The Town of Palm Beach Retirement System
Board of Trustees
Minutes of November 22, 2013

I. Call to Order and Roll Call

Chairman Snow called the meeting to order at 9:00 am in the Town of Palm Beach Town Hall Chambers, 360 South County Road, Palm Beach, Florida 33480.

In Attendance:

TRUSTEES:
Raymond Snow, Chairman
Gerald Goldsmith, Chairman Pro Tem
Wilbur Ross
Robert Garvy
Peter Elwell, Town Manager
Brett Madison
Nicholas Caristo

Absent:
James McC. Wearn, Secretary

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Director of Finance
Danielle Olson, Director of Human Resources
James Linn, Attorney
Rosemary Guillette, Segal Rogerscasey
Ms. Susan McDonald, Segal Rogerscasey (phone)
Anthony J. Teberio, State Street Bank
Councilman William Diamond

Mr. Snow announced that Mr. Wearn has been ill and is absent from today's meeting.

II. Approval of Agenda

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

III. Comments by Trustees

Mr. Madison noted that he has been meeting with Town employees regarding the pension changes and the importance of meeting with the ICMA representatives, and that the meetings have been going well.

Mr. Snow announced the promotion of Detective Caristo to Sergeant and offered his congratulations. He also expressed his concern for the lack of participation on the board from the Fire Department. Mr. Elwell stated that he will be following up on this issue with Fire Rescue Management.

Mr. Snow clarified issues on the attendance rules that have been brought up over the past few meetings. Mr. Linn made comments to clarify the absentee policy and the requirements of the ordinance. Mr. Snow noted that Mr. Wearn's absence is excused. Mr. Elwell clarified that special meetings are exempt from the attendance requirements.

IV. Approval of Minutes: June 14, August 16, and August 23, 2013

Mr. Snow noted that the June 14 minutes were deferred from the last meeting.

Mr. Goldsmith made a motion to approve the June 14, 2013 Minutes. Mr. Garvy seconded. The trustees unanimously adopted the motion.

Mr. Goldsmith made a motion to approve the August 16, 2013 Minutes. Mr. Garvy seconded the motion. The trustees unanimously adopted the motion.

Mr. Goldsmith made a motion to adopt the August 23 Minutes. Mr. Ross seconded the motion. The trustees unanimously adopted the motion.

V. Financial Report, Jane Struder, Finance Director

Ms. Struder briefly presented the financial report for September 30. She noted that the audit begins in December. Mr. Goldsmith and Mr. Garvy requested that the manager fees be listed with the accounts that they manage. Mr. Garvy suggested that a history of the expenses of running the funds be added to the report.

Mr. Ross made the motion to approve the report and to file for audit. Mr. Madison seconded the motion. The trustee unanimously adopted the motion.

Ms. Struder presented the disbursement accounts report.

Mr. Goldsmith made a motion to approve the disbursements. Mr. Ross seconded the motion. The trustees unanimously adopted the motion.

Ms. Struder discussed a memorandum co-authored with Mr. Hanes regarding her experience with the custodian and discrepancies found while reconciling the quarterly statement. Mr. Hanes provided information regarding his recent experience with custodian regarding investment transactions that left a deficit in the cash account. Mr. Hanes discussed the procedures that have historically been followed by consultant and custodian in executing investment transactions. Ms. Guillette explained how the transaction was processed by Segal, and stated that no notification from State Street regarding the overdraft had been received.

Mr. Garvy asked if any trades were required to be reversed or if any losses occurred. Ms. Guillette responded no. Mr. Ross inquired if there have been similar problems with State Street. Ms. Guillette provided a detailed discussion regarding the issues. Mr. Snow noted that a negative cash balance has been reported on the day the fiscal year ended, September 30, 2013.

