

Winter Park Firefighters Pension Trust Fund

Quarterly Meeting

May 4, 2023 at 4:00 P.M.

Members:

Lt. Stuart Merrick, Chairman

Lt. John Bonnell, Vice Chairman

Mike Clifford, Trustee

Wayne Kalish, Trustee

Tony Gray, Trustee –virtually attended.

Attendees:

Pedro Herrera, Attorney via Zoom

Burgess Chambers, BCA

Wes Hamil, Director of Finance

Jeff Templeton, Administrator

Bryan Templeton, Assistant Administrator

Shelly Jones, GRS

Amed Avila, Fiduciary Trust

Mindy Johnson, Fiduciary Trust

Call to order:

Chairman, Lt. Stuart Merrick called the meeting to order at 4:06 P.M.

Approval:

A motion was made by Tony Gray and seconded by Wayne Kalish approve the minutes from February 3, 2023, 2022 and the quarterly billing for January-February-March 2023. *All were in favor.*

Public comment: None.

Lt John Bonnell was re-elected by the membership to the Pension Board.

A motion was made by Tony Gray and seconded by Wayne Kalish to elect Lt. Stuart Merrick to Chairman and Lt. John Bonnell to Vice Chairman of the Pension fund. *All were in favor.*

Quarterly Report:

Burgess Chambers, BCA, gave the Investment Summary Report:

The Federal Reserve raised interest rates, following years of policies that lowered rates to stimulate the U.S. economy. Recent moves to address inflation have lifted interest rates, thus causing fixed income securities to fall in value, along with stocks. Historically, when the stock market experiences a significant decline, bond prices rise, and interest rates drop. In anticipation of the adverse impact to the Plan's bond/TIPS portfolio caused by rising interest rates, the strategic bond/TIPS allocation in the IPS was decreased from 33% to 20% on 2/18/22, and Terra-Cap was added during the second quarter as an alternative manager (3% target). On 11/3/22, the bond/TIPS target allocation in the IPS was further reduced to 15%. The addition of the private credit firm Constitution (target: 5%) in January 2023 is expected to further decrease volatility, while increasing expected returns.

- For the quarter, the Plan earned \$2.5 million or +3.9% (+3.8% net) – behind the strategic model (+4.3%), due in large part to the under-weight to Constitution private credit. The top two performing asset categories were: large cap growth (+14.4%) and international (+10.0%).
 - For the one-year period, the Plan experienced a market-based loss of \$4.8 million or -6.1% (-6.4% net). The top two performing asset categories were: cash (+2.2%) and international (-2.8%).
 - For the three-year period, the Plan earned \$16.3 million or +9.6% (+9.3% net) per year, similar to the strategic model return of +9.8%.
 - For the five-year period, the Plan earned \$16.4 million, averaging +5.7% (+5.3% net) per year – behind the strategic model (+6.2%).
- In January 2023, \$471,546.35 was raised from Fidelity US Bonds and wired to Constitution to fund the Ironsides Opportunities Fund II (direct lender), and \$2.5 million remains to be called.
- 4 PRELIMINARY Winter Park Firefighters Pension Plan
Total Fund Manager Commentary March 31, 2023

- Westwood's large-cap value product posted five- and ten-year results ahead of the benchmark.
- SSI's convertible bond product fell short of the benchmark for the quarter (+1.7% vs. +3.8%). The one-year return missed the benchmark (-13.5% vs. -10.1%). The product averaged +8.0% per year for the last five years but ranked in the top 46th percentile.
- American Funds Euro-Pacific continues to improve, beating the benchmark for the quarter (+10.0% vs. +8.6%). Five-year results were similar to the benchmark and ten-year results were ahead.
- ARA American Realty and Barings private real estate both manage low leveraged commercial real estate programs throughout the U.S. While long term results have benefited Plan performance, recent property write-downs have been a detractor, due to rising interest rates and macro factors.
- The TIPS allocation beat core bond performance for the past five years, averaging +3.0% vs. +0.9% per year. For the past three years, annualized relative performance was ahead +1.9% vs. -3.0%. 5 PRELIMS

Actuarial Report:

Shelly Jones, GRS

The October 1, 2022, Actuarial Valuation determines the minimum required contribution for fiscal year ending September 30, 2024. The minimum required contribution for fiscal year ending September 30, 2024, is \$2,246,210 –43.4% of covered annual payroll (non-DROP) projected for fiscal year ending September 30, 2024 based upon projected covered annual payroll (non-DROP) - \$5,176,591.

