The Town of Palm Beach Retirement System
Board of Trustees
Minutes of November 21, 2014 Meeting

I. Call to Order and Roll Call

Chairman Snow called the meeting to order at 9:08 am in the Town of Palm Beach Town Hall Chambers, 360 South County Road, Palm Beach, Florida 33480.

In Attendance:

TRUSTEES:	**ALSO PRESENT:**
Raymond Snow, Chairman	William P. Hanes, Pension Administrator
Gerald Goldsmith, Chairman Pro Tem	Jane Struder, Finance Director
James McC. Wearn, Secretary	Lawrence Marino, Segal Rogerscasey
Peter Elwell, Town Manager	Rosemary Guillette, Segal Rogerscasey
Brett Madison	William J. Diamond, Council Member
Robert Garvy	Penny Townsend, Council Member
Michael Marx	
Daniel Wilkinson	
Wilbur Ross	

Chairman Snow announced that Trustee Marx was present, and in attendance of the meeting. However, he left the meeting for an on duty call as a Firefighter and will return when he can.

II. Administer the Oath of Office, Denise Carmona, Office of Town Clerk

Ms. Carmona administered the oath of office to Detective Daniel Wilkinson. Chairman Snow noted that Detective Wilkinson will occupy the unexpired term that expires March 31, 2016.

Chairman Snow recognized the presence of Mayor Gail Coniglio and Council Members William Diamond and Penny Townsend.

III. Approval of Agenda

Mr. Snow proposed a hand out regarding additional disclosure requirements be added at item VIII, with all other items placed in order.

Mr. Goldsmith made the motion to approve the agenda as amended. Mr. Ross seconded the motion. The Trustees unanimously approved the agenda.

IV. Comments by Trustees

Mr. Elwell made comments regarding his retirement from the Town, and thanked the trustees for their service on the board.

Mr. Garvy noted that there was an article he had read on Gabriel Roeder Smith regarding a lawsuit brought against them by the City of Detroit on the funding methodology. He requested that Gabriel Roeder Smith outline for the plan what methodology they have used in the past and to comment on this suit so the board can have an understanding.

Mr. Wearn expressed his appreciation for Mr. Elwell and thanked him for his guidance and leadership.

Mr. Goldsmith stated that he would like Gabriel Roeder Smith to give the board the percentage of how we are funded, what it's likely to be in the future, and how we are likely to get to a hundred percent funding.

Mr. Snow tendered his letter of resignation to the board, noting changes to the roles for which employees in firms may volunteer their service He commented that he will step down as of November 22, 2014. He thanked the board and prior town councils for allowing him to serve over the past ten years.

V. Public Comments

Mayor Coniglio expressed on behalf of the Town a thank you to several people for service rendered to the Town of Palm Beach. She thanked Chairman Snow and Mr. Elwell for their service on the board, and expressed sadness regarding their departures. She thanked Bill Hanes for his service to the board and Town. She commented that she is hopeful that Attorney Linn will be able to facilitate changes in pensions with municipalities across the state through his work with the legislature. She expressed her continued confidence in the retirement board amidst the many approaching changes.

VI. Approval of Minutes: August 15, 2014

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

VII Financial Report and Disbursements, Jane Struder, Finance Director

Ms. Struder briefly presented the unaudited quarterly financial report for September 30, 2014. She reviewed the report, and noted that she will not need to make an additional transfer from the money managers for the current quarter.

Mr. Elwell made the motion to accept the report and approved the disbursements. Mr. Garvy seconded the motion. The trustees unanimously approved the motion.

VIII. Gabriel, Roeder, Smith proposal

Mr. Linn discussed the letter provided from GRS related to the new state enacted requirements for disclosure and reporting of public pension plans. He explained that it will require more work to be performed by the actuary. He discussed that GRS is requesting \$5,500-\$6,500 for providing the additional report. Mr. Linn recommended that the board authorize the additional work be provided by the actuary.

Mr. Elwell discussed that the requirement under state law is not optional and that the additional report will not have any real impact on the plan. Mr. Goldsmith stated that he is in favor of the requirement in that he believes the lower discount rate is reasonable.

