**Town of Palm Beach Retirement System**
**Board of Trustees**
**Minutes of March 7, 2016 Meeting**

## I. Call to Order and Roll Call

Chairman 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, Chairman
Wilbur Ross, Chairman Pro Tem
Brett Madison, Secretary
Tom Bradford, Town Manager
Dan Stanton
Daniel Wilkinson
Michael Marx
Brad Kaufman

**ALSO PRESENT:**
William P. Hanes, Retirement Administrator
Jane Struder, Finance Director
Danielle Olson, Human Resources Director
Rosemary Guillette, Segal Rogerscasey
John Ross, Segal Rogerscasey
James Linn, Attorney
Glenn Thomas, Attorney
Michael Futterman, Marcum
Enrique Urena, Marcum

## II. Approval of Agenda

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

## III. Comments by Trustees

Mr. Bradford commented on matters before the Town Council and Finance and Taxation committee regarding considerations to amend the pension plan for public safety employees.

Mr. Wilkinson and Mr. Marx asked for clarification of Mr. Hanes in reference of employees purchasing years of service without having military service or prior service elsewhere. Mr. Hanes discussed the provision of the code from years ago that allowed public employees to buy years of service, and that the Town did not include with the 2012 amendments.  Mr. Goldsmith commented that he assumes that the overall effect of the pension fund will be a decision of the Town Council. Mr. Bradford commented that it sounds like it is a legislative decision for Town Council. Mr. Goldsmith suggested putting it in writing and bringing it to the Town Council Meeting based on the elimination of the 175/185.

Mr. Linn introduced his Law partner Glenn Thomas who will be his replacement in the event he cannot make it to the meeting.

## IV. Public Comments

None

## V. Approval of Minutes: November 20, 2015 and December 14, 2015

**Mr. Kaufman made the motion to approve the minutes of November 20, 2015 and December 14, 2015. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.**

**VI. Fiduciary Insurance Policy, Judy Arenz, Vice President, Arthur J. Gallagher & Co.**

Ms. Arenz discussed the proposal for renewing the Fiduciary Liability coverage Insurance Policy with the current carrier. She recommended renewing at the current limit of $10 million and premium at $30,385.

**Mr. Ross made the motion to approve the renewal of the current Fiduciary Insurance policy as recommended. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.**

**VII. Financial Report, Jane Struder, Director of Finance**

Ms. Struder presented the quarterly financial report as of December 31, 2015.

**Mr. Ross made the motion to approve the disbursement for the quarter. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.**

Ms. Struder stated that the cash flow for the quarter requires a transfer of $4.5 million dollars from the managers and Ms. Guillette has been notified. Mr. Goldsmith commented that the trustees need to be aware that the Town does have a negative cash flow. Ms. Struder stated that the negative cash flow is $4.5 million and approval is needed to liquidate investment.

**Mr. Ross made the motion to approve the report and to liquidate $4.5 million in investments for payment of benefit and expenses. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.**

**VIII. Presentation of September 30, 2015 Audit, Michael Futterman, Marcum**

Mr. Futterman reviewed the independent auditors' report. He introduced Enrique Urena, who serves as senior auditor. Mr. Futterman reviewed the Opinion Paragraph, Management Discussion and Analysis in the Audit Report. He reviewed the plan liability, total pension and net pension for the general employees. He stated that this is the first year that the Town must report this liability for the plan, and stated that the most significant change or difference was that the asset's fair value had decreased. He commented that they are pleased to report that there is no material weakness or significant deficiency to report to the Retirement Board, and commended Ms. Struder and Mr. Hanes for their record keeping and accounting during the course of the year. Mr. Futterman reviewed the investment target ranges and finished with a brief discussion of the financial statement. Mr. Goldsmith asked Mr. Hanes if the target range is set by the Retirement Board in agreement with the investor advisor. Mr. Hanes confirmed.

