

FIRE PENSION BOARD MINUTES
Wednesday, May 18, 2022 – 9:30 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton
Also Present: Board Attorney Adam Levinsen (attended via GoToMeeting) and Heather McCarty, Records Retention Specialist

1. CALL TO ORDER

Today's meeting was called to order at 9:31 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

The Chairman requested they allow the Attorney and the Finance Director to discuss their matters once their Attorney joins the meeting.

3. APPROVAL OF MINUTES

A) February 16, 2022 Regular Meeting Minutes

Mr. Losey made a motion to approve the February 16, 2022 minutes. Mr. Middleton seconded the motion and it passed unanimously.

B) February 24, 2022 Special Call Meeting Minutes

Mr. Losey made a motion to approve the February 24, 2022 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

At this time, item 5-B) was discussed.

5. QUARTERLY REPORTS

A) Salem Trust

1. Class Action Report

Ms. Debbie Kocsis, with Salem Trust, joined the meeting via Go-To Meeting. She referred to their Class Action Report for the period ending March 31, 2022 (on file in the City Clerk's office). She reported they filed one (1) claim for the quarter that affected two (2) accounts. However, as shown on page 4, their initial calculations are not showing any recognized loss or estimated

payouts, but they are still filing the proof of claim in case. Also, for the quarter, she reported they collected \$88.10 for Trinity Industries claims.

2. Pensioner Portal

Ms. Kocsis referred to their material on their new pension portal included with their backup (on file in the City Clerk's office). She wanted to know if there was any interest in their portal or if they have any questions about it.

Mr. Zokvic answered that that at this time, there was not any interest in pursuing the Portal. Ms. Kocsis said if anything changes in the future, they can look at it again.

At this time, item 5-C was discussed.

B) Highland Capital Management

Mr. Todd Wishnia, with Highland Capital, reported that this quarter had the worst quarterly performance in about two (2) years. He talked about some of the things contributing to the draw-down of the market, including inflation, supply chain issues, and rates being raised. He reviewed some of the other negative and positive things going on in the market.

Mr. Wishnia went to their Investment Review Report for the period ending March 31, 2022 (on file in the City Clerk's office). He reviewed the returns shown on page 11 and reported the best performing sector was Energy with a return of 39%. He added that the Utilities sector was the only other sector with positive returns. The worst sector returns were in Communication Services, which was down -11.9%. He went over the charts on page 10, Performance Returns for Various Periods. He said they are still overweight to value, at about 65%. He said last quarter, they saw the pop in the Growth sector, which hurt them a little.

Mr. West asked about their allocation between growth and value and asked if Highland is considering putting more money into growth. Mr. Wishnia answered that their objective is to get back to about 50-50, growth to value.

Mr. Wishnia continued in his report on page 10, going over the returns shown for the quarter and the fiscal year to date (FYTD). He went over page 15, Fixed Income Sector Allocation.

Mr. West asked in regards to fixed income, as they are continuing to add quality, are they adding any corporates. Mr. Wishnia explained they are keeping it towards treasuries and are not adding corporates at this time. He concluded by pointing out International was down for the quarter - 8.7%, compared the index which was down -10.6%. He said he hopes to have better news next quarter.

At this time, item 5-A) was discussed.

C) AndCo Consulting

Mr. Dave West, with AndCo Consulting, wanted to point out that their allocation and manager assignments they have in place have fared very well through some crazy markets. He talked about some of the things that have been going on in March and April with the economy and issues affecting it, including inflation issues, supply chain problems and COVID.

Mr. West referred to his Investment Performance Review for the period ending March 31, 2022 (on file in the City Clerk's office). He first wanted to point out some key numbers for April. He reported the S&P for the month of April was down -8.7% and equities were down -12.9%. He commented that on a good note, the US dollar is strong compared to global commodities right now. He talked about what has been occurring in the bond market.

Mr. West said he wanted to emphasize that Highland Capital fared very well in this environment. He said this has been a very difficult environment for managers, but they are actually in good shape and their program is holding up well.

Mr. West went to page 12, Asset Allocation Compliance, in their report. He explained they are over their policy limit for domestic equity allocation and they need to get back to policy. He is going to suggest an opportunistic rebalancing and is recommending rebalancing to their 5% rule, which would mean taking 5% of the total assets off the table to move it back to the target center line. He added they also need to raise additional monies for operating expenses. He suggested that they allocate the money that they don't need to go to the Highland Core Fixed Income.

Mr. West summarized his recommendation is to rebalance domestic equities following their 5% rebalancing rule to get them back into compliance by having Highland sell \$385,000 in equity, letting them determine where that comes from, and of that amount, \$190,000 would go to Highland fixed income and the balance would go into the R&D account to continue to make retiree payments.

Mr. Losey made a motion to accept their consultant's suggestion to rebalance as stated. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West continued in his report to page 17, Comparative Performance Trailing returns, and went over their bottom line. He reported the Total Fund (Net) was down -3.32%, compared to the index that was down -3.92%. The FYTD was a positive 1.69% return and the Total Fund (Gross) was a positive 2.2%, which put them in the top 10 percentile. He went through the FYTD numbers shown on pages 17 through 19. He pointed out that PIMCO Diversified was down -7.10%, but reminded them that since their upgrade last year, they have been slowly reducing their allocation to PIMCO Real estate, so that is an inconsequential allocation to the Plan. He pointed out that Intercontinental did a great job for them and was up 16.05% for the FYTD and up 28.27% for the one-year number.

