

**FIREFIGHTERS' PENSION BOARD
MEETING
SEPTEMBER 17, 2020**

MEMBERS PRESENT: Bill Albers, Chairman
David Baird, John Briggs,
Jerod Jones, Justin Gerow

OTHERS PRESENT: Kerry Richardville, AndCo Consultants
Brian Kahley, Franklin Templeton (via phone)
Jason LaRocco, Franklin Templeton (via phone)
Patrick Donlan, Foster & Foster
Holden Gibbs

CALL TO ORDER/ANNOUNCEMENTS

- Mr. Albers called the meeting to order at 8:35 a.m.
- A. Roll Call
- 1. Welcome Jerod Jones - New Pension Board Member
- Mr. Albers welcomed Mr. Jones to the Board.
- B. Next Scheduled Meeting
- 1. December 17, 2020

CITIZEN COMMENTS ON AGENDA ITEMS ONLY

- None.

APPROVAL OF MINUTES

- A. June 18, 2020
- Mr. Baird MOVED, Mr. Briggs SECONDED approval of the June 18, 2020, minutes. MOTION CARRIED UNANIMOUSLY.

REPORTS

NOTE: Presentation by Templeton was heard prior to June 30, 2020, Performance Report.

- A. AndCo Consulting, Kerry Richardville
- 1. June 30, 2020 Performance Report
- Ms. Kerry Richardville, AndCo Consulting (ACC), drew attention to ACC's Investment Performance Review, as delineated in the agenda material, for the period ending June 30, 2020, noting the market significantly underperformed the first quarter; however, support from the Federal Reserve and federal government contributed to a strong rebound in the equity markets for the second quarter. She reviewed the market performance, noting the fund finished the quarter with slightly over \$16.5 million. She stated domestic equity was slightly overweight and domestic fixed income was slightly underweight; however, the market value of the Plan was in line with investment policy targets and there was no recommendation to rebalance at this time. She summarized

Total Fund Performance denoted on Page 15 as follows: quarter, 17.91% (2nd percentile); Fiscal Year (FY) to Date, 6.48% (3rd percentile); 3 year, 9.15% (1st percentile); 5 year, 8.22% (2nd percentile). She then provided an overview of individual investment manager's performance as compared to the benchmark (pages 15-16), concluding ACC would continue to monitor real estate investment opportunities.

- Mr. Baird noted some of the positive performances of Intercontinental Real Estate based on their strategies, opining more funds should be allocated toward same if available.
- Ms. Richardville spoke in favor of doing so if the opportunity arose, noting ACC would continue to monitor their portfolio. She then drew attention to the Investment Performance Review for the period ending August 31, 2020, denoted in the agenda material, noting the Total Fund Performance as of August 2020 was 15.65% and the Plan market value was \$17.7 million.

NOTE: Global Bond Manager Search was heard following June 30, 2020 Performance Report.

2. Presentation by Templeton Regarding Global TR Strategy (Brian Kahley and Jason LaRocco to present)
 - Mr. Brian Kahley, Templeton, drew attention to the Templeton Global Total Return Fund from the agenda material, noting Templeton recently acquired Legg Mason and now managed 1.4 trillion in total assets. He spoke positively on the future of Templeton, highlighting the unconstrained strategies of the management group. He stated Templeton had positioned themselves defensively at the beginning of 2020 but had performed relatively well during February and March 2020. He stated Templeton would continue to maintain its defensive position due to the uncertainties of recovery from the pandemic, opining they were positioned to take advantage of opportunities that presented themselves.
 - Mr. Jason LaRocco, Templeton, explained their investment strategies included an unconstrained worldview, a team of research analysts and a high-conviction process. He then acknowledged the Calendar Year Returns (page 29) indicated Templeton had significantly underperformed the previous two years; however, data revealed past performances had consistently outperformed the index, briefly explaining the predictions which contributed to their underperformance in 2019 and 2020. He then drew attention to the Portfolio Positioning around Four Pillars (page 38), which included optimizing interest rates and investing in safe-haven currencies, explaining Templeton was pursuing a more sustainable recovery by holding liquidity to take advantage of opportunities and add risk back in after a potential wave of bankruptcies. He stated Templeton still had exposure in developing countries which were cautiously selected,

adding they did not take currency risks; however, the bond yields were more attractive in those countries. He opined any combination of shock to the market could potentially create another wave of volatility in the second half of 2020, concluding Templeton was positioned to generate a positive return if same were to occur.

