The Town of Palm Beach Retirement System
Board of Trustees
Minutes of December 14, 2015 Meeting

I. Call to Order and Roll Call

Chair Ross called the meeting to order at 9:05 am in the Town of Palm Beach Town Hall Chambers, 360 South County Road, Palm Beach, Florida 33480

In Attendance:

TRUSTEES:
Wilbur Ross, Chairman
Gerald Goldsmith, Chair Pro-Tem
Thomas Bradford, Town Manager
Dan Stanton
J. Patterson Cooper
Michael Marx
Daniel Wilkinson

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Finance Director
Danielle Olson, Human Resources Director
James Linn, Attorney

Brett Madison, Secretary, and Bradford Kaufman, Trustee, arrived late to the meeting

II. Approval of Agenda

Mr. Stanton made the motion to approve the agenda. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

III. Comments by Trustees

Mr. Goldsmith commented that the subject that is going to be discussed in this meeting is a popular one currently in the world and the newspaper.

IV. Public Comments

None

V. Asset Allocation Model

Mr. Ross stated that there are a couple of major topics to be reviewed resulting from the announcement made by the consultants in the prior Retirement Board meeting that the asset allocation model that Segal had proposed and the Town has adopted is not going to achieve the rate of return that it was assumed. Mr. Ross noted that the two big topics to be discussed at this meeting is to change the asset allocation model to one that fits and the second to change the investment return that is currently assumed. Mr. Ross stated that he had asked for inclusion to today's folders the investment limitations imposed by statute, and the trust cannot allocate more than 20% in alternative investments. He stated that the retirement fund is at about 20% right now. Mr. Stanton stated that the town is right in the threshold of the limit prescribed for non-US securities. Mr. Ross commented that he was surprised to be able to make a major improvement in the rate of return by tweaking the model. He discussed cutting a few managers to improve the rate of return in the first 5 years. He discussed Global investments, real estate, and consistently underperforming hedge funds. Mr. Goldsmith commented that he reviewed it from a different angle and the outcome coincides with Mr. Ross's outcome.

Mr. Ross discussed that the mandate is to get the maximum return in a reasonably safe fashion. He noted that the pensioner is not at risk because the Town is the guarantor of the return and the issue is what market strategy can be used to minimize the ultimate risk to the taxpayer. Mr. Stanton questioned if the Town of Palm Beach has the right consultants and questioned the decisions they have made so far. He stated that the conclusions they made were not correct. Mr. Goldsmith asked if there are other consultants that can do better. Mr. Cooper agreed that he felt unimpressed with the presentations that were made by Segal Rogerscasey in the last meeting and brought to the table new ones. Mr. Stanton commented that he was surprised of the declining return of hedge funds. He questioned the wisdom behind having certain funds within the portfolio. Mr. Ross questioned Segal Rogerscasey's inability to change their thinking despite how the market changes. He discussed that he is troubled by the idea that the recommended asset mix stays the same even though the environment is changing. Mr. Stanton agrees with Mr. Ross regarding the idea held by the consultant that if you wait long enough things will change for the better.

Mr. Stanton discussed the Segal Rogerscasey presentation from the last meeting and commented on the inadequacy of their strategic moves. Mr. Cooper noted that Segal Rogerscasey said that he recalled that the Retirement Board had made the recommendations of adding commodities. He also recalled that the board asked Segal Rogerscasey to add TIPS because it was uncomfortable with the commodities exposure. He discussed being puzzled about the idea proposed by Segal Rogerscasey that seems to say that each succeeding time period will have better performance than the preceding one. Mr. Goldsmith discussed there is an outcry of regarding alternative fees. Mr. Ross commented that coming from the private equity world, his feeling on the fees is that if the performance is great who cares about the fees. Mr. Kaufman discussed matters of the internal fees charged by private equity and hedge funds. Mr. Ross discussed the importance of looking at net performance. He stated that after hearing the trustees concern regarding the present consultant, the Board should inform what the nature of their concern is to Segal Rogerscasey. He suggested interviewing other consultant firms.

Mr. Bradford stated that if the Board wants to hear from other firms then a request for proposal (RFP) must be prepared for receiving bids. Mr. Ross suggested inviting Segal Rogerscasey and competitors to provide presentations to the board. Mr. Linn added that he believes that the contract can be terminated within 30 days.

