

CORAL GABLES RETIREMENT SYSTEM
Minutes of June 11, 2020
Virtual Meeting
8:00 a.m.

MEMBERS:	A	M	J	A	S	O	N	J	F	M	J	APPOINTED BY:
	19	19	19	19	19	19	19	20	20	20	20	
Andy Gomez	P	P	P	P	E	E	P	P	E	P	P	Mayor Raul Valdes-Fauli
Rene Alvarez	P	E	P	E	P	P	E	P	P	E	P	Vice Mayor Vince Lago
Alex Mantecon	-	-	-	E	P	P	P	P	P	P	E	Commissioner Jorge L. Fors, Jr.
James Gueits	A	P	P	P	P	P	P	P	P	P	P	Commissioner Michael Mena
Michael Gold	P	E	P	P	P	P	P	P	P	P	P	Commissioner Patricia Keon
Joshua Nunez	P	E	P	P	P	P	E	P	P	P	P	Police Representative
Christopher Challenger	-	-	-	-	-	-	-	P	P	P	P	Member at Large
Marangely Vazquez	-	-	-	-	-	-	-	-	P	P	P	General Employees
Troy Easley	P	P	P	P	E	P	P	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	P	P	P	P	P	P	P	P	Labor Relations and Risk Management
Carter Sox	-	-	-	E	P	P	E	P	P	E	E	City Manager Appointee
Pete Chircut	P	P	P	P	P	P	P	P	P	P	P	City Manager Appointee

STAFF:

Kimberly Groome, Administrative Manager
Manuel Garcia-Linares, Day Pitney LLC
Dave West, AndCo Consulting

P = Present
E = Excused
A = Absent

GUESTS:

Pete Strong, Gabriel Roeder Smith
Yolanda Menegazzo, LagomHR

1. Roll call.

Chairperson Nunez calls the meeting to order at 8:18 a.m. There was a quorum. Carter Cox and Alex Mantecon were excused. He informs that the meeting was posted on the City's website under Public Notices.

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 12, 2020.
- 2B. The Administrative Manager recommends approval of the following invoices:
 - 1. Gabriel Roeder Smith & Company invoice #454205 dated April 8, 2020 in the amount of \$10,581.39 and invoice #454999 dated May 13, 2020 in the amount of \$14,811.39 for March and April actuarial services.
 - 2. City of Coral Gables invoice for October 1, 2019 to December 31, 2019 in the amount of \$78,599.90 and invoice for January 1, 2020 to March 31, 2020 in the amount of \$30,633.02 for expenses of the Retirement System paid out of the General Ledger account of the City.
 - 3. City of Coral Gables invoice #346597 dated May 1, 2020 for third quarter fiscal year 2020 in the amount of \$1,181.50.
 - 4. The Wall Street Journal invoice dated May 2, 2020 in the amount of \$3,300.84 for the annual corporate renewal.

A motion to approve the Consent Agenda was made by Dr. Gomez and seconded by Mr. Gold. Motion unanimously passed (11-0).

- 3. Update from the Board Attorney.

Mr. Garcia-Linares defers his report until they get to the next item. The only thing that is pending is making a decision of whether the Board is moving forward with Northern Trust or PenChecks. Once they decide on that they can go forward and get the contract signed.

- 4. Discussion and decision in regards to the use of Northern Trust Benefit Payment Service versus PenChecks for retiree payroll/vendor payment processing.

Chairperson Nunez knows that Ms. Groome was looking over both Northern Trust and PenChecks systems as she will be the one primarily person using the system.

Ms. Menegazzo informs that she had an opportunity to reach out to some of the municipalities that are utilizing PenChecks and they really only had wonderful things to say. Obviously implementation is always difficult for any type of new system. However, the biggest feedback she got was that during implementation and after implementation the customer service is outstanding with PenChecks. She got that feedback from the City of West Haven Police Department and they just seem to be extremely pleased with the level of customer service and how helpful they were doing implementation. She felt very comfortable with the references that she received.

