

CORAL GABLES RETIREMENT SYSTEM
 Minutes of August 11, 2022
 Community Meeting Room - A
 Public Safety Building – 2151 Salzedo Street
 8:00 a.m.

MEMBERS:	A	S	O	N	J	F	M	A	M	J	A	APPOINTED BY:
	21	21	21	21	22	22	22	22	22	22	22	
Andy Gomez	P	P	P	P	E	P	E	P	P	P	P	Mayor Vince Lago
Alex Mantecon	E	P	P	P	P	E	P	P	P	E	E	Commissioner Jorge L. Fors, Jr.
James Gueits	P	P	P	P	P	P	E	P	P	P	P	Commissioner Michael Mena
Michael Gold	P	P	P	P	P	P	P	P	P	E	P	Commissioner Kirk Menendez
Beatriz Vazquez	-	-	-	-	-	-	-	-	P	P	P	Commissioner Rhonda Anderson
Joshua Nunez	P	P	A	P	P	P	E	P	P	P	P	Police Representative
Christopher Challenger	E	P	P	P	P	P	P	P	P	P	P	Member at Large
Marangely Vazquez	E	P	P	P	E	A	P	P	P	E	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	E	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	P	P	Finance Director
Raquel Elejabarrieta	P	P	P	P	P	P	P	P	P	E	P	Labor Relations and Risk Management
Rene Alvarez	P	P	E	P	E	P	P	E	E	P	P	City Manager Appointee
Andy Mayobre	E	P	P	P	E	P	P	P	E	E	P	City Manager Appointee

STAFF:

Kimberly Groome, Administrative Manager	P = Present
Manuel Garcia-Linares, Day Pitney LLC	E = Excused
Dave West, AndCo Consulting	A = Absent
Edemir Estrada, Gabriel Roeder Smith	

GUESTS:

1. Roll call.

Chairperson Gold calls the meeting to order at 8:05 a.m. Mr. Easley and Vice-Chairperson Mantecon were excused. Mr. Gueits was not in attendance at the start of the meeting.

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 March 10, 2022.
- 2B. The Administrative Manager recommends approval of the Retirement Board meeting minutes for April 14, 2022.
- 2C. The Administrative Manager recommends approval of the Retirement Board meeting minutes for June 9, 2022.
- 2D. The Administrative Manager recommends approval of the following invoices:
 - 1. City of Coral Gables invoice due to G/L January 1, 2022 through March 31, 2022 in the amount of \$34,799.05 and due to G/L April 1, 2022 through June 30, 2022 in the amount of \$30,289.61.
 - 2. AndCo Consulting invoice #41401 for consulting services and performance evaluation from April 2022 through June 2022 in the amount of \$38,062.50.
 - 3. Gabriel Roeder Smith invoice #472076 form actuarial services for the month of June 2022 in the amount of \$4,899.39.
 - 4. Gabriel Roeder Smith invoice #472342 for administrative services from April 1, 2022 through June 30, 2022 in the amount of \$18,513.67.
- 2E. The Administrative Manager recommends approval of the following Retirement Benefit Certifications: DROP – Yolande Davis (General/Excluded), David Ruiz (General/Excluded) and Pilar Wiese (General/Excluded); Retirement – David Smith (General/Teamster) and Allan Webb (General/Teamster); Vested Rights – Dayron Garcia (General/Excluded), Melissa Lopez del Castillo (General/Teamster), Jessica Moss (General/Teamster), Dariusz Reczek (General/Excluded) and Jason Swift (General/Excluded).
- 2F. Draft ordinance and No Impact actuarial letter amending Section 46-25 and 46-254 of the Retirement Ordinance adding language to Administrative manager definition and amending sections of Disability Retirement.

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

- 3. Comments from Retirement Board Chairperson.

Chairperson Gold welcomes everyone back at the end of summer. He has some brief remarks. An order of housekeeping, taking the transcripts from the past three meetings minutes and putting them together, Ms. Groome has asked that the Board members try not to talk over each other because so much of the transcription of minutes is done through Zoom and transcribed and the more people that are talking at the same time the

more difficult it is to transcribe the minutes. He asks for the Board members to be conscious of that.