VI. Matter of Custodial Services, Anthony J. Teberio, State Street Bank

Mr. Terberio offered his apologies for the issues discussed by Ms. Struder and Mr. Hanes, and provided an explanation of how the account was overdrafted. He noted the main cause for these issues has been due to employee turnover and having the wrong set of eyes on the account during the transitioning of employees. Mr. Terberio stated he will be handling the account from now on. Mr. Ross questioned if State Street's systems are adequate to handle the needs of the Town. Mr. Elwell expressed his concern regarding the issues with State Street and requested Mr. Garvy to explain why this was not shocking to him. Mr. Garvy explained that over the past 40 years he has dealt with the top 25 to 35 custodians in the world; and that State Street ranks among the best. He

noted that their problems are often related to personnel turnover, and the details and habits of the custodian are impacted by those changes. Mr. Garvy noted that State Street has had a lot of turnover in the past year, but that when there are highly experienced people on the account with the systems that State Street has that these type of problems should be minimized.
Ms. Struder expressed her concerns regarding lack of responsiveness and noted that the last 2 consultant representatives with State Street had been extremely responsive. Mr. Teberio noted that the past representatives were much better than the employees that were recently on the account. Mr. Garvy reiterated that the trustees are displeased with the performance of State Street and that they should be put on notice. He commented that changing custodians is a nightmare and often a disappointment. Ms. Struder agreed with Mr. Garvy's suggestion.

Mr. Ross made the motion to put State Street on probation and to schedule a search process for the next quarterly meeting in case they have to be replaced. Mr. Elwell seconded. Mr. Garvy asked if Ms. Guillette could prepare a tutorial of the custodian marketplace. Mr. Ross expressed that the Town has been put in a ridiculously embarrassing position and noted how concerned the employees would be when they see their pension fund as an overdraft as of fiscal year end and that it is an unacceptable position to be in. Mr. Elwell expressed concern regarding the RFP process and noted that if it is administratively cumbersome and costly, then he is okay with taking a look at the situation in February.

Ms. Guillette explained the process for a custody search and that the process could take over 6 weeks. Mr. Elwell inquired regarding the cost of this process. Ms. Guillette stated that she believes the contract is all inclusive but if it's not it would be $20K. Mr. Elwell stated if it is free then we should seize the moment and position ourselves to move aggressively in February, and if it costs $20k then we should wait until it's absolutely necessary. Mr. Garvy stated that he's concerned about proceeding too quickly due to the complications of selecting a new custodian, and that going through the process at this point would be premature. He stated that he would rather have the opportunity to see how they (State Street) respond and how Ms. Struder and the consultant recommend that a change be made before moving forward. Mr. Goldsmith agreed with Mr. Garvy.

Mr. Ross made the motion to put State Street on probation until the next quarterly meeting on February 20, 2014. Mr. Elwell seconded the motion. The trustees unanimously adopted the motion.

VII. Disability Claim, Jim Linn, Attorney

Mr. Linn briefly discussed the memorandum outlining the board's duties with respect to disability determinations. He noted that the board's findings must be supported by competent substantial evidence, and that a person applying for disability must be afforded due process. He provided alternatives for handling disputed issues and conflicting medical reports. Mr. Ross inquired who decides if the physicians are qualified. Mr. Hanes explained how the physicians are selected.

Mr. Elwell stated that workers compensation is managed through the Town's occupational health nurse and the Town's risk manager. He also stated he has no concern regarding the reliability of the physician's report but would like clarification on the process. Mr. Linn stated that the Town's process requires a report from an independent physician. He noted an employee can be disabled for the purposes of worker's comp but not for pension purposes, because the standards are different.

Mr. Linn discussed the disability retirement of Police Officer Bruce Radi. Mr. Elwell discussed a paragraph from the report where the officer does not wish to undergo treatment for his current condition using injections or surgery. He stated this is a concern to him because the condition has a treatment albeit a longer recovery and rehabilitation, and a disability retirement may be an extensive or unnecessary solution. Sergeant Caristo explained that the procedure that Mr. Radi has to go through is extremely invasive and could have many complications because it would require his middle spine to be accessed through his chest versus the back. Mr. Garvy noted that the doctor indicated that Mr. Radi was neither mentally or physically capable to continue his work, and from the facts given the injury seems to support the granting of a disability. He also noted that the opportunity to receive additional treatment was declined by the applicant, and inquired should the applicant decide to pursue medical treatment that results in him being able to return to work that the board's approval would be subject to withdrawal? Mr. Hanes stated that there is nothing in the code that requires the person to take risk in order to get approved, but the board can place the person on an annual review which typically can last until the person is at normal retirement age.