- Ms. Richardville inquired as to Templeton's position in Argentina.
- Mr. LaRocco replied exposure in Argentina was 3.43% (page 40), noting disruptions within the political environment had contributed to the underperformance. He stated developments within the country would be monitored, adding exposure remained; however, same was a smaller portion of the portfolio.
- Mr. Baird questioned how much of the 4% yield from Mexican Bonds was spent on hedging.
- Mr. LaRocco replied cost was minimal for same, noting they were holding a little over half of the yield. He indicated they believed the bonds could appreciate as rates declined with a potential for capital gains.
- A brief discussion ensued which confirmed the following: currency exposure was being phased out in a vast majority of emerging markets; impact of structural changes to countries would be assessed as automation reduced advantages that came with low-cost labor; holding on to a large amount of cash could cause high risk; possible misperception could be that Central Banks would liberate the economy and bankruptcies would most likely be the next crisis; the federal government solution to print money contributed to concerns regarding cities and states going bankrupt due to over commitment with pension plan obligations.
- Ms. Richardville summarized Templeton had a negative duration strategy prior to the COVID-19 pandemic with significant emerging market exposures in Argentina, Mexico and Latin America, adding they had only recently added 60% exposure in the United States. She stated Templeton's strategy had been removed from ACC's approved list, concluding they were a strong team; however, their current position had them at a disadvantage which could result in a lengthy time to perform positively.
- Mr. Baird stated Templeton indicated they were holding on to cash, opining they were unsure how to invest same.
- Mr. Albers noted Templeton had underperformed for a lengthy period of time, speaking in favor of making a change.
- Mr. Baird commented Templeton's performance was inconsistent.
- Ms. Richardville stated potential replacements would be discussed this date.

NOTE: June 30, 2020 Performance Report was heard following Presentation by Templeton.

3. Global Bond Manager Search
- Ms. Richardville drew attention to the Global Fixed Manager Analysis denoted in the agenda material, noting alternatives were: Loomis, Sayles & Company (.67% fee); Pacific Investment Management Company (PIMCO Diversified Inc.) (.75% fee); Brandy Global Investment Management (.58% fee); Templeton (.71% fee). She provided a detailed overview of each firm, including their benchmarks and strategies (page 4), quality distributions (page 7) and current portfolio region allocations (page 9). She then drew attention to page 11, noting PIMCO Diversified Inc. historically had steady allocations with a risk-controlled focus and tended to be the most consistent manager. She briefly reviewed the Trailing Performance (page 11) and Calendar Year Performance (page 12) as well as Multi-Statistic Analysis (page 20-21), concluding PIMCO Diversified Inc. added value with little volatility in comparison to the alternatives.
 - Mr. Albers stated he had reached the same conclusion.
 - Mr. Baird stated a portfolio manager had informed him of a management firm which was able to take advantage of Chicago's bankruptcy, inquiring whether any managers were researching same.
 - Ms. Richardville replied in the negative, adding same could be researched.
 - Mr. Gerow spoke in favor of PIMCO Diversified Inc.
 - Mr. Gerow MOVED, Mr. Briggs SECONDED to change from Templeton Global Return to PIMCO Diversified Inc.
 - Mr. Baird questioned whether alternatives would be considered, noting Ms. Richardville stated she would research the strategy regarding advantages of bankruptcies.
 - Ms. Richardville clarified she would research whether same was feasible and whether there were any stipulations.
 - Mr. Baird stated he would add his vote for PIMCO Diversified Inc. subject to there being a viable alternative.
 - MOTION CARRIED UNANIMOUSLY.
 - Ms. Richardville then stated the Eaton Vance Atlanta Capital Product had an R6 Share Class which lowered the basis points from 92 to 82, requesting the Board's permission to move them into the R6 Share Class.
 - Mr. Briggs MOVED, Mr. Baird SECONDED to move to the R6 Share Class of the Eaton Vance Atlanta Capital Product. MOTION CARRIED UNANIMOUSLY.
 - Ms. Richardville then provided an update on the infrastructure fund, opining capital should be called by the next quarter. She stated 2% return had been delivered steadily the previous three quarters, concluding the fund was at a good start.