The Board members received an email from Mayor Lago with an article attached from The Wall Street Journal on August 10th, entitled “Market Rout Sends State and City Pension Funds to Worst Year Since 2009.” He does not believe this is a surprise to anyone that six months into the year was not their best performance. He is looking at the July flash report they will be reviewing today and this article first references June numbers and it is August. July was an unbelievable snapback. The markets were at a 9% in July. He wants to keep the perspective long term here. The Board is looking at a perpetual obligation and when he looks at the flash report and sees a one year down 9% and then sees the three-year return is positive 7.69%, the five-year return is positive 7.38%, the seven-year return is positive 7.39% and the ten-year return is annualized at a positive 8.89%. They are in great shape and they have wonderful advisors. He thinks they are keeping their eye on the ball. They cannot control the markets but they can control their allocation. He thinks they have been reasonable with that and thinks their consultant has done a good job advising the Board. He wanted to give his two cents on that and make sure it was addressed. He is not concerned because the market has not been good for six months. It was an inevitable air pocket and they have had a great run. The smoothing will help them from the actuarial side and their long-term performance has really proven that the proof is in the pudding. Dr. Gomez suggests for the Chairperson’s consideration, that on behalf of the whole Board Chairperson Gold reiterate his comments in a memo to the Commission. Chairperson Gold informs he would be happy to do so.

4. Items from the Board Attorney.

Mr. Garcia-Linares reports that it has been a relatively quiet summer. The amendment to the ordinance is going forward and in the Consent Agenda is the Impact Statement from the actuary indicating that the ordinance has no impact to the fund. He had a call with the City Attorney and Ms. Elejabarrieta regarding the issue brought up at the last meeting about whether to amend the DROP ordinance with the issue of when it becomes effective and when people get their estimates. After thinking about it and looking back in history as to how many times these types of issues have come up, which has not been many, they decided to wait a year before amending that section of the ordinance. Now, employees can use the portal and create their estimates. They thought it would be best to wait a year under the new system and then revisit this item a year from now.

Mr. Gueits arrives at the meeting at this time.

Regarding Officers Merino and Lemon, Ms. Groome has calculated the numbers. Officer Merino has already paid back \$20,000.00 to the system which decreased the amount she owes and now she will pay the System back over two years. The Board had mentioned that he draft an agreement. He asked Ms. Groome if an agreement was drafted in the past with this type of issue. There has not been an agreement other than when people retire and owe money to the system. He is happy to put together a simple agreement if that is

what the Board wants him to do. Ms. Elejabarrieta informs that the Human Resources Department has a form they use when employees are overpaid if the Board wants to use that form. Mr. Garcia-Linares asks for Ms. Elejabarrieta to send him a copy.

Mr. Garcia-Linares continues. He received a call from Dr. Gomez regarding a call he received from one of the retirees and apparently retirees received their August 1st monthly benefit the Friday before August 1st. Did the system change? Ms. Groome responds negatively. The issue in May was what happened with an error in the file that was submitted for check processing.

The last item is a retiree passed away at the end of May and the June monthly direct deposit was received on May 28th; prior to passing away but before the June first date and the money got into their account. Ms. Groome asked PenChecks about it and PenChecks responded that the moneys were to be released on June 1st but because this person was a member of a credit union, the credit union made the funds available earlier than June 1st. Ms. Groome was contacted by the deceased spouse reporting the death of the retiree and Ms. Groome informed that the June deposit needed to be paid back to the System. The reply was that the money was used to pay for funeral expenses and they did not have the money to pay back the System. The total amount was \$2,438.00. Does the Board want him to send a letter telling the spouse has to pay back the System over some period of time? Do they want to let it go? Chairperson Gold states that what the spouse is really asking is for the pensioners to pay his debts. He does not think they can do that. Ms. Gomez thinks they have to try and collect it back. Mr. Garcia-Linares informs that he can send a demand letter but if they have to file a lawsuit the cost is going to be greater than \$2,438.00. Ms. Gomez points out that the City can recall their checks from the credit union. She suggests asking PenChecks to recall the June payment from that credit union. If it was Social Security they would take it back regardless. Mr. Garcia-Linares states that they will contact PenChecks to see if they can recall that amount from the credit union.