Ms. Groome explains that she had demos with both Northern Trust and PenChecks. Northern Trust has benefit payment services which is for the retiree benefits every month and on the custody side they have payments for the expenses which is the same set up as how they pay the money managers. It is like using bill pay and the cost for each transaction is \$10.00. The average amount of vendors paid every month is about 15 to 20. So that would be like \$150.00 to \$200.00 in fees if they were to use that method for the vendors. She also updated the fees for the benefit payment services to around \$19,000.00 per year. I did speak to Northern Trust about

the issue with their file transfer which was talked about at the workshop last month in that it was not friendly to the PensionSoft system and they were not aware of any problems in the past. Northern Trust informed that they would be happy to work with the software to make it easier for the system to read. With PenChecks, all the data is put into the PensionSoft system and when you pay the retirees' monthly benefit it is just another vehicle to be able to pay for the monthly benefits. And then with the vendors, they said you could go through their portal but they only pay with check to the vendors. She does not have a problem with either one of them. PenChecks said that they been around for 25 years and work with 1,200 different record keepers and third-party administrators supporting about 60,000 plan sponsors from distributions to recurring plan payments.

Dr. Gomez asks Ms. Menegazzo what she anticipates the time for the transition. Ms. Menegazzo thinks the transition is going to be anywhere from six to nine months, especially if they utilize PenChecks. She feels like that transition will be faster just because the relationship is already there and they know that they fully integrate. She is hoping that when they are doing any type of transfers and uploads the same information that is going into one system is going to be communicating with the second system that is processing payroll. That should significantly decrease the implementation time frame. She thinks that six to nine months is something that is realistic.

Mr. Garcia-Linares states that from a legal standpoint, he looked at the two agreements. They already have an agreement with Northern Trust and he understands that they would not need to sign a new agreement. If they went with PenChecks, they would need to sign a new agreement. As he mentioned at the last meeting, in the PenChecks agreement they will not remove the indemnification language. The Board has not been in favor of signing for indemnification in the past. The indemnification is limited to the Board providing PenChecks with wrong information. PenChecks is not a fiduciary under their agreement so they would be agreeing to indemnify them if for some reason they are sued by someone because they have provided the wrong instructions or wrong information. If they are the ones that have the gross negligence then they understand they are on the hook. He wanted to bring it to everybody's attention that there is an indemnification paragraph in the agreement with PenChecks and they will not remove that language. He does not have a problem with it. He was just letting them know because of all the years that he was on the Board their position was that they did not like signing identification agreements. He does not have a problem with the language that is in the agreement.

Ms. Gomez asks how the relationship works between PensionSoft and PenChecks. What kind of assurance do they have from GRS and what they are doing when they submit to PenChecks at some point? Mr. Garcia-Linares informs that they have gone through the agreement already with GRS and the City was comfortable with that agreement. He does not know how many insurance policies the City requested that GRS provided because it took a while but they received at least like eight different insurance policies including cyber and everything else that GRS has is to protect the Board coming in as the third party administrator. Obviously, if GRS sends the wrong information when they are the administrator to PenChecks then the Board would have to look to GRS on it. One of the biggest problems they have had is paying people that are no longer with us and if that happens they will be doing checks on deaths on a more frequent basis than they are currently doing it. Ms. Menegazzo agrees. It is a daily death audit. It is an additional benefit that is of no additional costs. They will be allowing the retirees and

the employees to go in and it is very much of like a self-service where they can update their own information. They can update their beneficiary information. They can put in the Social Security number for the beneficiary they can put in their direct deposit information and update their W-4s so they we are doing their best to eliminate the manual errors because they are passing that to the member in order to put in their own information into the system.

Ms. Groome has a suggestion that they go with payroll of retirees through PenChecks but use Northern Trust to pay vendors since their system allows for direct deposit. Ms. Gomez asks if PenChecks does not pay the vendors. Ms. Groome clarifies that they pay the vendor but you have to go into their portal to pay who you want to pay. With Northern Trust you set up the vendors and then they have controls where Northern Trust can assign someone to approve what was put in the system to pay the vendor. Ms. Gomez asks what system would the payment be put into. Ms. Groome responds that it would be with Northern Trust as the custody bank. Ms. Menegazzo thinks that the biggest inconvenience is that PenChecks can pay the vendors but they can only pay via check. Dr. Gomez asks Mr. Garcia-Linares if it is good practice to notify the vendors that the Board has made a change in the way they process their payments. Mr. Garcia-Linares agrees. Pete Strong of GRS informs that PenChecks is going to have an upgrade this Fall and that upgrade is supposedly going to handle ACH payments for everyone. He is not that familiar with what Northern Trust capabilities are. He is comfortable with the Board selecting PenChecks.

