Town of Palm Beach Retirement System
Board of Trustees
Minutes of August 19, 2016 Meeting

I. Call to Order and Roll Call

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

In Attendance:

TRUSTEES:
Wilbur L. Ross, Co-Chair
Gerald Goldsmith, Co-Chair
Brett Madison, Secretary
Tom Bradford, Town Manager
Daniel Stanton
Bradford Kaufman
Jeffrey Amling
Michael Marx
Daniel Wilkinson

ALSO PRESENT:
William P. Hanes, Retirement Administrator
Jane Struder, Finance Director
David West, The Bogdahn Group
Dan Johnson, The Bogdahn Group
Daniel Olson, Human Resources Director
Brad Armstrong, GRS
James Linn, Attorney

II. Election of Officers, Jim Linn, Board Attorney

Mr. Ross reviewed the process of officers' election. Mr. Linn distributed the ballots to the trustees for election of the positions of Chairman, Chairman Pro Tem and Secretary. He tallied the votes. Mr. Linn announced after the tally of the votes that Mr. Ross was re-elected to serve as Chairman, Mr. Goldsmith as Chairman Pro Tem, and Mr. Madison as Secretary.

III. Agenda Approval

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

IV. Trustee Comments

None

V. Public Comments

None

VI. Approval of Minutes: May 20, 2016

Mr. Stanton made the motion to approve the minutes of May 20, 2016. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

VII. Financial Report: Jane Struder, Finance Director

Ms. Struder presented the quarterly financial report through June 30, 2016. She requested a transfer of $3.5 million dollars from the money managers for the rest of the quarter. Mr. Hanes noted that the consultants will recommend to the Board from where to pull the money. Ms. Struder discussed that there is a cash flow deficit.

Mr. Ross asked if there was something unusual that made the DROP withdrawal so big this year. Ms. Struder answered that there were a few large payouts this year from people that went from DROP to termination of employment and retirement.

Mr. Bradford made the motion to approve the transfer of funds in the amount of $3.5 million from the money managers. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Mr. Goldsmith made the motion to ratify the disbursements. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

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

Ms. Struder discussed the matter of approval of the annual employee account credited interest. She stated that typically the Retirement Board approves a rate based on the 10-year treasury rate, and as of July 29, 2016 the 10-year treasury rate for the year is 1.46%.

Mr. Goldsmith made the motion to approve the rate of 1.46%. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.

IX. Marcum Engagement: William Hanes, Retirement Administrator

Mr. Hanes discussed the two year extension of the Marcum Engagement as the retirement board's auditors.

Mr. Ross made the motion to approve the extension of Marcum Engagement. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

X. Town Council Ordinance Change for Public Safety, Tom Bradford, Town Manager

Mr. Bradford discussed the status of the ordinance amending the pension for public safety personnel (sworn police and non-bargaining fire rescue officers). He discussed that eligible public safety employees after October 1, 2016 will be provided a 2.75 multiplier, retirement age at age 56, and these employees will contribute between a range of 8% to 12% each year depending on the performance of the funds.

XI. Proposal to reduce amortization period, Brad Armstrong, GRS (continued to later item by absence of actuary)

Mr. Hanes discussed Mr. Ross had made a presentation to Town Council on behalf of the board raising the issue that the amortization period for funding of the unfunded liability is 30-years. He stated that the actuary has been asked for the impact for lowering to 25 and 20 years. Mr. Bradford commented that it might be a useful thing to do at some point in time but that he is not sure that now is a good time to implement the change, and that the Town is already in the process of dropping from 7.5% to 7% the assumed investment return. Mr. Ross stated that at the end of the day it is the Town Council decision and suggested forwarding the report to Town Council for their consideration.

XII. Investment Report, Dave West and Dan Johnson, The Bogdahn Group

A. Quarterly Performance Report

Mr. West introduced topics for discussion to the Retirement Board. He stated that he has four items for discussion; reporting of performance results, specific recommendations for the Retirement Board consideration, Real Estate managers review with the Retirement Board, and presentation of the Town's DC administration.

Mr. West reviewed the performance report, total fund, and funds within each asset class. He provided the trustees a flash update hard copy through July 31, 2016 representing the status of fund performance by asset class.

Mr. Ross asked Mr. West how Bogdahn can get Private Equity and Real Estate fund data on a monthly basis report when it is normally reported on a quarterly basis. Mr. West commented that the report includes Private Equity estimates, does not include all of the Private Equity strategies, and is more representative of the publicly traded positions in the report. Mr. Stanton made a general comment regarding the performance of managers like commodities related things, inflation hedges, and funds that took sharp downward trends in 2015 that rebounded in 2016. He stated that the Retirement Board was dissatisfied with the portfolio construction and that he hopes that Mr. West addresses the reason for why the Town did better this fiscal year after the Town did so much worse last year. Mr. West stated that the timing of the investment changes are taken into consideration, and the month of July had a very significant rebound in commodities and energy in particular when those spaces were previously underperforming.

Mr. West reviewed the Investment environment, Developed Markets versus Emerging markets, S&P 500, bond markets, asset allocation, cash flow, US Equity, International Equity exposure, fixed income, alternative strategies and real estate exposure. He discusses sector performance, and commented that the market continues to favor high dividends. Mr. Ross asked Mr. West how the more recent extreme performance affects The Bogdahn Group thinking about how the Town should be doing right now. Mr. Ross noted there is huge moves, particularly in the bond market. Mr. West agreed, and stated that he will hold on that question until the recommendations section, because he has the answer for that question with pre-prepared materials. He reviewed performance of the Peer Group Rankings, and summarized the status of the Town of Palm Beach plan relative to other systems.

Mr. West discussed the comparison of asset allocation between the Town plan and other peer plans. He commented that the allocation issue is the most important decision to distinguish returns. He commented in summary that there are some benchmarking and manager application issues that the Bogdahn group will want to address for better performance. Mr. Hanes requested that Mr. West follow the net of fee returns in his presentation. Mr. Stanton asked Mr. West to look at the asset allocation and performance page, and asked if the three-year number means that the Town could not be any worse relative to the peer group. Mr. West answered yes.

B. Plan Asset Allocation & Investment: Review of Recommended Actions

Mr. West stated that their presentation is concentrated more on the asset allocation level and what they felt were the most significant issues from a plan attribution stand point. He commented that Mr. Johnson was going to review the Bogdahn recommended course of action. He stated the presentation is based on two levels; the first round is recommendations based on existing investment policy, and added that allocation can not be readily changed by recommendation. The second round of discussions will be to amend or re-write the investment policy statement that will give some latitude to implement the future recommendations. He recommended that The Bogdahn Group come back on a later date with a policy revision recommendation. Mr. Ross asked about the overlap between categories and their correlations, and how The Bogdahn Group addresses this issue. Mr. West answered that they will address that on the margins and through the discussion of the potential portfolio asset allocation and changes to the policy with a focus to minimizing the overlap.

Mr. Johnson stated that The Bogdahn Group mission is to bring the Towns portfolio back on track with above average returns. He answered Mr. Stanton's question about the peer group ranking, and that the reasons why the Town is different is because the Town has less domestic equity than the Town's peers and more international equity which was not a favorable place to be in the last few years. Mr. Johnson stated that the markets are rebounding, and compared the past performance of peers to the Town's plan that is influenced by the lower allocation to domestic and higher allocation to international equity, which has been out of favor over the last several years.

Mr. Johnson reviewed the plan asset allocation. He reviewed the forward capital market assumption, their projections for the different asset allocation models, peer group comparisons, the investment policy statement, policy level recommendations and portfolio level recommendations.

Mr. Ross stated that based on the economic forecast model the emerging market has the highest rate of return in a period where that market has acted very badly. He asked why to cut them back. Mr. Johnson answered that return and risk is measured by volatility and other risks. Mr. Ross asked if the expected return reflects all that. Mr. Johnson answered that the expected return calculates the headline risk and that he does not want the Town of Palm Beach to be in the 100th percentile. He stated that what they want to do is to control the allocation of domestic to emerging market and that controlling that proportionally is the key. Mr. Ross questioned the hedge fund showing diversified as 4.42 and asked the Bogdahn Group why to bother. Mr. Johnson answered that it is based on the correlation and there is a proposal of reducing that exposure in the mixes. Mr. Ross commented that they are not really hedge funds. Mr. Johnson stated that Mr. Ross is correct and that they have become something totally different. Mr. Stanton commented that it is the Bogdahn Group's job to be two steps ahead and find the good hedge fund managers. Mr. Johnson agreed with Mr. Stanton and stated that 12.5% as the dedicated exposure to the hedge funds is on the heavy side. Mr. Ross suggested it is best to invest in small pieces of individual hedge funds rather than fund of funds. Mr. Johnson agreed with Mr. Ross and suggested a more robust review of alternative managers. Mr. Stanton stated for the record that based on the numbers that were presented today regarding the status of the Town of Palm Beach, which is last or worse than last, it reflects that the advice that the Retirement Board was receiving from The Bogdahn Group's predecessor was heavily influenced by a point of view that was a hundred percent wrong. He stated that they had three philosophical ideas which were (1) that the rest of the world will do better than the US, (2) that the bet is embedded in different places of a globally higher inflation environment , and (3) the category creep. Mr. Ross stated that is why The Bogdahn Group is here. Mr. Johnson explained some of the actions that will take place. Mr. Ross stated that it is important for The Bogdahn Group to have a point of view and that it is expected for them to share their view on the big issues like inflation, and emerging market versus developing market.

Mr. West stated that what they are trying to accomplish is setting a long term allocation that benchmark to risk. Mr. Ross commented that the key to long term performance is the entry point. Mr. Goldsmith stated that if The Bogdahn Group will be making changes, the Retirement Board would like to have a time frame. Mr. West noted that looking at the long term performance, the objective of the investment program needs to be known. Mr. Johnson stated that they are going to focus on the fundamentals, cost savings, and efficiencies. Mr. Ross asked Mr. Johnson how a mix gets to the so call worse case returns. Mr. Johnson answered that the projected returns, projected standard deviations and the correlation of the asset classes are combined together and run through a model that projects the probability of a negative return. Mr. Ross asked if that is meant to be on a one, five, or ten year basis. Mr. Johnson answered it is on an annual basis. He discussed asset allocation considerations. Mr. Ross asked Mr. Johnson how is it that the Town's portfolio is currently one of the worst. Mr. Johnson answered that the report is based on comparison to the indexes, and the Towns portfolio fell short on the indexes, and represents the components of mix two. Mr. Johnson reviewed key observations and recommendations. He stated that they would like to know from the Retirement Board where they are comfortable as far as the spectrum for risk and return. Mr. Johnson discussed the Town's Investment Policy Statement (IPS). Mr. Ross asked Mr. Johnson to suggest what will make up the benchmark. Mr. Johnson suggested picking a model with more risk and to keep what has worked in the past, which will be consisted with mix three. Mr. West stated that the short answer will be recommending a broader base benchmarking. Mr. West discussed that the system will have a better opportunity for outperforming the benchmark. Mr. Kaufman noted that the predecessor investment consultant took extreme risk in terms of the allocations and picked bad managers. Mr. Kaufman stated he agreed with The Bogdahn Group view of traditional allocations and within those allocations to reduce the amount of managers. Mr. West discussed re-writing the policy statement. Mr. Ross stated that he likes the concept of mix two because it has a margin for error. Mr. Johnson clarified that mix three has a higher margin for error. Mr. Amling stated that the Board should give some discretion to The Bogdahn Group and to give them more flexibility. Mr. Johnson stated that he appreciates the directive.

Mr. Amling made the motion to approve the recommendation to re-write the policy statement. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Mr. Johnson clarified that they will bring a re-draft of the investment policy statement to the next meeting or special meeting. He stated that within the current policy statement the content allows a 0% lower limit, and that he will be presenting a few recommendations that will fall suit as it relates to the manager investment. Mr. Stanton asked if in the next meeting they will have specific recommendations for changes to the investment policy. Mr. Johnson answered that at the next meeting they will present a new draft of the investment policy statement consistent with the last motion. Mr. Johnson discussed residual cash and State Street.

The board discussed with Mr. Hanes a letter from State Street indicating a custodial increase in fee.

Mr. Ross made the motion to approve the increase in fees of State Street Bank as discussed by the trustees. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Johnson recommended consolidating the TSW small cap value and the mid cap value into the TSW SMID Cap value and adopt the proposed performance base fee with a base of forty-five basis point and a max fee of one and a quarter.

Mr. Bradford made the motion to approve the recommendation to consolidate the Small Cap Value and the Mid Cap Value to SMID Cap Value. Mr. Kaufman seconded the motion. The trustees unanimously approved the motion.

Mr. Johnson recommended removing T-Rowe Price New Era which is calculated as part of the domestic equity portfolio and overlaps with commodities. He stated that the Town is in the wrong share class of this fund.

Mr. Amling made the motion to approve the recommendation of removing T-Rowe Price. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

Mr. Stanton asked how long it will take for some of these recommendations to be implemented. Mr. Johnson answered that is a matter of liquidating, and recommended removing the dedicated short term bond portfolio, Neuberger Berman High Yield, and the Vanguard tips portfolio. He stated that part of the liquidation, $3.5 million, is recommended to be sent to the Town account, and the remainder will be placed in the Vanguard Bond Index.

Mr. Kaufman made the motion to approve the recommendation regarding the liquidation. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

Ms. Struder stated that next year the amount of funds that will need to be liquidated will probably be less because of the $2.5 million additional contributions.

Mr. Johnson recommended removing the Tap fund from the Town portfolio.

Mr. Bradford made the motion to approve the recommendation to remove the Tap fund. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Johnson stated that six managers were just eliminated with a savings of over $100,000 in annual fees, with all transactions within the current policy. Mr. Stanton noted that he would like for The Bogdahn Group to research those fund of fund managers that have value. Mr. West stated that their group has a dedicated research team that will do it.

C. Core Real Estate Manager Review

Mr. West reviewed the Real Estate Overview & Market update report. He stated that their objective is to bring one or two Real Estate managers in order to increase allocations to real estate. Mr. West recommended filling in the gaps by using an open end vehicle. He reviewed the comparisons between Real Estate management firms and disclosed that The Bogdahn Group does not receive compensation from any managers that they recommend to the retirement board. Mr. West stated that all of the managers under contract will accept fiduciary status with the exception of Morgan Stanley. Mr. Ross stated that he is extremely skeptical that there will be a good response by Real Estate managers with the over-building of all major cities. Mr. West stated that they are focused on watching the money flows and their concern will be if the trend or money flows begin to slow or reverse which can stress the system. Mr. West suggested finding opportunities and using the source of funds in the allocation while looking to increase the income from a relative point to get a better return potential. Mr. Stanton asked Mr. West which managers he is most likely to invite. Mr. West suggested JP Morgan and Morgan Stanley. Mr. Bradford noted that retail is under great stress today and asked who is involved in retail type properties. Mr. West commented that the type of properties that are in retail today are in the mega mall with super high end, and those property types continue to generate funds. Mr. West stated that for the November retirement board meeting that the two managers mentioned above will come in to give presentations.

D. Defined Contribution Update, Dave West and Dan Johnson, The Bogdahn Group

Mr. Johnson discussed the defined contribution component administered by the board. He stated that there is seven defined contribution plans being reviewed. Mr. Hanes suggested they provide a report and review at the November meeting. Mr. Johnson discussed a memo sent by ICMA and the changes that are being made.

E. Retirement Health Savings Plan Investment Changes

Mr. Bradford made the motion to adopt the ICMA investment fund vehicle change to include the Retirement Health Savings (RHS) plan. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

XIII. Appeal of John Weiss, Jim Linn, Attorney

Mr. Linn clarified that the appeal memo was not written by him, and stated that Mr. Weiss wrote the memo dated April 15 stating that a decision has been made incorrectly about his benefits and that Mr. Weiss will come before the Board to appeal the decision. Mr. Ross asked if Mr. Weiss is correct by saying that he was denied benefits to which he was entitled. Mr. Weiss presented his situation to the board. Ms. Olson clarified what happened with the Town's computer system caused misclassification of Mr. Weiss in the system. Mr. Ross commented that a retiree should not be hurt by a Town system mistake. Mr. Hanes stated that the amount that he is entitled is $4,782.00. Mr. Hanes commented that a decision in this case should not be considered precedent for others because the board's decision to approve will be based on an error of record that the board is correcting. Mr. Ross clarified that a retiree who was hurt in his or her benefits solely because of a mistake of how the records were put together should not be burdened with it. Mr. Hanes stated that there is a code that addresses an error of record and that the error made must be corrected.

Mr. Ross made the motion to approve the request by Mr. Weiss and to pay a retroactive benefit beginning on the date he was first eligible. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.

XIV. Attorney Report, Jim Linn

A. PEI status

Mr. Linn reviewed the status of PEI.

Mr. Goldsmith made the motion to approve a conference call with Mr. Ross representing the board. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.

B. Schaffer contract amendment

Mr. Linn requested additional payment as requested by Ms. Schaffer of up to $2,400 dollars for additional service required because of the change in benefits to eligible public safety employees.

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

C. IRS and DROP amendments to ordinance

Mr. Linn discussed the two retirement ordinances that are in the process of being adopted by Town Council.

XV. Administrator's Report, William Hanes, Retirement Administrator

Mr. Hanes discussed matters of administration.

XVI. Retirement/Benefit Payments, William Hanes, Retirement Administrator

Mr. Hanes discussed that there are two DROP employees who were added for participation.

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

XVII. Other Business

None

XVIII. Adjournment

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

Town of Palm Beach Retirement System
Board of Trustees
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Respectfully Submitted,

Brett E. Madison, Secretary