Mr. Garvy stated that since the new law is intended to provide the sensitivity to the plan's funding status by applying a 2% below return assumption, that he would like to recommend that the board authorize the report to reflect a 2% above the return assumption to show the sensitivity if the plan outperforms.

Mr. Ross made the motion to authorize the actuary to provide the report at the February 20, 2015 board meeting at a cost of between \$5,500 and \$6,500, and to include the analysis based on a 2% above the return assumption. Mr. Elwell seconded the motion. Mr. Wearn requested that there be a notation on the report's various publications that identifies the report and explains that it is a statutory requirement. Mr. Ross and Mr. Elwell agreed to the modification. The trustees unanimously approved the motion.

IX. Proposed Ordinance for DROP and Share, Jim Linn, Attorney

Mr. Linn reviewed the new ordinance impacting DROP and Share participation. He noted that the ordinance was prepared with the guidance of the tax council, Mary Beth Braitman with ICEMiller. Mr. Elwell explained the ordinance and discussed it has been read for the first time by Town Council and will go back on December 9th for final approval.

Mr. Elwell stated a motion is required to authorize all the share account Firefighters who currently participate in the Town self-directed method plan be advised that between now and December 31 they will be provided a choice to transfer to the system investment method if they wish to do so.

Lt. Marx returned to the meeting.

There was a 2-minute break to consider the motion.

Mr. Elwell made the motion to allow flexibility to the firefighters share account holders in the manner described. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Ms. Struder discussed the new system investment method for calculating rate of return. She stated that the return rate would be calculated quarterly net of fees. Mr. Elwell explained that it is a trailing 5 year average and the reason for the word estimated is because the three plans were merged into one only recently and the historical data with the prior three plans use different methods. He discussed that Segal Rogerscasey will prepare an estimated trailing five year average until when there is a full 5 years of uniform data with the consolidated retirement plan.

Mr. Ross made the motion to accept the method of calculation of credit for the system investment method as described by Ms. Struder. Mr. Elwell seconded the motion. The trustees unanimously adopted the motion.

Ms. Struder stated that DROP statements will be provided to participants on a quarterly basis. She requested from the board if DROP statements should be issued before or after board meetings. She explained that historically the quarterly statement for DROP Firefighter participants with the system investment method would wait until the board meets and approves the quarterly investment report. She explained that the consultant always provides the plan's net return prior to the meeting, and she proposed that statements be based on calculations from the initial performance report provided by the consultant prior to a board meeting. Mr. Ross stated he would prefer the employees receive the statements earlier.

Mr. Wearn made the motion to apply and distribute statements based on the rate of return provided by the consultant prior to the scheduled quarterly meeting. Mr. Garvy seconded the motion. The trustees unanimously adopted the motion.

Ms. Struder requested that the board approve the manner of distribution to be calculated when a distribution is made pro rata after the end of a quarter and prior to the end of the following quarter.

Mr. Wearn made the motion to apply the pro rata portion according to the calculation made from the prior quarter. Mr. Elwell seconded the motion. The trustees unanimously adopted the motion.

Ms. Struder discussed that there are approximately five active Firefighters with system investment DROP accounts. She commented that she intends to calculate the return for those people as it has been calculated, and before the new law goes into effect. She stated that the current calculation will be used for the September 30, 2014 and December 31, 2014 quarterly statements, which will be different than the way calculations will be made afterward. Likewise, Ms. Struder commented that a quarterly administrative fee of .06

has historically been charged to DROP and Share participants, and she will continue the charge through the December 31, 2014 statement.

Ms. Struder discussed that there will be one final Share forfeiture representing approximately $13,000 from a former non-vested Firefighter who terminated before April 1, 2012. She stated that she will allocate and distribute pro rata to the eligible Share participant accounts. She stated that she will reissue statements with the forfeiture amounts allocated.

Lt. Marx left the meeting to attend a call to duty.

