CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
NOVEMBER 9, 2021

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Tuesday, November 9, 2021 in the Police Department Training Room, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT:	Chairman Warren Carman (fifth member) William Proctor (police member) Andrew McKay (police member) Brian Cobb (resident member)
MEMBERS ABSENT:	Drew Bastian (resident member) – excused
CONSULTANTS:	Pedro Herrera, Board Attorney – *Sugarman & Susskind** Madison Levine, Attorney – *Sugarman & Susskind** Tyler Grumbles, Investment Consultant – *AndCo* Chad Little, Actuary – *Freiman Little Actuaries** Karan Rounsavall, Plan Administrator

Chairman Carman called the meeting to order at 9:06 a.m. A quorum was in attendance. *Attorneys Herrera and Levine and Actuary Little attended meeting via video conferencing. (Zoom hosted by City of Port Orange)

APPROVAL OF MINUTES

Member Proctor moved to approve minutes of quarterly meeting September 9, 2021 and special meeting September 30, 2021 as submitted. Member McKay seconded the motion; it carried unanimously.

OFFICER AND TRUSTEE REPORTS - None

CONSULTANT REPORTS

Tyler Grumbles – *AndCo Consulting* (Investment Consultant)

Note: Mr. Grumbles' report was taken out of order to accommodate other commitments.

1. Investment Performance Report for quarter ended September 30, 2021

Mr. Grumbles presented the performance report and economic commentary for the quarter ended September 30, 2021. Domestic equity markets reached new all-time highs in early September only to pull back toward the end of the quarter and close basically flat. Concerns related to the Delta variant (COVID), supply chain issues and rising inflation contributed to the volatility. International equity markets posted disappointing returns and emerging markets dropped sharply. Fixed income returns were flat during the quarter. Since the end of the quarter, the market had rebounded and the fund was up over seven percent with a portfolio value over $58 million.

Reflecting on the fiscal year just ended, Mr. Grumbles advised that the portfolio grew from $45 million to $56 million. This represented a 21.81 percent net return over the trailing 12 months which certainly exceeded the 7.15 percent assumed rate of return. This return ranked in the 23rd percentile of public plans.

Total market value as of September 30, 2021 was $56,405,939 up from $55,684,159 for the previous quarter ended June 30, 2021. On a percentage basis, the composite portfolio was up 0.10 percent for the quarter (net) which ranked in the 20th percentile of public plans. Mr. Grumbles advised that these returns were preliminary in the absence of a final report from Brookfield Infrastructure Fund although its numbers were positive and would increase the portfolio's final return.

Quarterly performance results (i.e., quarter ending September 30, 2021) for the various investment styles/managers represented in the portfolio were as follows:

Vanguard Total Stock Market Index Fund – negative return of -0.06% (43)*
EuroPacific Growth (international equity) – negative return of -2.35% (48)*
Oakmark International (international equity) – negative return of -4.97% (72)*
Dodge & Cox (domestic fixed income) – positive return of 0.10% (33)*
Metropolitan West (domestic fixed income) – positive return of 0.13% (25)*
PIMCO Diversified Income (global fixed) – positive return of 0.12% (17)*
Pacific Funds Floating Rate (bank loans) – positive return of 0.93% (39)*
UBS Trumbull (private real estate) – positive return of 3.63%
ASB Allegiance (private real estate) – positive return of 5.21%
Stockbridge Smart Markets (private real estate) – positive return of 7.61%
Brookfield BSIP Access Fund (infrastructure) – return unavailable at time of meeting
*Public peer rankings

The pension fund received a $300,000 distribution from the UBS Trumbull Real Estate Fund during the quarter and remained in the exit queue. The Stockbridge Smart Markets Fund was up substantially with its emphasis on industrial properties.

The pension board accepted the performance report as presented.

2. Private Equity Manager Search

At its September 9, 2021 quarterly meeting, board members were introduced to a new asset opportunity known as *Private Equity (PE).* At that meeting, the pension board expressed an interest in learning more about Private Equity investing and asked the consultant to bring a PE manager search, specifically secondary fund providers, to this meeting for further exploration.

Private Equity was broadly defined as investments in <u>companies</u> through negotiated transactions that typically resulted in private ownership of the business. These companies were not publicly traded and PE tended to be long-term, illiquid investments. Benefits of implementing an allocation to private equity included: (1) risk-adjusted return potential with a performance target greater than public equity; (2) lower correlation to other asset classes providing diversification benefits; (3) some insulation from equity market volatility due to less frequent mark to market valuations; and (4) exposure to talented, innovative investors.

