



NEW PORT RICHEY POLICE PENSION SYSTEM



Minutes

Of a quarterly/Fiscal Year End meeting of the Board of
Trustees

Meeting at 5919 Main Street, City Hall,
New Port Richey, Florida 34652

Tuesday, the 24th day of November 2020, at 5:00 P.M.

The meeting was called to order by Mr. Pratt at 5:00 PM.

Trustees Present (All attending Live):

Mr. Glen Pratt
Sergeant Chris Trapnell
Sergeant Greg Williams
Mr. Bill Phillips

Trustee Absent:

Mr. Edward Beckman

Consultants Present (Attending Live):

Ms. Jennifer Gainfort, Andco Consulting
Mr. Scott Christiansen, Christensen & Dehner

Consultants attending virtually:

Ms. Jana Hamilton, Garcia Hamilton
Mr. Jeffrey Detwiler, Garcia Hamilton
Mr. Dana Stewardson, Logan Capital
Mr. John Riddle, Jackson Creek Advisors
Mr. Mark Jaeger, Jackson Creek Advisors
Mr. Peter Hapgood, Intercontinental Real Estate
Mr. Paul Nasser, Intercontinental Real Estate

Administrator (Attending Live):

Mr. T. Scott Baker

Other(s) Present (Virtually):

Ms. Crystal Feast, City Finance

ITEM #1 -- Approval of the minutes of the meeting on October 27, 2020

Motion: Mr. Phillips made a motion to approve the minutes of the meeting.
Sgt. Trapnell seconded the motion. The motion passed without opposition.

ITEM #2 -- Open Public Comment

There was no public comment.

ITEM #3 -- Logan Capital Quarterly Report – Dana Stewardson (virtually)

Mr. Stewardson said their return for the fiscal year was just under the Large Cap Growth index at 34%, and the index was at 37%. He said extending that out, including today, they are far exceeding the index. He said he was very happy with the performance with what was going on in 2020. He said they are limited to own no more than 6% of any one individual security. He said as everyone probably knows there are a good number of holdings in technology, and they own them all, are in excess of 6%. Because of this he said they have a process to cut back those positions and redeploy the money to new ideas. He said so far for the quarter they are up about 10% versus the index at 7%.

Mr. Stewardson said in terms of the markets for the year, it got off to a bit of a cautious start in the beginning. Then the virus came and shut down everything. He said the government did what they could with the PPP programs and every other program. He said the Federal Reserve held rates and did everything they could to keep things calm and moving along. He said it was a very painful time for a lot of main street businesses. He said their business is picking the best companies they can and got through that very, very well. With technology and stay at home companies, and coming out of that they have a qualia of positions in the building sector, including Home Depot, Sherwin Williams, and recently adding Restoration Hardware. He said these companies are benefiting from the big move in housing, and also has created jobs. Mr. Stewardson said the vaccine is finally here, the election is behind us, which certainly was one issue.

Mr. Phillips asked what the total of the cut back of the 6% holding limit of all of the securities they were cutting back in dollars amount. Mr. Stewardson said they do that on a constant basis as when the security gets to 6-6 ¼% they cut back and said the most recent was about a month ago with Apple.

ITEM #4 -- Jackson Creek Advisors Report – Mark Jaeger & John Riddle (virtually)

Mr. Jaeger said that Jackson Creek formed June 30th as a spin off from 361 Capital. He said John Riddle and him are employee owners of the company, Mr. Riddle as the CIO and Mr. Jaeger the CCO. Mr. Jaeger went to page 4 (Firm Highlights) of the quarterly report and said they are headquartered in Castle Rock, Colorado, which is a bedroom community of Denver. They have 5 employees, with \$360 million in assets under management. He said they do Equity Portfolios, Large, Mid, and Small Cap, and this portfolio which is a Large Cap Value factor tilt. He said they have been operating the firm successfully since the transition, bringing all of their clients over with them. He said they have been managing at home since the pandemic and everything has been going smoothly.

