TOWN OF PALM BEACH

MINUTES OF THE RETIREMENT BOARD OF TRUSTEES MEETING HELD ON

Friday, March 4, 2022

I. CALL TO ORDER AND ROLL CALL

The Retirement Board of Trustees Meeting was called to order on Friday March 4, 2022, at 9:00 am in the Town Council Chambers. In attendance were Chair Stanton and members Carter, Parker, LeClainche, Marx, Wilkinson and Debrincat. Absent were members Kaufman and Lambert.

II. APPROVAL OF AGENDA

Motion was made by Board Member Carter, and was seconded by Board Member LeClainche, to approve the agenda as presented. The motion passed unanimously.

III. TRUSTEES COMMENTS

There were no comments from trustees.

IV. PUBLIC COMMENTS

There were no comments from the public.

V. APPROVAL OF MINUTES

Motion was made by Board Member Carter, and was seconded by Board Member LeClainche, to approve the Minutes for the November 15, 2021. The motion passed unanimously.

VI. FIDUCIARY LIABILITY POLICY RENEWAL, KAREN TEMME, RISK MANAGER

Ms. Temme discussed the memorandum dated February 18, 2022, regarding the fiduciary liability renewal. The board currently has the fiduciary liability policy that expires April 1, 2022, and she recommended renewal of the policy, as expiring with a $10 million limit, $150 thousand deductible, and an annual premium of $26,025. The Town has an indemnification ordinance that protects interests of the board. The memo covers other information which includes coverage history and benchmarking of other municipalities.

Ms. Arndt, Insurance Broker from Arthur J. Gallagher, discussed questions of incremental coverage, excess layers to coverage, limits, and costs. She stated that incremental coverage was expensive and recommended that the $10 million limit for the Town's program was ample.

Motion was made by Board Member Carter, and was seconded by Board Member Parker, to approve the renewal of the fiduciary liability policy, remaining the same as in the past. The motion passed unanimously.

VII. FINANCIAL AUDIT, TAMMY GOLDSTRICH, MARCUM LLP

Ms. Goldstrich presented the results of the audit procedures for the current year. Ms. Goldstrich stated that Moises Ariza, the partner from Marcum, "...could not make it today." Marcum audited the financial statements of the Town as of September 30, 2021, and the related changes of net position. The audit did not find any deficiencies in internal controls or compliance. Ms. Goldstrich reported no irregularities or issues in their audit and findings.

Chairman Stanton asked Board Member LeClainche, Director of Finance, if there was anything she would like to add. Member LeClainche declined, adding that it has been a pleasure working with Marcum.

Motion was made by Board Member Carter, and was seconded by Board Member Debrincat, to approve the audit as presented. The motion passed unanimously.

VIII. ANNUAL ACTUARIAL VALUATION REPORT, PETE STRONG, GRS

Mr. Strong presented the annual actuarial valuation report as of September 30, 2021, and reported that the Board's efforts over the past few years have borne fruit. The actuarial experience was strong for the year. Salary increases for public safety were slightly higher than general employees. The total market value of assets exceeds the total actuarial value of assets by $22.5M.

The Town contributed an extra $5.42 million shortly after the fiscal year and included this sum within the valuation as of September 30, 2021, resulting in the total amount paid in of $17,646,000, including the release of a prepaid for a prior overpayment. The downward trend in the Town's required contribution rate continued. The smoothed actuarial funded ratio was 76.1% up from 72.7% from the last evaluation and trended higher for all three groups. On a market value basis, the funded ratio reached about 82.4%, up from 71.2% last year.

There was discussion as to whether the Board should focus on anything else and Mr. Strong did not feel there was anything specific; the plan's investment return assumption was trending down to 6%, and the plan looks to be in good shape. Within nine to ten years, if the Town's annual contribution is continued, the plan is expected to reach full funding.

Mr. Stanton wanted to draw the Town Council's attention to the Board's changes that have now become non-discretionary, but to not lose focus on the Town's discretionary annual contribution of $5.42 million, as it is a "very large contributor" to becoming "less unfunded." He hopes that the Council continues to put that amount in every year, for at least the next 10 years.

Mr. Strong also provided 10-year projections and expects to reach full funding by the end of the 10-year projection.

Motion was made by Board Member Carter, and was seconded by Board Member Le Clainche, to approve the actuarial report as presented. The motion passed unanimously.

IX. <u>RETIREMENT ANNUAL REPORT, QUARTLY FINIANCIAL REPORT AND DISBURSEMENTS, AMY WOOD, ASSISTANT FINANCE DIRECTOR</u>

Ms. Wood reviewed the quarterly financial report and disbursement schedule for the Town's retirement system as of December 31, 2021. As it is the end of the FY, this report reflects the entire year and are unaudited figures as previously discussed, it is currently underway. Reporting total assets of $316,254,713, total liabilities $244,619, with resulting net assets held in trust of $316,010,094. Statement of changes in net assets showed total additions were $33,000,402,381 and total deductions of $5,155,322, resulting in net increase of net assets to date of $28,247,059. Investment and Operating Expenses totaled $54,911. Historical Investment and Operating Expenses from FY 2018 to date on Page 5. On Page 6, Cash Flow projection for February through April showed scheduled transfer of funds in from the money manager accounts was $4 million. Disbursements for the period November 1, 2021, through February 11, 2022, totaled $1,185,591.99.

Motion was made by Board Member Carter, seconded by Board Member Debrincat, to approve the Quarterly Financial Report and Disbursements. The motion passed unanimously.

Board Member Le Clainche briefly reviewed the draft annual report 2021, which was provided to Board members. The final draft will be provided once she receives the remaining information and revisions from Mr. Strong. The OPEB Trust is new to the report for this year, on page 18.

X. INVESTMENT REVIEW, DAVE WEST, CFA, ANDCO CONSULTING

Mr. West presented an update regarding his firm, the December quarterly report and January Flash with the market value update through February 23, and in response to the Board's request, a summary review of alternative bond allocations.

Mr. West stated that ANDCO had invested in its infrastructure, was growing and well-positioned for the future.

In December and January, the market began to anticipate the beginning of a more restrictive policy on the part of the Federal Reserve. Equity markets sold off, and a rotation to Value stocks ensued. Value stocks were down about 2.5%; Growth stocks declined approximately 10%. Yields on fixed income securities rose, and their values declined. The "yield curve" has "flattened," with long-term yields rising less than their shorter counterparts.

Mr. West stated that the fund was appropriately positioned for a recovery in economic conditions, which had paid off during the December quarter, and was "underweight" fixed income, which also helped. Further, our fixed-income portfolio was of high quality, which provided diversification during the equity market's decline in early 2022.

Mr. West stated that our fund's return for the December quarter was 3.8%, with calendar year 2021 at 14.63%. Mr. West stated that the markets had suddenly expressed risk-aversion in early 2022, and that our diversified manager allocation and the high-quality nature of our fixed-income portfolio were serving us well as the markets changed direction after a strong 2021. Mr. West stated that as the market turned, the ARK Innovation ETF recently purchased by our fund had performed poorly as companies in the disruptive technology sector suffered. Mr. West expressed confidence in this fund's manager.

Chair Stanton inquired of Mr. West regarding several of our current managers, expressing mild concern regarding emerging markets. Mr. West stated that ANDCO had no "action recommendations" versus emerging markets.

Mr. Parker asked Mr. West whether if in his experience our fund's allocation was atypical for a fund like ours. Mr. West stated that we were "right at average" regarding domestic equities and slightly above average in international equities. Our fixed income allocation is below the median at 15% and our other allocations are about average, although within international equities our allocation to emerging markets is smaller than average.

Responding to Mr. Carter, Mr. West said that the universe to which we compare our fund is comprised of pension systems nationwide, and is a very broad sample.

Regarding Private Equity, all our managers are performing well. Mr. West noted that Private Equity results were reported with their customary three-month lag through September 2021.

Mr. West discussed the quarterly cash flow. The total fund assets were $285,537,468. The net transfer line incorporates all the movement of assets between funds. The contributions for this period were $17,513,200. Distributions were going out for benefit payments of $5,97,807. Investment management fees as invoiced during the quarter were $40,790. Other line-item expenses, mostly incidental fees or custodial fees were $75,011. Total investment earnings through December were $5.125 million of income and $6.124 million of appreciation. This brought the market value as of December 31, 2021 to $309,110,641.

Mr. West then presented the Monthly Preliminary Returns report for the period ending January 21, 2022. The total fund net for the month was a decrease of 3.8%. This put our fiscal year to date number down 0.11% through January 21. Because the January selloff was broad-based, our asset allocation remained stable.

We had a cash balance as of February 23 of $12,10,000. They have already completed the transfer of the first quarter distribution through the Town for $5 million. The $12 million would be used going forward for the second quarters distributions of $4 million and third quarter distributions of $4.5 million. This would leave a net of $3.5 million for investments. This cash flow is structured per the board's request to retain two quarters of operating funds ahead of the actual distribution. This would be the $8.5 million, with available cash of $3.5 million. Mr. West concluded with the recommendation of staying the course with the current investment program.

Mr. Carter asked Mr. West if in his professional opinion we should take an action to try and be more conservative in this unique time. Mr. West said he would stand by the recommendation, as we are recovering from a post-pandemic crisis. We do not know what will happen regarding the supply and cost of energy or the ramifications of the sanctions being imposed upon Russia. We have already taken several steps to protect the portfolio.

In our last meeting Mr. West was requested to present alternative strategies for our fixed-income allocation. He reported five scenarios and stated that in the current low-rate environment our fixed income allocation is intended to provide liquidity and diversification, which will dampen the effect upon our portfolio of volatility in its other asset classes. We are maximizing the quality of our credit portfolio and his analysis indicates that our current allocation will capture the majority of our benchmark's best outcome.

XI. ADMINISTRATOR REPORT. EDEMIR ESTRADA, GRS

Ms. Estrada stated that they received a letter regarding a member receiving disability benefits. They were requesting a copy of the final order that was issued in 2018. This information was given to the attorney to look through and confirm the request could be completed. The request was sent to the Town Clerk and the final order was certified and provided to the injury lawyers.

Ms. Estrada discussed two Board openings due to Mr. Wilkinson and Mr. Kaufman leaving. Town Council is receiving applications and working on the elections. The next meeting on May 20, 2022, will have two new Trustees.

Board Member Carter made a motion to approve the Administrator Report, seconded by Board Member Wilkinson. The motion passed unanimously.

Chair Stanton thanked Mr. Wilkinson and Mr. Kaufman for their service to our Board.

XII. ATTORNEY REPORT, JANICE RUSTIN, ATTORNEY

Attorney Rustin discussed the Board's contract with GRS for the pension benefit calculator. When GRS was hired, they installed the benefit calculator in which took a year or two to install. Once the benefit calculator was operational there would be an annual maintenance fee. The description of the CPI in the agreement was not defined and they would like to make it consistent with how the Town calculates its CPI.

Valmiki Ramsewak of GRS clarified that the benefit calculator setup took seven months as the agreement was signed August 2019 and the calculator was delivered March 2020. Mr. Ramsewak also presented the calculator maintenance fees. The contract amendment clarifies how the increases will be calculated and puts the increases in line with the Town's planning, taking place in October instead of April. The calculator has been running as expected.

Board Member Carter made a motion to approve CPI increase, rate increase, and the contract amendment seconded by Board Member LeClainche. The motion passed unanimously.

XIII. UPCOMING MEETING SCHEDULE

Friday May 20, 2022, at 9:00 am
Friday, August 19 at 9:00 am
Monday, November 14 at 9:00 am

XIV. ADJOURNMENT

There being no further business, the Retirement Board of Trustees meeting of March 4, 2022, adjourned at 10:42 am.

Respectfully Submitted,

Tom Parker, Secretary
Town of Palm Beach Retirement Board of Trustees