**Mr. Ross made the motion to approve the acceptance of the audit. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.**

**IX. Actuarial Reports, Brad Armstrong, GRS**

**a. Annual Actuarial Report**

Mr. Armstrong presented the annual actuarial report. He stated that the Governmental Accounting Standards Board (GASB) a few years ago had made a conscious decision to divorce from the reporting of actuarial calculation with regards to liabilities for purposes of reporting from funding. He stated that he will be reviewing the report for the purpose of funding. He reviewed the funded measures for general, ocean rescue employees, Police Officers, and Firefighters. He discussed trends, assumption changes, and commented on the significant increase in Town contributions. He stated that the impact of year-to-year changes is $1.1 million dollars, with $450 thousand dollars of the total attributable to new recognized experiences. Mr. Ross asked Mr. Armstrong if the $450 thousand dollars will come through year over year and how this relates to the task the Town Council gave Mr. Armstrong of overlaying some alternatives. Mr. Armstrong confirmed that all financial information that he is using is up to date. Mr. Ross raised questions regarding the fiscal year experiences. Mr. Armstrong explained how the projected amount was calculated. Mr. Ross questioned the rate of return that is being assumed in the report. Mr. Armstrong answered that he is assuming a 7.5% rate of return. Mr. Ross asked about implementation of the mortality table. Mr. Armstrong answered that the mortality table will be changed again next year because of the FRS mandate and the current mortality table is fairly conservative. Mr. Armstrong stated that the impact of the mortality table on Town contributions is probably half that of the negative investment return assumption.

**Mr. Ross made the motion to accept the actuarial report. Mr. Stanton seconded the motion. The trustees unanimously approved the motion.**

## X. Investment Report, Rosemary Guillette, Segal Rogerscasey

### a. Defined Benefit Quarterly Performance Report

Ms. Guillette reviewed the Retirement System Report. She reviewed how the markets have done for the quarter period. She introduced her co-worker John Ross who is head of the Segal Rogerscasey Beta Group. She reviewed the financial market condition, including Real estate and Private Equity, which she stated were the best performers for the year. Ms. Guillette discussed the S&P 500 and stated that it has been very volatile in the past months. She stated the fixed income was a tough situation for bonds and negative returns.

Ms. Guillette reviewed quarterly target asset class performance. She reviewed the plan performance for the quarter, and performance of each asset manager. Mr. Stanton questioned that if there is not much in Domestic Equity why all domestic managers are not viewed relative to the S&P 500. Ms. Guillette answered that the natural resources fund was a fund that came over from the legacy plan, and Segal Rogerscasey was neutral on the subject. She commented that the Retirement Board decided to keep this fund. Mr. Kaufman asked about the fees that are being charged. He commented that the higher fees hurt Town performance in a low rate of return environment. Ms. Guillette agreed and said Segal Rogerscasey tries to get the lowest cost available with each fund manager. Mr. Kaufman commented that this is the active vs passive debate. Ms. Guillette discussed the alternative hedge fund portfolio and recommended bringing Wellington and Mesirow to the next meeting of the board for their underperformance. Mr. Stanton commented on the negative plan performance compared with market in 2015, the 5 individual managers in the portfolio that are underperforming, signs of uncertainty that can affect the portfolio, and questioned the thought process of Segal Rogerscasey.

Mr. Goldsmith asked Ms. Guillette to describe what the Town holds in PEI. Ms. Guillette discussed PEI and the memo that was prepared and sent to the trustees. She stated that the Town had an investment of $1.5 million with PEI, and as of this report is worth $ 1.19 million dollars. Ms. Guillette discussed the problem of partner fallout at PEI. She stated that Segal Rogerscasey has not been able to contact LPAC. Mr. Kaufman asked if there is any principal regulator looking into this situation. Ms. Guillette answered not as of yet. Mr. Ross asked if the litigation has been filed. Ms. Guillette stated that it has been filed and she reviewed it briefly after receiving from Mr. Hanes and sent it to Mr. Linn. Mr. Linn discussed, Mr. Ross asked if the fund lists the members of the advisory board. Ms. Guillette answered that she does not believe it is listed, because they are limited partners. Mr. Ross asked Ms. Guillette if she has reached the advisory board. Ms. Guillette stated that they have not; but they requested to speak to the LPAC. Mr. Linn stated that he does not have the partnership agreement as of yet. He agreed to reach out to other limited partners who may have larger stakes. Mr. Kaufman requested a copy of the complaint (a copy was sent to Mr. Bradford via email). Mr. Kaufman asked what if the Town determines to terminate PEI. Ms. Guillette answered you cannot terminate unless there is a key man provision. Mr. Linn suggested hiring outside counsel with expertise in this area to advise the Board. Mr. Ross commented that bringing in outside counsel could bring more expenses. Mr. Linn suggested a cap expenditure on hiring an outside counsel. Mr. Kaufman commented that he must be careful and speak as a trustee and not as a securities lawyer. Ms. Guillette commented that they will continue to update the Board on this issue. Mr. Linn stated that the complaint was filed at the end of February. Mr. Hanes questioned Ms. Guillette why PEI changed their focus from secondaries to direct investments. Ms. Guillette answered that they tend to be smaller vs Landmark. Mr. Hanes commented that before 2012 he did not believe PEI had direct investments. Ms. Guillette disagreed and answered that she believes it was one of the criticisms from the board when PEI presented in 2012.

