

**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, May 2, 2023, 8:30AM

TRUSTEES PRESENT: Michael Rowley
Gregg Gurdak
Jay Maher
Erin Masters

TRUSTEES ABSENT: None

OTHERS PRESENT: Ferrell Jenne, Foster & Foster
Pedro Herrera, Sugarman & Susskind (via Zoom)
Bill Cottle, Segal Marco (via Zoom)
Steven Cottle, Segal Marco
Chuck Landers, Saltmarsh, Cleaveland & Gund
Trey Smith, BlackRock
Daniela Toleva, BlackRock
Alistair Hutchings, BlackRock (via Zoom)
Stephanie Notowich, Dodge & Cox
Matt Weyandt, Nuveen (via Zoom)
Lisa George, Nuveen
Gregg Gosch, Nuveen/Churchill
Laura Stolfi, Nuveen/Churchill
Brenda Fischer, Trustee Candidate
Members of the Public

I. Call to Order/Roll Call/Determination of a Quorum

A. The meeting was called to order at 8:36AM by Ferrell Jenne.

II. Public Comment

A. Brenda Fischer introduced herself and stated she was a candidate for the vacant City appointed trustee seat. Brenda reviewed her background as a ~~finance director~~ and her family history in the public safety industry.
CITY MANAGER

III. Approval of Minutes

A. February 7, 2023, quarterly meeting minutes

The February 7, 2023, quarterly meeting minutes were approved as presented, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 4-0.

IV. Reports (Attorney/Consultants)

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

i. September 30, 2022, audit report

a. Chuck Landers introduced himself and reminded the Board he was the independent auditor for the Plan. Chuck stated they issued a clean unmodified opinion.

b. Chuck Landers reviewed the assets and liabilities and stated the net position restricted for pension decreased to \$193,663,662.

- c. Chuck Landers reviewed the fair market value of the investments and the designated assets for the DROP accounts and Cost of Living Adjustment (COLA) reserve.
- d. Chuck Landers stated the City's net pension liability was approximately \$89M and reviewed the impact to the Plan if they increased or decreased the investment return assumption by 1.00%.
- e. Chuck Landers reviewed the investment and administrative expenses and stated they were well below the 1.00% threshold.

The Board approved the September 30, 2022, audit as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 4-0.

- f. Chuck Landers stated he did not anticipate any changes between the draft and final audit.

B. BlackRock, Trey Smith/Daniela Toleva/Alistair Hutchings, Investment Manager

- i. Quarterly report as of March 31, 2023
 - a. Alistair Hutchings introduced himself and stated GRP I had successfully completed the sale of all portfolios with a 9.1% gross Internal Rate of Return.
 - b. Daniela Toleva reviewed GRP II and stated they had returned 70% of capital and had a gross cash yield of 8.3%.
 - c. Daniela Toleva reviewed the GRP II remaining portfolio and reviewed each asset contained in the fund. Alistair Hutchings stated they recently purchased a solar asset in Florida, equating to an approximately \$100M investment and bringing 39 jobs to Florida. Alistair stated they were starting to move out of the J-curve. The Board discussed the Taiwan asset and any concern over China taking over the country. Alistair stated they had consultants on the ground assessing any kind of risk. Daniela stated they would likely be looking to exit the Taroko asset in the next two years.
 - d. Pedro Herrera discussed HB3 that would prohibit pension funds from using ESG considerations when assessing investments. Trey Smith stated they were aware of HB3 and stated ESG is one of thousands of considerations when looking at an investment. Trey stated there would be no impact to the Daytona Beach Police Officers' and Firefighters' Pension Trust Fund.

C. Dodge & Cox, Stephanie Notowich, Investment Manager

- i. Quarterly report as of March 31, 2023
 - a. Stephanie Notowich introduced herself and briefly reviewed her experience at the firm. Stephanie stated the firm had over 90 years of investment experience and were based out of San Francisco. Stephanie stated they have approximately \$334B in assets under management.
 - b. Stephanie Notowich reviewed the investment team and stated Tom Dugan, who is the director of fixed income,

would retire at the end of the year. Stephanie reviewed the fixed income investment philosophy and stated they utilized fundamental research to construct and manage a diversified portfolio of fixed income securities.

- c. Stephanie Notowich reviewed the historical performance and sources of excess return. Stephanie reviewed the portfolio composition by theme and structure and discussed their banking holdings.

D. Nuveen, Matt Weyandt/Lisa George, Investment Manager

i. Quarterly report as of March 31, 2023

- a. Lisa George introduced herself and stated she had been with Nuveen for 23 years. Lisa introduced Matt Weyandt and stated he was the portfolio manager, who was replacing Jim Clark.
- b. Lisa George stated Nuveen was a global diversified firm and currently managed \$1.1T in assets.
- c. Matt Weyandt reviewed the historical returns and stated real estate had provided positive performance in 2023, but it continued to be volatile. Matt reviewed the different real estate sectors and biggest contributors and detractors.

