CORAL GABLES RETIREMENT SYSTEM
Minutes of April 20, 2023
Public Safety Building
Community Meeting Room A
2151 Salzedo Street
8:00 a.m.

MEMBERS:	A 22	M 22	J 22	A 22	S 22	O 22	N 22	J 23	F 23	M 23	A 23	APPOINTED BY:
Andy Gomez	P	P	P	P	P	E	P	P	P	E	P	Mayor Vince Lago
Alex Mantecon	P	P	E	E	P	P	P	P	P	P	E	Commissioner Jorge L. Fors, Jr.
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Michael Mena
Michael Gold	P	P	P	E	P	P	P	P	P	P	E	Commissioner Kirk Menendez
Beatriz Vazquez	-	P	P	P	P	P	E	E	E	E	P	Commissioner Rhonda Anderson
Joshua Nunez	P	P	P	P	P	P	P	E	P	P	P	Police Representative
Christopher Challenger	P	P	P	P	P	P	P	P	E	P	P	Member at Large
Sureya Serret	-	-	-	-	-	-	-	-	-	-	P	General Employees
Troy Easley	P	P	P	E	P	P	E	P	P	P	P	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	P	P	Finance Director
Raquel Elejabarrieta	P	P	P	E	P	P	P	P	P	P	P	Labor Relations and Risk Management
Rene Alvarez	E	E	P	P	E	P	P	E	P	E	P	City Manager Appointee
Andy Mayobre	P	E	E	P	P	P	P	P	P	P	P	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Manuel Garcia-Linares, Board Attorney
Pete Strong, Gabriel Roeder Smith
Edemir Estrada, Gabriel Roeder Smith
Peter Tramont, Gabriel Roeder Smith

P = Present
E = Excused
A = Absent

GUESTS:

1. Roll call.

Vice-Chairperson Gueits calls the meeting to order at 8:11 a.m. Chairperson Mantecon and Mr. Gold were excused. Mr. Challenger was not present at the start of the meeting. Vice-Chairperson Gueits welcomes newly elected General Employee Board Representative, Sureya Serret.

2. Consent Agenda.

All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections *to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.*

2A. The Administrative Manager recommends approval of the Retirement Board meeting minutes for February 9, 2023.

2B. The Administrative Manager recommends approval of the Retirement Board meeting minutes for March 9, 2023.

2C. The Administrative Manager recommends approval of the following invoices:

1. Verdeja DeArmas Trujillo Alvarez invoice 37072 for final installment of audit finance statements at September 30, 2022 in the amount of $3,025.00.
2. Gabriel Roeder Smith invoice 476856 for actuarial services for the month of February 2023 in the amount of $7,416.00.
3. AndCo Consulting invoice 44322 for investment consulting fees, including catch-up fees for Q4-2022 and Q1-2023, in the amount of $82,125.00.

A motion to approve the Consent Agenda was made by Mr. Nunez and seconded by Mr. Alvarez. Motion unanimously approved (10-0).

3. Comments from Retirement Board Chairperson.

Vice Chairperson Gueits had no comments.

4. Items from the Board Attorney.

Mr. Garcia-Linares informs that he has no items to discuss. He has looked at the GRS agreements and they are fine.

5. Presentation of Nhora Otalora and Nick Bellisario of HarbourVest Partners, LLC, secondary market opportunity (ETA 8:30am). ***Postponed to May 11, 2023 Board meeting.***

6. Presentation of Lawrence Fang of Willowridge Partners, Inc., secondary market opportunity (ETA 9:00am). ***Postponed to May 11, 2023 Board meeting.***