Secondary fund providers represented private equity partnership interests purchased from a current limited partner, often at a discount to fair market value. Secondary markets presented a way to mitigate negative returns upon initial investment in PE (i.e., avoid the "J-Curve" effect). Should the board be comfortable with this asset class, Mr. Grumbles recommended a target allocation of roughly ten percent (approximately $5 million) over time.

AndCo Consulting presented three vetted candidates for secondary fund private equity: J.P. Morgan Private Equity Group; Neuberger Berman, and PA Capital. Mr. Grumbles reviewed the investment strategy of each firm along with investment minimums, management fees, fund differentiators and past performance.

Chairman Carman and Member Cobb were comfortable with the secondary market strategy particularly because it tended to avoid early negative returns. Chairman Carman favored PA Capital as it had lower fees. Attorney Herrera advised that several other clients of his law firm had already invested in private equity.

Based on the consultant's advice, Member McKay moved to authorize a $5 million investment in PA Capital contingent upon the attorney negotiating a final/favorable agreement with the fund. Member Cobb seconded the motion which carried with Member Proctor voting no.

Member McKay then moved to establish a fallback direction to negotiate with Neuberger Berman if agreement was not reached with PA Capital. Member Cobb seconded the motion which carried with Chairman Carman voting no.

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Mr. Grumbles was excused from the meeting at this time. The meeting recessed at 10:14 a.m. and reconvened at 10:19 a.m.

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3. Investment Policy Statement (IPS) allowing private equity investments

Board members were in receipt of a revised IPS which provided a ten percent allocation to private equity in the overall equity class (65 percent) and reduced allocation to domestic fixed income to 15 percent (20 percent overall). The portfolio's allocation to alternative investments (real estate and infrastructure) remained at 15 percent. The attorney had reviewed and approved the revised IPS.

Member Cobb moved to approve the revised IPS as presented. Member McKay seconded the motion which carried on an all yes vote.

CONSENT AGENDA

A. Approve plan expenditures as follows:
   1. Sugarman & Susskind – monthly retainer for September 2021 - $2,600. *Recommendation:* Ratify payment.
   2. Sugarman & Susskind – monthly retainer for October 2021 - $2,600. *Recommendation:* Ratify payment.
   3. Plan Administrator Karan Rounsavall – monthly fee (September 2021 and October 2021) - $6,000. *Recommendation:* Ratify payments.
   4. Warren Carman – reimbursement of mileage expenses associated with attendance at Florida Public Pension Trustees Association (FPPTA) Fall Trustee School in Ponte Vedra Beach - $100.80. *Recommendation*: Ratify payment.
   5. AndCo Consulting – investment consulting and performance monitoring services for quarter ended September 30, 2021 - $9,375. *Recommendation*: Ratify payment.

6. First State Trust Company – custodial services for quarter ended September 30, 2021 - $4,625. *Recommendation*: Ratify payment.

Member Cobb moved to ratify plan expenses as recommended. Member McKay seconded the motion which carried unanimously.

B. Acknowledge rollover of member contributions for Brian Shleifer (non-vested member) in the amount of $12,759.37.

Plan Administrator Rounsavall advised that Officer Shleifer received and signed the *"special tax notice."*

Board members acknowledged the rollover of member contributions for Officer Shleifer as presented.

OLD BUSINESS - None

NEW BUSINESS

A. Establish quarterly meeting dates for 2022 (Mondays at 2:00 p.m. on February 14, 2022, May 16, 2022, August 15, 2022 and November 21, 2022)

The Pension Board concurred with the 2022 quarterly meeting schedule as presented.

B. Authorization to renew membership in Florida Public Pension Trustees Association (FPPTA) for 2022

Member Proctor moved to renew the board's membership in FPPTA for 2022 at a cost of $750. Member Cobb seconded the motion. It carried on an all-yes vote.

C. Ratify retirement benefit option for Detective William Rhodes

Member McKay moved to ratify Detective Rhode's election of the 100 percent joint and survivor annuity option effective October 1, 2021. Member Cobb seconded the motion which carried unanimously.

D. Ratify service-connected disability benefit for Sgt. Dale Harler

Member Cobb moved to ratify Sgt. Harler's election of the life annuity option efffective October 1, 2021. Member McKay seconded the motion which carried unanimously.

E. Ratify chairman's acceptance of line-of-duty disability application submitted by Blake Sydeski

Member Proctor moved to accept Officer Sydeski's line-of-duty disability application and to authorize the plan attorney to gather medical records and schedule an independent medical exam (if necessary) in accordance with the process outlined in the pension plan document and Florida Statutes. Member McKay seconded the motion; it carried.

