

**CITY OF WEST MELBOURNE  
POLICE OFFICERS' RETIREMENT BOARD  
JANUARY 29, 2020**

The West Melbourne Police Officers' Retirement Board held its quarterly meeting on Wednesday, January 29, 2020 in the City Hall Conference Room, 2240 Minton Road, West Melbourne, Florida.

MEMBERS PRESENT: Chairman Scott Morgan (resident member)  
Pat Bentley (resident member)  
James Parsons (police member)  
Harvey Whitney (fifth member)

MEMBERS ABSENT: Secretary Jennifer Curran (police member) - excused

CONSULTANTS: Pedro Herrera, Board Attorney – *Sugarman & Susskind\**  
Kerry Richardville, Investment Consultant–*AndCo Consulting*  
Patrick Donlan, Actuary – *Foster & Foster*  
Mindy Johnson, Custodian – *Salem Trust Company*

STAFF: Margi Starkey, Finance Director  
Cynthia Hanscom, City Clerk

Chairman Morgan called the meeting to order at 9:05 a.m. A quorum was in attendance. \*Attorney Herrera attended the meeting via Skype. Chairman Morgan advised that Plan Administrator Karan Rounsavall was unable to attend the meeting due to federal jury service in Orlando. City Clerk Cynthia Hanscom was in attendance to record the meeting and take minutes.

**APPROVAL OF MINUTES**

*Member Whitney moved to approve the minutes of quarterly meeting November 6, 2019 as submitted. Member Parsons seconded the motion and it carried unanimously.*

**OFFICER AND TRUSTEE REPORTS** – None

**PROCESSED DISBURSEMENTS/RECEIPTS**

*Member Bentley moved to approve plan expenditures for the first quarter of Fiscal Year 2019/2020 (October 1, 2019 through December 31, 2019) in the amount of \$23,268.28 and to acknowledge receipts to the plan in the amount of \$140,862.81. (Reference Plan Administrator's memo dated January 2, 2020 for detail.) Member Parsons seconded the motion which carried on an all yes vote.*

Total disbursements during the quarter were \$189,549.68 which included monthly benefit payments to 17 retirees in the amount of \$148,284.99, one refund of employee contributions in the amount of \$17,996.41 and expenses noted above.

**CONSULTANT REPORTS**

A. Patrick Donlan – Foster & Foster (Actuary)

- Presentation of annual actuarial valuation as of October 1, 2019
- Declare expected annual rate of investment return for assets of West Melbourne Police Officers' Retirement Plan

Actuary Patrick Donlan presented the October 1, 2019 Actuarial Valuation Report for the West Melbourne Police Officers' Retirement Plan. The valuation established the

annual contributions applicable to the Retirement Plan for the fiscal year ending September 30, 2021. The report also included GASB 67/68 disclosure information as of September 30, 2019.

Mr. Donlan discussed the various assumptions versus actual experience that were used to determine the city's cost which did not change substantially over the prior year. The primary source of actuarial loss was an average salary increase of 7.55 percent which exceeded the 6.98 percent assumption. The actuarial return on investments (using five-year smoothing technique) was 6.79 percent which was slightly less than the assumed return of 6.95 percent. The city's minimum required contribution for the current fiscal year (2019/2020), including the State contribution, was 20.07 percent of non-DROP pensionable payroll. For Fiscal Year 2020/2021, the required contribution increased slightly to 20.21 percent.

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Kerry Richardville (AndCo Consulting) and Mindy Johnson (Salem Trust) arrived at 9:19 a.m. They both experienced traffic congestion on Interstate 95 driving to the meeting.

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Mr. Donlan reiterated the Retirement Plan's conservative assumptions and noted excess city contributions in the amount of \$100,000 during the fiscal year. The unfunded accrued liability (UAL) was \$1,113,728. The Plan's funded status was 93.4 percent (i.e. actuarial value of assets as a percentage of total actuarial accrued liability).

Also included in the valuation was an assessment and disclosure of risk involved in funding a retirement plan. This review looked at the impact on the funded status of the retirement plan given up to a two percent decrease or increase in market value.

Member Bentley favored more conservative earning projections and supported lowering the assumed investment rate of return to 6.85 percent. His goal was to achieve 100 percent funded status. Mr. Donlan advised that Florida Retirement System recently reduced its assumed rate of return to 7.2 percent.

*The Board agreed to receive presentations from Mrs. Richardville prior to deciding to lower the investment rate of return.*

B. Kerry Richardville – AndCo Consulting (Investment Consultant)

- Performance Report for quarter ended December 31, 2019

Mrs. Richardville began by reinforcing AndCo's commitment to represent the sole interest of their clients and expressed appreciation for the opportunity to serve the West Melbourne Police Retirement Plan. She went on to present the performance report and economic commentary for the quarter ended December 31, 2019. Domestic equity as well as international/emerging equity enjoyed strong positive results for the quarter. The economy was stable and unemployment numbers were very low.

