The Town of Palm Beach Retirement System
Board of Trustees
Minutes of March 8, 2013 Meeting

I. Call to Order and Roll Call

Chairman Snow called the meeting to order at 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
Brett Madison
Michael Lynch

ALSO PRESENT:
William P. Hanes, Pension Administrator
Lawrence Marino, Segal Rogerscasey
Rosemary Guillette, Segal Rogerscasey
William Diamond, Council Member

Absent:
Alvin Parven
John Cuomo (entered meeting after roll call)

II. Comments by Trustees

Mr. Lynch stated that this would officially be his last meeting, and requested information regarding the difference in contribution rates paid by classes of public employees. Mr. Elwell discussed the issue and stated he would provide the information to Mr. Lynch, and that the information is also available on the intranet.

Mr. Goldsmith made inquiry about the professional liability insurance policy coverage and said he would raise it under other business on the agenda..

Chairman Snow noted that the Police Officer and Firefighter fund's final audits are available.

Mr. Lynch noted he has the results from the Florida Statute Chapter 185 Police Officer election ballots regarding the unencumbered monies, and they have been provided to the office of the retirement administrator. Mr. Hanes stated that Mr. Linn will be providing a draft ordinance to the Town for later adoption by Town Council.

Mr. Hanes stated that he received a text from Mr. Cuomo that morning saying he will be arriving shortly. He also noted that the board needed to decide if Mr. Cuomo's absence from the previous meeting is excused.

Mr. Goldsmith made a motion to accept Mr. Cuomo's absence as excused. Mr. Wearn seconded the motion.

Mr. Elwell stated that he does not recall if the ordinance of this board has the same criteria as other boards concerning an illness of a member or family member, death in the family, or legal process, and that outside of those reasons, absences are to be treated unexcused under the code. Mr. Hanes stated that he believes the language in the code is the same as what Mr. Elwell discussed, but that it is not clear to him the application of those circumstances. He remarked that the provision seems to leave the decision discretionary for the plan administrator to make. He commented on his reluctance to do so. Mr. Elwell noted his belief that the board needs to follow protocol established with other boards and committees.

Chairman Snow agreed with Mr. Elwell and observed that Trustee Cuomo had just entered the meeting.

The trustees unanimously adopted the motion.

Mr. Cuomo entered the meeting..

III. Approval of Agenda

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

IV. Further Review of the ALM Study and Asset Mixes

Mr. Marino presented the ALM mixes that had been discussed at the February 7, 2013 meeting and discussed the issue of what the expected return should be. He reviewed the additional slides with information regarding capital market assumptions. He made the comment that the slides were done using a capital market assumption on a 5 and 30-year basis on an arithmetic basis and not based on a stochastic basis. He expressed his concern over the basics of the asset modeling related to the original ALM submission on February 7 as to where it would have projected if utilized earlier, meaning using the model 4 or 5 years ago, or even 30 years ago. He asked "where would we find ourselves today?" He expressed concern that the disadvantage of the deterministic model is that it is difficult to express risk. He expressed his concern over the probability of the model selected to be reliable for performance in the future. Ms. Guillette and Mr. Marino explained that they use the stochastic model in addition to using the deterministic model within the ALM because it provides you with ratios of possibilities of success.

Mr. Marino noted that stochastic modeling takes into effect the tail risk. Mr. Marino and Ms. Guillette discussed that stochastic modeling takes into account tail risk, or out of range events.

Mr. Marino briefly reviewed the fixed income, equity, and hedge accounts. He noted that asset mix 3 would provide the best chance of getting the Town to full funding and that a further discussion is needed to determine the appropriate rate of return assumption.

Mr. Wearn made the motion to accept asset mix three as the model. Mr. Goldsmith seconded the motion.

Chairman Snow stated that he supports the motion, but added that the new asset classes should be defined and looked at before the motion is voted on. Mr. Wearn noted that it would be appropriate to look at the other fund selections and if the board is secure with mix 3, then there would be direction for the discussion of real estate and other mixes.

Mr. Goldsmith moved to amend the motion to suggest that to be the frame of reference for the individual allocations so there's a path forward without being locked in. Mr. Wearn agreed to the amendment to the motion.

Mr. Cuomo inquired regarding what is to be expected in the second decade that would change the return on investment. Mr. Marino stated that the current return on cash is zero, and when that low interest environment changes, it will be a shock to the system depending on how fast the change happens. He commented that this will result with increases in short-term rates and as these increases occur expected returns on stocks and other financial securities will go up too.

Chairman Snow requested approval on the motion. The trustees unanimously approved the motion as amended.

V. Review of New Asset Classes – GTTA and Real Estate

Mr. Marino provided a review of real estate portfolios. He reviewed the liquidity issues within the market and recommended a 5% core real estate and a 4 % value add real estate. He discussed advantages and disadvantages of core, core plus, value add, and opportunistic real estate.

Mr. Goldsmith inquired if the allocation selected is consistent with the requirements of the state. Ms. Guillette responded that the only issue with mix three would be the international allocation. Mr. Elwell noted that the public safety legacy investment policies are more restrictive than what will be needed going forward, and the board will have more flexibility in making decisions because they are no longer restricted by Chapters 175 and 185. Ms. Guillette added that in the State of Florida they have not had any issue with restrictions on value add, opportunistic or core real estate with pubic funds.

Mr. Marino reviewed the handout regarding the rate of return of real estate, and discussed the 15 year historical correlations. He noted that the allocation of 5% core, 4% value and 1% REIT would work well. Chairman Snow inquired what is the state of the market for core real estate. Mr. Marino responded that there is some difficulty getting into the market and it could take one or two quarters to get in. There was additional discussion on core real estate.

There was a 5-minute break.

Mr. Wearn stated that he has concern regarding inflation, and requested that a report be provided on a quarterly basis to stay abreast on trends and arising problems with regard to inflation. Mr. Marino stated this would be difficult to track over a short time period. Mr. Goldsmith suggested that if over a quarter they found an issue, could they provide a report at that time. Mr. Marino responded yes.

Ms. Guillette discussed Global Tactical Asset Allocation (GTAA) Funds. She noted that it is an offset to fixed income and an alternative to hedge funds because of the lower fees. She reviewed the type of managers that offer GTAA investments. Mr. Marino noted that the GTAAs have been very successful and are good to have as an alternative class.

VI. Discussion of Assumed Rate of Return

Mr. Marino stated that a 7.5% assumed rate of return is a reasonable rate. Mr. Wearn discussed the March 5, 2013 memorandum from Mr. Elwell and Ms. Struder, and the use of pre-paid contributions to provide the additional contributions that will accompany the assumption change. Several trustees agreed that the 7.5% rate of return is reasonable. Mr. Elwell discussed the eventual impact on the Town's taxpayers, and the recommendation to be given to Town Council for adoption of the new rate of return assumption. He stated that going any further might impact future budgets greatly. Mr. Goldsmith suggested that this rate should be looked at periodically to ensure that it conforms to budgetary constraints and responsibility to the taxpayers. Mr. Wearn made note that a change to a 7.5% rate is to be considered along with a 3.5% inflation rate assumption.

Mr. Snow stated that it may be possible for the board to be more conservative and go even lower than 7.5%, but that he will support a rate of 7.5%.

Mr. Ross made the motion to adopt the rate of 7.5% investment assumption and 3.5% wage assumption Mr. Cuomo seconded the motion. The trustees unanimously adopted the motion.

Mr. Ross made the motion to recommend to Town Council the option three model from the memo. Mr. Goldsmith seconded the motion. The trustees unanimously adopted option three.

VII. Review of Due Diligence Report

Mr. Marino briefly discussed the restructuring of the portfolio as provided in the due diligence report.

VIII. Implementation Schedule Review

Mr. Marino discussed the upcoming schedule of the fund transfers and changes beginning in May 2013. He discussed an aggressive timeline but explained to the board that if they wanted to go slower that Segal Rogerscasey would progress as they wished.

Mr. Ross made the motion to approve the Segal Rogerscasey recommendations on implementation. Mr. Lynch seconded the motion.

Mr. Hanes requested from Mr. Marino whether the board will be in compliance with the current investment policy statements (IPS) during the implementation of these recommendations. Mr. Marino and Ms. Guillette confirmed that the board would be within the current targets. Ms. Guillette stated that the board would be in compliance with the guidelines with the exception of the Hedge funds. Mr. Marino added that once the Hedge fund allocation has been reduced that the plan will be compliant.

Mr. Elwell discussed that the transition period would expect the funds to be slightly out of compliance during the transition. He suggested amending the motion to implement the aspects of the plan with the acknowledgement that there may be a slight deviation to what is outlined during this period of implementation of the rebalance schedule.

The trustees discussed a matter of contracting with a transition manager as recommended by Mr. Marino and Ms. Guillette.

Mr. Ross amended his motion to delegate to the pension administrator and Chairman Snow the issue of the transition as normal or with outside help, and with regard to what the procedure would be to obtain the outside help, limited to a cost not to exceed $100,000. Mr. Lynch seconded the motion as amended. Mr. Elwell requested an amendment limiting the amount to $20,000. Mr. Ross and Mr. Lynch agreed to that amendment to the previous motion. The trustees unanimously adopted the motion.

IX. Other Business

Mr. Wearn made the motion that Segal Rogerscasey draft an appropriate resolution regarding these investment decisions for submission to Town Council subject to the advanced approval by the administrator, chair, board attorney. The motion was seconded by Mr. Goldsmith. Mr. Elwell discussed that the resolution be reviewed by the board at the May 15, 2013 meeting. The trustees unanimously approved the motion.

Mr. Goldsmith asked for Mr. Elwell's advice in regards to the trustee liability insurance coverage. He asked what the town wishes the board to do and whether the Town would want the board to obtain higher insurance in order to protect the Town. Mr. Elwell indicated his satisfaction with the board's previous action.

The trustees discussed with Mr. Marino the upcoming schedule of meetings of the board regarding matters of selection of managers. Mr. Elwell asked if the proposal for a special called meeting in July could wait until the regularly scheduled August quarterly meeting for the board to consider then. Mr. Marino stated that the May date will take all day and cannot be done during the regularly scheduled May quarterly meeting. He stated that another 1/2 day will be needed on August 16, and the trustees should plan on spending all day at that meeting in order to bring in managers from what was proposed to be a July meeting.

Mr. Cuomo discussed with the trustees matters of his desire to receive information regarding Plan B benefits.

X. Adjournment

Mr. Ross made a motion to adjourn. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion to adjourn at 1:15 P.M.

Respectfully submitted,

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