Ms. Menegazzo recommends that if the Board decides to go with PenChecks and they sign the agreement with PenChecks, just because they sign the agreement does not mean they have to utilize that that feature for paying the vendors. She would like to bring in the auditor and ask them what their recommendation would be as far as controls. That would be part of the implementation process to see which system they should use for vendor payments. Dr. Gomez asks for Ms. Menegazzo's final advice to the Board as their consultant. Ms. Menegazzo thinks they should go with PenChecks. She feels that they should utilize the system that is fully integrated so that there are as little manual processes and manual errors as possible.

A motion to make the transition as recommended by the consultant was made by Dr. Gomez and seconded by Mr. Easley. Motion unanimously approved.

Dr. Gomez would like a transition plan so the Board understands where things stand. Ms. Menegazzo responds that she will work with everyone to put together a transition plan and timeline.

Ms. Groome informs that she reached out to the City's HR Director regarding a shared part timer for additional help in the office transitioning into the new system and she informed that her office would be able to assign a part-time employee to help out. Ms. Gomez states that the HR Director did mention that the City does have somebody that can help. She needs a week or two advanced notice as to when that help is needed.

5. Investment Issues – May 2020 Flash Report; Ironwood Funding; Periodic Review of Investment Policy Statement.

Mr. West reports on the investments. He reviews the May flash report. For the month of May the fund net of your investment manager fees was up very nice 4.24 percent. That means the all-important number, the fiscal year-to-date number, they are a positive two point two seven percent. That number is of their asset allocation target which came in at one point to four percent. So they have some nice manager outperformance almost across the board continuing here since the since the bottom and also the overweight to domestic equity and modest underway to fixed income. It has also been helping quite a bit. The trend is positive and it has been a very nice recovery and managers have been performing very well.

Mr. West informs that they need to review the investment policy statement. It is important to review it periodically. They have reviewed the policies and have inventoried all of the manager documents. They have no change recommendations to the document at this time. They completed the review and were comfortable with the policy as it stands. Mr. Gold points out that there have been changes over the years to the indexes and the benchmarks. Over the past 20 years they have had eight different allocation benchmarks to look at. Are there any tweaks to the asset allocation or the benchmarks that they have used to measure their performance against? Mr. West replies that they have no change recommendations to that at this time.

Mr. West goes through the rebalancing and Ironwood funding discussion. They had to make some adjustments in February and March. Back in February before the Covid thing really picked up any momentum they had gone in and recommended rebalancing the real estate allocation back to policy targets. So in February, a redemption request was submitted to JPMorgan for \$11.4 million which would effectively get them back to policy targets. At that time, they felt it was a good time to submit that that rebalancing allocation to both the JPMorgan strategies but do so at a target weight rather than maintaining the overweight position. They processed the paperwork in a timely manner and submitted it to JPMorgan. They had the expectation of receiving those funds with the close of the March quarter. Then they had the Covid event all the chaos that was created and JP Morgan along with a lot of the other major real estate managers shut the door for rebalancing or client redemptions. They closed the door based on the uncertainty and they were afraid that they were going to see another rebalancing issue like the one in 2008/2009. All and the real estate managers at that time basically close the door for about a year. JP Morgan is allowing very small distributions to come out quarterly, but they are really inconsequential compared to the total redemption amount that was submitted. This was all part of the very forward-looking cash flow plan they had in place. They also redeemed the Titan hedge fund up to the small amount withheld for audit and final closure. Those funds came in and then they also were faced with continuing distributions. There were a lot of DROP moneys going out during March. They went to complete their rebalancing with Richmond Capital which is their investment grade fixed income. Richmond was very uncomfortable trying to sell securities and at that point it was mid-March. They ended up going to Garcia Hamilton to raise the money because they had a lot of government type securities in the portfolio and they were able to accommodate them. That being said they were headed down a pretty serious liquidity crisis in the bond market and all around real estate managers were closing the door. So they shifted focus more to liquidity than managing for long-term return for that period of time. They absolutely want to be working well ahead so they have monies available for member payments and they want to do so in a way that is as least disruptive as possible to the investment program. They were able to successfully get through that period. The Board had approved funding the Ironwood hedge fund and they

elected to defer funding of that because of the liquidity situation. They are through that crisis. So they are past that liquidity crisis in the marketplace. They had no liquidity issues at all with this system.