Mr. Riddle went to page 6 of their quarterly report and said they were unfortunately on the opposite side of the equation from Logan. He said Growth companies have significantly outperformed Value for some time now, pretty much at historic proportions. He said the market did decline during the third quarter. In referring to the difference of Growth vs Value he went to page 14 showing a graph of Russell 1000 Value vs Russell 1000 Growth. He said you can see we are at all-time lows in terms of how Value has performed to Growth. He said there have been very strong performance by very large tech companies.

He continued to page 17, which shows a graph of the top 5 stocks percentage of the Russell 1000 going back to the beginning of the series. He said as of August 31st Apple, Microsoft, Amazon, Google, and Facebook accounted for 24% of the Russell 1000.

Mr. Riddle skipped to page 19 and said it would be one thing to say those stocks are big and those stocks have done well, so what. He said, here's the so what: He said the graph shows how extensive the largest 200 stocks in the Russell 1000 compared to the smallest 200 stocks (in other words, the stocks that are weighted the most in the index). He said this compares the price (inaudible). He said again, starting in the 2014-2015 period (inaudible) we're seeing the largest 200 companies being the most expensive that they have ever measured. Mr. Riddle said they don't think that can persist. He said the current flow of money into index funds can persist. He said currently 52% of all U.S. money is managed in passive index funds, that don't care about pricing. He said this does create performance challenges for a strategy like theirs. Mr. Riddle went back to page 9 to discuss the positive and negative factors in performance.

He asked for any questions. Mr. Phillips asked if they see CVS coming back around due to testing and the vaccine, and how they are positioned against other pharmacies including Walgreens, Walmart, and Publix. He said they will have to be all hands on deck to distribute 200 million plus vaccines over the next 5-6 months. He said it will be quite a challenge and they believe Walgreens and CVS are positioned best distribute those things in a rapid manner. Mr. Jaeger said this is one of the stocks in their 55 stock portfolio, including their laboratory holdings that benefited significantly in the 2nd quarter. He said in the third quarter both saw declines, but believes they will see positive performance in the future.

ITEM #5 -- Garcia Hamilton & Associates Quarterly Report – Janna Hamilton & Jeffrey Detwiler (virtually)

Ms. Hamilton said they are a high quality fixed income and are running an intermediate portfolio, making it extra conservative. She started going over the quarterly report and on page 1 she said the performance is shown going back 10 years to 04/30/2010. She said for the quarter they were slightly behind the benchmark and had underperformed in the first quarter of 2019, but have done better since. She said they have exceeded the benchmark for the 5, 7, 10, & since inception periods.

Mr. Detwiler said they had been on the wrong side of the bed last year, and the early part of this year having more defensive durations to protect the portfolio against a rising rate environment. He said they were never in the camp that the trade wars with Mexico and China were going to send the economy into a recession. He said he felt the economy was going to continue to perform well and get past those trade wars fears, and we did.

He said in the beginning of the year, the economy was performing extremely well, unemployment was low, consumer confidence was high and then the virus hit. He said that sent interest rates to all-time lows across the yield curve. He said in the first quarter they rotated out of Treasuries and Floating Rate Securities and purchased high quality 10 year fixed rate corporate bonds that had really gotten hit hard and seen their spread widen to levels not seen since the great financial crisis. He said around March 31st (plus or minus 2 weeks) they saw about a year's worth of withdrawals from their firm. He said they started the year around 15 billion in AUM's, and had 300 clients make withdrawals totaling just over \$1 billion. He said since, they have received a lot of those deposits back,

as well as new accounts, and the company is very healthy and their AUM is just over \$16 billion.

Mr. Detwiler started covering the report on page 2 and said effort to develop a vaccine is a global effort and once we are on the other side of the virus they think the economy is really going to pick up steam. He said that will lead to higher interest rates and higher inflation. Continuing to page 3, Mr. Detwiler said there have been extraordinary stimulus on the fiscal side, multiple rounds of stimulus, roughly \$3 trillion, and expect another stimulus on top of that. This chart shows there are programs on top of programs, on top of programs, meaning that prior to the great depression we didn't have things like unemployment insurance or social security.

Mr. Detwiler continued to page 4 and discussed the Federal Reserve Balance Sheet. He then continued to page 5 which shows a graph of money supply growth going back to 1948. He continued to page 6 and said its interesting to compare the current environment, where they think money supply is going to cause interest rates and inflation to rise once we're on the other side of the crisis. Looking at previous crisis, on the left side of the chart shows the great depression. A deflationary environment, GDP fell 12.9%, inflation fell 10%. One year after, inflation picked up to 5.6%. During the Global Financial Crisis GDP declined 3.9%, inflation declined 1.4%, and one year later inflation increased by 1.1%.

Mr. Detwiler said because the Fed hasn't hit their 2% target and has missed that target for a period of time, now they're going to do average inflation target. Meaning not only are they going to shoot for 2%, but shoot for a number above 2% for a period of time to make up for those previous mis-steps. He said, oh by the way, even though we have had this decline in GDP of roughly 9%, notice that inflation is still positive, not in a deflationary environment. He said this tells us with a huge amount of money supply in the system a Fed committed to resigning inflation. He said the fact we haven't even gotten to deflation tells us one year after the virus we'll be at a much higher CPI in the future. He said this tells us they need to be defensive in and protect the portfolio from rising interest rates on that other side of the virus.

Mr. Detwiler discussed the graphs on pages 7 (Average Option Adjusted Spreads), 8 (Intermediate Financial Bonds Spreads Ratio), 9 (Risk Tools), and page 10 (Fixed Income Portfolio Characteristics). He said putting this all together they see going forward that the economy is still recovering and it is going to perform well, particular on the other side of the virus. He said a vaccine is going to accelerate all of these things, higher interest rates, a steeper yield curve (meaning longer term rates are going to rise more than shorter term rates), and Corporates will continue to perform well.

ITEM #6 -- Intercontinental Real Estate Investment Report – Peter Hapgood & Paul Nasser (By Phone/virtual)

Mr. Hapgood introduced Paul Nasser, CFO and COO, and asked him to give an update in the real estate world. Mr. Nasser said his father lives in Port Richey. He said the fund is invested in their open ended fund called U.S. Real Estate Investment Fund. It is a \$10 billion open ended private real estate fund. The strategy of the fund remains the same since it opened 12 years ago. It diversifies the investment into primarily 4 groups, Office, Retail, Industrial, and Multi-Family and to predominantly focus on Core Asset in each market throughout the U.S. He said today, the fund is made up of 132 separate properties which amount to over 28 million square feet, and over 13,000 multi-family assisted living

and hospitality units. He said they benchmark against the private real estate index called Odyssey.

Mr. Nasser went to page 12 of their quarterly report to cover the performance of the fund. He said the pension fund gave them \$1,890,000 called in two incidents, one in 2013 and the other in 2014. He said that money has grown to a net asset value of \$3,640,450. He said the fee continues to go down as the NAV goes up, saying they charge 1.1% on the original commitment and as the NAV has grown, the effective fee has gone down to what it is today, at .74%. He said all the info on page 12 is based on gross amounts, and the info on page 13 is net amounts. He said the return on the fund since inception is 9.36%, versus the index at 7.84%

Mr. Nasser said the return for the third quarter on a net basis was .71% and the index was .27%, saying returns have obviously come down to Earth, given with what's happening with Covid. He said things have settled down a little bit in real estate, saying obviously the first quarter of Covid, like all markets, there was a lot of disruption. But things have begun to settle down, and returns are on the lower side. He said they believe that once the vaccine is fully distributed, things will begin to bounce back.

Mr. Nasser said one of the reasons why the fund has been able to outperform the index is due to their holding of Retail, no malls and mostly grocery and shop by necessity retail. And it only represents 2.2% of the index, where Odyssey is at 14.8%. Another area where they have gotten some return is in Office. They are overweighted at 47% and the index is at 33.5%. Mr. Nasser discussed the Office exposure including locations and types. He said they are underweighted in Industrial and would like to increase their share, however do not want to overpay. He said their Multi-Family portfolio has held up quite well and said from a collections perspective they are collecting right around 96%, all through Covid. He said the Multi-Family having the most affect currently is urban brand new multi-family, saying many millennials have left the city and are either living back home with their parents or in suburban apartments. As people get vaccinated and come back to work that will be the preferred place for people to live, and he said they feel confident on Multi-Family.

Mr. Nasser said another statistic that real estate managers want you to know about is occupancy, and more importantly roll-over. He said occupancy for them, regardless of any economic cycle, including the period between 2007-2010, has always been above 90%, and on average has been 93%. Even during the pandemic the occupancy has been in the low 90's. He said more importantly than the occupancy is the roll-over. So every year a certain portion of the portfolio, those leases roll-over, and said if they had a lot more leases rolling over in the next two years, he said he'd be a lot more nervous. He said in 2021 only 6% of their leases are rolling over. He said their outlook will be cautious and one area that might open up is land purchase. He asked for any questions.

Mr. Phillips said he had 2 questions: He asked how much sub-leasing and reduction of space are they seeing in the portfolio as many companies have figured out they can do with less office space, because they have sent their workers home; and question 2 is: On the Multi-Family side there are a number of states that had forced executive orders where you can't default anyone or kick them out, and if we're on the front end of seeing that wave of those people finally being given default notices because they haven't paid rent in time, and would that have any adverse effect in the portfolio for their properties.

Mr. Nasser said in response to the first question, this goes back to the roll-over. He said they only have 6% of their properties rolling, and tenants like to be in front of those maturities to figure out what they're going to do. He said activity in the fund, despite Covid, has been quite brisk. He said they have signed over 700,000 square feet of new leases this year alone and of the 6% that are rolling next year they are already having active conversations with tenants. Mr. Nasser said the only thing he anticipates are tenants looking for shorter lease periods, rather than the current 5, 7, & 10 year terms currently being used.

Mr. Nasser said to answer Mr. Phillips' second question about Multi-Family, he said they have been lucky because most of the portfolio is what he would describe as work force (inaudible). He said most of the tenants in the work force (inaudible) profile are essential workers. So they were able to go to work and pay rent even through Covid.

Sgt. Trapnell said he wanted to say the 96% current capture is really good in the environment that we have right now. He said his question is on the lease roll-over, expecting the 6% this coming year, he asked what the percentage of roll-overs would be for 2022. Mr. Nasser said 2022 would be 8.8%.

ITEM #7 -- Performance Monitor Report, Fiscal Year End – Jennifer Gainfort

Ms. Gainfort started covering the performance report on pages 13 and 14, showing the asset allocation at the end of the quarter, page 13 broken down by the investment managers and 14 broken down by asset classes. This compares each to the target ranges for each. She said Market Value at the end of the quarter was \$31,163,418, with 61% currently in domestic equities (34 ½% in Growth, 27.3% in Value). She said as of today Growth has grown to 35.2% so she said they should look at rebalancing. She said the fund is underweighted in fixed income, at 26% (24.7% as of today) and real estate is at about 11%. Ms. Gainfort said they should look to rebalance fixed income using some of the Growth piece. She said she would recommend taking 3% from Growth (Logan) and move it into the fixed income (Garcia Hamilton) side to get back into compliance. Mr. Christiansen asked if it was 3% of the Growth portfolio or 3% of the total portfolio and Ms. Gainfort said from the total portfolio. She said this would bring Growth down to about 32% and Fixed Income would be brought up to 28%. She said this would have to be done by motion, so she said they would circle back to it.

Ms. Gainfort continued to page 17 showing the Financial Reconciliation. She said the quarter started at \$29,779,821, with \$369,847 in contributions, \$504,673 in distributions, \$38,542 in management fees, \$21,963 in other expenses, \$117,607 in income, \$1,461,320 in capital gain, resulting in a total of the fund at the end of the quarter at \$31,163,418. She said therefore the return in dollar amount was \$1,578,927. She went over the numbers for the fiscal year, on page 18, which shows a return in dollar amount of just over \$2.7 million for the year.

Continuing to page 19, Ms. Gainfort covered the Asset Allocation & Performance saying the total fund was up 5.3% for the quarter, a little behind the index at 5.9% and in the 49th percentile. She said for the fiscal year the plan was up 9.39% and ranking in the 39th percentile. She covered the individual managers and said Jackson Creek was the weak spot for the quarter and the year. Their return was 1.3% for the quarter, and down 11.66% for the year, trailing by about 6.33% and ranking low in the 93rd percentile. She said the longer term are also lagging, 88th and 97th percentiles for the 3 and 5 year periods. She

said Logan had a good year with a return of 33.7% for the year, however they did lag behind the index, at 37.53%. Ms. Gainfort said Garcia Hamilton was up 5.42% for the fiscal year versus the index at 6.32%, and Intercontinental was up 4.42% versus the index at 2%.

Ms. Gainfort said overall it was a strong year, nicely ahead of the assumed rate. She said it was a very volatile year and after the first quarter she was questioning whether the fund would even get close to 7%, but things came back. She said on the next page shows the return of 8.82% net of fees.

Ms. Gainfort said they could discuss the rebalance.

Motion: Sgt. Trapnell made a motion to rebalance the portfolio. Mr. Christiansen clarified that the rebalance would be taking an amount equal to 3% of the total portfolio from Logan Capital, and give that to Garcia Hamilton. Sgt. Trapnell said that was his understanding. Sgt. Williams seconded the motion. The motion was passed without opposition.

ITEM #8 -- Discussion of Large Cap Value Analysis presentation – Tabled from 2 previous meetings

Ms. Gainfort said there was a one page update from the previous report that had been presented. Mr. Pratt asked if Ms. Gainfort could give a brief recap. She said that there were 4 Value Managers she had presented and basically had narrowed that down to 2 managers that she thought had stood out the most and the best fit for the plan. The two, Brandywine Dynamic Large Cap Value and Vanguard Equity Income and said they were both great alternatives. She said the fees were 18 basis points for Vanguard versus 45 for Brandywine. Vanguard would be a mutual fund versus Brandywine which is a separate account as this was a question whether mutual funds were appropriate. She said mutual funds have become more common and a lot of plans are utilizing them.

Ms. Gainfort said from a performance standpoint both were the top two, with Brandywine having a stronger past year and over the 3 year, but Vanguard is the top performer in the 5 and 7 year periods, with Brandywine having the top performance over 10 years. She said Vanguard would be more conservative with less risk. Mr. Christiansen asked if Vanguard was an index fund or active fund and Ms. Gainfort said it was active. Ms. Gainfort discussed the risk versus reward on page 19 of the original report. The Board discussed the two firms.

Motion: Mr. Phillips made a motion to hire Vanguard and terminate Jackson Creek, moving all proceeds to the Vanguard fund. Sgt. Trapnell seconded the motion. The motion was passed without opposition.

Ms. Gainfort said she would draft the letter for the transfer and termination and send it to Mr. Baker for signatures. Mr. Christiansen said he didn't have to do a contract for the mutual fund. The Board thanked Mr. Jaeger and Mr. Riddle and they in turn thanked the Board. Mr. Christiansen advised Mr. Pratt that all investment personnel could leave the meeting.

ITEM #9 -- Approval of Fiscal 2020 Expense Report

Mr. Christiansen said the legislature passed a law that basically requires the Board to do a budget for the upcoming year, which was done at the last meeting. He said now the Board

has to do a report of the actual expenses during the last fiscal year. He said Mr. Baker has put that report together and there probably doesn't need a lot of discussion. Mr. Baker said that all the numbers are the same that were on the Budget document, so nothing has changed from those numbers. Mr. Christiansen asked if anything was over budget and looking at the report he said it appeared nothing was. He said a motion to approve the report was required.

Motion: Sgt. Williams made a motion to approve the expense report. Mr. Phillips seconded the motion. The motion was passed without opposition.

ITEM #10 -- Discussion of Possible Presentation to City Council of status of the Pension Fund – Trustee Bill Phillips

Mr. Phillips said he would be happy to make a presentation to the City Council in January as his parting gift to the Board. He said he thinks its in the best interest of the Board to let the Council know so they have a comfort level, because their budget season was a little hectic and they're going through a big bond refinance. He said it's a good story to tell, as a year and a half ago that last quarter everybody was looking for cover because we didn't know what the effects were going to be. And this would be a good way to let them know how things transpired, where the returns are, where they rank, and the Board took positive action when they looked at their investment managers, and made a conscious decision to balance that out. He said it would also give them piece of mind going into their second quarter about the performance of the Board and where their dollars are today against benefits that are agreed upon. Mr. Phillips said they may be coming up on a contract negotiation in the near future. Sgt. Trapnell said this would be October 2021.

Mr. Christiansen said each year the Board has a legislative requirement that the Council is provided with a listing of all the assets owned with a form letter, typically using Andco's performance report. He said this could go to the Council prior to the presentation so they would have it to look at prior to Mr. Phillips' presentation.

ITEM #11 -- Legal Report – Scott Christiansen

Mr. Christiansen said he shows Sgt. Williams' term ending 12/31/2020, which was the remaining term of Officer Wade. Mr. Baker said he would get the notice posted. Mr. Christiansen said during the first meeting of 2021 the agenda needs to include the selection of Officers of the Board (Chairman, Vice-Chairman, Secretary/Treasurer) as this needs to be done every two years.

Mr. Christiansen said the Summary Plan Description needs to be updated every two years and distributed to all members. He said it was last done in 2019, so a motion would need to be made for him to update it.

Motion: Mr. Phillips made a motion for Mr. Christiansen to update the Summary Plan Description. Sgt. Trapnell seconded the motion. The motion was passed without opposition.

Mr. Phillips said he had submitted his resignation from the Board, effective January 31, 2021. He said he was moving out of the city and had submitted the letter to the city early, hoping they could act on replacing the position. He said he has enjoyed serving and appreciate the opportunity to give back to the city again. He said its a great story to tell

and a great group to participate in, especially with the performance that the fund has had over the last couple of years. The Board thanked Mr. Phillips for his service.

Mr. Christiansen said Mr. Phillips' term is up in February 2023, so he said whoever gets appointed would need to fill out the remainder of that term. He asked if Mr. Beckman was definitely off the Board. Mr. Baker said that Mr. Beckman was in the transition of moving out of the city and due to the city having not replaced him, he is still on the Board. Mr. Christiansen said that once he moves out of the city he can no longer serve and the city needs to replace him.

ITEM #12 -- Approval of expenditures

Mr. Baker said there were 2 expenditures needing to be approved for payment: \$6,500.00 to Saltmarsh, Cleaveland & Gund for Progress billing towards the Audit of Financial Statements for period ended 09/30/2020, and \$620.00 to FPPTA for 2021 Membership Dues.

Motion: Mr. Phillips made a motion to approve the expenditures. Sgt. Williams seconded the motion. The motion was passed without opposition.

ITEM #13 -- Any other business

There was no other business.

Motion: Sgt. Williams made a motion to adjourn. Mr. Phillips seconded the motion. The motion passed without opposition. The meeting was adjourned at 6:47 PM.