MINUTES
FIREFIGHTERS' PENSION BOARD
GENERAL EMPLOYEES' PENSION BOARD
POLICE OFFICERS' PENSION BOARD
HELD AT CITY HALL

February 19, 2021	**8:30 a.m.**	**Commission Conference Room**

1. **Call to Order**

Chair Kelly McGuire called the meeting to order at 8:30 a.m.

Firefighters' Pension Board members present were Chair David Randall, Mark Eisner, Barry du Moulin and Mike Scudiero. Excused was Travis Taft.

General Employees' Pension Board members present were Chair Kelly McGuire, Michael Furman, John Olivari, Denise Roeper and Sandy Smith.

Police Officers' Pension Board members present were Ken Artin, Thomas Garcia, Amanda Hayes and Ray Llanes. Excused was Chairman Chris Byle.

2. **Approval of Minutes – December 3, 2020 / December 4, 2020 / February 9, 2021**

Mr. Scudiero moved, seconded by Mr. duMoulin, to approve the minutes of the December 3, December 4, 2020 and February 9, 2021, Pension Boards meeting. The motion passed unanimously.

Mr. Furman moved, seconded by Ms. Roeper, to approve the minutes of the December 3, 2020, Pension Boards meeting. The motion passed unanimously.

Mr. Llanes moved, seconded by Ms. Hayes to approve the minutes of the December 3 and December 4, 2020, Pension Boards meeting. The motion passed unanimously.

3. **Public Comments**

None

4. **Presentation of BlackRock Investment Management**

Robb Falaguerra introduced Scott Malatesta from the Equity Dividend team for BlackRock. He reviewed BlackRock's view for the US economic environment and how the Boards portfolio will benefit from it. Stating there is a tremendous amount of fiscal and monetary stimulus in the US and globally. The most recent is the $1.9 trillion package being pushed through. Policy makers are trying to figure out how to prevent economic scarring as well as figuring out the vaccine process. There is a significant amount of corporate and consumer cash available. On the corporate side a lot of companies will have greater clarity and confidence and the consumers have saved $1.5 trillion since March and most have come through spending cuts and savings from the higher earning income. Those funds at some point will be spent or invested. BlackRock manages the equity dividend strategy which is a large cap value product that focuses on owning equity that provides a source of income. There are a number of opportunities in value to source income. Value stocks are less expensive relative to growth and they outperform when coming out of a recession. BlackRock is also protecting the Board's capital in bouts of volatility and we do that by using a bar bell approach with strong secular growth trends and target out of favor espial areas. It's having exposure to stability sectors as well as espial sectors. We like to own things such as technology and health care to serve as a cushion. Banks and some energy companies are good to own as well.

Mr. Eisner stated there was a difference on fees between net and gross returns and asked what that was. He noted a 300 basis point difference.

Mr. Falaguerra answered they always show the highest fee, but the fee for Graystone Consulting is 25 basis points for the strategy and clarified that the Boards were not paying 300 basis points.

Mr. Owens asked what BlackRock's thoughts on inflation moving forward.

Mr. Falaguerra stated they were thinking about inflation because of the monetary fiscal stimulus. Inflation will be a greater concern in 2022 but not an issue in 2021 and it may even be the later part of 2022. Large cap value performs better than growth during rising inflation.

5. Presentation of Polen Capital

Mr. Gunther gave an update on the firm and introduced Lauren Harmon, research analyst. He noted there were no ownership changes, things are continuing to grow and they even have a new office in London.

Ms. Harmon reviewed some of the members on the team and noted their goal is to invest in the best and highest quality and most competitively businesses in the world. They have a strong balance sheet, solid cash flow, return to equity above 20% and revenue growth. She pointed out the fast growing companies as well as the safety ones. She reviewed the portfolio activity for each quarter for 2020. She noted they took the opportunity to upgrade the quality and long term growth of the overall portfolio. They eliminated Nestle and increased their position in Abbott Laboratories. Regarding performance, Ms. Harmon noted they tend to be heavily focused in certain sectors such as technology, health care and consumer skew towards enterprise doctor companies and a lot of them that they own were net beneficiary of Covid such as Adobe, Microsoft and ServiceNow. Microsoft has been benefiting in many ways especially from Covid providing mission critical products and services to their customers which tend to be other enterprises of businesses. They have over 115 million daily active users in addition to Cloud and gaming. Pre Covid, Microsoft gaming players were at 65 million. In addition to Visa and Mastercard, they also added PayPal to their company.

