

**CITY OF DAYTONA BEACH POLICE AND FIRE PENSION FUND
PENSION BOARD OF TRUSTEES QUARTERLY MEETING**

**Commission Chambers
301 S. Ridgewood Ave, Daytona Beach, FL 32115
Tuesday, February 7, 2023, 8:30AM**

- TRUSTEES PRESENT:** Michael Rowley
Gregg Gurdak
William Kuendig
- TRUSTEES ABSENT:** Jay Maher
Erin Masters
- OTHERS PRESENT:** Ferrell Jenne, Foster & Foster
Pedro Herrera, Sugarman & Susskind (via Zoom)
Bill Cottle, Segal Marco (via Zoom)
David Palmerino, Segal Marco (via Zoom)
Steven Cottle, Segal Marco
Jean Barnard, Kennedy Capital (via Zoom)
Chris McDonald, Kennedy Capital (via Zoom)
Chuck Bryant, Kennedy Capital
Fraser Thomson, Baillie Gifford (via Zoom)
Gary Gustovich, DFA
Scott Katzbeck, DFA
Eric Wilcomes, Taurus
Kevin Campbell, Taurus
Sara Carlson, Foster & Foster
Tenadore Dean, IAFF Local 1162 President
Philip Peickert, Plan Member
Members of the Public

- I. **Call to Order/Roll Call/Determination of a Quorum** – The meeting was called to order at 8:32AM by Ferrell Jenne.
- II. **Public Comment**
- A. Philip Peickert stated he represents a group of non-bargaining police members that would like to use the Board's actuary to run some cost estimates on benefit changes. Philip stated they would cover the cost for any requested studies.

The Board voted to allow the non-bargaining members access to the Board's actuary with all costs to be paid by the requestor, upon motion by Gregg Gurdak and second by William Kuendig; motion carried 3-0.

- B. Tenadore Dean stated he and the Police Benevolent Association (PBA) president would like access to the Board's actuary to run some cost estimates on changing the multiplier.

The Board voted to allow the Police Benevolent Association (PBA) and the International Association of Fire Fighters (IAFF) President access to the Board's actuary with all costs to be paid by the requestor, upon motion by Gregg Gurdak and second by William Kuendig; motion carried 3-0.

- C. Tenadore Dean asked about the historical State Money amounts. Ferrell Jenne commented there is a page in the valuation report that shows the amounts of the historical State Monies. Ferrell commented she could email the valuation report after Board approval.

- III. **Approval of Minutes**

- A. November 7, 2022, quarterly meeting minutes

The November 7, 2022, quarterly meeting minutes were approved as presented, upon motion by Gregg Gurdak and second by William Kuendig; motion carried 3-0.

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

A. Baillie Gifford, Fraser Thomson, Investment Manager

- i. Quarterly report as of December 31, 2022
- a. Fraser Thomson stated they were looking for 30-50 companies that had a competitive edge and were looking to grow. Fraser reviewed their exposure to important future markets and the fundamental portfolio exposures.
 - b. Fraser Thomson stated they believed agility and resiliency were key in uncertain times.

B. Taurus, Eric Wilcomes/Kevin Campbell, Investment Manager

- i. Quarterly report as of December 31, 2022
- a. Kevin Campbell stated the plan made a \$10M commitment to the 2019 Fund I and a \$10M commitment to the 2022 Fund II. Kevin stated Fund I was closed to new investors.
 - b. Eric Wilcomes stated Fund I had 15 private equity managers, and all managers were valuing their investment portfolios at or above their cost basis.
 - c. Kevin Campbell stated they had early positive performance, and this had mitigated the J-curve.
 - d. Eric Wilcomes reviewed the quarterly returns and stated 39% of committed capital had been called from investors to date. For the plan, they had committed approximately \$3.9M to date.
 - e. Kevin Campbell briefly reviewed Fund II and stated they recently made a capital call and had completed three investments to date and were reviewing three others. Kevin stated they have used 4 of the 6 investors in the past.
 - f. Eric Wilcomes reviewed additional staff that had been added in the past year.