NOTE: Experience Study by Foster and Foster was heard following Global Bond Manager Search.

- B. Salem Trust, Mindy Johnson
 - No discussion.
- C. Foster and Foster, Patrick Donlan
 - 1. Experience Study
 - Mr. Patrick Donlan, Foster and Foster, presented the Experience Study (Study) denoted in the agenda material, explaining the amortization method for gains/losses and various plan changes. He advised actuarial organizations recommended economic assumptions should be reviewed every 15 years, recommending that timeframe be used for all future bases. He stated investment return assumption was the most important assumption in the Report, drawing members' attention to the history listed on pages 6 and 7, noting from 1987 through 2019 the average had been 7.8%. He stated low interest rates would cause minimal expected return from fixed income for an indefinite period of time, recommending reducing the current 7.75% Investment Return Assumption. He then drew members' attention to page 18, explaining if it was assumed that earnings would be less going forward, it would be necessary to increase contributions, adding if investment return was changed to 7.5%, it would change the City's funding requirement by \$78,153 and 7.25% would increase it by \$169,316. He drew members' attention to page 8, briefly reviewing recommendations for salary increase assumptions and payroll growth assumptions on page 10, demographic assumptions and mortality rates (pages 11-13) and retirement rates (page 14). He estimated the City's contribution with changes to the assumptions as delineated on page 18: decrease of \$112,000 based 7.75% (combined with recommended changes); decrease of \$36,677 based on 7.5%; increase of approximately \$41,000 based on 7.25%. He stated Foster and Foster utilized the four-year asset smoothing technique; however, same did not provide perfectly stable results, adding a new smoothing technique would be utilized going forward which could help the funding for the October 1, 2020 Valuation Report and save approximately \$28,000 each year. He concluded the Board might want to consider an assumption somewhere between 7.25% and 7.50% along with other assumptions changes as discussed for mortality, turnover and retirement.
 - Mr. Briggs pointed out the current contract for salary increases allowed employees up to a 6% raise per year (3% education and 3% step), confirming a promotion would be a separate increase.
 - Mr. Donlan replied in that case the salary increase assumption could remain at 6%.
 - Mr. Albers inquired as to the results of the new smoothing technique.

- Mr. Donlan responded if there was a 10% return this year, with the 4-year smoothing, the Plan would have a 10% return. He stated the actuarial value was \$15,295,000 and the market value was \$15,590,000, noting there was a \$300,000 cushion which would remain the same at the next valuation. He stated if there was a fresh start with the market value and smooth going forward, there would be a gain of \$300,000, clarifying there would be a gain due to good returns this year and then an extra gain by “fresh-starting” those assets.
- Mr. Albers stated he was having difficulty understanding the reason for reducing the assumption when the fund was doing so well.
- Mr. Baird stated if it was going to be done, it should be done when there was a surplus.
- Mr. Donlan agreed, opining after such a good experience, odds were the market would come back down a little; therefore, the timing for the change was good. He clarified the City could experience an increase to its contribution of approximately \$20,000 if the assumption was changed to 7.5% in combination with the other recommended changes; however, there might be a reduction in the funding requirements with the October 1, 2020 valuation due to the regular experience of the Plan and the good investment return, it might be a wash. He stated the Board could make a motion to allow him to reduce the assumption so that the City’s costs remained the same with the October 1, 2020 Valuation.
- Mr. Albers voiced concern the assumption was being set based on the desired contributed, adding same was inappropriate.
- Mr. Donlan agreed; however, it was necessary to consider the impact it would have on the City.
- Mr. Albers stated he did not believe there was a financial issue in the budget for the current year; however, next year would be a different story as the State had lost millions of dollars in revenue.
- Mr. Donlan reiterated someone could make a motion to make all the changes in the Experience Study except for the salary increase assumption with the October 1, 2020 Valuation Report and to decrease to the return assumption such that the City’s costs remained the same, adding it would not be less than 7.5%. He clarified the December 2020 report would include the changes and show the City’s costs remaining the same.
- Mr. Albers voiced concern it was not desirable for the City’s costs to go down drastically, which could also have a negative effect.
- Mr. Baird MOVED, Mr. Briggs SECONDED to move forward with Mr. Donlan’s recommendation. MOTION CARRIED UNANIMOUSLY.

