TOWN OF PALM BEACH

MINUTES OF THE RETIREMENT BOARD OF TRUSTEES MEETING HELD ON

Tuesday, November 28, 2023

I. CALL TO ORDER AND ROLL CALL

The Retirement Board of Trustees Meeting was called to order on Tuesday, November 28, 2023, at 9:00 am in the Town Council Chambers. On roll call, Chairman Stanton, Vice Chairman Carter, Trustees Copeland, Lamber, Parker, Debrincat, Guelli, and Marx, all members were in attendance.

II. APPROVAL OF AGENDA

Motion was made by Vice Chairman Carter, and was seconded by Board Member Debrincat, to approve the agenda as presented. The motion passed unanimously.

III. TRUSTEES COMMENTS

There were no comments from trustees.

IV. PUBLIC COMMENTS

There were no comments from the public.

V. APPROVAL OF MINUTES

Motion was made by Vice Chairman Carter, and was seconded by Board Member Marx, to approve the Minutes for the August 18, 2023, meeting as presented. The motion passed unanimously.

VI. ANNUAL REPORT, KAREN RUSSO, SALEM TRUST

1. Update regarding acquisition of TMI Holdings (owner of Salem Trust Company) by Argent Financial Group.

Ms. Russo provided a brief recap of the account. She stated that there are five accounts, which includes a mutual fund account and one sundry account. There are three separately managed portfolios and explained Salem Trust's oversight of these accounts. She spoke regarding the authorized signer form that is on file. She stated that as soon as the firm receives a letter from the Town's audit, they will respond and comply.

She stated that their parent company, TMI Holdings merged with Argent Financial Group and will now be called Argent Institutional Trust Company. Salem Trust will continue with the same name, but will be a division of Argent Institutional Trust Company, and stated that there should be no impact to the Town's services. Mr. Stanton inquired about the history of the new parent company, to which Ms. Russo replied. She also spoke regarding the leadership of Salem Trust as a result of the merger. She also responded to a question from Chair Stanton regarding working with the Town of Palm Beach. Mr. xx inquired about whether Argent owned any other custodial firms prior to the acquisition of Salem Trust, to which Ms. Russo responded.

2. Assignment, Ratification, and Assumption Agreement

Ms. Rustin stated that the Board must approve the assignment, ratification and assumption agreement that documents the name change and new entity.

Motion was made by Vice Chairman Carter, and was seconded by Board Member Copeland, to approve the Assignment, Ratification and Assumption Agreement. The motion passed unanimously.

VII. QUARTERLY FINANCIAL REPORT AND DISBURSEMENTS, AMY WOOD, ASSISTANT FINANCE DIRECTOR

Ms. Wood reviewed the quarterly financial report and disbursement schedule for the Town's retirement system as of September 30, 2023. Reporting total assets of $252,051,776, total liabilities $76,004, with resulting net assets held in trust of $251,975,761. Statement of changes in net assets showed total additions were $39,285,334 and total deductions of $24,808,454, resulting in net increase of net assets to date of $14,476,880. Investment and Operating Expenses for the Fiscal Year were $932,281. Historical Investment and Operating Expenses from FY 2019 to date on Page 5. The Cash Flow projection from November 2023 through January 2024 showed the scheduled transfer of funds from money manager accounts was $3 million. Page 7 shows the Cash Flow Projection for FY 2024. In the first quarter a total of $5.5 million was transferred to the Retirement checking account. Disbursements for the period August 12, 2023, through November 17, 2023, totaled $604,963.98.

Motion was made by Vice Chairman Carter, and was seconded by Board Member Copeland, to approve the report. The motion passed unanimously.

Ms. Wood announced that she will be retiring at the end of the year and introduced her replacement, James McInnis.

VIII. INVESTMENT REVIEW, DAVE WEST, CFA, ANDCO CONSULTING

Clerk's Note: Item VIII.2 was heard prior to Item VIII.1.

2. Quarterly Report and October 2023 Flash Report

Mr. West provided a summary review of the quarterly book. He spoke regarding a swing in sentiment at the end of the year. He stated that equities were the primary drivers of investment returns and spoke regarding the strong end of the year performance for S&P 25. He spoke regarding bonds not performing as well as projected. He spoke regarding "Magnificent Seven" stocks that accounted for majority of returns. He spoke regarding the impact on active manager performance. He stated that the Town's managers were close to benchmarks for the year. He spoke regarding the Treasury Yield Curve chart and spoke regarding what had occurred in the bond market at the end of the year. He reported that the fiscal year total fund net is up 9.05%; and the total fund policy benchmark was up 13.69%. He spoke regarding changes the company made to how the reports are being presented.

He stated that the preponderance of returns was from equities and the deficits were from private investments. Mr. West addressed a question from Mr. Stanton regarding the mark to market from private equity firms. Mr. Stanton requested that Mr. West send an explanation of the dramatic drop in the real estate returns, to which Mr. West responded. Mr. West provided additional information on specific funds that declined. Mr. West responded to a question from Mr. Stanton regarding funds that are no longer being invested in but are still being tracked. Mr. Copeland inquired about any outperformance of the fund since the inception, to which Mr. West responded. Mr. West reported that the total funds in the beginning of last fiscal year were $234,869,090 with the contributions over the past fiscal year were $6,468,808 and distributions of -$24,418,138, management fees paid were -$685,648 and other expenses were -$212,419. He stated that the total market value of the fund on 09/30/2023 was $250,572,437.