5. Update on administrative hybrid arrangement.

Edemir Estrada, Gabriel Roeder Smith, reports that she will be speaking on behalf of the administration team at GRS and will be providing an update on the hybrid arrangement between the Retirement System and GRS. They have been communicating with Ms. Groome almost daily. Towards the end of June, they started receiving electronic files from Ms. Groome regarding what was needed to process the retiree payroll through PenChecks. They have access to PenChecks and they communicate with PenChecks and they are processing the monthly retiree payroll. They started processing in July and they processed the August payroll. Everything is going smooth and they have no issues. In July they met in person with Ms. Groome at her office to go over requests received from retirees and any anything that she needed to communicate with them. Before that meeting, they received two laptops from the City. One laptop is used by her and the other is used by Peter Tramont. She and Mr. Tramont work together. These laptops are useful to access the EDEN system to get reports of information they need for the calculation of benefits and refunds of contributions. When they met in July, they also had a virtual meeting with the City and a consultant regarding information that is needed for the next

open enrollment for health insurance for the retirees. They are trying to find an efficient way to transfer the information through PensionSoft. They have had no issues so far. Ms. Groome has been communicating with them. They had one incident where a retiree could not access the portal. They were have some problems with the pop-up blocker and they were able to assist the retiree. That is the overview of what they have been doing in June and July.

Ms. Groome elaborates that the virtual meeting with the City was to set up the City's new system with deduction codes for retire insurance payments. The new system will replace the EDEN system. The goal is to have the new system ready in January because that is when the new amounts of insurance premiums will begin. They wanted to make sure that all the deductions for the retiree health insurance were correct. Ms. Gomez comments that City's system is changing. Ms. Groome states that they wanted to make sure that the new system will be able to deduct the correct information and be able to get the correct information from PensionSoft for those health insurance deductions.

Dr. Gomez asks what percentage of retirees have signed up to the portal. Ms. Groome replies that she would have to ask Mr. Tramont for that information. Ms. Gomez informs that the Finance Department has been working with GRS's accountant to transition all the bookkeeping and accounting. Her name is Jeanne Kennedy. She is a CPA. They have been able to get her everything that she needs to date and she has been able to reconcile. They are in that transition process and it has been successful. Ms. Kennedy has been given access to the bank statements and whatever else she may need. That seems to be going smoothly as well.

6. Investment Issues.

Mr. West reports on the monthly investment performance. July was an absolutely spectacular month for both stocks and bonds. The market narrative has progressed rapidly. Market participants are now considering that perhaps the sell-off in the bond and equity markets were overdone. There has been a lot of portfolio adjustment going on. Investors were anticipating the need for the for the Central Bank to increase rates dramatically subsequent to that and what has been helping shape that thinking as a lot of the economic numbers are coming out a little bit better than what was expected.

Mr. West shares a chart of the price plot history of the S&P 500 which shows the drawdown greater than 5% since the pre-crisis peak. They were down 33.79% in stocks when they came off the Covid pandemic induced bear market. The market rallied and subsequently earned 120% in cumulative return which was an annualized rate of return of 55.76%. Inevitably, they had a correction and this time it was severe. The market declined 22.99%. The purpose of the chart is to try and put perspectives on the magnitude of the recent decline. Looking back at the previous declines, they were usually around 10% to 20% and 20% is technically termed a bear market. They do not know when they are in a bear market until after they get to 20%. Going back to the financial crisis, they were looking at a decline in the 50% range. It was a different period of time. This is just to give perspective. They can hope to assume that this was a big correction which was

induced by the Federal Reserve. The high level of inflation with the supply issues coming off the pandemic and the Russian/Ukrainian situation, they are pressuring energy inflation.

The next chart Mr. West reviews is yield changes and total return. What made this time different? Every cycle is the same but there are some nuances in these cycles that make it different than the previous cycle. Now they are conservatively invested in their bond allocation. The purpose of the bond allocation is not to get total return because rates are so low, it is to provide diversification, safety and liquidity if it is needed when equity markets correct. What happened this time is interest rates went up at a rapid pace that you had to market bond prices down. He is still trying to grasp the magnitude of the price mark down. If they hold any of these bonds to maturity they will not realize it. They are getting bond coupons that are being reinvested at higher interest rates. The way the bond map works is if you pay \$90.00 for a bond and it matures as par and you have U.S. Treasuries, you are not worried about credit. You will be earning a coupon at par and that \$90.00 is going to slowly get up to the par \$100.00 value. You get your \$100.00 back with the interest earned on that bond. They have a portfolio that is not a particularly high turnover and the bond managers are aware of that. They are managing that. If they can be patient and give the bond investments time to do their thing they will earn that coupon and when those bonds mature, they will get back and retrace all these losses. Unfortunately, they have to mark the market of the investments in the portfolio. Since this time when equities corrected they did not have that safety in the portfolio working for them. The very low risk bond portfolio also got marked down and that is what made the total portfolio return this go-around worse than it was during the previous crisis. This should have been the flip side where equities go down and everyone runs into treasuries where interest rates go down and bond prices go up. They have a very nice offset to the portfolio construction. This does not suggest to him that they need to make any changes in the portfolio. The portfolio is constructed for a long-term investment. They are well balanced between risk and return and their bond portfolios are very high quality. They do not have to worry about credit risk for the most part. It is a very solid portfolio. This had a dramatic effect through June to fiscal year to date on their portfolio.

The next chart Mr. West reviews is the Federal Reserve Policy Interest Rates. This time is no different than previous times from the cycle. The whole point of this chart is to show that every time the Fed goes into a more restrictive regime, they are starting to increase interest rates becoming less accommodative to monetary policy. There was equity market sell-off at the beginning of that and they inevitably slipped into some kind of slow down. This time is no different. This is normal for the business cycle but because they came off a low period of interest rates, the rate adjustment had to be so much more that it affected the bottom prices.

The final chart is Inverted Yield Curves and the Stock Market. He thought it would be interesting to show. An inverted yield curve means that short-term bonds, Treasury bonds, have two and three year maturity, are yielding more than the longer-term bonds and 30-year Treasury bonds. Yield curves can invert and that is the situation now. In the past, that is usually the precursor of a recession or slow down. That is what the Fed is

trying to manufacture. The bond market right now is reading that and investing with that idea in mind. A recession is inevitable but he thinks what markets have come to terms with, maybe the Fed will be able to manufacture a more reasonable landing recession than something much harder than everybody was anticipating. Their offset was the investment in the Treasury Inflation Protected Securities Index during this period of higher than expected levels of inflation.

Mr. West reviews the July monthly performance. He has no recommendations for change in the asset allocation. He thinks it is appropriate to be marginally underweighted in international equity. They are on target now with their core fixed income. They are earning better rate of returns and he thinks that is a good place to be given the continued uncertainty. The real estate has moved out to a good overweight. That is a function of their new manager TerraCap. The real estate managers are doing very well, particularly TerraCap. It is also a function of the price adjustment that happens in both equities and bonds. While real estate appreciated, equities and bonds depreciated. He has no change in recommendations for the portfolio now.

Chairperson Gold asks if they have legacy investments dribbling out of the PIMCO Disco Fund and direct opportunities fund. Mr. West explains they are carryforwards. The Disco fund was paid out last quarter. There is no reason to carry that forward.

Mr. West continues. The total fund net return for the month was positive 5.25%. Fiscal year to date the fund was negative 8.86%. They are still carrying performance deficiency. They should only be at negative 4.65%. That is a function of under performance of their active equity manager. They have talked about this over the last couple of meetings. Their total equity is at negative 14.75% fiscal year to date. If they had met their target policies, they would be at negative 8.49%. They talked about the gap and what happened in the first and second calendar quarters to equity managers and the extreme unlikelihood that anyone was going to outperform during that period. They have had these managers in place for a very long time and they are very solid performers. In July they started to see some outperformance. The rally in July was very broad-based and was not limited to one sector. They are seeing a return of that performance.