Member contributions will be 6.0% of covered payroll (non-DROP) for fiscal year ending September 30, 2024 - anticipated to be \$310,595. Anticipated allowable State contributions will be 8.0% of covered payroll (non-DROP) for fiscal year ending September 30, 2024 (\$413,438) leaving a City requirement of \$1,522,177 – 29.4% of covered payroll (non-DROP) for fiscal year ending September 30, 2024. If total State contributions are less than \$441,228, the City will be required to make up the shortfall.

There are 62 active members and 76 inactive members (including DROPS) as of October 1, 2022. The net smoothed value of assets as of October 1, 2022, is \$70,244,345. The net market value of assets as of October 1, 2022, is \$61,283,847. Smoothed value net investment return was 4.29% (less than the assumed rate of 7.50%) - market value net investment return was -16.08% for fiscal year ended September 30, 2022. Total System expenses (investment and administrative) were 49 basis points of the mean invested market value of assets during fiscal year ended September 30, 2022.

The System experienced an actuarial loss of \$3,500,455 during fiscal year ended September 30, 2022. Sources of the actuarial loss include investment return (smoothed value), salary and turnover experience. The actuarial assumptions relating to future investment return, salary increases, rates of retirement and turnover are based upon an Experience Study for the five-years ended September 30, 2017. The mortality assumptions are the same as the Florida Retirement System (FRS) as required under F.S., Chapter 2015-157 based upon the July 1, 2022 FRS Actuarial Valuation.

The October 1, 2022, Actuarial Valuation Report includes a discussion and metrics related to risks associated with measuring the actuarial accrued liability and actuarially determined contribution. Government Accounting Standards Board (GASB) Statements No. 67 and No. 68 actuarial information is included. GASB Statements No. 67 and No. 68 actuarial information must be trued-up as of September 30, 2023. Required valuation information will be uploaded to the State portal as required by the Department of Management Services.

A motion was made by Wayne Kalish and seconded by Tony Gray to approve the Actuarial Valuation report of dated 10-1-2022. All were in favor.

A motion was made by Wayne Kalish and seconded by Lt. John Bonnel to approve GRS to do a Experience Study of the Fund. All were in favor.

A motion was made by Lt Stuart Merrick and seconded by Wayne Kalish based on the advice of its investment professionals and/or actuary, determined that the total expected annual rate of investment return for the fund for the next year, the next several years, and the long-term thereafter, shall be 7.5% net of investment related expenses. All were in favor.

Fiduciary Trust Report:

Amed Avila, Managing Director

Mr. Avila updated the Board on the firm and team that works with the Winter Park Pension Funds. Introduced Mindy Johnson, one of the new Managing Directors of FTI.

Attorney, Report:

Pedro Herrera; Sugarman, Susskind, Braswell & Herrera

New State Law Restricts Environmental, Social and Governance Factors in Plan Investing and Includes Several New Requirements of Public Pension Plans During its 2023 legislative session the Florida Legislature passed a bill (which has been signed into law) making important changes to the duties of trustees of Florida local government pension plans. The following is intended as a summary of the new law and should any formal guidance from the Division of Retirement be issued, we will then update the terms provided herein accordingly.

A. Applicability of HB 3.

House Bill 3 (or “HB 3”) was passed by the Florida Legislature on April 19 and signed into law by the Governor on May 2, 2023.¹ All of its provisions are effective on July 1, 2023. The text of the new law can be viewed at: <https://laws.flrules.org/2023/28>. The provisions of HB 3 that are described in this report apply to Florida county, city and special district pension plans.² Many of the bill’s other provisions also apply to investment managers, bond issuers, financial institutions, state agencies and local governments (but this report focuses only on the impacts to public pension plans).