Mr. Elwell stated that he is okay with approving with an annual review and also with deferring the approval to receive additional medical and legal advice prior to approval. Mr. Garvy noted that he believes the board should make the decision now, and stated he did not feel additional advice is needed. He stated that the information presented by Mr. Linn is sufficient.

Several trustees discussed a need for the translation in laymen terms of the physician reports. Mr. Hanes expressed his opinion that to do that the board would need to engage with someone from the same medical profession and it may become an invitation to an appeal by claimant if it is counter to the first opinion. Mr. Linn confirmed that the board has the ability to withdraw approval upon annual review if member is no longer disabled based on the law.

Mr. Ross made the motion to approve the disability application. Mr. Madison seconded the motion. Mr. Elwell noted that the motion be contingent on the annual review. Mr. Ross and Madison agreed. Mr. Hanes noted that the physician approved the application as duty related, and it should be part of the motion. Mr. Ross and Madison agreed. Mr. Hanes stated that tomorrow, November 23, 2013 would be appropriate date representing the first day of his disability retirement. Mr. Ross and Mr. Madison agreed. The trustees unanimously adopted the motion.

VIII. Attorney Report, James Linn

Mr. Linn reviewed the change in the state law that requires that in every public meeting the public must be given an opportunity to comment on items coming to the board for official action. He reviewed how the board could incorporate this requirement into the agenda. Mr. Elwell noted that it would be appropriate to implement the way Mr. Linn suggests. Mr. Linn was asked to return at the next board meeting with a policy for the board to review.

Mr. Linn reviewed the memo regarding the defense of marriage act and the IRS guidelines regarding same sex marriage benefits in states, such as Florida, that do not recognize same sex marriages. He noted that under the pension plan they must be treated as the spouse if marriage occurred in a state where same sex marriage is recognized. Mr. Goldsmith noted we will follow the law.

There was a brief break.

Mr. Linn noted it would be good for the board to adopt a procedure in place for a disputed claim. It would be a two-step process - initial determination and then a full evidentiary hearing if there was a disagreement with the applicant. The board would have the option of using a hearing officer. He stated he would like to prepare it for the next meeting for the board's review.

Mr. Elwell agreed with Mr. Linn but noted his personal preference not to utilize a hearing officer. Mr. Garvy agreed. Mr. Hanes agreed, and commented there currently is not an appeal process. Mr. Garvy noted perhaps there should be an officer during the appeal. Mr. Elwell noted that the hearing is a first level of appeal, and should an employee disagree at that level there would be the opportunity for a full evidentiary hearing. He added that beyond that they would go to court. Mr. Linn agreed and provided additional information.

Mr. Elwell made a motion for Mr. Linn to draft an appeal procedure for claim disputes. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

IX. Administrators Report, William Hanes, Administrator

Mr. Hanes stated that the trustees had asked that he research the reason the 10 year Treasury rate began serving as the way employee contributions were to be credited on an annual basis. Mr. Hanes noted that in August of 2004 there was discussion by the General Employee Board regarding the annual credits made to employee accounts. He discussed that the trustees decided the using the 10-year Treasury rate was reasonable.

Mr. Hanes noted his office has begun working with the auditor's office, and the auditor should be reporting to the board in February.

Mr. Hanes noted he is spending a lot of time on death cases and matters of court appointments of beneficiaries as well as a matter of establishing guardianship. He stated that there have been five retiree deaths in the last two months.

X. Retirement/Benefit Payments, William Hanes, Administrator

A report was provided the trustees regarding the payment of disability benefits paid to Mr. Brad Kliphouse, as was previously approved by the board.