Mr. West informs that in June there was a big dollar decline in the plan. The total market return during 2021, they were almost \$100 million in investments. They were supposed to earn \$31 million. They have a huge surplus. They have also outperformed the target actuarial rate of return in three out of the four previous years by a good margin. They have a lot of extra money on the shelf as has been communicated by the actuary. Chairperson Gold states that they are back to the first or second quarter of 2021. If Mr. West had made this report in March, April or May of 2021, they would have thought they were doing great. They sort of lost a year and three months. They are still doing well. There is a tumble in the market they are feeling now but in general it is not that bad. Mr. West adds that according to the actuary, if they close this year at negative 4% return, that is net neutrality. They can have a loss of 4% total return and not have any impact on the required City contribution. They are going around a long-term trend line which should continue to be very constructive. Hopefully, now they have the bond market correction

out of the way and they should return to a somewhat normal long-term expected interaction between their investments and the next time they get a big slow down. They would anticipate that their bond portfolio would perform as they would hope.

Mr. West informs that they have a contribution coming up in October and he wanted to put out a proposed allocation of those monies. They can revisit this at the September meeting. They are underweight in growth compared to value and they need to get a little more money into that growth bucket. The Heritage Group all cap growth fund has had the worst most dismal performance in the entire history of the firm. They had a 10-year run where they provided extraordinary value add above the benchmark. He has been working with his manager for a very long time. The last time this happened was ten years ago and it was off another very outstanding period of excellent returns. They doubled down into that manager and the rest was history. They had a nice 10-year run. In his professional judgment and in the professional judgement of his research team, they have reasonable confidence that this manager's performance will return. The recommendation is to fund this manager \$15 million which would bring their equity to about a 1.3% overweight. It provides a little bit of an offset to the underweight in international equity. He is not recommending any change in international equity. The total equity is about on target for now. He recommends allocating \$10 million to the Garcia Hamilton portfolio. They want to stay high quality in their bond allocation there. For the assets, the recommendation is to allocate an additional \$5 million to the Ironwood hedge fund. That has been a great manager. They are in good shape working with Ms. Groome on the distribution requirements for the next couple of months. Chairperson Gold points out that Mr. West did not recommend any allocations to the index funds and they have a cash allocation already where they take the distributions from the index funds. He asks if Mr. West is comfortable that they have distributions covered so they do not have to make any major changes. It is easier to raise cash in the index funds than raising cash with the active managers. Mr. West responds that it would be for the next six months. That is something he thinks they would want to discuss at the September meeting and consider the possibility of reallocating some of the Garcia Hamilton into the cash reserves so they can extend that out. He thinks it is a good discussion item for the September meeting.

Mr. West informs that they are always looking for interesting manager strategies and they have identified what he thinks is a very interesting bond strategy. They are classifying it as a hedge fund. He classifies it as a fixed income strategy. What the strategy does is invests in investment grade U.S. bonds. It is a very quantitative approach. They neutralize the sensitivity of the bond portfolio in changes in interest rates. The second thing they do is they attempt to neutralize the impact of changes in the Fed. If you were in corporate bonds and lower rated corporate bonds, even triple B rated bonds, you were hit much worse because investors were dumping those the bonds. What this strategy does is neutralized that relative change in price of corporate bonds. In his mind, they are taking care of the two most annoying elements of being a bond investor and then providing a very nice high return by applying a little bit of leverage. They are participating through the mortgage market which are very high-quality areas and applying a modest amount of leverage through this quantitative strategy. The returns that they put off are very nice. They did not see any decline during a recent bond market sell off. It is a very interesting

strategy to employ on the margin. He would like to invite this manager to the next meeting to make a presentation. As a consultant, he has to get permission from his Investment Committee any time he introduces an esoteric, non-regular product. The manager has been fully vetted by AndCo and now he is required to go to his Investment Committee and tell them he would like to consider implementing this product with the Coral Gables Retirement System and let them know why he thinks it is appropriate. He needs their final sign-off before he can officially do that. Mr. Gueits asks for the name of the manager. Mr. West replies that it is Serenitas. Chairperson Gold asks how much time they will need for the presentation. What is appropriate? Mr. West thinks 20 minutes for their presentation and 10 minutes for questions.