Mr. Owens mentioned the concentrated increase in the market and going forward it should be more broad, and asked how that would have an impact on their overall strategy.

Ms. Harmon noted there were three companies in the Russell 1000 that turned 40% of their return for 2020, which was Apple, Amazon and Tesla, but they don't own any of those companies. It had an impact to their relative performance for the year. They evaluate opportunities be company so it more getting the earning growth directionally right and it's impossible to know what the market will do. They estimate their company group earnings to be over 10% compared to the Russell 1000 growth which fell 8-9% and S&P which fell 17%. There is a difference between the stock prices and the earnings growth and they feel comfortable because of the earnings growth.

6. Presentation of Sawgrass Asset Management

Mr. Gosch noted being a large cap manager, growth has led the way over value and they are risk conscience and have been with the Boards for about nine years.

Mr. LaPrade, partner, equity portfolio manager, noted there has been a lot of damage to the economy and earnings but stock prices continued to rise. He noted some returns are around 27% in the growth market for two years which is above average. He agreed there was a big difference between growth and value stocks. Large growth stocks have led the market significantly for a long time and much of that return is concentrated in a hand full of stocks. The top stocks represent 37% of the index and they have continued to rise. They are paying attention to risk matters. As earnings grow, stock prices grow and they have grown 132% since 2009. But over those two years, stock prices have risen and earning have not. There may be a little more volitivity in the market and it was present in January and returns will be positive but more modest.

Mr. Owens appreciated the description of the market showing that it's not everything, but a hand full of companies. He asked how are the other companies spread out and what does it mean for them if they continue to move up, will it make the index or market look bad even though the majority are positive.

Mr. LaPrade stated the eight companies discussed which are a large part of the market have a bigger impact. Generally speaking they have an impact to cause the price earnings multiple to rise. The rest of the market is not as expensive, and that's a broad generalization. If the eight companies fall dramatically, it will have an impact on the market or the index. If they just move along and the rest of the market catches up, we could have a positive market as it broadens out. Some of the stocks are not continuing to outpace the rest of the market and we could see a catch up.

Mr. Owens asked whethertheir portfolio would still look good even if they didn't own the eight top stocks; wherein Mr. LaPrade said that you could still have a good portfolio without those eight stocks.

Mr. Gosch stated in the 4th quarter 2018 those same stocks were high and then they went south.

Mr. Owens said BlackRock commented that there was a lot of cash sitting on the sideline but noted you mentioned there was a lot of borrowed money to buy stocks and asked how that reconciled.

Mr. LaPrade answered he did not agreed with them about available cash, but the savings rate have increased and borrowed money is cheap money that leverage themselves in the marketplace.

7. Investment Monitor Report / Assumed Rate of Return Review – Graystone Consulting

Mr. Mcilvaine reminded the Boards that Police and Fire elected to invest 2% of the portfolio with TerraCap and 3% with Boyd Watterson and General elected to invest 5% with Boyd Watterson. They are working with both managers to set up the accounts and Mr. Herrera is finalizing the side letter to complete the subscription documents. They also worked the amendments to the Investment Policy Statements.

Mr. Herrera agreed that TerraCap and Boyd Watterson contracts were being worked and will send everything for execution.

Mr. Owens noting looking back a year ago, the market and economy was at an all time high and then the pandemic hit. He thinks for the next few decades people will study 2020 as a case study of the impact for all the decisions that have been made. The market is a leading indicator and goes in the direction it thinks the economy is going to go and was tanking because of the expectation of what was coming down the road. It was actually a recession but not an economic one but a policy recession. The government decided to provide stimulus and the market rocketed. The impact may not be felt for years. There will be some type of new normal months and he did not see everyone working from home going back into an office or malls going back to full capacity. Analyst are saying that 2021 GDP is going to be between 6% and 8%.

Mr. Owens reviewed the capital market returns and noted the lowest was 10.73% which is usually for a year, but it was for a quarter. The Russell 2000 index was 31.37% for the quarter. The 12 month numbers for growth are up but value is only around 2-4%. That means that whatever was doing really well going into it is probably not going to be the same on the other side and the reverse is the same. On a relative basis, value is going to do better than growth and the small and mid are going to do better than large and they also think international is going to do better than US large cap. Interest rates went down which was positive for bonds and rates are starting to go back up and that will have a negative impact on bonds. He noted the portfolios are about the same. The returns are about the same with a little lower risk.

Mr. Owens stated Sawgrass had 16 percentage points of underperformance and they are over 10% of the portfolio for the year and is about 2% of your return underperformance. They never said they would keep up with the market if it is over 38%, they use 15% as their figure. We have Sawgrass to be defensive if the market goes down. There are two growth managers at around 11% and a value manager at about 22%, so we are equal weight for value and growth.

Mr. Eisner stated it was coming up on five years for small and midcap growth, noting growth has been strong but no outperformance and asked when does that become a concern. With an active manager, they should be giving 200 basis points above the bench.

Mr. Owens stated the same principals apply when you review why you have a manager. If you have a manager with 200 basis point higher return, you are going to have higher risk the same with lower risk and return. The Board determines "what beats the benchmark" means. Is it to be more defensive and protect the assets or try and get a higher return. When you look at the risk return page, it's actually beating the benchmark on a risk adjusted basis by 13 basis points. It has about the same return with a little lower risk. It becomes a function of what's your objective, the same with Sawgrass.

Mr. Owens stated if you look at all the managers and compare them, large cap value to large cap value benchmark, same with large cap growth to large cap growth benchmark, but when you look at international, it's unique because they are both compared to the same benchmark which means the benchmark has value and growth in it. He noted when reviewing the asset allocations, the managers are in compliance but changes will be made when real estate is funded. They will rebalance closer to the targets.

Managers Review

BlackRock – is a new manager to the Boards and we don't expect them to have a negative alpha. In other plans that they have that Graystone manages, they usually have a higher return with a lower risk.

Sawgrass – has 15 percentage points of lower return. If you look at the alpha it's over the entire time frame since 2012 and is outperforming the benchmark by 85 basis points when you take risk into account. It has a lower return when you take risk into account it is contributing to the portfolio. To Mr. Eisner's point earlier, when you have defensive managers, it allows you to overweight asset classes in another spot.

Polen – they were a higher return and lower risk. Their down capture was 83 and the up capture was 96. They are not designed to go up as much and they will not go down as much either. The same with Sawgrass.

Cambiar – they have a high return with a little low risk which is where you want to be. The positive alpha is 725 basis points on average every year since 2016. They have done a great job especially looking at the 1 and 3 year numbers and that was when value was out of favor and now that value is in favor, they have a higher absolute return.

Fiera – has a little lower return and a little lower risk, has a positive alpha. The 1 /3 / and 5 year numbers have a high return but it's different for the quarter.

Delaware – over long term they have done a great job, adding 50 basis points since 2005 on average year. When you look at the last couple years when value is really out of favor, they were taking it on the chin and now that value is back in favor they are doing better.

Mr. Owens stated its good to know how a manager adds value to the portfolio whether return enhancing or risk mitigation and then understand what's going on in the market. He noted he would be concerned if they underperformed when value was out of favor as well as when value was in favor.

Renaissance – is a little high with a 16.93 standard deviation with a little higher return and it also has a positive alpha of 74 basis points.

Mr. Owens noted all the managers that the Boards has had over the long term are beating the passive benchmarks on a risk adjusted basis.

Garcia-Hamilton – continues to do a great job. They have a high alpha at 1.34 but their return is only .5%. On a relative basis, they are doing fantastic.

Mr. Owens reviewed the compliance check list and noted they were all yes so when you take that in concert with the asset allocation everything is compliant. As soon as the contracts are executed, they will begin the funding process per the updated IPS. He pointed out the policy index history page which were changes made by the Boards over the years. He noted the Boards have made several ordinance changes over the years to diversify their portfolio.

Mr. duMoulin asked when there will be any updated regarding real estate.

Mr. Owens noted the contracts were being worked so they could be executed and then funded.

Mr. Eisner asked whether there was a que with Boyd Watterson or if there was a fund where we could get in right away.

Mr. Owens stated typically there is a small que, but it all depends on what they are purchasing and the purchasing process.

8. Discussion of BlackRock Billing

Ms. McGuire asked about the invoices received from BlackRock. The Boards received their invoices for the next quarter and asked how they would know what the Boards should be charged in advance.

Mr. Owens answered that according to their contract they stated they would bill on the start of the quarter. If you want to change it, we can make that happen.