C. DFA, Gary Gustovich/Scott Katzbeck, Investment Manager

- i. Quarterly report as of December 31, 2022
- a. Gary Gustovich introduced himself and stated account manager Scott Katzbeck was also in attendance.
 - b. Scott Katzbeck reviewed the portfolio management and stated in the long term they were looking at company size, relative price, and profitability. Scott stated in the short term they were looking at investment, momentum, and securities lending.
 - c. Scott Katzbeck reviewed what they can buy as a US Large Cap Value manager. Scott stated they excluded REITS, as they were held in a separate portfolio and highly regulated utility securities.
 - d. Scott reviewed the portfolio characteristics.

D. Kennedy Capital, Chuck Bryant/Jean Barnard/Chris McDonald, Investment Manager

- i. Quarterly report as of December 31, 2022
- a. Chuck Bryant stated since the plan was invested in two strategies, he had Jean Barnard and Chris McDonald with him, attending via Zoom. Chuck gave a firm overview and stated Azimut would acquire a minority interest in Kennedy Capital. Jean stated there would be changes to the investment team, due to the Azimut partnership.
 - b. Chris McDonald gave an update on the ESG SMID Cap portfolio. Chris stated they had the largest allocation to industrials and

were benchmarked against the Russell 2500. Chris reviewed the top 10 holdings.

- c. Chris McDonald stated it had been a challenging year due to the aggressive interest rate hikes. Chris stated in 2022 they outperformed the benchmark by 1.1% and stated stock selection was a big driver in the portfolio.
- d. Jean Barnard reviewed the SMID Cap Growth portfolio. Jean reviewed the investment team and stated they had sector specific research analysts. Jean stated they look for companies across the growth life cycle with durable business models.
- e. Jean Barnard stated the largest sector weighting was in health care followed closely by information technology. Jean stated their range of holdings was 75-100 and their benchmark was the Russell 2500 Growth index.

E. Segal Marco, Steven Cottle/Bill Cottle/David Palmerino, Investment Consultant

i. Quarterly report as of December 31, 2022

- a. Steven Cottle stated it had been a very challenging year.
- b. The market value of assets (MVA) as of December 31, 2022 was \$206,312,896.
- c. Steven Cottle reviewed the current asset allocation and stated private equity helped insulate the portfolio.
- d. The total fund gross returns for the quarter were 4.3%, compared to the benchmark of 5.7%. The 1, 3, 5, and 7-year trailing total fund gross returns were -14.0%, 5.4%, 6.5%, and 7.7%, respectively, compared with the benchmarks of -13.6, 3.4%, 4.7%, and 6.6% for the same respective periods.
- e. Steven Cottle stated the growth market had done well for the plan in the past, but it had not this past year. Steven stated they would be reviewing the asset allocation study later in the meeting, so they can look closer at this asset class at that time.
- f. Steven Cottle stated as of January 31, 2023, the fund was up approximately 5.5%.

ii. Asset-Liability Modeling

- a. Steven Cottle stated the asset allocation study seeks to compare the relative risks and rewards of investing in various investment strategies. Steven stated the last study was done in 2018 and the results of the study were based on preliminary capital market assumptions from June 30, 2022.
- b. David Palmerino stated they would be looking at projections based on various asset allocation changes. David reviewed the baseline valuation information and stated all projections assume a 7.5% investment return assumption.
- c. David Palmerino reviewed the deterministic projections and stated the plan would be in a negative net cashflow position over the next 10 years, needing to liquidate approximately 3-4% of assets annually to meet the benefit payments. David reviewed the difference between a deterministic and stochastic projection.
- d. David Palmerino reviewed the capital market assumptions and stated they do not expect the results to significantly change as a result of using finalized assumptions versus these preliminary assumptions.
- e. David Palmerino reviewed the current target and the compounded rate of return associated with the various percentile results over the next 10 years.
- f. David Palmerino reviewed the funded ratio and the probability of the funded ratio dropping or achieving full funding in the next 10 years.

- g. David Palmerino reviewed the alternative portfolios and stated each alternative investment strategy provides some risk or reward benefit over the current target portfolio. David stated each portfolio was broadly consistent with the 7.5% investment return assumption and only the "ALT 3" portfolio introduced a new asset class with a 7% allocation to private credit.
- h. Steven Cottle reviewed the 3 alternative asset mixes:
 - i. Alternative portfolio 1 increases Core Fixed Income (6%); reduces both US Equity (-2%) and Non-US Equity (-4%), while increasing Private Equity (+2%) and reducing Infrastructure (-2%)
 - j. Alternative portfolio 2 increases Core Fixed Income (11%); reduces both US Equity (-3%) and Non-US Equity (-5%), while increasing Private Equity (+2%) and removing Infrastructure
 - k. Alternative portfolio 3 increases Core Fixed Income (9%); reduces both US Equity (-4%) and Non-US Equity (-7%), removes Infrastructure and introduces Private Credit (7%)
- l. The Board discussed the three mixes. Steven Cottle stated if the Board went with alternative portfolio 3, it would be crucial to spend time picking the private credit manager. Steven stated alternative portfolio 2 was more of a conservative portfolio. Steven confirmed the Board had the option to make a bigger piece of the portfolio illiquid, if the plan would like to add a private credit manager. Steven stated they were leaning towards alternative portfolio 2 but would not have a formal recommendation until the capital market assumptions had been finalized.

F. Saltmarsh, Cleaveland & Gund, Chuck Landers, Board Auditor

- i. September 30, 2022 audit report
 - a. Ferrell Jenne stated the auditor was still working on finalizing their statements and did not feel that they had enough time to properly audit all the assets in time for the meeting. Ferrell stated the City would want a copy of the audited financial statements as soon as they were ready and would not be able to wait until the May meeting. Ferrell commented that in the past the Board had made a motion to allow the release of the draft audit to the city, once available.

The Board approved the release of the draft audit to the city, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 3-0.

G. Foster & Foster, Sara Carlson, Board Actuary

- i. October 1, 2022 actuarial valuation report
 - a. Sara Carlson introduced herself and stated she would be the dedicated actuary for the plan, as Drew Ballard relocated to the Foster & Foster California office.
 - b. The City's required contribution increased from \$8,906,473 to \$9,339,886 in conjunction with the October 1, 2022, valuation.
 - c. Sara Carlson reminded the Board, per Mutual Consent; the City can use all of the State Monies to offset the City's required contribution.
 - d. Plan experience was unfavorable overall on the basis of the plan's actuarial assumptions. Sources of actuarial loss included an investment return of 6.23% (Actuarial Asset Basis) which fell short of the 7.50% assumption, an average salary increase of 10.17% which exceeded the 4.23% assumption, and more retirements than expected. These losses were offset in part by a gain associated with inactive mortality experience.

- e. Sara Carlson reviewed the actuarial value versus the market value of assets and reminded the Board they had a 5-year smoothing technique. Sara stated there were investment losses that must be experienced by the plan, 20% at a time, each fiscal year.
- f. Sara Carlson reviewed the COLA fund reserve and stated this should stay funded through the 2040s.
- g. Sara Carlson reviewed the three main components of the normal cost and the Unfunded Actuarial Accrued Liability (UAAL). Sara stated the UAAL increased from approximately \$65.5M to \$66.8M.
- h. The Board discussed the ratio of the active to the inactive members, which was approximately 63%. The Board discussed the current investment return assumption. Ferrell Jenne confirmed the Board did not have a glidepath set-up to reduce the investment return assumption.

The Board approved the October 1, 2022 valuation report contingent on the valuation assets being reasonably in-line with the audited financial statements prepared by the plan auditor, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 3-0.