**b. Defined Contribution Report**

Ms. Guillette reviewed the Defined Contribution Report. She stated that the new line up is included in the report. Mr. Goldsmith asked Mr. Bradford if the Town employees are satisfied with the ICMA education. Mr. Bradford stated that through the HR Department employees are encouraged and pushed to schedule time to see one of the ICMA advisors that come on-site to provide education. Mr. Madison commented about the "lunch and learn" group seminars that are provided at the Town through ICMA. Mr. Madison asked if the managed accounts are included in the report. He commented that it is a service provided by ICMA for management of individual accounts. Ms. Guillette answered that they can include managed accounts in future reports.

Ms. Guillette reviewed the performance of the Town's funds. Mr. Bradford asked Ms. Guillette if recent movement of money has been made into the Advantage Trust Plus Fund, because it is so high in values. Ms. Guillette stated that only 6% of contributions are made into that fund currently and people generally do not move their money around. Mr. Madison discussed that many employees that went into the DROP were afraid of losing money and placed their money into that fund because it was conservatively invested. Mr. Bradford commented that it is possibly done mostly from retirees with monies at ICMA. Ms. Guillette agreed that it could also be from employees who defaulted into that fund before the default fund was changed. Mr. Hanes discussed that before the changes in 2012 there were public safety plans, like Share and DROP, with the Stable Value Fund serving as the default. He commented that many of the public safety members expressed a preference for a more conservative and safe fund.

Mr. John Ross gave an overview of the 2016 assumption book and the thought process. Mr. Stanton asked Mr. Ross about the underweighting in US equity relative to the rest of the world and why International Equity is preferred by Segal Rogerscasey regardless of the risks that exist outside the US. Mr. Ross answered it is from a point of view of long term and intermediate equilibrium to use global markets. Mr. Ross asked if it is a fair observation to say that Segal Rogerscasey asset allocation is indifferent to existing present market conditions except tweaking at the margin. Mr. Ross answered that it is a fair observation of the strategic asset allocation procedure. Mr. Stanton asked how Segal Rogerscasey assumes the rate of returns with these struggling funds. Mr. Ross added that it is referred to as a lower return environment. Ms. Guillette discussed how the low return can have opportunities to do better in the long run. Ms. Guillette and Mr. Ross explained how modeling was done for 10 and 20 year periods. Mr. Goldsmith discussed the model must consider liquidity because the retirees get paid in cash.

Mr. Hanes discussed that the Horizon report was very interesting and authored by actuaries with a focus on liabilities. Mr. Ross discussed that the retirement plan has a need for liquidity and yield. Mr. Kaufman discussed a concern about what happens if the 7.5% expectation is wrong. Ms. Guillette stated that it seems like there is a lot of retirement plans lowering their assumption, but it is important that plans look long term for the average return assumption. Mr. Ross discussed taking advantage opportunistically from a strategic long-term perspective.

**XI. Investment Rate Assumption**

Mr. Hanes discussed that the chairman and other trustees asked this item to be placed on agenda for a discussion regarding the appropriate investment rate assumption. Mr. Ross stated that he feels lowering the investment assumption to 7% is a reasonable compromise. Mr. Goldsmith agreed with Mr. Ross suggestion. Mr. Stanton asked about the contribution impact if the rate is lowered to 7%. Mr. Bradford answered that it will be a great impact if it is done overnight and that he would prefer a soft landing by doing it as a step down bases. The trustees agreed to a 10 basis points reduction over a 5-year period. Mr. Goldsmith requested if there may be an alternative within the Town's control to solve the problem. Mr. Bradford asked if Mr. Goldsmith is thinking of a new revenue source. Mr. Armstrong stated that changing the assumption for 2016 impacts the contribution schedule for 2018. Mr. Kaufman clarified by question if the first impact will be fully implemented by 2018, and that the assumption rate will be down to 7.3% by 2020. Mr. Armstrong agreed and stated that it will be fully implemented by 2020.