X. Award of RFQ No. 05-2015 for DROP and Share software, Jane Struder, Finance Director

Ms. Struder reviewed the RFQ for DROP and Share software from the proposal provided the trustees by Ms. Ellen Schaffer, who currently provides the software that calculates the retirement benefits for participants of the plan. She commented that Ms. Schaffer is a sole source vendor with other municipality clients across the state where she provides participant tracking and statements for DROP plans. Ms. Struder discussed that the proposal provides a $15,000 charge for doing the tracking and statements for DROP accounts, and an additional $1,000 for the same services related to Share accounts. She recommended the purchase of the source code license at a cost of $1,000 so that the board will own the software. She requested the board approve purchase of the new software and the extended support contract for $2400 per year. Mr. Wearn asked Mr. Linn if he had reviewed the proposal. Mr. Linn stated he had reviewed the proposal and had made a few technical revisions that were agreed to by the Licensor. Mr. Linn concurred with Ms. Struder's recommendation.

Mr. Wearn made the motion to approve the purchase of the license agreement, source code license, and extended support as proposed by Ms. Struder. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Lt. Marx returned to the meeting.

XI. Disability Review

Mr. Hanes discussed the annual disability review of a participant. He explained that the same physician that reviewed and approved the person initially approved on re-review. Mr. Ross asked if the person is employed. Mr. Hanes stated not to his knowledge. Mr. Linn advised the board that no action is necessary, and the person continues to receive his monthly benefits if no action is taken.

Mr. Hanes inquired of the board if there is an interest that the person be reviewed next year. Mr. Wearn stated that he believes the original approval was made subject to annual reviews, and it should remain that way until the board changes what has previously been approved. Mr. Madison inquired of Mr. Hanes if there are other members drawing disability. Mr. Hanes stated that there are several other members drawing disability. Mr. Madison asked if the board is reviewing all others. Mr. Hanes stated no. Mr. Linn discussed that the code provides the board the authority to review a case at any time.

Mr. Garvy discussed his opinion that for a disability member determined by a physician to be permanently disabled and continues to be unemployed, then there does not seem to be reason for additional reviews. Mr. Ross agreed. Mr. Madison commented that if the board is not reviewing all disability cases, then it should not review just one.

Mr. Elwell suggested that a simple questionnaire be developed for the board at the February 20 meeting. The trustees without vote agreed that Mr. Hanes and Mr. Linn should develop an annual questionnaire that will be reviewed by the board at the February 20, 2015 board meeting.

There was a 5 minute break.

XII. Quarterly Investment Report, Rosemary Guillette, Segal Rogerscasey

A. Performance Review

Mr. Marino briefly reviewed the Quarterly report. He discussed the performance report for September 30, 2014. He commented that the composite performance compared to the index (S&P 500) was up 8.34%. He made comment that the markets have been good with exception of small caps and internationally funds. Mr. Marino noted that the fund continues to be a little out of balance because we are still funding real estate and private equity.

Mr. Marino discussed the total fund returns were down for the quarter and year to date, and discussed that Geneva has not performed well.

Mr. Goldsmith asked Mr. Marino if there is anything to worry about with the last quarter being a wonderful market when we did not do so well. Mr. Marino answered that the market was wonderful in large cap stocks, but not so wonderful in small cap stocks. He stated that the market was pretty good in bonds.

Mr. Garvy made inquiry regarding the past underperformance at Harris, and whether there is anything going on that has impacted performance. Mr. Marino noted the strong long-term performance, but that the last year was a dramatic drop in performance. Mr. Marino commented there has been no change in staff or processes, and he believed it is a result of some poor stock selections.

Mr. Garvy made inquiry about Goldman Sachs's underperformance. Mr. Marino commented that he too has some problem with the numbers within the universe. Mr.

Ross stated that he is aware of quite a few of other funds that are dropping Goldman Sachs for the same reason. Mr. Garvy expressed concern as to whether Goldman Sachs is too big.

B. Geneva Capital, Scott Priebe

Scott Priebe gave an overview of the transaction (acquisition by Henderson Global Investments) and matters of fund performance.

Mr. Ross asked what Henderson adds. Mr. Priebe discussed mid cap and small cap strategies, and explained Henderson's interest to marketing, risk analytics, and compliance at Henderson.

Mr. Priebe reviewed past performance of Geneva Capital.

Chairman Snow commented that he perceives that some of the holdings have been very good long term with capital gains and that it appears the newer positions have not performed very well. He asked if the growth funds might be turning to value. Mr. Priebe discussed several examples of holdings that have experienced growth.

Mr. Garvy asked about client terminations. Mr. Priebe commented that 10% of the clients have moved on after the acquisition.

Mr. Ross stated he is struck by the fact that the most recent purchases have not performed well at all. Mr. Priebe stated it was misleading, and discussed each holding on the list. He commented that the current quarter has seen much improvement.

Mr. Priebe left the meeting.

Mr. Garvy stated that he believed Geneva should be retained, but they should be watched closely. He stated he is reassured by the buyout. Mr. Ross stated that he questions the underperformance, and it seems to have started when they began thinking about selling the business. He stated that he is a little skeptical. Chairman Snow stated that the correlation with the acquisition is certainly an interesting one, and it probably distracted them and probably did have an impact. Mr. Ross questioned that if they use relatively unleveraged companies why they should be inherently more volatile? He stated it seems inconsistent with their stated strategy.

Mr. Wearn stated that Geneva's performance since September, 2014 seems to signal a reversal and maybe the board should look at them through the remainder of this quarter. Ms. Guillette commented that Geneva has a lower standard deviation than the benchmark over the last five-year period. Mr. Garvy expressed that the fund has a history in the down period of having significant variation from the index on relative performance, but tend to reverse that trend substantially with the upturn. He commented that he would be concerned about terminating the fund after they have gone through the rough period that appears to have turned upward over the last 5 months.

Mr. Marino stated this is probably a good case for staying with the fund. Mr. Ross and Chairman Snow agreed.

C. Goldman Sachs, Ron Arons and Jose Majahmar

Ron Arons and Jose Majahmar were present and made the presentation.

Mr. Garvy noted several performance concerns and asked that the concerns be addressed. Mr. Arons discussed the matter of size and performance of the fixed income fund.

Mr. Ross asked how much growth in assets has been experienced with the fund over the last 5 years. Mr. Arons answered that over the last 5 years the core business has grown, but he does not have the amount. He stated the biggest growth area over the past 5 years has been with emerging markets, Libor plus, and unconstrained fixed income strategies. He discussed matters of various strategies and performance of the fund.

Mr. Ross commented that the fund made the decision to be underweighted relative to the cap in high yield, and noted that it contributed to the underperformance. Mr. Arons replied that the fund is not underweight, but over weight in high yield because there is no high yield with the benchmark in regard to the strategy. He stated that Mr. Ross is correct and the fund could have held more credit within the portfolio for the core plus strategy, and noted that there is more credit in other strategies with other objectives regarding risk.

Mr. Garvy discussed the lack of performance and wondered if Mr. Arons is suggesting that the universe is incorrect. Mr. Arons stated he is not saying the universe is incorrect, but that there is a wide divergent of how managers look at the strategy that they have implemented. Mr. Garvy expressed his concern that there is 270 people in the macro and bottoms up approach, and that there seems to be too many people to turn it into something meaningful. Mr. Arons answered that he believed most fixed income institutions are this size and discussed the role of senior management that oversee the employees. He stated there are defined portfolio managers for each fund as well as managers responsible for the portfolio managers, with dedicated teams and the diversification of teams and management with each strategy within the management structure.

Mr. Garvy asked whether the board can expect performance will reverse itself. Mr. Arons stated that he believes the future market conditions will provide the fund the opportunities needed to create the alpha that will provide the performance expected from the board.

Goldman Sachs representatives left the meeting.

Mr. Garvy noted that the board holds 22% of the fund assets with Goldman Sachs, and 82% of the fixed income commitment to Goldman Sachs. He stated that he remains very concerned about having that amount of concentration with one manager that has been performing at half of their stated goal of excess performance since inception. Mr. Wearn concurred with Mr. Garvy and indicated his concern regarding fees paid for poor fund performance. Mr. Ross noted that based on the Goldman Sachs forecast that it does not appear the future will be of much improvement.

Mr. Marino noted the fund is over target by 4½% because we are waiting on the other asset classes. Mr. Garvy commented that the allocation we have with the model is based on a host of assumptions, and that it is valid to take action based on whether we believe the forecast. He stated that if we have rising interest rates over the next several years, then it could create a huge drag on the portfolio. Chairman Snow suggested that the board could reduce the allocation in this area. Mr. Ross stated he would be in favor of reducing the total exposure to fixed income and taking it out of Goldman Sachs.