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

i. Quarterly report as of March 31, 2023

- a. Steven Cottle reviewed the March 31, 2023, quarterly report.
- b. The market value of assets (MVA) as of March 31, 2023, was \$208,232,280.
- c. Steven Cottle gave a brief overview of the market during the quarter and reviewed the current asset allocation. Steven reminded the Board he would review an asset liability modeling study later in the meeting, taking a closer look at each asset class.
- d. The total fund gross returns for the quarter were 3.4%, compared to the benchmark of 4.7%. The 1, 3, 5, and 7-year trailing total fund gross returns were -5.9%, 11.4%, 7.2%, and 8.1%, respectively, compared with the benchmarks of -6.7%, 10.4%, 5.9%, and 7.0% for the same respective periods.
- e. Steven Cottle reviewed the risk/reward profile for the portfolio and stated the plan was taking less risk and generating higher returns compared to other public pension funds.

ii. Final review of capital market assumptions asset liability modeling

- a. Steven Cottle stated the asset liability modeling study was an updated version with finalized capital market assumptions. Steven reviewed the current portfolio and three alternative investment strategies. Steven stated he was going to concentrate on Alternative Mix 2. Steven stated under this strategy, there was an increase to core fixed income from 14% to 22%, US Equity was reduced from 28% to 23%, emerging markets equity was reduced from 10% to 6%, private equity was increased from 8% to

- 9%, an addition of private credit at 4%, and infrastructure was reduced from 5% to 3%.
- b. Steven Cottle stated his recommendation was to go with Alternative Mix 2. Steven reminded the Board they used fixed income to raise funds for monthly benefit payments. Steven stated they were looking at capital market assumptions over a 10-year period. The Board discussed current rates and where they would be in 10 years.
 - c. Steven Cottle stated the adoption of Alternative Mix 2 would require the following implementation items:
 1. Non-US Equity Allocation (Developed Non-US Markets and Emerging Markets)
 - i. The Non-US Equity allocation was modeled as 13% Developed Non-US and 6% Emerging Markets.
 - ii. Wellington's International Quality Growth strategy had a 40% allocation to Emerging Markets. If Wellington had a total Fund target allocation of 14%, the strategy would satisfy the Plan's 6% Emerging Markets target. (40% of 14% is 5.6%, compared to 6% EM target). Steven Cottle recommended a full redemption of the standalone GSAM Emerging Market Equity strategy.
 - iii. 5% to a Developed Non-US Equity investment would be required. Steven recommended using a passive MSCI EAFE Index from the Plan's existing Index provider, BlackRock, to complete the Non-US Equity allocation.
 2. Core Fixed Income
 - i. To bring the Core Fixed Income allocation (managed by Dodge & Cox) to its new target (22%), proceeds from the GSAM redemption would be used.
 3. Rebalance US Equity and Fund Passive Russell 1000 Growth Index
 - i. The Large Cap US Equity allocation was unbalanced; the growth allocation was smaller than value. Going forward, Steven Cottle recommended assigning a balanced style exposure of 7.5% to Large Cap Value and 7.5% to Large Cap Growth. 7% would be assigned to the Small & Mid Cap equity portfolios managed by Kennedy Capital.
 - ii. To bring the Large Cap Growth allocation to target, Steven Cottle recommended using a passive Russell 1000 Growth Index from the Plan's existing Index provider, BlackRock, to complete the US Equity allocation. The broader passive allocation was expected to mitigate short-term volatility of the concentrated Baillie Gifford strategy.
 4. Private Credit New 4% Total Fund Allocation
 - i. Steven Cottle recommended selecting a non-levered private credit investment vehicle. Steven

stated education on the asset class and potential candidates for selection would be provided.

5. Infrastructure
 - i. The target to the asset class was being reduced from 5% to 3%. Steven Cottle stated the existing renewable power investment was nearing the end of its fund life and was in the process of returning capital. Steven stated once the existing fund had wound down, the Board would need to select a suitable infrastructure investment for the future exposure. Steven recommended performing a search for an open-ended core infrastructure fund.
 - ii. Steven Cottle recommended changing the Infrastructure Benchmark from CPI+5% to an absolute 7.5% target (the Plan's discount rate).
6. Investment Policy Statement
 - i. Steven Cottle stated the policy statement would need to be updated to reflect a newly adopted asset allocation. Steven stated based on Alternative Mix 2, the new policy benchmark was as follows: 22% Bloomberg US Aggregate, 10% Credit Fixed Income Benchmark (50% ML HY Master II, 50% Loomis Custom Benchmark), 23% Russell 3000, 19% MSCI ACWI ex-US, 9% Russell 3000+3%, 4% S&P Leveraged Loan Index+2%, 5% FTSE NAREIT Equity REIT, 5% NCREIF ODCE, 3% 7.5%.