B. Prohibition on considering ESG factors.

HB 3 amends fiduciary standards for local pension plan trustees by requiring that investment decisions be based solely on “pecuniary factors.” Pecuniary factors are defined in a way intending to prohibit plan trustees’ consideration of environmental, social, and governance (“ESG”) factors. The bill defines a pecuniary factor as: [A] factor that the plan administrator, named fiduciary, board, or board of trustees prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the 1 Chapter 23-28, Laws of Florida 2 Sections 3-5 of HB 3. Special Report retirement system or plan. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

This means that, after July 1, 2023, it is not prudent to consider, “the furtherance of any social, political, or ideological interests” in investment decisions or deciding which service providers to retain. All plans should immediately review their investment policies to ensure they align with the requirements of HB 3. If necessary, adjustments or revisions should be made to comply with the new law while still meeting financial objectives. It is also essential for plans to maintain records of efforts to comply with HB 3 in the event of an investigation or enforcement action. This includes documenting any changes to investment strategies, policies and decision-making processes.

C. Limitations on the exercise of shareholder rights.

HB 3 also impacts the exercise of shareholder rights by local pension. After July 1, 2023, in exercising shareholder rights, including the voting of proxies, plans may only consider “pecuniary factors.”

D. New reporting requirements.

Local pension plans must report compliance with the law to the Department of Management Services (“DMS”) on a biennial basis (that is, every other year) beginning December 15, 2023. In these reports, the plan must describe governance policies and standards for the exercise of shareholder rights. The report does not need to address any individual member-directed investment accounts. DMS is provided with authority to adopt rules implementing reporting requirements. MS has (of course) not yet proposed any rule. We anticipate that a rule and reporting form will be adopted before the December 15th due date.

E. Disclaimer required in contracts with investment managers.

Finally, any contract between an investment manager and a governmental entity, including local pension plan plans, that is amended or renewed on or after July 1, 2023, must include new language mandated by HB 3. Investment managers must agree to include a disclaimer in communications to “company[ies] in which such manager invests public funds on behalf of” a pension plan “if such communication discusses social, political, or ideological interests. “The mandated disclaimer states “The views and opinions expressed in this communication are those of the sender and do not reflect the views and opinions of the people of the State of Florida.” “[I]f the investment manager does not include the disclaimer,” HB 3 also requires agreements between plans and investment managers to allow the contract to be “unilaterally terminated.”

F. Plan of Action.

1. In consultation with your financial consultant, review and revise Investment Policy Statement to track new statutory language by including the new fiduciary standard (i.e., consideration of solely “pecuniary factors”) and specifically excluding “non-pecuniary” factors (i.e., “furtherance of any consideration of any social, political, or ideological interests”).
2. Include as part of formal Board actions regarding investment decisions or allocations verbiage from the statute reflecting solely “pecuniary factors” as consideration for such action.
3. Memorialize Board action formally as part of the pension plan’s official records in the minutes reflecting the basis being solely the consideration of “pecuniary factors.”
4. In consultation with your financial consultant, modify investment manager presentations and reports to the Board by removing references and consideration of “non-pecuniary” factors not permitted by the new law.
5. In consultation with your financial consultant develop proxy voting policies with respect to the equity allocation of your portfolio in accordance with the new law.

Summary plan for WPFDR retirement fund will be updated for the August 2023 meeting.

Administrative Report:

Jeffrey Templeton, Pension Administrator

All Form 1 reports must be completed by July 1, 2023

New Business:

None

Old Business:

None

Adjournment:

Chairman, Lt. Stuart Merrick adjourned the meeting at 5:49

Respectfully Submitted

Lt. John Bonnel, Vice Chairman/Secretary

John Bonnel 8-3-23