NOTE: A short break was called at 9:30 a.m.

NEW BUSINESS

- A. Administrative Expense Budget, Pension Secretary, John Briggs
1. 2019/2020 Actual Expenses
 - Mr. Briggs drew attention to the expense budget for 2019/2020, as delineated in the agenda material, briefly reviewing same and requesting a motion to accept the amended budget.
 - Mr. Gerow MOVED, Mr. Jones SECONDED to accept the amended budget. MOTION CARRIED UNANIMOUSLY.
 2. 2020/2021 Proposed Budget
 - Mr. Briggs drew members' attention to the proposed 2020/2021 budget, noting portions were left blank for members to decide on categories.
 - Mr. Baird questioned the reason Actuary Expenses exceeded the 2019/2020 budget.
 - Mr. Briggs replied same could be due to State mandates and attorney fees, expressing uncertainty as to why there was such a large increase.
 - Discussion ensued regarding the details of actual expenses from the 2019/2020 budget as well as costs associated with actuarial services provided by Foster and Foster.
 - Mr. Donlan recommended a budget of \$30,000 for the Actuary Services, explaining \$20,000 was typically safe to budget; however, costs from the Experience Study would be included in the 2021 budget.
 - Members agreed \$30,000 should be budgeted and funds from same should only be used as needed.
 - Mr. Albers pointed out Attorney/Legal fees was \$2,300 more than budgeted.
 - Mr. Briggs explained the Board Attorney had an additional ordinance change which would be published soon, noting the attorney would be at the next meeting.
 - Mr. Baird suggested Attorney/Legal fees be \$15,000 and amend same if needed.
 - Mr. Albers suggested the Insurance fee remain blank at this time, since same would be discussed later this date. He then stated the fees could be budgeted as follows: Consultant, \$19,500; Custodial, \$10,000; Travel & Education, \$5,000.
 - Mr. Baird suggested Miscellaneous fees remain \$6,500 as same had already been budgeted.

NOTE: Update on Fiduciary Insurance was heard following this item.

UNFINISHED BUSINESS

- A. Update on Fiduciary Insurance, Chairman Bill Albers
- Mr. Albers drew attention to the email sent to members regarding fiduciary insurance, noting Travelers Insurance had provided two quotes. He noted only two out of forty-eight municipalities handled by Travelers Insurance had fiduciary insurance, providing

details regarding same. He compared coverage and costs of the policies from Travelers and Markel, noting both policies were retroactive to July 2003. He concluded costs were \$3,508 for Travelers and \$2,801 for Markel.

- Mr. Baird inquired as to why only 2 municipalities had fiduciary insurance.
- Mr. Albers stated he asked his own consultant if Board members would be included under the City's umbrella coverage if they were sued, noting they should be fully covered since it was a volunteer board.
- Mr. Baird stated he would like to speak with another City to determine whether they had considered fiduciary insurance and why they did not hold any.

NOTE: Mr. Gerow left the meeting at 10:40 a.m.

- Discussion ensued regarding the benefits of Fiduciary Insurance.
- Mr. Briggs verified same did not require action this date, suggesting members discuss the Board Attorney's opinion regarding same.
- Mr. Baird offered to email the Board attorney regarding Board members' inquiries and whether there were alternatives. He then concluded \$4,000 could remain in the budget.
- Mr. Albers suggested \$3,508 as was budgeted in Fiscal Year 2019/2020.
- Mr. Briggs MOVED, Mr. Jones SECONDED to approve the proposed 2020/2021 budget. MOTION CARRIED UNANIMOUSLY.

STAFF COMMENTS

- None.

COMMITTEE/BOARD COMMENTS

- None.

CITIZENS' COMMENTS

- Mr. Holden Gibbs stated fiduciary and liability insurance would protect the City and directors and officers liability insurance would protect the Board.
- Mr. Albers stated that could be included in the questions submitted to the Board Attorney.
- Mr. Baird questioned why the Board would be responsible for same rather than the City, questioning whether the Board should be looking at director and officers insurance.
- Mr. Albers stated same could be clarified by the next meeting.

ADJOURNMENT

- Meeting Adjourned: 11:54 a.m.

Bill Albers, Chairman

Leah Pues, Recording Secretary