Mr. Ross made a motion to reduce by $9 million from Goldman Sachs, and figure out where to place the money. Mr. Garvy seconded the motion.

Chairman Snow clarified that the total allocation to fixed income will remain the same and Mr. Marino clarified that this reduction would basically take it back to target.

The trustees unanimously adopted the motion.

Mr. Marino requested if the $9 million will go to the IRM short-term cash account. The trustees acknowledged agreement. The trustees discussed that there will be a draw down of the real estate funds over the next two years.

Mr. Wearn asked about when Segal Rogerscasey will be providing the annual asset allocation discussions. Mr. Marino stated it will probably be at the May board meeting.

D. Oaktree, Todd Liker and Dave DeMilt

Mr. Liker and Mr. DeMilt provided a company overview and discussed performance.

Mr. DeMilt gave a short overview of Oaktree.

Mr. Liker discussed matters of management of the fund, and commented on the six areas of focus for the firm – corporate debt, control investing, convertible securities, listed equities, distressed debt, and real estate. He discussed matters of the Oaktree Real Estate Opportunities Fund VII.

Mr. Liker discussed the real estate strategy for of structured finance. He stated the firm sees the most attractive opportunities today with commercial and non-US. He discussed how corporates created added opportunities with REITs after the Lehman collapse, and that the opportunity is gone today. He stated that there is not much activity for corporates in the real estate market.

Mr. Ross asked about the return targets. Mr. DeMilt answered that the return targets have not changed, looking for the high teens type IRRs.

Chairman Snow asked if Oaktree would take a Palm Beach commitment of $8 million. Mr. DeMilt answered in the affirmative.

Mr. DeMilt discussed the firms interests in non-US opportunities. Mr. Garvy asked about the opportunities for China. Mr. DeMilt discussed that Oaktree is well positioned to capture the opportunity when China is ready to take the losses Oaktree believes they will need to take.

Mr. Marino asked about fund raising at Oaktree. Mr. DeMilt stated that Oaktree expects a first close in February at $1.25 billion, with sizable commitments to the first close, and will continue to fund raise until next summer. Mr. Goldsmith asked if Oaktree does its own management of commercial properties. Mr. DeMilt answered that a large number are done as joint ventures, but the Oaktree operating partners stay very active in driving the strategy on the deal and make the decisions when it exits.

Mr. Garvy asked if Oaktree offers co-investment opportunities with any of the institutional investors? Mr. DeMilt answered in the affirmative, but commented it is driven by the commitment size to the fund. He indicated that the average investment size is too small for co-investors.

The Oaktree representatives completed the presentation and left the room.

E. Angelo Gordon, Adam Schwartz and Aliana Spungen

Mr. Schwartz and Ms. Spungen gave a company overview and discussed performance with the focus on the opportunistic fund. She stated that within the firm's real estate, the firm invests through a US opportunistic strategy. She stated the firm is very value added in strategy, and uses 55%-65% leverage.

Mr. Schwartz discussed the firm's principals, and a "sticks and bricks" approach. He stated the firms approach is to find local deals with firms representing specific asset classes in local markets with local relationships. He stated through those local relationships in the market the firm achieves better access to deal flow and execution. He discussed that most of the deals are coastal with major market leverage is usually below 60%. He stated the firm has an allocation for international investments up to 25%, with a focus on Asia and Europe.

Mr. Schwartz discussed past deals, indicating approximately one-fourth of the deals come from lenders. He indicated the firm generally has a focus for off market opportunities, at big discounts.

Mr. Garvy asked how the next three years will be different from 2005 in the sense that what Mr. Spungen has described, and how to avoid buying the fund entering at the top of the market? Mr. Schwartz answered that the firm intentionally keeps the leverage low, and that the firm does not see the same aggressive underwriting and leveraging as it was in 2005. He stated the firm believes the cap rates will increase and that fundamentals are in good shape. He commented you can buy real estate at attractive discounts or from mismanaged properties.

Chairman Snow asked if the real estate opportunistic model is getting crowded. Mr. Schwartz replied they believe real estate is very inefficient and there is always sub-performing assets, but it is hard to find.