Mr. Ross explained how a meeting should take place when the other advisors are invited. Mr. Goldsmith requested from Mr. Hanes if the Town retained other contractor's names from the prior bid. Ms. Struder stated that the performance of the other advisor's hired by the Town for the other Town funds was pretty close to that of Segal Rogerscasey. Mr. Hanes suggested doing exactly what Mr. Ross and Mr. Bradford have suggested, and to ask the questions in an RFP for bidders to address with their bids. Mr. Goldsmith asked if the board has to come up with what the return assumption should be. Mr. Hanes stated that he doubts that anybody can come up with what the return assumptions should be unless they work with the particular system's actuary. He commented that the process should be more expeditious with an RFP. Mr. Ross suggested inviting Morgan Stanley. Mr. Kaufman disclosed that he represents Morgan Stanley, Goldman Saks and others.

Mr. Ross noted that any recommendation given to the council by the board has to be carefully thought out and justified. Mr. Madison suggested reviewing the RFP selection that was done in 2012/2013 in an effort to save time. Mr. Hanes explained the process and how the committee was established back in 2012. Mr. Ross commented that it will be a good idea to review that material so that there will be a feel of what the process was and what was said. Mr. Kaufman asked about manager fees associated with terminating early. Mr. Hanes replied that he can request that and it will be included with the RFP as well. Mr. Ross asked Mr. Hanes if he can suggest anyone that he is familiar with from other institutions. Mr. Hanes stated that there are some limitations with some funds, and that by example the larger retirement funds holding billions of dollars in assets may not be available for hire for a 2 million dollar plan like the Town of Palm Beach's plan. Mr. Bradford stated that a properly done RFP in the Town of Palm Beach should take 60 to 90 days. Mr. Ross asked if the time can be cut to 60 days, and what media is used for ads. Ms. Struder answered with a couple of media names. Mr. Hanes suggested sending the RFP to some national media groups. Mr. Ross asked Mr. Bradford to inquire with some other town managers in Florida. Mr. Bradford asked for the reason the Town of Palm Beach board selected Segal Rogerscasey in 2012. Mr. Ross answered that the thought was to use a different strategy with a new consultant in order to consolidate all the funds and that some people were quite dissatisfied with a former consultant. Mr. Hanes stated that the other factor was there were two consultants representing three different Palm Beach boards. Mr. Hanes stated that the new and larger Town plan was in need of one consultant to serve the new board, and to start the process of asset allocation modeling. Mr. Goldsmith stated that it took long to consolidate.

VI. Investment Return Assumption

Mr. Goldsmith requested if there is an assumed rate of return recommendation. Mr. Ross stated that the assumed rate of return may be derived from what is concluded from what the consultant recommended. Mr. Hanes stated that many of the state retirement plans are adopting lower retirement investment return assumption rates, but typically the changes are not dramatic. Mr. Ross stated that there are some impractical problems when making extreme decision that you have to worry about. Mr. Hanes commented on the issue as it relates to the Town costs when there is a reduction in the assumption. Mr. Linn stated that the state reviews the actuarial evaluations every year and tries to get the public retirement plans to go lower. Mr. Bradford discussed that as of nine months ago the average for the state of Florida was a 7.51% rate of return, and the Town's average is 7.50%. Mr. Cooper noted that to lower the rate will result in a lower funded percentage. Mr. Ross stated that as long as the rate of return is right, it should not matter what the funding percentage is.

Mr. Hanes discussed that the Town staff will start the RFP process. Mr. Ross suggested a special meeting. Ms. Struder asked the board how the board would like to review the proposals. Mr. Ross answered that he would like all the proposals be provided to the board. Mr. Hanes asked the trustees to email him any questions they would like for the bidders to answer with their proposals. Mr. Ross suggested a few questions to Mr. Hanes. Mr. Stanton stated that he views that the Segal Rogerscasey creditably has been hurt by saying that within 10 years the rate of return is going to be substantially better.

VII. Other business

Mr. Hanes discussed an invoice received from Ice Miller.

Mr. Kaufman requested the March quarterly meeting to be moved to Monday the 7th of March. The board agreed without motion.

Mr. Ross made the motion to approve paying Ice Miller's invoice to date, but nothing further. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

VIII. Adjournment

Mr. Bradford made the motion to adjourn the meeting. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Respectfully Submitted,

Brett E. Madison, Secretary
Town of Palm Beach Retirement System