**Mr. Ross made the motion to approve a lower rate assumption based on a 10-basis points per year reduction over a 5 year period beginning fiscal year ending 2016 to fiscal year ending 2020. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.**

**XII. DRAFT Town of Palm Beach Retirement System Annual Report, Jane Struder, Director of Finance**

Ms. Struder reviewed the Palm Beach Retirement System Annual Report. Mr. Hanes commented the report is an excellent reading for the employees, and it is very informative.

**Mr. Kaufman made the motion to approve the Town of Palm Beach Retirement System Annual Report. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.**

**XIII. Attorney Report: James Linn and Glenn Thomas**

**a. State Legislation**

Mr. Thomas discussed pension legislation.

**b. Disability Overpayment**

Mr. Linn discussed the overpayment of disability benefits to Mr. Brad Kliphouse. Mr. Hanes explained the circumstances of the disability application that the board had previously approved. Mr. Goldsmith asked if in the past something like this has happened. Mr. Hanes answered that since 2012 there was only one other overpayment of benefits. Mr. Linn stated that the prior case was a miscalculation and the Board voted to not pursue the payment. Mr. Kliphouse stated that he had no idea that there was anything wrong with his paycheck, until he received a call from Mr. Hanes. Mr. Bradford asked if the code states that the Board is required to pursue this issue. Mr. Linn stated that the code directs the plan to correct errors, but discussed issues for pursuing a claim. Mr. Kaufman stated that if the payment has been corrected going forward that he suggests that in light of the small size of the error Mr. Kliphouse should not be required to pay the overpayment.

**Mr. Goldsmith made the motion to approve not pursuing the overpayment. Mr. Marx seconded the motion. The trustees unanimously approved the motion.**

**XIV. Service Contract Renewals, William P. Hanes, Administrator**

Mr. Linn discussed the service contracts with two providers, PBI and Ms. Ellen Schaffer. Mr. Linn recommended that the contract for death audits and the license agreement for the benefit payment software be renewed. Mr. Hanes discussed the agreements.

**Mr. Goldsmith made the motion to approve the renewal of contracts. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.**

**XV. Administrator's Report, William P. Hanes, Administrator**

Mr. Hanes announced that the Town Council has two appointments to make for trustee positions, and one is the reappointment of trustee position currently held by Mr. Kaufman. Mr. Bradford stated that the applicant name for the other position is Mr. Jeffrey Amling.

Mr. Hanes commented that there is a state law that requires trustee education, and he had discussed the matter with Mr. Bradford. Mr. Linn discussed the importance of educational opportunities, especially for new trustees. He stated FPPTA is the state organization with many local governmental pension plan trustee participation. Mr. Kaufman asked if there are resources on line at no cost. Mr. Madison discussed there is trustee classes for two days with the FPPTA. Mr. Hanes stated that the current policy of the board is that the board not participate as member, but that trustees are allowed to attend and receive reimbursement pursuant to Town policy.

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

Mr. Hanes reviewed the memo that list the number of people that have begun participation in DROP or retirement.

**Mr. Ross made the motion to approve the report for ratification of DROP and retirement participation. Mr. Bradford seconded the motion. The trustees unanimously approved the report.**

## XVII. Other Business

Mr. Madison discussed that he would like permission as representative of the general employee to speak with Mr. Bradford, not as a fiduciary, but as an employee. Mr. Linn stated that it is possible but it has to be noticed publicly. Mr. Bradford clarified that there might be some policy changes that the general employees have that does not necessarily fall under the Retirement Board. Mr. Linn stated that in Florida as long as the discussion is not about a matter that could come before the Board, if it could become before the Board it has to be public. Mr. Linn commented that the only problem with what Mr. Madison proposes is that the Town Manager is a member of the Retirement Board and that if it is with anyone else, it would not be an issue. Mr. Ross suggested that Mr. Madison talk at the Town Council meeting. Mr. Madison stated that he will discuss with the deputy Town Manager to avoid a violation of the Sunshine Law.

Mr. Bradford suggested that the board should consider providing backup to trustees electronically at future board meetings. He stated that with the amount of coordination and logistics managing paper, it would be more efficient. Mr. Bradford asked Mr. Hanes if it would create problems with the vendors. Mr. Hanes stated no, and that his office already receives and maintains electronic copies of backup material. The trustees agreed that electronic delivery of the board material will become the default method, and trustees should let Mr. Hanes know their preference for paper copy if that is the case.

## XVIII. Adjournment

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

Respectfully Submitted,

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