Mr. Garvy asked about the size of the fund. Mr. Schwartz replied approximately $1.5 billion.

Ms. Guillette asked about fund raising to date. Ms. Spungen replied that the first closing will be in early December, and another closing around Christmas. She added that by at the end of the year the firm expects to have raised $300,000 to $400,000. She stated a final closing is anticipated in the spring.

The E. Angelo Gordon representatives finished the presentation and left the room.

Mr. Ross remarked that he likes the Oaktree strategy of going to smaller markets than trying to compete in New York City. Mr. Garvy stated he liked the discipline at Oaktree a lot and that they focus in secondary markets rather than the big markets. Mr. Goldsmith concurred.

Mr. Ross made the motion to hire Oaktree for an investment amount of $8 million. Mr. Garvy seconded the motion. The trustees unanimously approved the motion.

Ms. Guillette discussed other matters that were included in the board material., and asked that the trustees read the articles on Risk and Hedge Funds. She for the Defined Contributions side PIMCO has been downgraded. Ms. Guillette stated that they have had the opportunity to look at Neuberger Berman as a high yield, and it is their preferred choice.

Mr. Garvy moved that the high yield monies in PIMCO be moved to Neuberger Berman. Mr. Ross seconded the motion. The trustees unanimously adopted the motion.

Ms. Guillette discussed he matter of funds representing the total return space. She indicated that they like TCW a lot, and had performed a lot of due diligence.

Mr. Ross recommended that the total return monies at PIMCO be moved to TCW. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Ms. Guillette stated that the board had asked for venture capital managers as good opportunities. The board agreed that she should bring firms for presentation to the next meeting of the board.

XIII. Attorney Report, James Linn, Attorney

Mr. Linn requested additional authorization for ICE Miller's fees. He stated the authorization is in connection with filings on behalf of the retirement plan with the IRS, and recommended that $57,000 be authorized. Mr. Wearn asked if this amount will be sufficient to pay the firm through its filing with the IRS. Mr. Linn answered in the affirmative.

Mr. Wearn made the motion to authorize payment to Ice, Miller at an amount not to exceed $57,000. Mr. Ross seconded the motion. The trustees unanimously adopted the motion.

Mr. Hanes discussed a recent issue regarding an employee who had been terminated from work prior to normal retirement eligibility, but was eligible for early retirement. The individual passed away prior to a meeting scheduled with Mr. Hanes to discuss his election to take an early retirement benefit. Mr. Hanes expressed a concern with the policy of not providing a retirement benefit to the surviving spouse, even though the member had satisfied vesting requirements and was otherwise eligible to receive an early retirement benefit with a surviving spouse benefit. Mr. Linn provided commented that he had spoken with the actuary regarding the matter, and the actuary commented any cost would be de minimus to change the code to accommodate for these circumstances. Mr. Linn stated it to be his opinion that the board has the authority to grant the early retirement benefit to the surviving spouse. Mr. Ross stated that he is in favor of giving the spouse the full benefit.

Mr. Wearn stated his strong feelings that a policy issue is involved, and that the board should request the Town Council to amend the code. Mr. Elwll agreed that the issue should be addressed for policy answer to the Town Council. He commented that the current case is one that has already happened, and needs to be addressed by the board first.

Mr. Ross made the motion to approve the application for this beneficiary and then pose to the board the policy question of what ordinance change will be appropriate to address this matter for all time in the future. Mr. Goldsmith seconded the motion.

Mr. Hanes sought clarification that the beneficiary is to receive the survivorship benefit based on the reduced early benefit. All concurred.

The trustees unanimously adopted the motion.

XIV. Administrators Report, William Hanes, Administrator

Mr. Hanes discuss the annual schedule of regular meetings, and the trustees indicated no conflicts exist.

Mr. Ross made the motion to approve and ratify the administrator's report indicating two new DROP participants. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XV. Other Business

Mr. Wearn expressed his appreciation to Mr. Snow for his service as chairman to the board of trustees.

XVI. Adjournment

Mr. Goldsmith made a motion to adjourn the meeting. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

James McC. Wearn, Secretary
Town of Palm Beach Retirement System