F. Request for clarification of plan document as it relates to benefit options available to designated beneficiary in the instance of pre-retirement death and starting point for such calculations

Several months earlier, a vested officer of the Port Orange Police Department passed away. This was the first pre-retirement death that the pension plan had experienced. Section 54-132 of the plan document set forth pre-retirement survivor benefits and provided options for the participant's beneficiary; to-wit: (1) a benefit payable to the officer's beneficiary had he survived upon the date the participant would have reached normal retirement age; or (2) an actuarily reduced monthly benefit payable to the beneficiary upon the first day of the month following the participant's death (as elected by the designated beneficiary).

In advance of preparing these calculations, Actuary Little questioned the appropriate starting point for determining the calculation, either life or ten-year certain (reference Section 54-127(b) of plan document). His question was forwarded to the plan attorney who opined that the ten-year certain benefit was the appropriate starting point for such these calculations.

Discussion ensued among the trustees. From a plan perspective, there was no difference between a line-of-duty or non-line of duty death. Nor could a pre-retirement death be considered a disability. Currently, the only benefit options available to a designated beneficiary were those briefly outlined above.

It was of concern to trustees that the Port Orange Police Pension Plan did not provide a line-of-duty death benefit for officers (vested or non-vested). In fact, a non-vested officer who was killed in the line-of-duty was only eligible for a refund of contributions. By contrast, Florida Retirement System provided an ongoing benefit for the beneficiary of officers killed in the line of duty equal to their monthly salary.

Attorney Herrera advised that a line-of-duty death benefit would require an ordinance amendment and would be subject to collective bargaining. The ordinance could have a retroactive effective date.

Member Proctor moved to ratify the attorney's recommendation finding that the ten-year certain benefit was the appropriate starting point for a pre-retirement death calculation. Member Cobb seconded the motion and it carried unanimously.

Member McKay then moved to direct the attorney to draft an ordinance providing for a line-of-duty death benefit that mirrored Florida Retirement System. Member Cobb seconded the motion which likewise carried on an all-yes vote.

G. Discussion on appropriateness of employee pension contributions on one-time bonus payments

Personnel policies mandated the buyback of sick and vacation hours at the end of the fiscal year for employees whose accruals exceeded annual caps. Such buybacks were considered pensionable and contributions were withheld from these payments. Several participants pointed out that these pensionable payments only mattered if they were received in one's final high salary years.

Both Attorney Herrera and Actuary Little advised that it was standard practice for employee contributions to be withheld from such lump sum payments. These funds remained in the plan. There was no further discussion and no action.

CONSULTANT REPORTS

Chad Little – *Freiman Little Actuaries, LLC* (Plan Actuary)

1. Discussion as to assumed annual investment rate of return for use in preparing the October 1, 2021 actuarial valuation

As reported earlier, investment returns for Fiscal Year 2020/2021 were excellent and exceeded the 7.15 assumed rate of return. Mr. Little asked if the pension board wished to continue its practice of reducing the rate of return by ten basis points (to 7.05 percent) or even further to seven percent for the 2021 valuation. Along this line, he advised that the city directed that excess contributions to the plan be used to reduce the unfunded liability.

It was the consensus of the board to use a 7.05 percent assumed rate of return for the 2021 valuation.

Pedro Herrera – *Sugarman & Susskind* (Attorney)

1. Announcement of law firm's name change

Sugarman and Susskind recently announced that as of October 1, 2021, the firm changed its name to ***Sugarman, Susskind, Braswell, & Herrera*** in recognition of the significant ongoing work of partners Marcus Braswell and Pedro Herrera. Board members congratulated Attorney Herrera on the achievement.

Attorney Herrera introduced Madeline Levine, a new attorney with his law firm. He also advised that the firm was making a charitable donation this holiday season to the Dr. Marilyn Seskin Gynecologic Oncology Research Fund at the University of Miami's Sylvester Comprehensive Cancer Center on behalf of its clients.

2. Report: Plan Administrator (Karan Rounsavall)

Educational Opportunities Florida Public Pension Trustees Association (FPPTA) winter trustee school (January 23 – 26, 2022 in Lake Buena Vista).

If anyone was interested in attending, they were to contact the Plan Administrator.

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The next quarterly meeting was scheduled for Monday, February 14, 2022.

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 11:29 a.m.

Lt. W Carman 2/14/22

Lt. Warren Carman, Chairman

Karan Rounsavall

Karan Rounsavall, Plan Administrator