The Town of Palm Beach Retirement System
Board of Trustees
Minutes of August 15, 2014 Meeting

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
James McC. Wearn, Secretary
Peter Elwell, Town Manager
Wilbur Ross
Robert Garvy
Brett Madison

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Director of Finance
Danielle Olson, Director of Human Resources
James Linn, Attorney
Lawrence Marino, Segal Rogerscasey
Rosemary Guillette, Segal Rogerscasey

Absent:

Nicholas Caristo (excused) call to duty.
Michael Marx (excused) on medical leave.

Mr. Snow informed the board that Mr. Caristo contacted Mr. Hanes to explain that he had been working on an investigation overnight and that he expressed that he hopes to be in attendance for part of the meeting.

II. Approval of Agenda

Mr. Wearn noted an added item to the final agenda from when first distributed to the trustees, and a minor editorial change was made on item number nine.

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

III. Trustee Comments

There were no comments from the trustees.

IV. Public Comments

There were no comments from the public.

V. Approval of Minutes: June 6, 2014

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

VI. Financial Report, Jane Struder, Finance Director

Ms. Struder presented the quarterly financial report ending June 30, 2014. Mr. Garvy inquired about the custodian's State Street performance. Ms. Struder stated the last two quarters have been far better than the experiences prior to the November, 2013 quarterly meeting, and that a lot of the transactions have washed themselves through the system and she has had very little problem balancing the statements. She suggested keeping the custodial services as is. Mr. Garvy asked about their cooperation. Ms. Struder replied it has definitely improved and State Street is much more responsive than they were two quarters ago.

VII. Member Account Credited Interest, Jane Struder, Finance Director

Ms. Struder briefly presented the member credited interest proposal noting last year the board approved using the 10 year treasury rate as of July 31 that was 2.6 percent. This year the rate as of July 31 is 2.58 percent. She requested the board approve a rate to apply to employee contributions.

Mr. Garvy made the motion to approve the rate of 2.58%. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

VIII. Quarterly Investment Report, Lawrence Marino and Rosemary Guillette, Segal Rogerscasey

A. Investment Performance Report.

Mr. Marino presented the second quarter defined benefit report, noting it was a very good quarter for just about every single asset class. He reviewed the composite of the retirement trust. He noted that fixed income is slightly over allocated, hedge funds and commodities are on target, and real estate is significantly under allocated. He commented that the trustees will need to do another real estate search next meeting or the following meeting. He stated private equity is also under allocated and a search should be done in the first or second quarter of next year for 5 million or so and to do the same annually. Mr. Garvy made inquiry regarding asset classes that are overweighted, and asked whether the board should do some rebalancing. Mr. Marino stated he believes the market has done some rebalancing for us. He discussed he does not believe it is necessary, but neither is it a problem.

Chairman Snow and Mr. Ross discussed valuations of private equity holdings in the United States being high, and whether there is value in holding private equities considering the large holdings already held in the asset class. Chairman Snow asked what bucket will be considered for placement of the real estate allocations, and Mr. Marino answered probably value add or opportunistic.

Mr. Marino discussed each asset class performance within the composite portfolio, and noted that the funds did very well overall. He reviewed each manager within the asset classes. He noted that Geneva had a horrible quarter and year to date performance. The trustees discussed matters regarding Geneva's past poor performance and its recent acquisition by Henderson. Mr. Marino noted there will be a due diligence report out before the end of next month regarding the acquisition. Mr. Ross asked questions about the acquiring company, Henderson. Mr. Marino stated that one aspect of the acquisition that they (Segal) do not like is that Henderson is a totally privately owned firm and giving up a lot of control. The trustees discussed aspects of the ownership structure after the acquisition.

Chairman Snow discussed that the board's proxy was solicited during the interim with the timing for decision germane and that Mr. Hanes had presented to him the consent form requested by Geneva, and after reading thoroughly it was decided that the percentage we hold is very small, it looked to be a done deal, and Segal stated no opposition to the agreement. He added that it appeared to be a change in control, but not a change in operation from what could be determined at the time. He stated that the decision was made to agree with the consent while due diligence continuing to be done by Segal Rogerscasey and with the opportunity for the agreement to be revoked upon decision of the board. He stated that he is familiar with Henderson, and holds a high level of comfort with the firm.