1. Attribution & Summary Memorandum

Mr. West spoke regarding the proposed policy updates to the Investment Policy Statement. He stated that the recommendations are to make target allocation changes as follows: reducing international equity allocation by 5%, global macro allocation to 0%, reduce alternatives target to 3% and reduce private equity target to 7%. The proceeds would be moved to liquid reserves, which would be increased to 4%. Also to be increased would be domestic equity allocation by 2%. The remainder would go into fixed income. He reviewed the capital market assumptions, which were adopted from the JP Morgan methodology. He stated that the focus on these changes is to reduce investment volatility. He answered a question from Mr. Carter on the current volatility of the fund. He stated that he is proposing eliminating any benchmarks that are CPI plus a fixed number and explained the reasoning for this recommendation. Chair Stanton inquired if Mr. West will be making this recommendation to all of his clients, to which Mr. West responded. Discussion ensued. Chair Stanton requested that Mr. West provide a report on how the numbers were calculated using the current benchmarks compared to what the numbers would be if the allocations were changed per Mr. West's recommendations. Further discussion ensued. Mr. Copeland stated that he believes that meeting actuarial requirements is the priority and that before making the benchmark changes that they understand that the benchmarks are tied to the actuarial requirements. Mr. West responded and explained the range changes.

Mr. Parker stated that the mandate for the Board is to ensure that the retirements of the participants are fully funded. He spoke regarding an increase in the underfunded number, and he stated that he believes that it's more important to be meeting the actuarial requirements and that whatever the benchmarks are is not important. Mr. West stated that his firm can generate a report that will exhibit the information that the Board is requesting.

3. <u>Investment Policy Statement Draft (for proposed changes)</u>

Mr. West provided an overview of the proposed changes to the Investment Policy Statement on the allocations. He explained the reasoning behind the proposed changes. Discussion ensued.

Clerk's Note: The Board heard Item VIII.4 prior to making the following motion.

Motion was made by Board Member Lambert, and was seconded by Vice Chairman Carter, to approve the proposed allocation changes to the Investment Policy Statement. The motion passed unanimously.

4. <u>Private Debt Manager Review</u>
   <u>- Ares Senior Direct Lending Fund III</u>
   <u>- Golub Capital Partners 15, L.P.</u>

Mr. West provided an overview of the private debt managers that were reviewed in the report. Chair Stanton spoke in support of Private Debt Managers. Mr. West provided a summary of each manager. He spoke regarding his recommendation for the Town to approve Ares Senior Direct Lending Fund III. Discussion ensued. Mr. Parker spoke regarding these types of asset class being a long-term part of the portfolio. In response to a question from Mr. Parker, Mr. West spoke regarding the process for vetting these managers. Discussion ensued.

Motion was made by Vice Chairman Carter, and was seconded by Board Member Copeland, to approve the proposal to commit $10 million to Ares for private credit, 4% of portfolio today. The motion passed unanimously.

Clerk's Note: At this time, the Board returned to the discussion on Item VIII.3.

5. <u>Market Value update and investment recommendations</u>

Mr. West presented the market value update and the investment recommendations. Mr. Stanton expressed concern that the funds were being taken out of Fidelity Index Funds and stated that he preferred to see it being taken out of Emerging Markets. Discussion ensued. Mr. Stanton recommended adding 2.5 million rather than 5 million.

Motion was made by Vice Chairman Carter, and was seconded by Board Member Parker, to liquidate all holdings in Allspring Emerging Markets equity fund and add $2.5 million to Serenitas Investment. The motion passed unanimously.

6. ADMINISTRATOR REPORT, EDEMIR ESTRADA, GRS

Ms. Estrada provided a brief overview of the Administrator Report. She stated that two employees have retired, and that there are 16 DROP participants, 421 retirees and 297 employees that are contributing to the pension plan. She answered a question from Vice Chairman Carter regarding an open house for employees in October.

Motion was made by Vice Chairman Carter, and was seconded by Board Member Lambert, to approve the report. The motion passed unanimously.

7. ATTORNEY REPORT, JANICE RUSTIN, ATTORNEY

   1. Board's Report on Policies on Decision Making and Fiduciary Standards for December 2023

      Ms. Rustin provided background information on the report, which is in compliance with HB 3. She stated that the report must be approved by the Board and sent to the State.

Motion was made by Vice Chairman Carter, and was seconded by Board Member Parker, to approve the report. The motion passed unanimously.

8. UPCOMING MEETING SCHEDULE

   a. Friday March 1, 2024 at 9:00 am

9. ANY OTHER MATTERS

There were no other matters discussed.

10. ADJOURNMENT

There being no further business, a motion was made by Vice Chairman Carter and seconded by Board Member Copeland that the Retirement Board of Trustees meeting adjourned at 11:30 a.m.

Respectfully Submitted,

Tom Parker   3·22·24

Tom Parker, Secretary
Town of Palm Beach Retirement Board of Trustees