Mr. West concluded with their bottom line shown on page 20, Financial Reconciliation Fiscal Year to Date. He reported that they opened on October 1, 2021 with \$8,002,656 and ended on March 31, 2022 with \$7,739,272.

Mr. West said he would work with Highland Capital to get the rebalancing completed.

6. NEW BUSINESS

None

7. OLD BUSINESS

A) Update on Discussion with State re: Premium Tax Money

Mr. Adam Levinsen, Attorney with Klausner and Kauffman, joined the meeting via Go-To meeting. He said he had good news to share. He wanted to talk about some of what's been going on behind the scenes over the last couple of months. Their office has spent a lot of time going into the details of the report the State puts out to be fully prepared for the conference call with the State. He reviewed that the City wanted to put everything on the table and have transparency in regards to the State's premium tax money. He commented that they have identified more than a dozen closed plans that are over funded. He said they came up with legal arguments for the State as to why they felt this was not an issue and their money should not be turned off.

Mr. Levinsen reviewed that there was a conference call about this situation that included the head of the municipal retirement section, Mr. Keith Brinkman; Steve Barton, the head of the Police and Fire office for the last few years; two (2) state actuaries, Ms. Lawson and the City Attorney, Mr. John Turner. He explained they made many arguments to the State as to why they don't think their money should be turned off and how they will never be fully funded from the standpoint of their Share Plan. He said the Division absolutely agreed that if they pay them the money, they get to keep the money and the State would not ask for it back. He said they did not say during that call what they were going to do, but thanked them for being transparent. He told them they should not be penalized for putting everything on the table. The State promised that they would keep them up to date and let them know what they decide. He said they have received the State's approval on the Annual Report and believes they are going to leave them alone this year and feels the money is as good as in the bank. He added that the State would have told them when they did the Annual Report review that they had an issue, but they didn't send any red flags or contingencies and approved it. He is very comfortable that they will be getting the check.

Ms. Cindy Lawson, Finance Director, said that she appreciated that all the heavy hitters at the State were involved in the conference call, which gave her a lot of comfort because she wanted assurances that if they got the money, it was theirs to keep. She said what Mr. Brinkman said that were the most important to her were that they are not aware of any time they have given money and retroactively asked for it back. Mr. Brinkman also said if they send them a check, then they have determined that they deserve it and it can be deposited. Also, he related that if they look at it and determine the City is not entitled to the money, then they should receive something about that in the approval letter if they were going to stop it. She added that "the

check is in the mail” is not meaningful to her as a Finance Director, but now she knows that if they get the check, she is fully confident in depositing it.

Mr. Levinsen said this year, they are good to go. But he wants to have a conversation about next year, because they don’t know what is going to happen. He said he has solutions for next year that requires an Ordinance change to permanently resolve this issue. He said they could tweak the Ordinance so that more money gets shared with the members. He said the City might worry if they start giving money to members, is it going to take money out of the City’s coffers. He said other plans have put in cushions and mechanisms so that as long as you maintain a certain level, then you can pay money to the members. He thinks this issue can be permanently put to bed with an Ordinance change.

Mr. Levinsen said they are hoping for a conference call with himself and Ms. Lawson and the Chairman sometime in June or July to have a robust open transparent conversation with the City and the Plan’s Actuary about what they can do to tweak the Ordinance to resolve this overfunded issue. He added this is a good problem to have.

Ms. Lawson said she has budget workshops in the middle of July, but after that she is happy to engage in conversations to make this work for everyone.

Mr. Levinsen had a couple of other informational items to touch on. He will be sending an informational memo that they can talk about at their next meeting. He wanted to remind everyone about their Form 1 disclosures. The memo deals with the Secure Act in regards to required minimum distributions (RMD), which is the date when you have to start taking money out of pension plans. He said the Secure Act 2 is being proposed and would extend that age from 72 to 75. He will keep them updated.

Mr. Levinsen said the next part of his memo involves the Department of Labor (DOL) and the interest in bit coin and cryptocurrency. The DOL is flashing red warning flags and urging pension plans not to rush into crypto/bit coin currency that is losing value rapidly.

Mr. West added that Fidelity recently approved utilizing bit coin in their defined contribution program options. He suggested extreme caution before considering implementing any such investment.

8. CHAIRMAN’S MATTERS

A) Discussion of Klausner Invoices

Mr. Zokvic reviewed that Klausner and Kauffman had sent an invoice in March, which included being billed for some various memos and emails. He said the same day it was received, the Clerk’s office was notified that they needed to supply copies of those so the invoice could be processed for payment. They just received a second invoice that included that past due amount and were again told that they are still waiting on copies of the emails and memos. Mr. Zokvic explained that during a conference call the day before with Mr. Levinsen, they discussed that and Mr.

Levinsen agreed to send those, which he did immediately. He wanted to have it on record the approval to pay the total amount due of \$2,875.00, which included the past due and the current amount.

Mr. Losey made a motion to approve processing the Klausner invoices. Mr. Middleton seconded the motion and it passed unanimously.

9. MEMBER'S MATTERS

Mr. Zokvic reported there are no schools currently scheduled other than FPPTA, which they are not members of.

10. ADJOURNMENT

Today's meeting adjourned at 10:40 a.m.

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