Total market value as of December 31, 2019 was \$16,606,296 up from \$15,705,910 for the previous quarter ended September 30, 2019. On a percentage basis, the composite portfolio was up 6.07 percent for the quarter (gross) which ranked in the 19<sup>th</sup> percentile of public plans. For the trailing 12 months, the fund was up 19.99 percent which ranked in the 44<sup>th</sup> percentile. The portfolio was valued at \$16,640,910 as of the previous day.

Quarterly performance results (i.e. quarter ending December 31, 2019) for the various investment styles/managers represented in the portfolio were as follows:

*Garcia Hamilton & Associates (domestic fixed income)* – positive return of 0.34% (78)\*

*EuroPacific Growth (international)* – positive return of 10.09 (42)\*

*Vanguard Total Stock Market Index Fund* – positive return of 9.01% (29)\*

*Templeton Global Total Return (global fixed income)* – positive return of 1.88% (8)\*

*BlackRock Multi-Asset Income Fund (other assets)* – positive return of 2.39% (82)\*

*ASB Allegiance Real Estate Fund (real estate)* – positive return of 1.28% (79)\*

(\*Percentile rankings)

Mrs. Richardville pointed out that the portfolio was slightly overweight in domestic equities at 48 percent (the target allocation was 45 percent). She recommended that the board rebalance by moving \$500,000 out of domestic equities, essentially “*harvesting some of the recent gains.*”

- Asset Allocation Analysis - expected rates of return for various asset classes

At its quarterly meeting on November 6, 2019, Mrs. Richardville offered to bring a study on expected rates of return to the next meeting. She introduced the topic by emphasizing that asset allocation was an important tool used to manage the risk of a given portfolio. The study utilized capital market assumptions developed by *JP Morgan* for individual asset classes and developed forecast models looking 10 to 15 years into the future. The study looked at the Retirement Plan’s current asset allocation and examined other asset mixes with the goal of the plan achieving its 6.95 percent assumed investment rate of return.

Modeling showed that the current asset mix forecast a 6.11 percent return over the next year which was slightly less than the assumed rate of return. Mrs. Richardville favored the use of a commingled real estate fund in the portfolio as an alternative to fixed income as it delivered a slight premium over the latter. She pointed out that equity markets were strong and were the greatest driver of performance in the portfolio. Further, she did not see fixed income returns moving much either direction in the foreseeable future.

A possible tweak to the asset mix in the portfolio was an introduction to infrastructure assets. Such investments tended to be counter-cyclical in nature with a low correlation to other asset classes. AndCo currently used Brookfield Super-Core Infrastructure Fund with other clients which had introduced infrastructure investment opportunities. The minimum investment was \$250,000. If the Board elected to proceed with infrastructure, the investment consultant recommended a five percent allocation. She offered to bring an educational presentation on the asset class to the next meeting.

Board members discussed how a five percent allocation to infrastructure might be funded. Mrs. Richardville favored a reduction to global bonds. Chairman Morgan preferred an equal reduction to global fixed income and domestic equities.

*Chairman Morgan moved to modify the Retirement Fund’s asset allocation to include a five percent exposure to infrastructure by reducing domestic equity by 2.5 percent and global bonds (Templeton) by 2.5 percent. Member Bentley seconded the motion.*

Attorney Herrera advised that a revision to the Retirement Fund's Investment Policy Statement (IPS) was needed prior to an actual investment into infrastructure. An ordinance amendment might also be necessary if the Brookfield Infrastructure Fund operated as a collective investment trust. Otherwise, the Retirement Plan's language was quite broad as it related to acceptable investments.

*Mrs. Richardville would prepare a revision to the IPS along this line (i.e. targets/ranges) for consideration at the next meeting along with an educational presentation on infrastructure. She also mentioned that a representative from Brookfield would be willing to participate in a conference call at the next meeting.*

At the Fund's current value, a five percent allocation was roughly \$800,000.

*The standing motion to allow infrastructure investments (at a five percent allocation) in the West Melbourne Police Retirement Plan carried unanimously. It was clarified that the motion was strictly related to asset allocation and was not direction to engage Brookfield as a new investment manager.*

- Search for Global Fixed Income Bond Manager

Based on poor performance of the *Templeton Global Total Return Fund* compared to its relevant benchmark, as well as its volatility, the Retirement Board had previously requested that AndCo prepare a global fixed income manager search. Mrs. Richardville introduced an analysis of four different global bond mutual funds, including Templeton (current), two PIMCO funds, Loomis Sayles Global, as well as the Vanguard Total International Bond Index Fund.

Her review addressed portfolio construction, decision making structure, fees, sector allocation, maturity, and past returns, etc. She pointed out that PIMCO Diversified Fund had substantial overlap with Garcia Hamilton (domestic fixed income manager). Member Bentley asked if any of the funds offered a no fee option. Mrs. Richardville was unaware of any funds on the institutional side that were no fee. She went on to mention that active managers outperformed the index over the long term.