7. Presentation of the 10/1/2022 draft Actuarial Valuation report by Gabriel Roeder Smith.

Pete Strong reports on the October 1, 2022 Actuarial Valuation report. The required City Contribution for FY 2024, payable in full on October 1, 2023, is $21,092,133. It is a decrease of approximately $1.3 million from last year’s contribution. The biggest reason for that decrease is the City paid off a large amortization basis. The actuarial value of assets reflecting smoothing is up from last year at $460.72 million. They had a positive return on the actual value of assets because of smoothing in prior years gain. They had approximately a 22% return during the 2021 year which is being smoothed in. Even though they had a negative 15.5% market return last year, they still had a positive 6.3% return this year on the actual value. The market value and actuarial value kind of switched places. Last year the market value was $56 million higher than the actuarial value and now the market value is $51 million below the actuarial value. The actual value stays constant while the market value jumps around. They had a market value of $409 million down from $506 million, which is a big drop. the actual real value of 10 million. The return on the actual value was 6.3% while the rate of return on market value was a negative 15.5%. The total liability of the plan was $616.68 million. The plan is very mature. They have a lot of retirees. There are roughly 1.8 retirees for every active employee. There are a lot more retirees in the plan than active members. Mr. West asks if they have an estimate of DROP assets. It is an important number since they are trying to maintain liquidity in the fund. Mr. Strong responds that the DROP assets came down last year. There were a lot of DROP distributions. This fund is different than some of their other plans because the DROP is paid out when someone leaves. There are some plans where people can leave the money in the DROP after they leave and draw it over time. With this plan, they are required to take distribution. That is going to keep the DROP relatively low compared to the total assets. As of 10/1/2022, the DROP was a little less than 5% of the total fund.

Mr. Strong continues. The change in the investment return assumption increased the actuarial liability by about $2.8 million. The actuarial liability would have been relatively constant year to year had they not made the assumption change. The funded ratio is 74.7% and that is based on the actuarial value, up from 73.4%. The main reason it grew, even though they had an experience loss, was due to the extra payments from the City. They funded ratio would have been 75.1% without the assumption return change. They saw a big shift on the market value. They were 82.3% funded last year but because of the loss in the market they are down 66.4%. That is much better than when they started as actuaries. When they started the plan was at 52%. Even with a bad year last year, the plan is way above where it was 10 years ago. The unfunded liability as of 10/1/2022 was $155.96 million versus $153 million last year. The main reason it is coming down is because of the extra payments from the City. The actuarial experience loss was $5.75 million and $4.3 million of that was due to investments. They had some mortality, salary increases and retirement experience losses and termination and disability experience were sources of minor offsetting experience gains. The experience lost increased the contribution by about $0.51 million. About 20% of new General employees choose the 401a plan and that is down from prior years. The long-term average has been about one-third of people going into the 401a plan and this year it was 20%.

Mr. Challenger arrived at the meeting at this time.

Mr. Strong reviews the scheduled amortization payments for the plan. The scheduled amortization payments will bring the unfunded liability down to zero over the next 16 years. He came up with a separate calcualtion that showed with the extra City contribution payments, the unfunded liability would be down to zero over the next 11 years. Last year was one of the worst this plan has seen at $78 million. By itself it looks like a big loss but comparing it to the assumed return, they were expecting $36 million. That is a deviation from the expected of $115 million. That is their loss. The actual return versus what was expected to earn on the market value. They will recognize approximately negative $23 million this year and it will be recognized for the next 4 years. They had good experience last year of a 22.4% return and they are phasing in $12.7 million from that and they had some gains from other years too. Overall, the total phase ins are $8.3 million for this year. He points out that the loss on the actuarial value they reported is $4.3 million but they are phasing in $8.3 million in experience. The reason for that difference is because the expected return of $36.56 million is based on the beginning year of market value which was over $50 million higher than the beginning year of the actuarial value. The expected return on the extra $50 million builds in an extra $4 million dollars into the roll forward of the actuarial value of assets. Even though they are recognizing $8.3 million, they actually get a loss of $4.3 million on the actuarial value of assets roll forward. Next year they are going to have a drag because the market value is below the actuarial value.