Ms. McGuire stated if that was the agreement, then we should keep it that way.

9. **Approval of Actuarial Valuation and Report by Foster & Foster (GE)**

Ms. McGuire stated the actuarial valuation reports for the other Plans were presented by Mr. Donlan at the last meeting but there was not a quorum for the General Employees' Board. She noted he was not at this meeting, but the members could call him if they had any questions or he could come to the next meeting.

Mr. Furman asked if the other valuations were approved by the other Boards; wherein Ms. McGuire answered that they were.

Ms. McGuire stated the report looked good and was at about the 80% funded level. The contribution levels are going down and the investment return assumption is 6.75% which is great.

Mr. Furman moved, seconded by Ms. Roeper that the General Employees Pension Board to approve the Actuarial Valuation for General Employees Pension Plan. The motion passed unanimously.

10. **Discussion – Make-up Meeting for General Employees**

Ms. McGuire asked Mr. Herrera to advise about a make-up meeting for the General Employees Board.

Mr. Herrera stated the statute requires that the Boards meeting at least quarterly and the General Employees missed the December 4th meeting. As along as we get four meetings in after October 1, 2020, they should be fine. If necessary a special meeting could be called so that it complies for the Annual Report.

11. Attorney Comments (Ordinance Amendments)

Ms. McGuire noted there were three ordinances that need to be completed and approved by the City Commission

Mr. Herrera noted he has spoken with Mr. Donlan and noted the impact statements have been completed and the Ordinances will be sent for approval.

Ms. McGuire stated they need to be approved by the Board and then the City Commission. She noted it would take two readings by the Commission so hopefully they will be on their agenda for the April meetings. There are items that have been added so they need to be approved by the Board and the Commission. Ms. McGuire stated the ordinance for Fire would include pre-retirement benefit, the age change for minimum distribution from the Secure Act.

Mr. Herrera noted there was also a change for Fire contribution to 8.6% from 8.4% from salary in order to add a pre-retirement death benefit.

Mr. duMoulin moved, seconded by Mr. Randall that the Firefighters' Pension Plan approve the ordinance changes and recommend approval by the City Commission. The motion passed unanimously.

Ms. McGuire stated the changes for Police was the minimum distribution and the retirement age change for those hired after June 14 that it be either 55/10 or 52/25 or age 60. She noted this was negotiated by the members.

Mr. Artin moved, seconded by Mr. Garcia that the Police Officers' Pension Plan approve the ordinance changes and recommend approval by the City Commission. The motion passed unanimously.

Ms. McGuire stated the changes for the General was the minimum distribution age change from the Secure Act.

Mr. Furman moved, seconded by Ms. Roeper that the General Employees' Pension Plan approve the ordinance changes and recommend approval by the City Commission. The motion passed unanimously.

Mr. Herrera stated there was a new fact sheet signed by the Governor that any contracts by public employer, to include the pension fund, must be aware of the E-Verify

Statement that cross references other data bases to verify individuals work status. It verifies that an individual is legally permitted to work in the United States.

Ms. McGuire noted the statement will be sent to the managers and service providers for execution. She asked whether the statement needs to be signed continuously; wherein Mr. Herrera answered it only needed to be signed once and for any future service providers.

Mr. Herrera noted the next session will be starting soon and there were two Bills. One would close the define benefits arm of the Florida Retirement System and all new hires would be automatically be enrolled in the defined contribution option. The other Bill would increase penalty for public protect and limit the local legislative body to divert funds from the police departments.

Mr. Randall asked about the FRS 175 and 185 and if there were any impacts, cuts or benefit reductions being mentioned. He also asked about the unfunded liability amount and what percentage that was.

Mr. Herrera stated he had not heard anything about changes. He noted it has been proposed in the past but nothing passing because of little or no support. He did not have the figures for the unfunded liability amount, but if you go back to the 2008-09 crisis, the Florida Retirement System was one of the best funded programs in the Country. Mr. Herrera stated it should not have any impact on the 175 and 185 state premium tax monies.

12. Other Business

13. Next Regular Meeting Date – May 21, 2021

14. Adjournment

Respectfully submitted,

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Sha Moss, Recording Secretary

Attest:

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Kelly A. McGuire, Chair

General Employees’ Pension Plan

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Chris Byle, Chair

Police Officers’ Pension Trust Fund

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David Randall, Chair

Firefighters’ Pension Trust Fund