Mr. West states that he received a note from one of the Board members asking for an update on the workforce housing manager, Affiliated. They had reviewed Affiliated and their product launch has been very successful. Their returns are ahead of the original plan. This is a brand new situation and they did decide to take a different route. He thinks what they did was appropriate but they did agree that they would leave Affiliated on the radar. That product is performing well.

7. Old Business.

a. Approval of 2021 State Annual Report.

Ms. Groome informs that the 2021 State Report was approved.

8. New Business.

There was no new business.

9. Public Comment.

David Perez, President of the Coral Gables Firefighters Union, thanks the Board and recognizes their good work. The Board discussed the Wall Street Journal article which was kind of a doom and gloom article on pension funds. While that may be a blanket statement, it certainly does not apply here. He thinks the Board has done tremendous work. Looking at the investment report, the three-year, five-year, seven-year and ten-year returns are all on the plus side. It might make good for political theater, but again the Board has done an outstanding job turning this pension around. He just wanted to thank the Board for their hard work. Mr. Gueits states that in their defense, the WSJ report references fiscal year ending June and their fiscal year ends September. They have two months to go and may break even.

Martin Barros, retiree, echoes what the President of the Fire Union said. He has three questions and all three will probably need to be answered by GRS. The first one has to do with PenChecks. It was their understanding as retirees, who were able to Zoom in on the May 12th Board meeting, that the representative from PenChecks, Mrs. Henderson, was going to have an answer for all of them in due time regarding the payment of the October

monthly benefit. He does not see any one having received any information regarding that. He hopes that in the future, before October if possible as she promised, that she would have something to tell them one way or another. The next question has to do, also with GRS, he was wondering with the June 6th letter that went out and with the issue that came up about addresses. Have any of those letters been returned to sender? The third question has to do with the hybrid transition. Also on the June 6th letter, it specified 17 items that and hopefully this month everything has been taken care of. He wanted to find out if that is the issue.

Mr. Garcia-Linares responds to the first question. They have not had an answer from PenChecks regarding the issue of whether the retirees will be paid the Friday before if a payday falls on a weekend. Maybe Ms. Estrada can answer the question about whether any of the June 6th letters were returned to sender. Ms. Groome informs that the return address was the Retirement Office address. The only letters that have been returned were for retirees who had not changed their address with the System and she did forward those letters to the new address of those few letters returned. Mr. Garcia-Linares informs Mr. Barros that they did get a couple of letters back and the retirees had not updated their addresses and the addresses were updated and resent. The third question is regarding the 17 items of the hybrid agreement. Ms. Estrada replies that they are working on the 17 items. There was one visit they did at the Retirement Office. She offered to provide all the participants records. They would like to get everything that is related to participants transferred to them either electronically or paper files. That way they have all the information. To answer the question, yes they are working on everything that is under the hybrid arrangement.

Chairperson Gold asks if that answers Mr. Barros' questions. Mr. Barros answers affirmatively. He will be looking at the 120-day proposed hybrid going to full. Is that still on or is that going to be extended another 30 or 60 days? Mr. Garcia-Linares thinks what the Board voted on was that they would look at how they are doing in 120 days. Chairperson Gold states that the item will be on the September agenda so the Board can discuss how they are doing. From what he sees now, it has been two or three months where they have had no complaints or no real structural issues. Their perspective in looking back was to see that the transition is becoming smooth. They are now operating more smoothly and he thinks they have gotten rid of the frustrations. When they find out about the pay date from PenChecks, he thinks that is the last hurdle. There should be no more items to take off that there are frustrations from the pensioners. From an operations standpoint, it seems to be operating smoothly now, which is what they were going for. Mr. Barros thanks the Chairperson. Chairperson Gold states that they can put it on the agenda for September in case during public comment there are pensioners that have continuing issues that they want to bring to the forefront. It will either be a non-issue agenda item or they will talk more. Thank you for reminding us.

10. Adjournment.

Meeting adjourned at 9:08 a.m.

APPROVED

MICHAEL GOLD
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER