The of Palm Beach Retirement System
Board of Trustees
Minutes of August 21, 2015 Meeting

I. Call to Order and Roll Call

Chair Pro Tem Goldsmith 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:

Gerald Goldsmith, Chair Pro-Tem
Wilbur L. Ross
Thomas G. Bradford, Town Manager
Daniel Stanton
J. Patterson Cooper
Brett Madison
Detective Daniel Wilkinson
Lieutenant Michael Marx

ALSO PRESENT:

William P. Hanes, Pension Administrator
Jane Struder, Finance Director
Danielle Olson, Human Resources Director
Rosemary Guillette, Segal Rogerscasey
Larry Marino, Segal Rogerscasey
James Linn, Attorney

II. Administer the oath of office, Denise Carmona, Town Clerk's office

Ms. Carmona administered the oath of office to Mr. Stanton and Mr. Cooper.

III. Agenda Approval

Mr. Ross suggested amending the agenda to include a resolution for Mr. Wearn in honor of his many years of service both to the Retirement Board, Town Council and other boards in the Town of Palm Beach. Mr. Goldsmith agreed that it is most appropriate to appreciate and thank Mr. Wearn for his past service to the Town and for continuous support as a valued member of this organization.

Mr. Ross made the motion to approve and to include the resolution as part of the agenda. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

IV. Trustee Comments

Mr. Hanes stated that he had spoken with Mr. Wearn on the previous day and that Mr. Wearn sent his apologies for not attend the meeting and for resigning to his position on the retirement board without more notice to the board. Mr. Hanes commented that Mr. Wearn had indicated to him that he had made the decision to resign on the day prior to the board meeting.

Mr. Goldsmith thanked Mr. Hanes and the members of the Town staff for the great job on the education given to the employees on pensions and how to handle their own investments. He commented that the education should be continued because of the importance for employees to know and understand their rights and privileges.

V. Public Comments

None

VI. Election of Officers, Jim Linn

Mr. Linn tallied the ballots of the trustees for election for the position of Chairman. Mr. Wearn's name was removed from the ballots. Mr. Linn announced that there was a tie vote for the Chairman position with four votes cast for Mr. Goldsmith and four votes cast for Mr. Ross. He reviewed the ordinance to determine if there is language that explains what to do in the case of a tie. He stated that the ordinance does not contemplate any rule on a tied vote, and advised that the board can adopt rules to carry out the provisions of the ordinance. Mr. Linn suggested considering one candidate serve as Chair for half of the year and Chair Pro Tem for the other half. Mr. Hanes stated that he does not see anything that will prohibit Co-Chairmen to serve the board's interest. Mr. Goldsmith suggested that he and Mr. Ross take half the year each. Mr. Bradford stated that if both board members are open to Co-Chairmanship, then it is fine with him. Mr. Goldsmith stated that he will conduct the present meeting since he has made preparations for this meeting with Mr. Hanes. The trustees agreed without motion. Mr. Linn suggested that a motion be made and approved by the board so that the minutes reflect that Mr. Goldsmith and Mr. Ross will serve as co-chair while alternating meetings during the coming year. Mr. Hanes clarified that one co-chair will have one quarterly meeting to chair with the other co-chairman serving the following quarterly meeting. Mr. Linn commented that at the meeting where one is serving as chairman the other will serve as chairman pro tem.

Mr. Madison made the motion to approve the co-chairmanship between Mr. Goldsmith and Mr. Ross as discussed. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

Mr. Linn announced that after tally of the vote for Secretary that Mr. Madison had been elected as the Secretary of the board.

VII. Approval of Minutes: May 15, 2015

Mr. Ross made the motion to approve the minutes of May 15, 2015. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

VIII. Financial Report: Jane Struder, Finance Director

Ms. Struder presented the quarterly financial report as of June 30, 2015. She requested a transfer of $3 million dollars be made from the money managers for that quarter.