Mr. Hanes discussed that he had received a letter from Geneva with discussion of the acquisition by Henderson, and with an attached consent form stipulating only a few days for signature and delivery. He stated that he contacted Segal Rogerscasey to request their opinion as to the appropriateness of execution of the consent and that Segal commented that the research team will perform full due diligence on the acquisition, and Segal Rogerscasey found no reason why the consent form should not be signed. Additional trustee remarks and inquiries were made regarding the after-acquisition ownership. Mr. Marino stated that his firm will continue to consider the ownership aspects of their inquiries with the due diligence review.

Mr. Garvy asked that Segal Rogerscasey provide the trustees best practice and appropriate information regarding the asset allocation model chosen, and would like to know that the model selected continues to be appropriate over time.

Mr. Marino completed the review of manager performances.

Mr. Garvy expressed his concern with the ranking of Goldman Sachs relative to the universe for all periods, noting that they are in the bottom half since inception, and asked Mr. Marino to comment. Mr. Marino briefly reviewed their performance and noted he would not want a manager to be more than 3 percent above benchmark in any given year unless they were coming off of the 2008 year. There was additional discussion regarding benchmarks. Mr. Garvy commented that everybody beats the benchmark, and measured against a broad class of like managers (fixed income) they (Goldman Sachs) had not performed well.

Mr. Garvy requested that a senior person from Goldman Sachs be invited to come in over the next couple of meetings to explain their performance against the benchmark. Ms. Guillette stated they would have their research group review Goldman Sachs. Mr. Elwell requested that a representative from Geneva come in for the November meeting as well.

Ms. Guillette reviewed the highlights of the defined contribution report. She explained a few matters of implementation of the new board approved funds.

B. Review of cash liquidity at IRM

Ms. Guillette informed the board that IRM is a monthly fund on the matter of liquidation and that it will be converted to a daily liquidation fund in November. She commented that they were going to move the new allocation into IRM, leave a bit of money with State Street to get us through the next few months, and then all the portfolio cash would go with the IRM product upon it becoming a daily fund. Mr. Garvy inquired on the fees. Ms. Guillette noted they were able to get them a little lower and would e-mail the trustees later today the actual fees charged by IRM. Mr. Snow stated if the board is comfortable with $10 million or so going in with monthly liquidity with the understanding that there is sufficient liquidity to meet other calls, then we can do so now before the November cutover with daily liquidity. He commented that if the board would rather wait until November to go into this investment, then there is an issue regarding the number of capital calls we could get until then. The trustees discussed.

Mr. Elwell made the motion to approve the prior commitment and to implement in the appropriate manner to raise the cash. Mr. Wearn seconded the motion, and requested that information transmittals be included. Mr. Elwell concurred with the amendment offered by Mr. Wearn. The trustees unanimously approved the motion.

There was a 10 minute break.

C. Manager Interviews

i. **Thompson, Siegel & Walmsley, Tracy Musser and Bret Hawkins**

Ms. Musser gave an overview of their company. She made note of their low turnover and provided a brief breakdown of their assets. She also informed the board of public safety organizations they currently manage within Florida. Mr. Hawkins explained the firm's investment strategy.

ii. **Sasco Capital (Virtus Partners), Mathew Hamel, Matt Holquist, Jeff Spate**

Mr. Hamel gave an overview of their company. Mr. Holquist and Mr. Spate explained the firm's team and investment strategy.

iii. **LSV Asset Management, Scott Kemper and Bhaskaran Swaminathan**

Mr. Kemper gave an overview of their company. Mr. Swaminathan explained the firm's investment strategy.

iv. **CRM, Chris Barnett**

Mr. Barnett gave an overview of their company, turnover, and explained the firm's investment strategy.

D. Manager Interview Discussions

There was discussion regarding the process for selecting a manager. Mr. Marino and Ms. Guillette discussed each manager that had presented to the board. Mr. Ross expressed concern that LSV had been listed as a defendant in litigation. Ms. Guillette stated she will follow up with the research group. Mr. Linn discussed his opinion regarding the litigation, and commented he did not see it as a problem.

Mr. Ross made the motion to replace CRM with Thompson, Siegel & Walmsley. Mr. Elwell seconded the motion. Mr. Snow clarified that the motion is intended to replace CRM with Thompson, Siegel & Walmsley and to structure the portfolio so the existing holdings mesh with the board's strategy for the mid cap holding. Mr. Marino stated it would be best to have TSW run the mid cap and the small cap portfolios, and change the overall benchmarks on the small & mid cap. **Mr. Wearn made the motion to accept the above change. Mr. Ross seconded the motion. The trustees unanimously approved the motion as changed.**

Ms. Guillette briefly discussed the watch list memo.

IX. Status of Fund List Implementation, Danielle Olson, Director of Human Resources

Ms. Olson presented the status of the fund list implementation noting that September 19 will be the date when the milestone funds will close to new contributions and open the new Target Date Vanguard funds. She noted that employees will have one year from this date before the fund balances scheduled to be replaced will be moved over, allowing the employee time to meet with the ICMA representative to discuss the changes in funds.

X. Attorney Report, James Linn

A. Disability Appeal Procedure

Mr. Linn presented the disability appeal procedure with the revisions suggested by Mr. Wearn that the board will follow in the event that there is a denial of a disability claim and the employee appeals the board decision. He commented that the board needs a procedure that provides due process.

Mr. Ross made the motion to accept the disability appeal procedure as presented. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

B. Tax Impact on Defined Contribution Accounts

Mr. Linn discussed matters of the DROP and Share accounts that were self-directed by participants to ICMA-RC. He reviewed a letter provided by Tax Counsel that under recent IRS rulings there are contribution limitations applicable to DC plans.

Mr. Linn discussed a specific action plan to correct the structure of the plan. He recommended that the self-directed accounts be folded back into the defined benefit plan and that the IRS takes the position that a defined benefit plan requires that there be certainty to the return in investment. He recommended a smoothed earnings rate based on a trailing 5-year average. He commented that these changes will also need to be made to the Share account.

Mr. Linn discussed matters of a tax issue that relates to a special public safety exception to early withdrawal distributions that also requires the distribution to be made from a defined benefit plan in order for the exception to apply.

Mr. Elwell stated that he is going to recommend that Town Council review the policy questions raised by these tax matters, and that no recommendation is needed from the Retirement Board. He stated that the original changes were made to the code in order to give more flexibility to employees through the DC plan. Mr. Elwell stated he will recommend smoothing of earnings to the Town Council because it would be most fair to the employees with a very slight difference from the smoothing method policy adopted by the board for the plan. He commented that there will not be a minimum or a floor with the smoothing method, nor will there be a ceiling. Mr. Elwell offered that this information is purely informational for the Board, and that the Board does not need to make a recommendation because he will be making the recommendation on his own. He answered upon trustee inquiry that having the actuary analyze the changes and impact will be part of the Town implementation procedures.

Mr. Ross made the motion to approve the actuarial costs to analyze and be paid by the retirement system trust. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Elwell stated that he did not have a timeline for when the change in ordinance will be enacted by Town Council. He stated that collective bargaining issues will need to be satisfied.

C. IRS Issues Concerning Defined Contribution Accounts

Mr. Linn reviewed the letter provided by Ice Miller regarding IRS issues identified with the Town's self-directed Defined Contribution Accounts.

XI. Administrator's Report, Williams Hanes, Pension Administrator

Mr. Hanes briefly commented on matters of employee inquiries regarding the tax matters. He expressed his appreciation to Chairman Pro Tem Gerald Goldsmith for his availability to execute capital calls and other matters of investment transactions.

XII. Retirement/Benefit Payments, Williams Hanes, Pension Administrator

Mr. Hanes reported that there were 2 new DROP participants within the quarter for ratification.

Mr. Wearn made the motion to ratify approval of DROP participation for the employees from the report. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

XIII. Other Business

Mr. Elwell discussed that the board should adopt a position to excuse absence for employee members who are absent due to Town work related duties.

Mr. Elwell made the motion to adopt a position to excuse employee trustee absences who are absent due to Town work related duties.

Mr. Linn discussed that he is not certain the board is able to adopt the policy since the matter of excused absence is contained in the code, and suggested that it may be better for Town Council to consider change to the code. Mr. Linn stated he will review the matter.

Mr. Elwell amended his motion to restrict to today's meeting. Mr. Goldsmith seconded the motion. The Trustees unanimously approved the motion.

XIV. Adjournment

Mr. Goldsmith made a motion to adjourn the meeting at 1:13pm. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

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