

City of Gainesville

*City Hall
200 East University Avenue
Gainesville, Florida 32601*



Minutes - Final

June 22, 2022

9:00 AM

Room 016, City Hall, 200 East University Avenue

Board of Trustees of the Consolidated Police & Fire

Retirement Plan

Eugene Dugan (Chairperson)

Steve Varvel (Trustee)

Walter Barry (Trustee)

Harvey Lewis (Trustee)

Leah Hayes (Trustee)

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MEETING DETAILS

CALL TO ORDER

The meeting was called to order at 9:01 a.m.

ROLL CALL

MEMBERS PRESENT: Eugene Dugan, Leah Hayes, Harvey Lewis, Walter Barry, Steve Varvel

STAFF PRESENT: William Johnston, Investment Officer; Gregory Williams, Senior Analyst; Jennifer Crocker, Finance Director; Sue Wang, Controller

OTHERS PRESENT: Cole Jacobs, Willis Towers Watson; Zach Paris, Willis Towers Watson

ADOPTION OF THE AGENDA

Adopted

APPROVAL OF MINUTES

[211289.](#) Regular Meeting Minutes of May 25, 2022 (B)

RECOMMENDATION

The Board of Trustees review the regular meeting minutes of May 25, 2022 and take any action deemed appropriate.

Approved as Recommended

BOARD ATTORNEY UPDATE

Board Attorney Robert Klausner wasn't available to participate in the meeting.

PRESENTATION

[211291.](#) Presentation by Willis Towers Watson (B)

Cole Jacobs of Willis Towers Watson discussed equity and fixed income markets, inflation and other economic data. He also reviewed treasury rates and market sentiment, noting the Federal Reserve had raised rates in the period by .75%, the largest increase raise since 1994. The Fed was expected to continue raising rates by .50% - .75% in an attempt to combat inflation. Mr. Jacobs also discussed the Plan's investments, and

reviewed investment manager performance relative to their benchmarks.

Trustee Lewis had requested information concerning the Plan's participation in Willis Towers Watson's Delegated Investment Program. Mr. Lewis was concerned that WTW's Delegated Program fees were more than double WTW's traditional consultant fees, and more than double the fees charged by AndCo Consulting for the General Pension Plan. Mr. Lewis questioned the overall benefits received from the Delegated Program. He was concerned about the risk & return profiles of the Alternative Credit investment managers, and the lack of Board participation in WTW's Income Segment investment manager selection processes.

In response to the Board and staff's concerns, Mr. Jacobs and Zach Paris of Willis Towers Watson presented a review of the Delegated Program and its benefits. The Delegated Program was designed to allow WTW to select recommended investment managers for the Plan without requiring the Board to go through a lengthy search and selection process. The Delegated Program was also intended to provide lower investment management fees, and to reduce Board and staff involvement in investment manager contract negotiations and portfolio management. WTW's main focus since the adoption of the Delegated Program had been creating an Income Segment for the Plan, consisting of Alternative Credit and expanded Real Estate investment managers. The concept entailed hiring investment managers that would generate income and have lower correlations to equity markets, and lower volatility, while providing returns similar to equities that would attain the Plan's assumed rate of return. It was mentioned that by having lower investment return volatility, the Plan Sponsor might experience lower contribution volatility when the Plan wasn't fully funded.

Staff pointed out that WTW had initially estimated that their Delegated Program would lower the Plan's total annual investment fees by over \$600,000 due to reduced investment manager fees, despite the large increase in WTW's consulting fee. Staff determined that the WTW fee savings projections were based on analysis of the Plan using portfolio allocations that included Private Equity and Hedge Funds for fee comparison purposes. Hedge Funds and Private Equity typically had much higher fee structures, which caused the Plan's expected savings from fee reductions to appear significant. Staff indicated that the Plan's portfolio allocation had never, and would never look like the high fee portfolios used in WTW's analysis, so the projected fee savings would never be realized. Since inception, it appeared that the Delegated Program had only marginally reduced the Plan's fees, specifically for the

Plan's Real Estate managers and International Equity manager Mawer. The Plan had probably saved a few thousand dollars annually by using WTW's Delegated Program with an Income Segment asset allocation. If the Plan were invested with a 90% Equity allocation as staff recommended, the Delegated Program would actually increase the Plan's annual investment fees. Also, while the Board had spent less time on investment manager selection processes, staff had not really saved any time on portfolio management. Also, investment manager agreements were always reviewed by the Plan's attorney, and that typically took 3 - 6 months regardless of the WTW Delegated Program. And due to the contract complexity and high manager turnover within the Income Segment, the Plan had experienced longer manager hiring process times and higher legal fees, while agreements with several recommended managers could not be reached at all.

Mr. Johnston also noted that he strongly disagreed with WTW's Capital Market Assumptions, and was concerned with the restricted liquidity and high fees of several Income Segment managers. The Alternative Credit managers had also provided low up market capture with only moderate down market protection related to equities, and several managers had been terminated due to poor performance, causing high manager turnover. It was staff's opinion that the Alternative Credit managers in particular could not provide long term returns similar to equity, or equal to the Plan's assumed rate of return. Although a higher equity allocation portfolio might experience higher return volatility, actuarial smoothing was applied to Plan returns, so the impact on the City's required annual employer contributions was reduced. Mr. Johnston also pointed out that a higher long term annualized rate of return meant that the City was ultimately required to contribute less to the Plan over the long term. It was staff's opinion that reallocating Alternative Credit assets to Equities would benefit the Plan in the long term, however staff made no formal recommendation to the Board to terminate the WTW Delegated Program, or to eliminate any Alternative Credit managers. The Board made no related motions, and no actions were taken. The Board would continue monitoring the WTW Delegated Investment Program, and could take action in the future if it decided to.

RECOMMENDATION

The Board of Trustees hear a presentation by Willis Towers Watson investment consultants Cole Jacobs and Zachary Paris covering market updates, Plan investment performance and strategic Plan asset allocations, and take any action deemed appropriate.

Discussed

OLD BUSINESS

[211236.](#)

Vested Terminated Member Benefit Eligibility

This Agenda Item discussion was postponed until the next Board meeting when the Board Attorney could be present.

RECOMMENDATION

Chairman Dugan requested that the Board discuss the Plan's benefit eligibility age requirement for vested terminated members, and review the benefit application process for vested terminated members once eligibility age has been reached. The Chairman also requested a discussion of whether a vested terminated benefit should be effective from the date a member becomes age eligible, even if the application for the benefit doesn't occur until later.

Postponed

NEW BUSINESS

INFORMATIONAL ITEMS

[211349.](#)

2021 Annual Report to the State Division of Retirement (B)

Mr. Johnston notified the Board that FY21 Financials for the Police & Fire Pension Plan had been finalized, and that the 2021 Annual Report had been submitted to the State of Florida Division of Retirement. He noted that although the Report had been submitted, and was expected to be approved by August, the State would not release Premium Tax distribution funds until they received the Plan's 2021 Actuarial Valuation Report and Audited FY21 Financial Statements. The 2021 Actuarial Valuation Report was expected to be completed in July 2022, but audited FY21 Financials were not expected to be available until the end of September 2022.

RECOMMENDATION

The Board of Trustees review the 2021 Annual Report to the Division of Retirement. No action is required.

Discussed

PUBLIC COMMENT

MEMBER COMMENT

NEXT MEETING DATE

The next meeting was scheduled for August 24th, 2022. The Board discussed a potential July meeting to deal with several postponed Agenda Items, and staff indicated they would follow up with the Board Attorney and Plan Actuary to determine if a July meeting was advisable.

Staff would notify Trustees if a July meeting was scheduled.

ADJOURNMENT

The meeting was adjourned at 10:36 a.m.

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REQUIREMENT

IN ACCORDANCE WITH THE AMERICANS WITH DISABILITIES ACT OF 1990, PERSON NEEDING A SPECIAL ACCOMMODATION TO PARTICIPATE IN THIS PROCEEDING ARE REQUESTED TO NOTIFY THE EQUAL OPPORTUNITY DEPARTMENT AT 334-5051 OR CALL THE TDD PHONE LINE AT 334-2069 AT LEAST 48 HOURS IN ADVANCE.

IF A PERSON DECIDES TO APPEAL ANY DECISION MADE BY THE BOARD WITH RESPECT TO ANY MATTER CONSIDERED AT THIS MEETING OR HEARING, THEY WILL NEED A RECORD OF THE PROCEEDING, AND FOR SUCH PURPOSE, THEY MAY NEED TO ENSURE THAT A VERBATIM RECORD OF THE PROCEEDING IS MADE, WHICH RECORD INCLUDES THE TESTIMONY AND EVIDENCE UPON WHICH THE APPEAL IS TO BE BASED. FLORIDA STATUTES 286.0105

THIS MEETING MAY BE CONDUCTED BY MEANS OF OR IN CONJUNCTION WITH COMMUNICATIONS MEDIA TECHNOLOGY, SPECIFICALLY A TELEPHONE CONFERENCE CALL. THE ABOVE LOCATION, WHICH IS ORDINARILY OPEN TO THE PUBLIC SHALL SERVE AS AN ACCESS POINT, PERSON WISHING TO ATTEND SHOULD APPEAR AT THE ACCESS POINT, WHERE TELEPHONE ACCESS TO THE MEETING WILL BE PROVIDED.