Mr. West recommends that they rebalance. He thinks it is appropriate that they manage for two months of cash flows. They are going to need \$5.7 million. Regarding the Ironwood funding the original thought was to fund Ironwood at the \$5 million mark as an initial funding. Obviously everything has changed and they are in the position of needing to rebalancing domestic equity. His recommendation is to sell 2% basically of the S&P 500 index fund and that would be about \$8 million dollars which would get the equity overweight back to about a 2.5% overweight but it would get them back to policy and get them within the outer bands. Then if they add in the available \$2 million in cash that gets them back to the full \$10 million to fund Ironwood at the original prescribed \$10 million dollar allocation.

Mr. West addresses the bias to equities that was discussed at the last meeting. He thinks it is pretty clear that the plan with the current rate of return assumption requires a certain at least minimum allocation to equities to get the job done to make the number actuarially required rate of return. So with that in mind, they are completing the asset allocation study and looking at increasing the domestic equity target to 45%. That is an increase of 5% over the current target allocation. That would increase the upper band from 45% to 50%. They are integrating that piece of analysis into the asset allocation study with the idea of potentially taking everything into consideration and changing the investment policy statement to allow for a judicious increase in the long-term equity allocation. They have also used the current standing policy in the standing allocation. They have always had a favorable bias in place to equities.

A motion was made to following the recommendation of the investment consultant sell 2% of the S&P 500 index fund and fund \$10 million to Ironwood was made by Ms. Gomez and seconded by Mr. Gold. Motion unanimously approved.

A motion was made to approve the Investment Policy Statement by Ms. Gomez and seconded by Mr. Chircut. Motion unanimously approved.

Chairperson Nunez asks if there is old business or new business that needs to be taken care of how. Ms. Groome states that the City Clerk wanted her to remind everybody to send in their financial disclosure form. Chairperson Nunez asks Mr. Garcia-Linares if he received all the evaluations for Ms. Groome. Mr. Garcia-Linares informs that he is missing two evaluations.

Mr. Strong reminds the Board that the October 2019 Actuarial Report still needs to be approved. Ms. Groome asks if it is possible to have a July meeting to approve the report. Mr. Garcia-Linares responds that they can have a meeting in July and then they also can have Ms. Menegazzo give an update on the transition.

Mr. Challenger asks Chairperson Nunez if there was any update on Officer De Leon regarding his buy back of time. Chairperson Nunez responds that he does not know where they are at on the Union side. Is it separate from what you have on the grievance? Mr. Challenger responds negatively. He would like to make a motion that anyone who was hired prior to the date the calculation of buying time back was changed that they fall under the old calculation and that anyone hired on October 1, 2019 goes under

the new calculation. Chairperson Nunez asks for Mr. Challenger to elaborate on the issue of Officer De Leon. Mr. Challenger explains that he was speaking to Officer De Leon who filed a grievance. He thinks it was before he got on the Board in January. What he understands is that the calculation was changed before October 2019 of how you can buy time back prior military police or fire after you have worked in the City for five years. In Officer De Leon's case he worked for the City for 4 years and 10 months prior to reaching his 5 year anniversary and was planning on buying back military time and the calculation to buy back was changed right before he was able to buy his time which means he ended up paying more money to buy back his previous time. Mr. Garcia-Linares advises that they not discuss the topic at this time and let it go through the grievance process. He is not sure this is an issue of when the person came in. It is an issue of the Board figuring out the actual cost that the Board is paying out based upon the amount the person is paying in. From what he understands the fund has been losing money in the way that the buy back was calculated in the past. He suggests the Board not discuss this item and let it go through the grievance process. Dr. Gomez agrees with Mr. Garcia-Linares' recommendation. Chairperson Nunez states that they will wait and see how the grievance develops and see where it goes and then they can address the topic again.

Chairperson Nunez states that the meeting is open to public comment but there is no Q&A and nothing in the chat.

6. Adjournment.

Meeting adjourned at 9:08 a.m.

APPROVED

JOSHUA NUNEZ
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER