

**West Palm Beach Police Pension Fund
2100 North Florida Mango Road
West Palm Beach, Florida 33409**

Minutes

**March 12, 2021
8:30 AM**

CALL THE MEETING TO ORDER

Mr. Frost called to order the West Palm Beach Police Pension Fund Meeting on March 12, 2021 at 8:30 AM, in the main conference room of the Ernest George Building of the Palm Beach County Police Benevolent Association.

Present at the meeting: Jonathan Frost, Board Chairman; Troy Marchese, Board Secretary; Dana Fragakis, Board Trustee; Joseph Ahern, Board Trustee and Craig Kahle, Board Trustee.

Also present: Nathan Hubbard, Mark Moriello & Dusten Campbell - Active Members; Karen Malcom¹, City of West Palm Beach; Arif Joshi, Nina Osenbroch² & Thomas Franzese, Lazard Asset Management; Coleman Hubbard & Clayton Johnston, Barrow, Hanley, Mewhinney & Strauss; Chuck Bryant, Kennedy Capital Management; Wendell Mackey & Rodney Herenton, Channing Capital Management; John Boles³, Anchor Capital Advisors; Jeffrey Amrose⁴, Board Actuary - GRS Retirement Consultants; John McCann, AndCo Consulting; Bonni Jensen, Board Attorney - Klausner, Kaufman, Jensen & Levinson; and Dave Williams, Plan Administrator & Michael Williams⁵, Administrative Plan Assistant.

INVESTMENT PRESENTATIONS

Mr. Coleman Hubbard & Mr. Clayton Johnston, Barrow, Hanley, Mewhinney & Strauss; Mr. Chuck Bryant, Kennedy Capital Management; Mr. Wendell Mackey & Mr. Rodney Herenton, Channing Capital Management all provided detailed investment management presentations for the small cap value portion of the portfolio. All representatives provided firm profile, investment characteristics, approach, and overview. Round robin discussion ensued during the presentations. At the conclusion, the Board thanked all the representatives for the thought-provoking information. The Board also thanked Mr. McCann for bringing forth such high caliber of managers for the Board to consider.

Mrs. Fragakis made a motion to retain the professional services of Barrow, Hanley, Mewhinney & Strauss naming Channing Capital Management should negotiations fail. Mr. Ahern seconded that motion. All Trustees voted yes, and the motion was passed 5-0.

Mr. Marchese made the motion to terminate Wellington when deemed administratively practical. Mr. Ahern seconded that motion. All Trustees voted yes, and the motion was passed 5-0.

For educational purposes, Mr. Arif Joshi & Mr. Thomas Franzese, Lazard Asset Management provided a brief presentation on emerging market debt investments. At the conclusion, Mr. Frost (by consensus of the Board) asked Mr. McCann to proceed with a formal search and bring forth two candidates to interview at the next meeting.

¹ Attended meeting remotely.

² Attended meeting remotely.

³ Attended meeting remotely.

⁴ Attended meeting remotely.

⁵ Attended meeting remotely.

INVESTMENT REPORT

ANCHOR CAPITAL ADVISORS – Mid Cap Value

Mr. Boles presented an update to the portfolio, but before doing so, updated the Board on the stability of the firm itself.

Mr. Boles valued the portfolio at \$22,794,907.43 as of February 28, 2021. For the fiscal year through February 28, 2021 the portfolio was outpaced by the benchmark. Dating back to the inception of the portfolio (May 12, 2003), the portfolio continues to exceed the benchmark on a net basis.

Holds and sales were detailed by Mr. Boles, as was the performance relative to the passive market.

ANDCO – INVESTMENT CONSULTANT

Mr. McCann did not provide a formal report.

ACTUARIAL VALUATION PRESENTATION – SEPTEMBER 30, 2020

Mr. Jeffrey Amrose presented the results of the September 30, 2020 Annual Actuarial Valuation of the West Palm Beach Police Pension Fund. Mr. Amrose cited the purpose of the valuation is to measure the System's funding progress, to determine the employer contribution rate for the fiscal year ending September 30, 2022, and to determine the actuarial information for GASB Statement No. 67 for the fiscal year ending September 30, 2020. The contribution rate reported is determined using the actuarial assumptions and methods determined by the Board of Trustees in conjunction with consultation with its plan professionals and in compliance with state law.

The funding objective for the defined benefit provisions of the Pension Fund is to establish and receive contributions, expressed as a percent of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens in the absence of benefit changes.

This objective is stated in the Pension Fund special act and meets the requirements of Part VII, Chapter 112, Florida Statutes and Chapter 185 Florida Statutes.

Contributions must satisfy the funding objective determined by the annual actuarial valuation and are sufficient to: (1) cover the actuarial costs allocated to the current year (normal cost) by the actuarial cost methods; and (2) finance over a period of future years the actuarial costs not covered by present assets and anticipated future normal costs (unfunded actuarial accrued liability).

There was a change made to the mortality assumption in this actuarial valuation report. Florida Statutes Chapter 112.63(1)(f) mandates the use of the same mortality tables used by the Florida Retirement System (FRS) in either of its two most recently published actuarial valuation reports. The FRS updated its mortality tables in its July 1, 2019 actuarial valuation report after conducting a statewide experience study. The mortality tables and improvement scales were updated in this year's actuarial valuation report to reflect the mortality assumptions that were used in the July 1, 2019 FRS actuarial valuation for Special Risk Class Members. This assumption change decreased the City Contribution Requirement by \$723,449 or 2.92% of covered payroll.

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The investment return assumption used in this Actuarial Valuation is 7.50%. We recommend that consideration be given to lowering the investment return assumption below 7.50%. Based on the Plan's asset allocation, an assumed net rate of return of 6.5% to 7.0% would be more in line with projected expected returns over the next several years.

The activities of the Pension Fund and its members generated an experience gain of \$8,355,556 during the plan year ended September 30, 2020. Currently the actuarial value of assets, which is used to determine the contribution requirements and funded ratios for the Fund, is greater than the market value by 3%, or \$10.3 million. This means that there are losses from prior periods as well as the current fiscal year that will be recognized in the 2021-2023 reports. These losses will put upward pressure on the contribution requirements and downward pressure on the funded ratios in those reports. If these losses were recognized on September 30, 2020, the City contribution would increase by 3.62% of covered payroll to 21.91% of covered payroll (\$5,428,350 if made quarterly or \$5,235,566 if made on October 1, 2021) and the funded ratio would decrease from 98.0% to 95.6%.

Another potential area of variability has to do with the annual payment on the unfunded accrued liability (UAL). This payment is computed as a level percent of covered payroll under the assumption that covered payroll will rise by 2.5% per year. According to the Florida Statutes, this payroll growth assumption may not exceed the average growth over the last ten years which is 1.58%. Amortizing the UAL as a level percent of payroll using a 1.58% payroll growth assumption instead of a 2.5% payroll growth assumption caused the required contribution to increase by approximately \$55,000. If the covered payroll remains level next year, the 10-year average payroll growth would increase to approximately 1.9%.

The actual employer contribution received during the fiscal year ending September 30, 2020 was \$5,240,652. This payment was made on October 1, 2019. The actuarially determined minimum required contribution, reflecting an October 1, 2019 payment date, was \$5,240,652. Based on this, the City required contribution has been met for the fiscal year ending September 30, 2020.

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Contributions required for FY 2021/2022

Defined Benefit Contributions for For Fiscal Year Beginning	Contributions Expressed as Percents of UnDROPed Payroll(1)		
	October 1, 2021		October 1, 2020
	After Assumption Change	Before Assumption Change	
Normal Cost:			
Service pensions	20.49 %	20.78 %	20.71 %
Disability pensions	1.68	1.67	1.68
Survivor pensions			
Pre-retirement	0.28	0.38	0.39
Post-retirement	1.55	1.52	1.52
Termination benefits:			
Deferred service pensions	1.16	1.17	1.17
Refunds of member contributions	0.78	0.78	0.78
Total Normal Cost	25.94	26.30	26.25
Unfunded Actuarial Accrued Liability (UAAL):			
Retired members and beneficiaries	0.00	0.00	0.00
Active and vested terminated members	2.20	4.51	6.68
Total UAAL	2.20	4.51	6.68
Administrative Expenses (net of charges to Share and DROP accounts)	0.93	0.93	1.00
Total Calculated Contribution Requirement	29.07 %	31.74 %	33.93 %
Adjustments to Calculated Contribution Requirement:			
Temporary full funding credit	0.00	0.00	0.00
FS112.64(5) compliance	0.22	0.47	0.86
Total adjustments	0.22	0.47	0.86
Total Adjusted Contribution Requirement:	29.29 %	32.21 %	34.79 %
Member portion	11.00 %	11.00 %	11.00 %
Chapter 185 portion	0.00 %	0.00 %	0.00 %
City portion	18.29 % ⁽²⁾	21.21 %	23.79 %
Expected Covered Payroll for Contribution Year	24,775,673	24,775,673	25,868,612
City Contribution Requirement Paid Quarterly	4,531,472	5,254,921	6,154,144
City Contribution Requirement Paid at Beginning of Fiscal Year	4,370,540	5,068,296	5,935,584

At the conclusion of the presentation, the Board by consensus asked Mr. Amrose to update his findings based on an investment assumption of 7.375%⁶ and to reconvene at the next meeting for further consideration. Mr. McCann was asked to prepare a historical report of returns by Mr. Ahern, as he was skeptical in the need to reduce the assumption.

Mr. Campbell interjected and asked Mr. Amrose to update the impact study⁷ of February 11, 2021, due to the change in the assumption rate. The Board agreed to the request by consensus.

⁶ As a result of the recommendation by Mr. Amrose: *Based on the Plan's asset allocation, an assumed net rate of return of 6.5% to 7.0% would be more in line with projected expected returns over the next several years.*

⁷ <http://www.wpbbpf.com/docs/announcements/West%20Palm%20Beach%20Police%20Study%2020210211.pdf#zoom=100>

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ATTORNEY’S REPORT

No formal report provided.

ADMINISTRATOR’S REPORT

No formal report provided.

OPEN DISCUSSION

Mr. Frost commented about passive vs. active investments and that passive has outpaced active management. The passive position taken by the Board has proven to be prudent and fruitful.

ADJOURNMENT

Being there was no other business; the meeting was adjourned by motion at 11:30 AM.

Next meeting is scheduled for April 9, 2021 at 8:30 AM

A handwritten signature in black ink, appearing to read 'T. Marchese', is written over a light gray rectangular background.

Troy Marchese, Board Secretary