Town of Palm Beach Retirement System
Board of Trustees
Minutes of June 6, 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
Brett Madison
Robert Garvy

Absent: (unexcused per 82-57(e)(4))
Nicholas Caristo
Wilbur Ross

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Director of Finance
James Linn, Attorney
Rosemary Guillette, Segal Rogerscasey
Rob Hungerbuhler, Segal Rogerscasey
Michael Futterman, Marcum LLP
Fernando De Aguero, ICMA
William J. Diamond, Town Council Member
Penelope Townsend, Town Council Member

Mr. Hanes informed the board that Mr. Caristo and Mr. Ross had contacted him to explain of their absences because of unexpected circumstances, but were unexcused by their explanation in accordance to the legal requirement.

II. Administer the Oath of Office, Susan Owens, Town Clerk

Ms. Owens administered the oath of office to Lt. Michael Marx and Gerald Goldsmith..

III. Election of Officers, Attorney Jim Linn

Mr. Linn distributed the ballots to the trustees for election for the position of Chairman, and tallied the votes. He announced after tally of the votes that Mr. Snow was re-elected to serve another term as Chairman. Mr. Snow thanked the board and requested ballots for Chairman Pro Tem be distributed.

Chairman Snow commented that Mr. Elwell has not been provided a ballot in these officer elections.

Mr. Linn distributed the ballots for Chairman Pro Tem and tallied the votes. He announced that after tally of the votes that Mr. Goldsmith was re-elected as Chairman Pro Tem.

Mr. Linn distributed the ballots for Secretary and tallied the votes. He announced that Mr. Wearn was re-elected to serve as Secretary.

IV. Approval of Agenda

Mr. Wearn noted an added item, and a minor editorial change on item number nine.

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

V. Public Comments

There were no comments from the public.

VI. Trustee Comments

Mr. Snow reviewed the election terms of the board members. Mr. Garvy asked for clarification on the term limits. Mr. Elwell and Chairman Snow discussed that there are two 3-year term limits applicable to the new board. Mr. Elwell explained that in the case of Town boards and commissions that at the end of a second term the member is required to take a break before making application to the current or other board or commission for appointment.

Mr. Snow welcomed Lt. Marx to the board. Lt. Marx apologized in advance for any interruption that may be caused by his radio and that he may need to leave the meeting to answer a call. Chairman Snow announced that Sergeant Caristo had recently received a commendation award for his part in a criminal investigation leading to an arrest.

Chairman Snow discussed that he and Mr. Hanes had prepared a presentation to Town Council on behalf of the board, and briefly reviewed the backup documents submitted to the Mayor and Town Council. He discussed several plan demographics. He made note of the large number and higher payment for current and upcoming DROP participants and retirees representing future plan liabilities compared to the fewer number and lower payments at death that are being removed as plan liabilities. Mr. Elwell noted that the demographic has been taken into account in the actuarial projections.

Chairman Snow reminded the board members that completion of the financial disclosure form from the county superintendent of election is due by July 1.

Mr. Hanes commented that based on the demographic noted by Chairman Snow regarding actives vs. retirees, that as time goes on there will be a greater need for cash and the asset allocation model will need to be reviewed from time to time to ensure sufficient cash in order that an increasing retirement payroll be satisfied. Mr. Elwell noted that there will be a future crossover point when future plan retirement payments and liabilities decrease.

VII. Financial Report, Jane Struder, Finance Director

Ms. Struder presented the quarterly financial report ending March 31, 2014. She noted that there is a need for $3.9 million dollars to be transferred from the custodial cash account to the local account at Wells Fargo. She commented that there is significant cash held in the State Street cash account, and no additional assets will need to be liquidated.

Mr. Elwell made the motion to accept the report. Mr. Wearn seconded the motion. The trustees unanimously adopted the motion.