The three worst years in the last 25 years were this year's negative 15.5% return, the 2008 return of negative 15.7% and in 2002 negative 14.7% return. In 2022, the return was worse in magnitude because there are more assets than in 2002 and 2008. Looking at the total returns for the last 5 years, they are averaging 5.7%. Over the last 10 years the average is 7.6% and over the last 25.75 years the average is 6.3%. The negative 15.5% return really hurt. He believes that the return outlook going forward is better. Fixed income rates are higher now and forward-looking P/E ratios are higher because of the downturn in equities. The forward-looking capital market assumptions have taken a turn. Two years ago, they were telling everybody they needed to be targeting 6.25% to 6.5% to account for market forecast. Now capital market forecasts have gone up closer to 7% because of the turnaround in equity valuations and the turnaround in fixed income rates. Fixed income used to be forecasted at 3% a year and now it is forecasted at 4.75%. He expects the future 20 years will be better than 6.3%.

Ms. Vazquez asks how does the negative $22 million change the number of years remaining. Mr. Strong replies that if they get a double-digit market value next year, they will have a gain which would offset. Ms. Vazquez understands. At what point does the City say they may need to make more payments? Does that ever happen? Ms. Gomez informs that the City has already started doing that, they have been making extra contributions in addition to the required contribution. to pay more than what is required. Ms. Vaquez asks if the extra payments are not made then 34 years in payments become 40 years in payments. Ms. Gomez responds that will not be more than 20 years because they have a 20-year amortization. If the required contribution goes up and perhaps the City cannot afford additional then the extra payment the City makes will go down. Mr. Strong points to the breakdown of the City's required contribution. The annual payment to amortize the unfunded liability is $17 million which is basically a mortgage payment on the unfunded liability. The total normal cost is the is based on the benefits earned each year by active members and that is $8.64 million. You get a total contribution requirement from all sources of $25.9 million but they have not taken off member contributions or State contributions. There is a small State contribution that comes from the Police and Fire plan and then take off the member contributions which is almost $5 million when you add in the member cost sharing. Then you get to the net City contribution of $21.09 million. The $17 million is part of the required basis City Contribution that is paying off the $156 million unfunded liability.

Ms. Vazquez asks how this plan's funding status compares to other plans. Mr. Strong responds that the average funding ratio is in the eighties. Mr. Easley points out that they have taken a lot of measures. The amortization has gone from 30 to 25 years for existing liabilities and down to 20 years for new liabilities. They have also lowered the investment assumption rate. That has made the numbers healthier. They are getting all their assumptions in shape. Ms. Gomez states that the City never underfunded the pension. They always made the required contribution. Mr. Strong explains that one of the problems with the assumed rate of return was that prior to 2003 the assumed rate of return was 9%. When you assume 9% a year and you are only getting 7% on average and then have two big recessions, it digs you into a deeper hole. There were also a lot of unfunded cost of living increases added. Every time the plan hit over 10%, a cost-of-living increase was granted and that was not pre-funded so it just immediately added to the unfunded liability which was paid down over 30 years. Ms. Gomez informs that it is a priority of the City to get the unfunded liability paid off. The City committed through a Resolution to continue to pay the extra payments. She does not see that changing anytime soon.

Mr. West thinks the situational awareness to this program that was brought to the table and the actuarial strategy that has been worked out with very specific strategies which have been very effective in turning the plan around for the better. He congratulates Mr. Strong. Dr. Gomez agrees and adds that Mr. Strong is the only actuary he understands. Vice Chairperson Gueits asks about the COLA. Mr. Strong explains that a COLA is granted if the rate of return on the market value of assets during a fiscal year exceeds 10%. The City Commission can prevent a future COLA from being granted by a 4/5 supermajority vote. The City Commission has prevented a COLA from being granted by a supermajority vote in all four years since Ordinance 2018-11 was adopted. There were COLAs triggered in 2018, 2019, 2021 and 2022. Because the Commission did not approve any of those COLAs that were triggered, they now are assuming zero future COLAs are granted. If a COLA is granted, there will be an immediate increase in the unfunded liability. If they are going to regularly have COLAs in this plan, you should have some assumption for funding them. Because there have been no COLAs for the last ten years, that is why they are assuming zero for now. When they get back to a place where the plan is in better shape and a COLA can be granted, at that point they should put in some type of assumption.

Mr. Strong continues. They have 25 to 30 years worth of amortization and the City has been paying off basis with the extra payment $7.6 million dollars. All of the basis will fall off as they are paid off. This is a fully mature system and some of the basis have as little as 3 years left and will come off over time. Eventually, this process will work itself out. They will pay off the unfunded liability, especially with the extra payments. It might take 10 to 11 years but it will happen. He mentioned the capital market forecasts have come back up and he thinks they need to get to a 7.0% or 6.75% rate of return assumption. They are at 7.2% now. The more conservative the plan is, the better off it will be in the long term.

A motion to approve the 10/1/2022 Actuarial Valuation was made by Mr. Nunez and seconded by Ms. Gomez. Motion unanimously approved (11-0).

8. Update on Third Party Administration Transition.

Edemir Estrada, GRS Pension Administrator, informs that as of April 1st they opened the call center. They have a team of specialists answering phone calls from retirees and participants. A letter went out notifying every member regarding the transition. Mr. Strong asks how many calls have come in so far. Ms. Estrada responds that they received 10 to 15 calls after the letter was sent out to the members. Mr. Strong asks how the transition is going. Ms. Estrada replies that the transition has been fine. They have been working with Ms. Groome and they are going to schedule in-office visits. They have had no issues. Dr. Gomez suggests that they consider asking the retirees for suggestions as to their needs in terms of moving forward. They may not implement those suggestions but he thinks it will help in the communication during the transition process. Ms. Estrada states that they did receive a comment from retiree Martin Barros informing in the past Public Comments were at the beginning of the agenda but now when there is a presentation everything goes to the end and the members who want to make a public comment have to wait to the end of the meeting. Ms. Groome states that Public Comments used to be first on the agenda and the Board members requested that Public Comments be at the end of the meeting. Ms. Estrada reports that there are 228 active members registered on the portal and 467 inactive members registered on the portal. She invites all members to register on the portal. They will need a registration number and if they do not have a registration number they can contact GRS.

Mr. Strong reviews the revised contract agreement. The original contract had two options. One was the hybrid option which was $48,000 per year and the other option was full plan administration which was quoted at $144,000 per year. Those fees were for a three-year period. At the last meeting, it was requested that they prepare a new contract effective July 1, 2023. They started implementing the full transition to full administration on April 1, 2023. They are in the process of that now. One of the things that would have happened by default was the contract had a provision for flat fees for three years with a CPI adjustment effective July 1, 2023. They cannot help that inflation hit hard over the last two and a half years. The change in CPI from July 2020 to February 2023 was over 16%. The inflation adjustment was going to be effective in July. They are willing to waive that and get a new contract for a three-year period. The 16% CPI adjustment takes the $144,000.00 up to $157,000.00. They received the additional list of services in January 2023 and they have stripped that down to four or five services they believe are the most time consuming. The most time intensive is the health insurance open enrollment for Police, Fire and General retirees. Then there are the monthly payroll changes that happen throughout the year. None of their other clients put that on the back of pension administration. It is usually through their Human Resources Department or some other entity. It is a labor-intensive process. They believe that all these things would add up to $30,000.00 in time charges and they are willing to negotiate that in the interest of maintaining a good relationship to $12,000.00. They added the $12,000.00 for additional services and they also have a third-party bookkeeper who has been working with this Plan for about a year. At first, the bookkeeper believed she could do the work for $1,000.00 a month but after she saw the volume of work and the complexity involved she increased her fee to $1,250.00 a month. The sum of those three for the next three years for a new contract will be $194,000.00 a year. If they do that with the CPI adjustment with a cap of 4% per year, it will be $194,000.00 a year with a 4% CPI adjustment each year or, they can do a flat fee for the next three years at $199,800.00. The flat fee embeds a small, assumed inflation adjustment over the next three years but it keeps the fee flat for a three-year period. Vice Chairperson Gueits confirms that these new numbers reflect the negotiations discussed at the last Board meeting. Mr. Strong answers affirmatively.

A motion to approve the three-year fixed fee agreement was made by Ms. Gomez and seconded by Mr. Easley. Motion unanimously approved (11-0).

9. Investment Issues

Mr. West reports on the investments. They had originally scheduled two Private Equity manager interviews today as they look to build out the Private Equity dedicated allocation in the portfolio. He wanted to make sure that they had full Board member attendance for the presentations and that is why they postponed the interviews. He does need Board direction today. They have one additional item on the table from the April meeting. They are going to invite Northern Trust to come in and have their Securities Lending team update the Board on that program. This will make for a heavy investment agenda if they reschedule the Private Equity interviews for the May meeting. He would like the Board’s direction in scheduling those three items. Ms. Groome informs that Northern Trust is scheduled for the May meeting and there are no more reports the Board will need to approve. The meeting will just be for investment issues. Mr. Garcia-Linares points out that he will not be in attendance for the May 11th meeting. He has already looked at the manager agreements. Mr. West states that he will reschedule the manager presentations for the May meeting.

They just went through the Actuarial Valuation and he thought it might be helpful to remind them of some of the underlying investment issues they have going and are moving toward. Coming into 2022, their main theme was to maintain liquidity. They took advantage of the higher short-term money market yields by raising and holding more cash than normal. The other underlying theme was to generally dampen volatility in any way they could. They wanted to start moving towards building out a little more private investment. That was one of the underlying motivations behind adding the private equity program. The previous moves made going into 2022 were the decreased the interest rate portfolio. They also effectively increased the quality of their bond portfolio moving more of the money to Garcia Hamilton. They added Treasury Inflation Protection Securities (TIPS) to complement the intermediate strategy. They went style neutral in the equity portfolio. They took the overweight in value equity off the table and went style neutral. During the March quarter, growth stock outperformed value stock. Prior to 2022, they went through a massive reconstruction of the real estate portfolio strategy. The objective was to move away from the mega market mainstay gateway real estate allocation they have with the two JP Morgan funds and migrate money on the margin for regional focus to capture the southern migration from northern states. They brought in TerraCap and their contribution to date has been a positive 10% IRR. The other manager they brought in was very different and they have not had any capital calls from them yet. That was the manager that has US government agencies as their tenant. They put a partial withdrawal request from the JP Morgan fund. Some of it they got back and some is still in the queue. They terminated Black Rock for lack of meaningful contribution to the program. They retained Serenitas II fund which is a fixed-income hedge fund and returns for that fund have been good. They completed an investment policy revision that would reflect this modified investment team and the objectives that they are trying to accomplish. Their objective is to finish building out the private equity program.

Mr. West reviews the March monthly investments. Fiscal year to date ending March 2023 was up 11.12%. The total equity portfolio fiscal year to date was at 19.39% versus 17.3%. Fixed income continues to outperform and was at 4.96% versus 4.61%. Real estate is one area of concern and that is primarily driven by the JP Morgan Real Estate investment. The alternative asset pools are trailing a bit and that is largely due to the PIMCO fund lagging in their benchmark. The biggest contributor year to date has been international equity. RBC was at 27.57% and WCM was at 25.38% The best performing domestic equity manager was Eagle Capital at 21.23%. The growth managers are seeing a turn in performance. That was an area that was really struggling previously along with the entire rest of the growth manager industry. They are seeing a nice turn in performance. They rebalanced and doubled down in their allocation to the Allspring growth team and that is where the value money went into growth. TerraCap called most of the capital and the inception IRR for that is 10.5%. They will be having a firm wide participation conference call with JP Morgan. The JP Morgan strategy continues to struggle and they officially put the manager on watch. Their principal concern is the strategic value fund. There is a lot of floating rate debt in there compared to other similarly structured funds. It is creating a headwind and they turned the keys of the property over to a lender because a large tech company vacated the building. That property was turned over from the fund. The manager continues to struggle with some headwinds. They are in a major gateway, major metropolitan marquee mega buildings. These are the areas that are currently under pressure. They still regard JP Morgan as a very high-quality manager and would maintain a core position.