XI. Quarterly Investment Report, Rosemary Guillette, Segal Rogerscasey

A. Report Guidelines Status
Ms. Guillette reviewed the Report of guidelines status.

B. ICMA/DC Discussion

Ms. Guillette provided demographic information regarding the DC plans. She reviewed the 457 Plan and her recommendations. She reviewed the fees for revenue share that are paid on an annual basis. She discussed the fees charged for managed accounts. She noted that some of the funds would be changing and that 6 funds have recently been removed from the ICMA list. Mr. Elwell expressed concern on shrinking the menu while employees are making choices. He recommended that the trustees defer action until the February meeting, noting that the outcome of the one on one meetings and plan changes will affect the outcome of Ms. Guillette's recommendations. Mr. Elwell clarified he would like to know what funds ICMA believes are best for employees. Ms. Guillette stated that as long as the vendor can provide the employee with a type of fund that meets their needs it does not matter if it changes. Mr. Madison agreed with Mr. Elwell and stated that now that employees are being educated it would be beneficial to wait until February. Mr. Garvy inquired if there was a concern that ICMA would have a problem with the changes. Mr. Madison noted that it would provide a sense of comfort for the employees to know that there is someone looking out for them.

C. Private Equity Secondary Discussion

Ms. Guillette reviewed the private equity search and their recommendations. Mr. Ross noted that spreads have gotten narrow and inquired why now is a good time to add to this category. Ms. Guillette stated that the portfolio is based on multiple vintage years. The trustees discussed the matter of vintage years. Mr. Ross noted there is nothing in the review that discusses the change in discount. Mr. Garvy discussed that private equity leaders appear to be pulling back on commitments in this area due to the rates and reduced returns, and while it appears to be a good area to be in there should be caution. Ms. Guillette stated Segal Rogerscasey has performed the due diligence. Mr. Ross requested that they address where spreads are now in relation to where they were in the past. Ms. Guillette made note of the performance report detailing private equity performance. Mr. Ross requested that the consultant look at discounts.

D. Real Estate Discussion

Ms. Linda McDonald, Vice President – Real Assets, Segal Rogerscasey, discussed by telephone matters of core and public real estate. Mr. Garvy noted the board's concerns have been reaffirmed by the discussion. He also inquired if the fees are performance based or fixed. Ms. McDonald stated most core managers charge between 90 and 110 basis points and some will also charge a performance fee. There was additional discussion regarding the fees. Mr. Ross questioned if the difference in standard deviation (or volatility) was based on the private sector not appraising as frequently. Ms. McDonald agreed and explained.

XII. Administrator Review, Chairman Raymond Snow

Mr. Snow presented the administrator review and provided a detailed discussion on Mr. Hanes and the performance of William Hanes, Inc. as administrator. Mr. Hanes made the observation that he believes this to be a good exercise as the trustees serve as fiduciaries, and it should happen with other service providers of the plan. He stated that it has been a great pleasure to work for the Board.

Mr. Ross moved that we retain Hanes Consulting. Mr. Goldsmith seconded. The trustees unanimously adopted the motion.

Mr. Linn noted that he works with a number of municipal pension plans throughout Florida and a lot of mediocre pension administrators, and stated that Mr. Hanes is one of the top administrators he deals with. Mr. Snow stated a review of the administrator should be done again in 18 months. Mr. Goldsmith stated that he agreed. All trustees indicated agreement.

XIII. Other Business

Mr. Snow reviewed the tentative schedule for the 2014 quarterly meeting dates. Mr. Snow noted that the next meeting will be held on February 21, 2014. Mr. Madison noted that he has a conflict with the February 21 date. There was discussion regarding alternate dates. The trustees agreed without objection that the quarterly February meeting is scheduled for Thursday, February 20th at 9am.

XIV. Adjournment

Mr. Goldsmith made a motion to adjourn the meeting. Mr. Ross seconded the motion. The trustees unanimously adopted the motion, and the board of trustees adjourned at 12:50 pm.

Respectfully submitted,

James McC. Wearn, Secretary
Town of Palm Beach Retirement System
(Mr. McC. Wearn is signatory to this instrument as Board Secretary, and did not attend.)