the actuarial value of assets and the other one used the market value of assets.
- vii. Brad Heinrichs reviewed the Unfunded Actuarial Accrued Liability (UAAL) and the components that made up the UAAL.
- viii. Brad Heinrichs commented the board currently used a 30-year amortization schedule, which is the longest the plan could use. Brad commented the plan may want to look to decrease this. Brad commented the last experience study was done four years ago, so the board would want to think about doing one in the next year. Brad commented the experience study would measure the current assumption against the actual plan experience.
- ix. Jim Sexton asked if the Union didn't agree for the City to use all State Monies received to offset the City's required contribution, then would the City's contribution increase. Brad confirmed that this was correct as the valuation assumed the City would be able to use all the State Monies.
- x. The board asked Brad Heinrichs to show the police and fire assets and liabilities separately in future valuation reports. Brad commented he would provide the breakout in the next week.
- xi. By consensus, the board decided to do an experience study every five years.
- xii. Brad Heinrichs reviewed the cumulative actuarial gain/losses from October 1, 2011.

The board approved the September 30, 2018 actuarial valuation as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

VII. **Old Business** – None

VIII.

Consent Agenda

- A. Payment ratification
 - i. Warrants #35, #36, #37, #38, #39 and #40
- B. New invoices for payment approval
 - i. None
- C. Fund Activity report for period January 29, 2019 through April 26, 2019

The board voted to approve the consent agenda as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

IX.

Staff Reports

- A. Foster & Foster, Ferrell Jenne, Plan Administrator
 - i. Fiduciary liability policy renewal
 - i. Ferrell Jenne commented the fiduciary liability policy would expire on August 10, 2019. They had reached out to the carrier for a renewal application.
 - ii. Disability Affidavits
 - i. Ferrell Jenne reviewed disability affidavits and asked the board for direction on how often and how long to send out the affidavits. By consensus, the board directed Ferrell Jenne to send out the affidavits on an annual basis, and they were to stop once a member reached what would have been their normal retirement date.
 - iii. Ferrell Jenne informed the board of her pregnancy and stated that service would not be affected. Ferrell commented she would be taking three weeks off for maternity leave but would still monitor emails during this time.

X.

Trustee Reports, Discussion, and Action - None

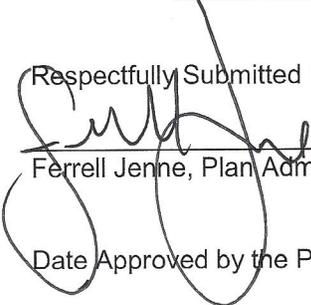
XI.

Adjournment - The meeting adjourned at 11:20am

XII.

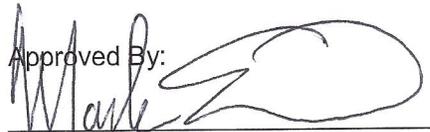
Next Meeting – Quarterly Meeting, August 5, 2019, at 8:30am

Respectfully Submitted By:



Ferrell Jenne, Plan Administrator

Approved By:



Mark Eisner, Chairman

Date Approved by the Pension Board:

AUGUST 5, 2019