VIII. Approval of Minutes: February 20, 2014

Mr. Garvy made a motion to approve the minutes. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

IX. Service Provider Request for Payment, William Hanes

A. Marcum LLP, Michael Futterman

Mr. Futterman explained the circumstances and reason for Marcum's request for an additional fee of $2,500 to perform the 2013 audit. He explained that this was the first audit for the plan performed by Marcum for the new Palm Beach consolidated retirement system, including providing separate reports as required under state law for employee groups covered under the Florida Statute Chapter 175 and 185. He explained that he learned that the State of Florida requires different reports be filed for the Police Officers and Firefighters, and the RFP only included the cost to prepare what appeared to be a single Annual Report. Mr. Elwell stated he believed it to be a legitimate charge in the scope or work performed by Marcum.

Mr. Elwell made a motion to approve the supplemental fee request of $2500 for Marcum. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

B. Gabriel, Roeder, Smith, Brad Armstrong

Mr. Armstrong joined the meeting by phone, and discussed the information previously provided the trustees regarding implementation of GASB, and explained the work to be performed by GRS.

Mr. Futterman explained how GASB 67 and 68 changes what the actuary reports. He stated that the board will need to provide a measurement date. Ms. Struder stated that

Mr. Armstrong will need the information eight weeks prior to the actuarial report date. Mr. Armstrong noted the measurement date only involves the liability data. He commented that the remaining information would use data from the most recent September 30 date.

Mr. Garvy made the motion to approve the previous year date to represent the liability side of the equation, and to use current year information for representing the assets. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

There was additional discussion regarding possible changes in state required reporting. Mr. Armstrong stated that GRS is of the opinion that the state passed SB 534 is unnecessary.

There was a 5-minute break.

Lt. Marx left the meeting upon call.

X. Quarterly Investment Report, Rosemary Guillette and Rob Hungerbuhler, Segal Rogerscasey

Ms. Guillette stated that Mr. Marino is not present as he recently underwent surgery. She introduced Rob Hungerbuhler, Segal Rogerscasey, who will assist in the presentations. She presented the performance information located within the March 31, 2014 Quarterly Investment Report. She reviewed the market conditions and suggested the trustees can review in much greater detail with the Segal Rogerscasey webinar from the portal. Mr. Garvy commented that the trustees would like access to the portal, and Ms. Guillette stated she will send the invite information to Mr. Hanes who will provide the information to the trustees.

Ms. Guillette explained that the cash position is presently at 8% because of rebalance and reallocation directed by the board at its last meeting, and it will continue to be over-allocated in cash until the monies allocated to the several alternative class commitments are drawn down. Mr. Garvy questioned holding 8% in cash and asked for a better yield recommendation. Ms. Guillette discussed that there is a proposal that she will discuss later to place some of the cash with IRM. Mr. Snow noted that out of the $18 million, once there is $3.9 transferred to the Town for payroll, it leaves only $14.1 million. He stated that the fund owes Harbourvest $7.5 million and Pomona $7.5 million, but it will take some time to payout those monies. Mr. Garvy agreed that it could take long periods between the calls. He commented that there should be better alternatives for the cash.

Mr. Garvy noted that Goldman Sachs holds about 81% of the fixed income assets, and asked if Ms. Guillette can provide the rationale for the large holdings. Ms. Guillette stated that the fixed income portfolio is broken down between core plus fixed assets, high yield, and TIPs. She commented that Goldman Sachs represents a well-diversified core fixed income fund. She stated that she likes Goldman Sachs including the research group. She stated that the their research group previously looked at Richmond with Goldman Sachs and felt it best to go with one fixed income manager, and preferred Goldman Sachs.

Ms. Guillette reviewed the remaining manager performances.

Chairman Snow noted that the plan's standard deviation is low, and asked Ms. Guillette to explain. She commented that the report only shows a one-year return, and when the board adopted the asset allocation model that it took much of the equity exposure out of the allocation, leaving total equity at only 40%. She explained that reducing the equity exposure out of the allocation reduces the risk and standard deviation. She discussed that a number of retirement plans continue to hold 50% or more in equities, and those plans have done well over the last few years. She stated she believed that it is a good time to take some of the equity off the table.

Mr. Elwell made the observation there seems to be a theme over the quarterly performance report that the managers have performed well historically but experienced a rough past quarter. Ms. Guillette agreed but noted the board has a lot of equity managers that focus on quality companies and quality businesses and stated that the lower quality companies have done better. She noted that CRM and Geneva have experienced lower performance for the same reason. She stated she believes Geneva will begin doing much better as the fundamentals begin coming around. She explained that Segal expected both Geneva and CRM to underperform in the markets they were in over the last quarter.