- i. Pedro Herrera reviewed the declaration of return assumption requirement.

The Board voted the declaration of returns for the plan shall be 7.50% for the next year, the next several years, and the long-term thereafter net of investment related expenses, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 3-0.

- H. Sugarman, Susskind, Braswell & Herrera, Pedro Herrera, Board Attorney
 - i. Summary Plan Description (SPD)
 - a. Pedro Herrera reminded the Board the SPD must be updated every two years and presented the updated document. Pedro stated there had been some changes to the plan provisions since the last SPD, including normal retirement eligibility. Pedro stated he had to make one update to the normal retirement section.

The Board approved the Summary Plan Description with the discussed revision, upon motion by Gregg Gurdak and second by William Kuendig; motion carried 3-0.

- b. Pedro Herrera briefly reviewed a SECURE Act 2.0 memo that increased the required minimum distribution age to 73 or age 75, depending on the birthdate. Pedro stated this would have no impact as the retirees were not permitted to keep funds in the plan past their termination. Pedro stated there was a benefit that allows public safety officers to deduct up to \$3,000 from their taxes for medical deductions that were deducted directly from their retirement benefit. Pedro stated with SECURE Act 2.0 the requirement to have the medical premium deducted directly from the pension benefit had been removed.
- c. Gregg Gurdak asked about the overpayment that was made to a member who recently passed away. Pedro Herrera stated the estate had been closed and there was not much of a recourse. Pedro stated they also cannot invoke an insurance claim. Pedro stated from a fiduciary standpoint, the Board did its best to try and recoup the overpayment.

V. **New Business**

- A. Actual expenses as of September 30, 2022

- i. Ferrell Jenne reviewed the requirement for the Board to declare their actual expenses each fiscal year and briefly reviewed each expenditure type.

The Board approved the September 30, 2022 actual expenses as presented, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 3-0.

- B. Election of officers, Chairman/Secretary
 - i. Ferrell Jenne stated since the operating rules were updated to move the election of officers from 2 years to 4 years, this could be tabled.
- C. Joshua Seepersaud underpayment
 - i. Ferrell Jenne stated Pension Resource Center set-up the member's monthly benefit based upon the ten-year certain and life annuity amount when the member chose the life annuity option resulting in the member being underpaid by \$11.90 per month. Ferrell stated this caused a total underpayment of \$774.65 as the member passed in August of 2022. Ferrell stated the member did not have a beneficiary on file and requested direction from Pedro Herrera. Pedro confirmed he would email the family about the lump sum payment that is due to the estate.

VI. **Old Business** – None.

VII. **Consent Agenda**

- A. Payment ratification
 - i. Warrants #104, #105 and #106
- B. New invoices for payment approval
 - i. None
- C. Fund Activity report for period November 1, 2022 – January 31, 2023

The consent agenda was approved as presented, upon motion by Gregg Gurdak and second by William Kuendig; motion carried 3-0.

VIII. **Staff Reports**

- A. Foster & Foster, Ferrell Jenne, Plan Administrator
 - i. Ferrell Jenne stated they were working on the state annual report, which was due mid-March.
 - ii. Educational opportunities
 - a. Ferrell Jenne reviewed the upcoming educational opportunities available to the Board.

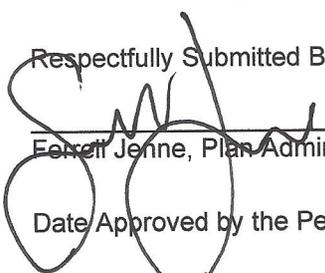
IX. **Trustee Reports, Discussion, and Action** – None.

X. **Adjournment** - The meeting adjourned at 10:55AM.

XI. **Next Meeting** – May 2, 2023, at 8:30AM, Quarterly Meeting

Respectfully Submitted By:

Approved By:



Ferrell Jenne, Plan Administrator



Jay Maher, Chairman

Date Approved by the Pension Board:

MAY 2, 2023