Mr. Ross made the motion to approve the report and transfer of funds in the amount of $3 million from the money managers. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

Mr. Bradford made the motion to approve the disbursement report. Mr. Marx seconded the motion. The trustees unanimously approved the motion.

IX. Member Account Credited Interest: Jane Struder, Finance Director

Ms. Struder explained that in August of each year the retirement board determines the appropriate rate of interest to be credited to member accounts. She commented that the board previously chose the 10-year US Treasury rate. She commented that as of July 31, the 10-year Treasury rate is 2.20%.

Mr. Ross made the motion to approve the use of the 10-year treasury rate to credit member accounts. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

X. In Service Pension Distribution Proposal, Tom Bradford, Town Manager

Mr. Bradford gave a brief discussion regarding the suggestion made by the Director of Public Safety, Mr. Blouin on extending DROP. He stated that the Town Council authorized Mr. Blouin and other staff members to study the subject matter. Mr. Blouin concluded after the study that due to the high level of opportunity cost that the town will incur, it will not be in the Town's best financial interest to extend DROP and postpone employee's separation from employment with the town.

Mr. Bradford discussed an interest with Town Council regarding a concept of allowing public safety employees to receive retirement at age 50 or older and a general employee on or after age 62, and continue employment with the Town. He explained that the IRS rule allows members to draw an in-service retirement benefit if approved by the Town.

XI. Quarterly Investment Report: Larry Marino and Rosemary Guillette, Segal Rogerscasey

A. Investment Performance Report

Mr. Marino reviewed the Investment Performance Report for the second quarter of 2015. He provided an overview of the financial market conditions, including commodities, domestic equity, international equity, fixed income, alternatives, hedge funds, private equity, real estate, and then reviewed money manager performance. Mr. Stanton asked Mr. Marino to discuss how the asset allocation and targets were conceived, and if the recommendations were made by the consultants or by the board. Mr. Marino answered that the model was selected based on the asset allocation study provided by the consultant. Mr. Stanton asked Mr. Marino to discuss the selections for domestic equity versus international and emerging market assets.

Mr. Marino reviewed the performance by each manager and he commented that the manager performances over the quarter were okay. Mr. Marino noted that Goldman Sachs fixed income had a good quarter, but their one-year number is still below the benchmark. He commented that the two Hedge funds have performed very well, and that the US cash investment was lower than what it should have been.

Mr. Stanton opined that there seems to be a preoccupation among some of these allocations, focused on Hedge funds against inflations and geared on preventing deterioration. He made inquiry regarding the correlation between assets. Mr. Marino stated that they wanted to have some commodity exposure and during the asset liability study they focused on allocations that would get to the actuarial rate with the least amount of risk. He stated that in the long term, it makes sense with the asset class model. Ms. Guillette stated that a modest allocation to commodities is appropriate on a 20-year basis, and should add value over time. She stated that they like Wellington because it has a tactical asset allocation.

B. JP Morgan contract agreement

Mr. Cooper questioned if there are any issues with managers not willing to accept fiduciary responsibility and particularly the status of JP Morgan accepting fiduciary duties. Mr. Linn discussed the position of this pension fund regarding acceptance of fiduciary duties. He confirmed that JP Morgan has acknowledged fiduciary status. Mr. Linn noted that he is making judgment calls on the language used by managers on issues of the fiduciary acknowledgement. Mr. Goldsmith clarified that the sense of the board was that managers that do not accept the fiduciary responsibility are not to be hired. Mr. Marino confirmed that the two managing companies that came in to do presentations on that day were pre-approved for the interview only after they accepted fiduciary responsibility. Mr. Linn stated that he was going to reach out to the General Council of the Florida Retirement System for more information on how they are dealing with these types of agreements, especially with alternative type of investment. Mr. Cooper asked if there is case law that covers this. Mr. Linn answered that there are many cases on fiduciary matters, but not a lot of case law on this specific issue.

Mr. Goldsmith questioned the lack of benchmark performance with the various asset managers. Ms. Guillette discussed the transition of fund managers from the beginning of the asset allocation model selected, and commented that they are not happy with the performance because it was flat for the one-year trailing period.

Ms. Guillette discussed that a full asset allocation study was done at the outset, and was presented with different options to the board for a selection. She stated that there was no real estate at that time, so the plan has been building that portfolio. She commented that the retirement plan is currently trying to build the Private Equity portfolio and there have been a lot of changes and transition that has resulted in several underperforming managers being fired.

Mr. Stanton questioned the procedures and the level of frequency that asset allocation is being reviewed. Mr. Ross stated that there is an annual reassessment of capital markets and Mr. Goldsmith stated that it is on an ongoing basis.

Mr. Ross asked what is the recommendation with commodities that have underperformed severely and if more needs to be added. Ms. Guillette answered that right now the Town is where it needs to be on commodities and nothing has to be added. Mr. Goldsmith asked if the underperformance directly impacted the Town budget. Mr. Bradford noted that it does affect the Town budget and the Town is dealing with a 3-year step up plan to pay for the new mortality rate adopted by the state. The trustees discussed differences in performance between the state of Florida Retirement System (FRS) and the Town of Palm Beach Retirement System. Mr. Hanes commented that the state plan's asset allocation model is quite different than the Town's model. He stated his opinion that typically an experience study needs to be performed by the actuary prior to a review of the asset allocation by the investment consultant. Mr. Marino confirmed that their report shows that the Town's retirement system asset allocation model today is where it should be in order to perform at the long term assumed rate of return.

C. Defined Contribution Report

Ms. Guillette reviewed the defined contribution report. She stated that when they were hired, all the available money manager options available to the public employees were provided from ICMA-RC. She commented that Segal Rogerscasey has since tried to provide a list of funds representing the best money manager options available. She explained that they continue to monitor the fund investments. She noted that the investment report shows all the fund managers now available, and that they will continue to monitor these funds. She reviewed all Town sponsored defined contribution retirement plans with ICMA-RC, including the Section 457 and 401(a) accounts. Mr. Ross asked if there are any changes she recommends. Ms. Guillette stated that she does not have any current recommendations and will be reviewing each manager's performance once all the recommended funds have been added to the list at the next meeting.

Ms. Guillette stated that they want to track employee allocations on a semi-annual basis. She commented that ICMA is able to develop communication material for participant education. Mr. Madison discussed the difference between bucket A and bucket B, and the particular on-going education and how employees can invest their money. He stated how the process has been step by step because of all the changes, and that Ms. Olson and ICMA provides useful information to educate the Town's employees. Mr. Goldsmith commented that continuing education is very important, especially in respect to the new bucket B plan. Mr. Ross asked if it is unusual for 25% of the employees to invest in 10 or more funds. Ms. Guillette answered that studies have shown that in plans of this size with many options that participant's will invest on 4 large growth caps and think they are diversified. Mr. Madison commented that ICMA-RC offers a managed account to the employees for a small fee. Ms. Olson explained that the Town's defined contribution (DC) plan contributions sit alongside the employee contributions, and noted that the

Town does not contribute to the employee's 457 plan. She discussed that there is a National Retirement Week in October that focuses on education of the employees on matters of retirement.

D. Asset Liability update from experience study

Ms. Guillette reviewed the executive summary. She stated that the Segal forecast is to see a low return environment for a while. She commented that the fund ratio is 74% on a market value basis. She explained that the assumptions made on a 20-year period are going to look different than on a 10-year period. She mentioned that employee obligations (benefits) will experience increases over time. She commented that the maturity of the plan liability was taken into consideration when creating the asset allocation model. She noted that the normal cost accruals are lower than previous years as a result of the new plan accruals.

Ms. Guillette commented that the capital return market reflects a lower return environment over the short period, and yields on cash are low and fixed incomes will suffer. She discussed the allocation to international and that emerging markets were added. She discussed reducing the equity risks by increasing exposure to real estate and private equity investments. She reviewed target allocation versus actual allocations and recommended that the board not change the allocation model. She discussed the current asset allocation forecast over a 20-year target, and that the current mix will achieve a 7.5% return. Mr. Ross questioned why we have higher assumptions if you cannot predict the results. Mr. Marino stated that they typically do a forecast over 20 years, but provided the 10-year forecast because the actuary had provided the board the forecasted contribution information based on the next ten years. Mr. Ross stated that he is uncomfortable with that forecast as the portfolio is under-performing and we are to assume that in ten years there will be a miraculous change and performance will be high enough over a 20-year period to cover the lower return of the first 10 years. Mr. Bradford asked what the model assumes relative to contributions, if it is based on inflation. Mr. Hanes stated that their assumptions would include wage inflation and higher contribution rates.

Ms. Guillette stated that the forecast they make for the return rate for the following 10-year period is actually lower than the long-term investment assumption. Mr. Ross asked if the Town's retirement plan is consistently performing under target, does that mean that the Town has to contribute more each year. Mr. Ross discussed that he wants to see a model from the consultants for the board to review that will reach the assumed rate of return. Mr. Stanton requested that the consultant take a harder look at the line items in the allocations and the correlations between asset classes. He commented on his concern about the liquidity risk and other risk parameters. Ms. Guillette stated that there is scenario testing for portfolios that can be done, like a stress test. Mr. Wilkinson questioned if the Town is given an annual evaluation of how much the Town will need to perform. Mr. Goldsmith discussed that cash flow is very important. Mr. Madison questioned how often the Town looks at the asset allocation. Mr. Hanes commented that the capital forecast provided by the investment consultant is provided and reviewed in January or February every year, but the process of establishing an asset allocation policy is not looked at as often. Mr. Marino stated that the board needs to stay with the existing asset allocation targets. He discussed that if you look at it on too short a time period then the board will be taking on another risk. Ms. Guillette stated that they are tactical and agreed to review again with another asset allocation mix at the next meeting of the board. She commented her fear that making too many short-term changes is not letting an allocation work long term.

E. Manager Interviews: Long Wharf Real Estate Partners, Michael Elizondo, Sarah Biggs, and Jeffrey Gandel

Mr. Gandel presented an overview of the firm and a profile of the team. Ms. Biggs discussed the corporate overview and track record since operating independently as Long Wharf. Ms. Biggs reviewed the track record since 1995 inception date. Mr. Elizondo reviewed investments strategies and bottoms up philosophy, and discussed the portfolio and risk management process. He discussed specific case studies. Mr. Gandel discussed the fee structure and stated that the management fee covers the overhead. He commented that they only get performance fee if their investors get a 9% return.

Mr. Stanton asked how much has been raised for this fund so far. Mr. Gandel stated they have raised $200 million to date. Mr. Stanton asked how big the group is. Mr. Gandel answered that they are a group of 8 that invest a total of $5 million dollars. Mr. Ross questioned who does the local management of the properties. Mr.Gandel explained that they partner with a local operator, who does the management work and invests in the property. Mr. Cooper questioned the leverage cap and Mr. Gandel discussed. Ms. Guillette questioned the geographic market focus, and Mr. Gandel stated that they are reluctant to invest in smaller markets and in general they are focused on the Southeast, Texas, up to California. Mr. Goldsmith asked how they find investments. Mr. Gandel stated that 2/3 of the deals are sourced from previous relationships with local operator partners.

Gerding Edlen, Kelly Saito and Molly Bordonaro

Gerding Edlen representative Ms. Bordonaro provided an overview of the firm and the management expertise of the principals. Ms. Bordonaro reviewed the targeted growth markets including Seattle, Portland, San Francisco, Los Angeles, Chicago, and Boston. She discussed the investment strategy in urban markets and supply-constrained markets. She provided an overview of the investment strategy for apartments and office buildings, and discussed deal sourcing and acquisition expertise including off market or below market investments. She commented that they source deals themselves with in-house research and development expertise.

Mr. Saito discussed the current status of Fund I and Fund II. He reviewed the project IRRs. He provided an overview of case studies. Ms. Bordonaro reviewed Fund III, and the strategy and performance. He discussed the pipeline of investments.

Mr. Bradford questioned the strategies by Segway regarding renting versus owning. Mr. Saito answered there is a preference for renting, because of freedom and mobility. Mr. Bradford asked if they are based in Portland. Mr. Saito confirmed that Ms. Bordonaro and he are both from Portland. Mr. Wilkinson asked if the design team was in-house. Mr. Saito discussed that their sustainability is in-house and do not employ architects.

Manager Interview Discussions, Rosemary Guillette, Segal Rogerscasey

Mr. Goldsmith asked Mr. Hanes what is the size that the Town is looking to investment. Mr. Marino indicated $8-$10 million is available. Mr. Ross stated that he liked Gerding Edlen since the Town is already investing with them. Mr. Stanton asked Ms. Guillette how she categorized both companies. Ms. Guillette discussed that both firms are different from each other and that they have had positive experience with both firms. Mr. Bradford discussed his concern about the sustainability in the particular market. Mr. Goldsmith suggested that the board allocate $5 million to both firms. Mr. Cooper agreed with Mr. Goldsmith. Mr. Stanton stated his agreement with the idea of splitting between both managers. Mr. Madison asked if $5 million dollars for both would be considered too low. Ms. Guillette answered that they will each accept the $5 million if that is what the board wants to do.

Mr. Goldsmith made the motion to invest $5 million with each firm. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

XII. Attorney Report, Jim Linn, Legal Counsel

A. IRS filing status

Mr. Linn reviewed the filing status made in July.

B. IRS filing costs

Mr. Linn discussed that the IRS filing costs amounting to $67,000 has been paid, and that there are additional expenses incurred by Ice Miller since then.

C. Florida Statute Chapter 175 and 185 filing requirement

Mr. Linn commented that the final Police Officer and Firefighter reports have been filed with the state as required by law with the actuary certification that states that the funds have been allocated correctly per state statute. He discussed that the state statutes require that the Town file the two reports each year, even though in the year 2012 the Town chose not to participate any longer with these state programs. Mr. Hanes discussed the filing process. Mr. Ross asked how much is in the funds. Mr. Linn answered that there is millions of dollars in the Town funds paid from these programs. Mr. Ross asked when the reports are due to be submitted to the state. Mr. Linn answered that the final report is due in March of each year. Mr. Hanes requested from Mr. Linn that since the law requires filing of reports and the Town does not participate or receive dollars any longer from the state, whether the state would have any ability to enforce annual reports be filed. He suggested that it might be interesting to find out how the Division of Retirement would enforce the provision if the board chose not to submit the annual reports. Mr. Linn stated that he would inquire with the Department and report back to the board.

XIII. Administrator's Report: William Hanes, Administrator

Mr. Hanes provided the administrative report.

XIV. Retirement/Benefit Payments: William Hanes, Administrator

Mr. Ross made the motion to approve the payment of benefits to members as provided from the report. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

XV. William Hanes Consulting, Inc. Review, Gerald Goldsmith, Chairman Pro Tem

Mr. Goldsmith discussed the annual review of Mr. Hanes consulting agreement. He recommends the Board continue with Mr. Hanes as the administrator.

Ross made the motion to continue with Mr. Hanes as the retirement administrator. Mr. Madison seconded the motion. The trustees unanimously approved the motion

XVI. Other business

Mr. Hanes reported that Mr. Wearn's position on the board as trustee is now vacant and an appointment needs to be made to fill the position. Mr. Bradford concurred that the appointment will be made at the November 10, 2015 Town Council Meeting.

XVII. Adjournment

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

Respectfully Submitted,

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