Mr. Garvy noted that the composite history for the funds was very limited, and asked Ms. Guillette to comment. She stated that since the plan was not one plan historically, there was some question about how it is to be handled, and the board had previously decided to go forward from the point when the plan was combined. She indicated in order that Segal provide the composite performance for years past, that they will need to go back to the consultants and obtain the information and flows needed to produce composite information. She stated that she came up with an 8.1% 3-year return and 12.9% 5-year return based on her rough calculation. Mr. Goldsmith and other trustees discussed reasons for index investing.

Ms. Guillette discussed the performance of Geneva and CRM from the memorandums previously provided the trustees. She noted that recent performance has been poor. Mr. Elwell asked Ms. Guillette what she would recommend the board do regarding CRM. She suggested that the board direct that Segal provide a search, bring in managers at the next meeting for interview, and bring in CRM to question them about what they are doing and about turnover. She suggested that the board may decide then whether to terminate CRM or wait another quarter to decide.

Mr. Elwell made the motion to proceed in the exact manner as recommended by Ms. Guillette. Mr. Goldsmith seconded the motion.

Mr. Wearn inquired about the Segal research team position regarding CRM.

Mr. Garvy stated that he is troubled with firing a manager who has performed in the 4th quartile to be replaced with a manager who probably has performed at the 1st quartile over the last two years. He stated that he would like to first talk to the firm, and if there are changes in strategy or changes in processes, or if there is a lot of turnover, then it could be cause to move for termination more quickly. He commented that in this case it looks like one portfolio manager chose to leave, while the other two were asked to leave. He remarked that the research group indicated that the people coming in look very favorable to the firm. He stated he is in favor of having CRM come in so the trustees can make inquiry and interview with other managers. Mr. Garvy discussed a concern with the expense associated with changing managers.

Mr. Wearn asked whether it is intended as part of the motion that the Segal research team bring their analysis current at the next quarterly meeting when the board will be considering these issues to make sure the trustees can more fully understand why or why not that our consultants place CRM on the approval list. Mr. Elwell and Mr. Goldsmith agreed. The trustees unanimously approved the motion.

Ms. Guillette requested direction from the board as to whether or not she was to receive information from the prior consultants in order to add longer-term composite information to future reports. Mr. Garvy indicated he would like to see the information in the reports if it can be calculated as if there had been one plan over the years represented. Mr. Elwell questioned whether it is of any value since it was different demographics, different boards, and different reasons for making decisions made by the respective boards. Mr. Garvy stated he wanted to see how performance from the different funds ranked. Mr. Garvy added that people looking at the information may misconstrue it and agreed it should not be included within the report, but he would like to know the rankings within the universe of the fund types. Ms. Guillette stated that it will be done. Chairman Snow clarified that it would be done and be presented orally by Ms. Guillette, but not be made part of the report itself.

Ms. Guillette presented the Segal Rogerscasey presentation and recommendation for IRM. Mr. Garvy asked what fees are charged. The board took a short break so that Ms. Guillette could call and determine the fees charged to the IRM account.

Lt. Marx returned to the meeting.

Ms. Guillette stated that fees charged for the IRM comingled fund is 25 basis points (bp). She indicated that if the board chose a separate managed fund, then the charge would be 30 bp for the first $25,000, and 25 bp for the next $75,000, etc. She indicated that IRM stated fees are negotiable.

Mr. Garvy made the motion to move $15 million to IRM comingled fund and direct Segal Rogerscasey to negotiate fees as it can to reduce from 25 bp. Mr. Wearn seconded the motion with amendment to deposit within IRM whatever the net cash balance is at any given time. Mr. Garvy agreed to the amendment. Mr. Elwell stated he agreed, but would like the motion to be phrased so there is direction to keep as much cash as possible in IRM. Mr. Hanes added that this is the way it works for state systems. Chairman Snow stated he would ask that the agreement with IRM be reviewed by board legal counsel to insure that the fund is day to day liquid considering the quality and duration of the underlying securities within the fund. Mr. Garvy and Mr. Wearn agreed to the discussed amendments. The trustees unanimously approved the motion.

Ms. Guillette discussed the several reasons why Segal Rogerscasey continues to recommend Goldman Sachs as a fixed income manager. She stated that her firm really likes Goldman Sachs's strong manager and team, and that the board does not take any undue risk by choosing them.

Mr. Garvy made inquiry regarding the alternative managers. He commented that there is very little information and that he realizes there is often little transparency, but asked why the performance report information is so limited. Ms. Guillette agreed that much of it is lack of transparency, but that she and staff will work on more analytics that can be included in the report.

XI. Change in Defined Contribution (DC) Menu of Options

A. Segal review and target date fund recommendation, Rosemary Guillette, Segal Rogerscasey

Ms. Guillette presented the lineup changes and reviewed the recommendations. She commented that the list remains the same as it has been. She explained that they look to provide the best fund in each asset slot, and will review semi-annually. She discussed the memo that outlines the funds that are not to be changed, new funds that are recommended to be added, and funds to be closed. She discussed that there are two manager search books with candidate managers for addition to the lineup classes of Global Equity and Target Date.

B. Discussion and Advice on final lineup.

Mr. Elwell discussed that the work that has gone into this procedure and the time, research, and recommended changes are very significant and very important to the employees. He clarified that the changes before the board are a consensus between ICMA and Segal. He commented that he believes we are now ready, and complimented the work of the board and Segal Rogerscasey with the final lineup. Mr. Madison added that he agrees with Mr. Elwell's comments.

C. ICMA Comments on lineup, Fernando C. De Aguero, ICMA

Mr. DeAguero provided comments regarding the Defined Contribution lineup, and noted that he is in agreement with the changes recommended by Segal Rogerscasey.

D. Board Decision regarding changes to the lineup

Mr. Hungherbuhler presented the search report with candidates for the global equity fund.

Mr. Snow stated that while a global fund includes the US, many individuals probably are looking for non-US investment, and that he prefers a manager with more non-US in this space. Mr. Garvy stated his preference for value over growth when choosing a Global manager.

Mr. Garvy made the motion to hire Franklin Templeton as the Global Equity manager. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Ms. Guillette presented the search report with candidates for target date funds. The trustees discussed a preference for the lower cost, well diversified management associated with the indexed Vanguard funds.

Mr. Garvy made the motion to select Vanguard Target Date funds. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Mr. Elwell made the motion that the board accept the final lineup as recommended by Segal Rogerscasey, and include the addition of Franklin Templeton and the Vanguard funds to the lineup. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

E. Draft Memorandum to Town Employees, Danielle Olson, Director of Human Resources

Mr. Elwell commented that he coordinated with staff in the draft of a letter in a way that he believes best communicates the issues with employees.

Mr. Elwell made the motion to approve the letter as submitted. Mr. Madison seconded the motion. The trustees unanimously adopted the motion.

Mr. Elwell stated that he was required to leave the meeting for now, but asked the trustees to be cautious with regard to the several IRS issues that are to be discussed by Mr. Linn, and strongly agrees with Mr. Linn that these tax matters be referred to outside counsel for further review and consideration.

Mr. Elwell left the meeting.

Mr. Madison requested that Mr. De Aguero discuss the fate of the managed accounts and when the changes will be made. Mr. De Aguero responded that ICMA will need to discuss with the third parties, and will report back to the board.

XII Attorney Report, James Linn

Mr. Linn presented the attorney report. He reviewed the disability appeal procedure and suggested that he address several good suggestions from Mr. Wearn, and stated that he would like to review and provide the policy to the trustees with the changes at the next meeting.

Mr. Linn reviewed the IRS guidance on the early withdrawal penalty regarding Public Safety. He discussed various plans that are parts of the retirement system and the complexity of those plans in administration. He indicated that his research does not draw any definitive position on the tax matters, and commented that the board may need to seek additional guidance from a tax attorney. He recommended that the board agree to hire the firm of Ice Miller LLP for additional legal input. Mr. Linn noted he will be prepared to provide additional information at the next meeting. Mr. Linn suggested that the board approve the letter of engagement with Ice Miller LLP, but not to exceed $20,000.

Mr. Wearn made the motion to retain Ice Miller LLP with a not to exceed of $20,000. Mr. Madison seconded the motion.

Mr. Hanes asked for clarification regarding the issues included for review. He noted that the IRS issues that need to be addressed include the public safety 72(t) exception, the 415 limitation applicable to DROP transfers to ICMA, as well as matters of the determination letter. Mr. Linn stated he believes Ms. Braitman (Ice Miller LLP) intends for the engagement to include guidance for all the issues being considered. Mr. Garvy asked Mr. Linn what he would believe will be spent for a determination on these matters. Mr. Linn stated that the determination letter should be taken out, which is a separate item. He stated that the determination letter is pretty routine, and if he does it that his fees will range from $20,000 to $30,000. He stated that if Ice Miller LLP did the determination letter it would probably be significantly more. However, he stated that after an initial analysis that Ms. Braitman may recommend that all the IRS issues be wrapped up with a determination ruling. He stated that he did not expect it, but that it is possible. He commented that a Private Letter Ruling in itself could bring fees of $30,000 to $50,000 at the Ice Miller LLP rate. He stated that he is not at all suggesting that a Private Letter Ruling is needed, although initially he did. He commented that Ice Miller LLP might suggest a plan amendment, which could impact the ultimate cost. Mr. Linn suggested the board should get an initial assessment and guidance to see what the options are and then assess the costs of the options.

Mr. Goldsmith commented that he would be interested in waiting to see what other people are doing. Mr. Linn stated that he knows of an attorney advising other plans based on the 415 issue who advises not to do anything now because of things going on and Mr. Linn stated that he anticipates more guidance later in the year. He surmised that Ms. Braitman may recommend the same regarding that issue. He commented that he sees no reason to wait on the matter of the early distribution penalty issue.

Mr. Garvy stated that his concern was to be able to narrow the focus of engagement with Ice Miller LLP. Mr. Garvy stated that it would seem the issue that needs more immediate attention is in regard to the DROP early withdrawal penalty. Mr. Linn stated that this is the only issue he has discussed with Ms. Braitman. He stated that if the board is going to limit the scope that he would limit to the early distribution penalty issue. Mr. Wearn commented that it was this issue that he intended to limit in his motion. He stated that by engaging in that issue it would be his expectation that Ms. Braitman would come up to speed with regard to the retirement plan and other issues from which she might provide future guidance. He repeated that the motion was only intended to address directly the early distribution penalty. Mr. Linn stated that he would not anticipate a definitive answer to that issue by the next meeting but would expect that before the next meeting that Ms. Braitman would provide options for the board to consider as how best to deal with the issue. Mr. Hanes clarified and discussed that the tax issues have the potential for significant impact with our system employees, and specifically that there are several DROP participants that will exceed the IRS Section 415 $52,000 contribution limitation early this year.

Mr. Garvy stated that he is not convinced we are going to get guidance with this engagement. Mr. Goldsmith asked if there is danger by waiting a while. Chairman Snow and Mr. Garvy acknowledged it could be harmful to wait, and Chairman Snow commented that the board is paying little to gain guidance. Mr. Wearn made note of the memorandum provided by Mr. Linn that addresses the one issue regarding the matter of the public safety early withdrawal penalty. He commented it is the only issue that is subject to the tax advice and guidance for which the engagement is directed. He discussed that there could be other issues that are outliers with respect to our system that might be addressed by Ice Miller LLC. He stated that it was his intention as part of his motion that the board has an immediate question that needs to be posed that goes beyond local counsel's perview of expertise, and appropriately resides in an expert. He stated that Ice Miller LLC qualifies as an expert who can give us guidance and answers to the issues.

The trustees unanimously adopted the motion.

Mr. Elwell rejoined the meeting.

XIII. Retirement/Benefit Payments, William Hanes, Pension Administrator

Mr. Elwell left the meeting.

Mr. Hanes reviewed the administrator's report of DROP participation.

Mr. Garvy moved to accept the report. Mr. Wearn seconded the motion. The trustees unanimously adopted the motion.

XIV. Other Business

There was no other business.

XV. Adjournment

Mr. Goldsmith made a motion to adjourn the meeting at 1:05 pm. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

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