Board members discussed how to proceed regarding exposure to global bonds, particularly since they just voted to reduce the allocation to this asset class to 2.5 percent of the overall portfolio. The Board felt that any change to another global bond manager should look different from core bond holdings and offer diversity. Templeton's strategy differed from other funds but the board was uncomfortable with its quarter to quarter fluctuations.

*It was the consensus to continue the global bond manager search at the next meeting, refreshed to exclude the PIMCO Diversified Income Fund and to include the Vanguard International Bond Index Fund.*

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Mrs. Richardville reminded the Board of her earlier recommendation to rebalance the portfolio back to target weights, to-wit: take \$500,000 from domestic equities and move \$400,000 to Garcia Hamilton (domestic fixed) and \$100,000 to Templeton (global bonds).

*Following some discussion Chairman Morgan moved to rebalance the portfolio by selling \$300,000 of the Vanguard Total Stock Market Index Fund (domestic equities),*

*moving \$225,000 to Garcia Hamilton (domestic fixed) and \$50,000 to Blackrock Multi-Asset Income Fund, and retaining \$25,000 in cash. Member Bentley seconded the motion which carried unanimously.*

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Discussion returned to acceptance of the annual valuation for 2019. Finance Director Margi Starkey reminded the Board of the need to make several minor revisions to the GASB 67/68 reporting.

*Member Bentley moved to approve the annual actuarial valuation report as of October 1, 2019 contingent upon changes to the GASB 67/68 reporting as mentioned by Finance Director Starkey. Member Parsons seconded the motion and it carried on an all yes vote.*

*Member Bentley moved to approve a 6.95 percent expected rate of return on investments going forward (based on advice of plan consultants). Member Parsons seconded the motion which carried unanimously. The plan administrator would prepare the required correspondence to the Division of Retirement advising of the expected annual rate of return.*

*Member Bentley then moved to direct preparation of the October 1, 2020 valuation using a 6.8 percent expected rate of return. Chairman Morgan seconded the motion which likewise carried unanimously.*

#### C. Mindy Johnson – Salem Trust Company (custodian)

Relationship Manager Mindy Johnson gave board members an update on pending changes as a result of Salem's recent purchase by TMI Trust Company. As of March 1, 2020, back-office operations (e.g. trades, settlements, etc.) would be handled by TMI. Account numbers would also change and retirees would receive two 1099-R statements for 2020. She was optimistic that the transition would be seamless and emphasized that it did not involve a change in the SunGard accounting system. She went on to review Salem's Service Report for the period ended December 31, 2019.

#### D. Pedro Herrera – Sugarman & Susskind (attorney)

- Report on cyber liability insurance coverage

As requested at the previous meeting, Attorney Herrera reviewed the City's general liability insurance policy secured through the Florida League of Cities. He advised that the policy, including cyber liability coverage, did not extend to the retirement board. There was no legal requirement for the retirement plan to maintain cyber liability insurance coverage; it was a business decision. It was his understanding that cyber liability insurance was relatively inexpensive.

*Chairman Morgan moved to direct Plan Administrator Rounsavall to obtain further information (including pricing) for cyber liability insurance for the Retirement Board and to report back at the next meeting. Member Bentley seconded the motion which carried on an all yes vote.*

- Legislative Update

Attorney Herrera provided an overview of the SECURE Act adopted by the U.S. Congress and effective as of January 1, 2020. The SECURE Act made significant

changes to retirement plan distribution (RMD) rules, including the increase in age for required minimum distributions from 70½ to 72. The RMD change required a minor revision to the plan document but had no financial impact on the plan.

He went on to advise that the State legislative session began earlier in the month. The only pending legislation that could potentially affect public retirement plans addressed mandatory training as to fiduciary responsibility for trustees. The attorney also mentioned changes to the form of notary acknowledgements which now included remote notarizations.

E. Plan Administrator Report

- Acknowledge refund of member contribution for Shane Popa (non-vested member) in the amount of \$17,996.41

*The Retirement Board acknowledged the refund for Officer Popa as presented.*

Other matters included in the administrator's report: (1) Sgt. Eric Rothery submitted an application for DROP participation as of February 1, 2020; (2) Plan Administrator Rounsavall recently renewed her *Criminal Justice Information System* Certification; and (3) beneficiary forms were revised to include the new notary acknowledgement.

The next quarterly meeting was scheduled for April 29, 2020.

**OLD BUSINESS** - None

**NEW BUSINESS**

- A. Request of Chevy Chase Trust (custodian for ASB Allegiance Real Estate Fund) for updated signature authorizations

City Clerk Cynthia Hanscom obtained trustee signatures prior to board members leaving the meeting.

**PUBLIC COMMENT** - None

**ADJOURNMENT**

The meeting adjourned at 11:52 a.m.