The board approved Alternative Mix 2 and execute the implementation plan as recommended by Segal Marco, as presented, upon motion by Michael Rowley and second by Gregg Gurdak; motion carried 4-0.

- iii. Private credit search
 - a. Steven Cottle reviewed the private credit search book. Steven stated there had been a huge push for private credit, but a lot of the managers were relatively new. Steven stated he wanted a manager who had been through multiple market cycles and was conservative.
 - b. Steven Cottle reviewed Churchill Asset Management, Oaktree Capital, and Corbin Capital Partners. Steven reviewed the firm sizes, details, fund overview, target returns, and liquidity. The Board discussed each of the managers. Steven stated there was a fee discount with Churchill.

The Board voted to hire Churchill Asset Management, upon motion by Gregg Gurdak and second by Michael Rowley; motion carried 4-0.

- F. Sugarman, Susskind, Braswell & Herrera, Pedro Herrera, Board Attorney (via Zoom)
 - i. Pedro Herrera stated he was working with the family of Joshua Seepersaud and confirmed the estate had already been closed and it would be costly to the family to reopen it. Pedro stated according to the Ordinance, the payment could still be made.

- Pedro commented he would review the file and send the payment information to Ferrell Jenne.
- ii. Pedro Herrera stated HB3 had passed, and it would prohibit pension plans to look at outside ESG concerns when analyzing investments. Pedro stated the Board may need to adopt a formal proxy voting policy.
 - iii. Pedro Herrera reminded the Board to file their financial disclosure forms by July 1 to avoid fines.

V. **New Business**

A. Update on trustee terms

- i. Ferrell Jenne informed the Board William Kuendig resigned from the Board. Ferrell reminded the Board William served as one of the City appointed trustees. Ferrell commented she spoke with Jim Sexton and the City had a replacement, who should be appointed at the next day's Commission meeting. Ferrell confirmed she sent William Kuendig both the Form 1 for 2022 as well as Form 1F, the Final Statement of Financial Interests.

B. Churchill/Nuveen, Gregg Gosch/Laura Stolfi

- i. Gregg Gosch introduced himself and stated they would be reviewing the Middle Market Senior Loan Fund V.

Note: Erin Masters left at 10:40am.

- ii. Laura Stolfi reviewed the characteristics of the middle market and stated companies must have \$100M or more in revenue. Laura stated they were looking for mature, established businesses. Laura stated they generated income primarily through investing in first lien senior secured loans to U.S. middle market companies that were backed by private equity sponsors.
- iii. Laura Stolfi stated they were offering a 50% discount on their incentive fee for funds who invest in Fund V before June 30, 2023, and had a low management fee of 0.75%.

VI. **Old Business** – None.

VII. **Consent Agenda**

- A. Payment ratification
 - i. Warrants #107 and #108
- B. New invoices for payment approval
 - i. None
- C. Fund Activity report for period February 1, 2023 – April 25, 2023

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

VIII. **Staff Reports**

- A. Foster & Foster, Ferrell Jenne, Plan Administrator
 - i. Update on State Annual Report
 - a. Ferrell Jenne stated the annual report had been filed and they were waiting on the final audit, which they should receive in the next few weeks, as the draft audit was approved earlier in the meeting.

- ii. Educational Opportunities
 - a. Ferrell Jenne reviewed the upcoming educational opportunities.
- iii. Ferrell Jenne reviewed the passing of Bill Batten, which occurred on February 17, 2023. Ferrell stated he appeared on the death audit that was done by Salem Trust and was reported to Foster & Foster in April. Ferrell commented that after working with the family, they repaid the April benefit payment, however the family stated the funds for March were used for funeral costs and they were not in a position to repay the Plan. Ferrell confirmed the gross benefit amount was \$4,278.75 and his spouse predeceased him, so there was no continued benefit that was due. Pedro Herrera stated they could do a judgement but that did not mean the Plan would be repaid. Pedro stated he would reach out to the family to see if there was an option for a repayment plan.

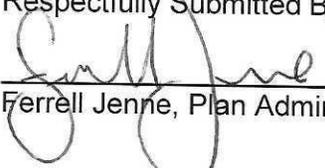
IX. **Trustee Reports, Discussion, and Action**

A. The Board discussed asking the City about a pension obligation bond to pay off the UAAL. Steven Cottle stated he would research the topic and bring back some information to the next meeting.

X. **Adjournment** - The meeting adjourned at 11:01AM.

XI. **Next Meeting** – August 1, 2023, at 8:30AM, Quarterly Meeting

Respectfully Submitted By:



Ferrell Jenne, Plan Administrator

Approved By:



Jay Maher, Chairman

Date Approved by the Pension Board:

AUGUST 1, 2023