Mr. Easley asks for Mr. West to share some of the highlights of their firm's conference call with JP Morgan. Mr. West answers that he will.

10. Old Business.

There was no old business.

11. New Business.

Ms. Groome informs that a letter was received from the State of Florida regarding the Annual Report. The State is missing an impact statement and ordinance for Cancer Presumption law for Fire and Police. The State informed that the explanation the auditors gave to the State regarding presumption for Fire and Police was not good enough and that they needed an impact statement and ordinance due to the potential cost to the plan. Ms. Elejabarrieta does not think they need an ordinance because it is a deemed to comply with plan. Ms. Groome does not know if they are going to approve the report without the information they have requested. Mr. Strong informs that he can prepare a no-impact statement. It is a formality ordinance that specifies the State Statutes in the ordinance. They want language that states if a Police or Firefighter gets one of these types of cancers it is presumed to be in the line of duty. Ms. Elejabarrieta states that they do not have to do an Emergency Ordinance because they are already complying with the Statute. They will send Mr. Strong a copy of the draft and have it for first reading at the beginning of May and second reading for the end of May. Mr. Garcia-Linares suggests the auditor prepare a letter informing the City will comply.

Dr. Gomez announces that this will be his last meeting. After much thought, he has decided to step down. As he is getting older, he has to prioritize things. It has been a privilege and an honor to work with the Board members. Now that his wife has retired and all the traveling she wants to do and in addition he has been asked to coach his grandsons' soccer. He has always been the appointee of the Mayor but at the same time he has always felt that his responsibility was to the employees, the retirees and the citizens of Coral Gables. Sometimes that put him in very interesting positions with each of the Mayors that appointed him to the Board. He highly recommends it for their consideration to continue what he thinks they started with to meeting with the Mayor and the Commissioners bi-annually. He thinks there is always a time that you have to look and say, "Thank You" and then move on. Vice Chairperson Gueits states that there are a few other Board members whose term will be ending also.

Vice Chairperson Gueits welcomes new Board member Sureya Serret.

12. Public Comment.

Harry Pickering, retired Police Lieutenant in 2006, asks about the assumption rate. During his presentation, Mr. Strong recommended that it be reduced to 6.75%. Can they do that? Mr. Strong informs that this recommendation was to start by targeting 7% and then once they get to 7% they will reevaluate. Mr. Pickering states that it is very important that the documents that are posted on the pension portal get posted promptly. He knows that Ms. Groome sends the agenda and minutes over for posting but beginning in July, GRS will be creating the minutes and they will be posting them directly to the portal. Ms. Estrada answers affirmatively. In being a retiree, what he is worried about is getting access to these documents after July. It is important for the rest of the retirees. Ms. Estrada informs that they will keep the portal updated. Mr. Pickering thanks Dr. Gomez for all his dedication and hard work in serving on the Board. He had great communication with the retirees. He appreciates him and thinks he is a true champion for the retirees.

Vice Chairperson Gueits thanks Dr. Gomez for his very significant and important contribution to this Board. It is a real loss but they have to move on. He wishes Dr. Gomez luck.

13. Adjournment.

The meeting was adjourned at 9:45 a.m.

APPROVED

ALEX MANTECON
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER