# TOWN OF PALM BEACH

## MINUTES OF THE RETIREMENT BOARD OF TRUSTEES MEETING HELD ON

### Friday, March 3, 2023

I. CALL TO ORDER AND ROLL CALL

The Retirement Board of Trustees Meeting was called to order on Friday, March 3, 2023, at 9:00 am in the Town Council Chambers. In attendance were Vice Chair Carter and members Parker, Miracle, Marx, Lambert, Debrincat, Copeland, and Guelli. Absent was member Chair Stanton.

II. APPROVAL OF AGENDA

**Motion was made by Board Member Debrincat, and was seconded by Board Member Copeland, 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 Debrincat, and was seconded by Board Member Copeland, to approve the Minutes for the November 14, 2022 meeting as presented. The motion passed unanimously.**

VI. FIDUCIARY LIABILITY POLICY RENEWAL, JUDY ARENZ, ARTHUR J. GALLAGHER & CO., AND KAREN TEMME, RISK MANAGER

Ms. Temme provided background information on the requested renewal of the fiduciary liability policy. She stated that the policy has a $10 million limit with a $150,000 deductible and an annual premium of $27,642. Vice Chair Carter spoke regarding $10 million not being a high limit, but stated that the higher limit would be at a much higher premium. He expressed support for the renewal.

**Motion was made by Board Member Parker, and was seconded by Board Member Copeland, to approve the renewal of the Fiduciary Liability insurance coverage with Hudson Insurance at a $10,000,000 limit of liability with a $150,000 deductible at an annual premium of $27,642. The motion passed unanimously.**

VII. QUARTERLY FINANCIAL REPORT AND DISBURSEMENTS, AMY WOOD, ASSISTANT FINANCE DIRECTOR

Ms. Wood reviewed the quarterly financial report and disbursement schedule for the Town's retirement system as of December 31, 2022. Reporting total assets of $267,941,643, total liabilities $1,384,314, with resulting net assets held in trust of $266,557,329. Statement of changes in net assets showed total additions were $32,802,188 and total deductions of $6,075,914, resulting in net increase of net assets to date of $26,726,274. Investment and Operating Expenses for October 1 through December 31, 2022, totaled $35,332. Historical Investment and Operating Expenses from FY 2019 to date on Page 5. On Page 6, Cash Flow projection for February through April 2023, showed the estimated transfer of funds in from the money manager accounts was $6 million. Disbursements for the period November 11, 2022, through February 17, 2023, totaled $2,343,058.05.

Mr. Miracle addressed a comment from a previous meeting regarding the expenses being low. He spoke regarding this being the first quarter and that more activity will be reported in the second quarter report.

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

VIII. INTERVIEW WITH SERENITAS CREDIT GAMMA II FUND, DAVID WEEKS AND TOM CAPOBIANCO

Mr. West provided an introduction of Tom Capobianco and David Weeks. He spoke regarding the product and addressed its stability volatile markets.

Mr. Capobianco provided information regarding LMGC and his and Mr. Weeks' backgrounds and work there. He stated that 16 Florida Pension plans are invested in the Serenitas strategy.

Mr. Weeks stated that Serenitas employs significant quantitative expertise to exploit price inefficiencies and hedge rate sensitivity, providing steady progress with limited drawdowns. He noted the fund's low correlation to traditional markets, displayed an impressive matrix of monthly returns, and stated that since inception the fund has had no losing years.

Responding to Mr. Copeland regarding his illustration of monthly returns, Mr. Weeks explained some of the larger variations and discussed the market inefficiencies that gave rise to them. Mr. Lambert inquired about declining rates and the impact on the strategy; Mr. Weeks emphasized that the Serenitas strategy has a low correlation to traditional markets. Responding to Mr. Lambert, Mr. Weeks remarked that the quantitative focus and complexity of the strategy presents a challenge to the average investor, and thanked the Board for its attention to his presentation.

## IX. INVESTMENT REVIEW, DAVE WEST, CFA, ANDCO CONSULTING

Mr. West provided a brief firm update and reviewed the quarterly report as of December 31, 2022. As the year closed out, the firm has approximately $90 billion in client assets and the firm reinvested 100% of their net profits back into the organization. He announced key new team members and announced the retirement of a long-term employee.

Mr. West provided an overview of the investment recommendations that included the LMCG Serenitas Credit Gamma II Fund capped at 3.0% total assets; opportunistically rebalancing the domestic equity allocation; and considering a passive management for the mid-cap equity mandates.

He summarized the market environment since the last meeting, and cautiously speculated regarding the future. He reviewed the Asset Allocation portion of his report and reminded the Board of the typical latency of reporting from certain funds in our portfolio.

The fiscal year to date total fund net of investor management fees has increased 11.8%. He spoke regarding the addition of the MSCI ACWI IMI Disruptive Technology Index to the report. He spoke regarding the decline in JP Morgan Strategic Real Estate and addressed the issue of return to office that is impacting revenue generation. He reminded the Board that investing in real estate is a long-term strategy.

Mr. Carter inquired about an anticipated second quarter and third quarter pay-out of $6 million as opposed to $4 million, to which Mr. Miracle responded. Mr. Miracle provided further clarification of the cash flow projections and the Town's anticipated contributions.

Mr. West spoke regarding the recommendation for rebalancing and how it will be accomplished. He presented an updated spreadsheet of asset values, as of February 22. He outlined the recommendation to take $8 million from the Cooke and Bieler Mid-Cap Value Portfolio and $2 million from the Blackrock Multi-Asset Income Fund for a total of $10 million in addition to the cash balance. Mr. Parker spoke in support of being more aggressive in reducing the Blackrock fund and using it for a source for new investments and distributions and stated that he doesn't believe that we should wait until the end of the fiscal year to make a decision on raising funds to cover distributions.

**Motion was made by Board Member Parker, seconded by Board Member Copeland, to approve the recommendation by AndCo to retain the LMCG Serenitas Credit Gamma II Fund through an $8 million allocation from the Blackrock Fund. The motion passed unanimously.**

Further discussion ensued regarding further reducing the Blackrock Fund and the potential of eventually eliminating ownership of the fund.

Mr. West recommended that the Board re-allocate $8 million from the Cooke and Bieler Mid-Cap Value Portfolio and provided an overview its valuations and returns. He spoke regarding the recommendation to go to a neutral policy and return our equity portfolio to benchmark neutrality as part of the rebalancing. Mr. Carter clarified the next steps and required motions for cash flow and investments. Discussion ensued regarding using the remainder of the Blackrock Fund as a source of cash..

**Motion was made by Board Member Parker, seconded by Board Member Copeland, to liquidate all shares and terminate the investment in Blackrock Fund. The motion passed unanimously.**

**Motion was made by Board Member Parker, seconded by Board Member Copeland, to liquidate $8 million of the Cooke and Bieler Portfolio. The motion passed unanimously.**

Mr. West recommended the engagement of Capis International, a third-party fiduciary, to liquidate the Cooke and Bieler portfolio.

**Motion was made by Board Member Lambert seconded by Board Member Copeland, to engage Capis Institutional to oversee the liquidation of the Cooke and Bieler portfolio. The motion passed unanimously.**

MID-CAP EQUITY REVIEW

Mr. West provided a brief overview of the Mid-Cap review and spoke regarding the indexing and the performance of the two managers. Discussion ensued regarding tabling the discussion of indexing.

**Motion was made by Board Member Parker, seconded by Board Member Copeland, to table the discussion of the Mid-Cap Equity Review and Disruptive Technology Benchmarking. The motion passed unanimously.**

## X. FINANCIAL AUDIT, TAMMY GOLDSTRICH AND MOISES ARIZA, MARCUM LLP

Moises Ariza, Marcum LLP presented the information included in the Financial Audit and highlighted certain footnotes. He explained required supplementary information that is included and the schedule depicting the annual rate of return for the plan. He spoke regarding the GASB standards and stated that there are no significant deficiencies that were found in the Audit. He also stated that there were no issues with working with any of the Town's employees on the Audit and that he received all of the information that the auditors requested.

**Motion was made by Board Member Copeland, seconded by Board Member Guelli, to accept the Financial Audit of the Palm Beach Retirement System, Fiscal Year ended September 30, 2022. The motion passed unanimously.**

## XI. ANNUAL ACTUARIAL VALUATION REPORT, PETE STRONG, GRS

Pete Strong, GRS, presented the information included in the Annual Actuarial Valuation Report. He spoke regarding the required contributions and explained that the contributions increased a total of $1.2 million and spoke regarding the contributing factors to this increase. He stated that payroll was up more than 11.5% overall and explained this increase. He provided head count numbers in response to a question from Mr. Lambert. He stated that the total contributions by the Town were $17.166 million for the fiscal year. He spoke regarding the investment return assumption and the returns. He explained the smoothing process and stated that he will be submitting the 10-year forecast to the Board. He provided a table of the 24-year history of the rate of investment returns for the Fund. He responded to a question from Mr. Lambert regarding the difference between actual and expected returns from the years 2008 and 2022. In response to a comment from Mr. Carter, Mr. Strong spoke regarding capital market forecasts. Mr. Strong stated that there were fewer retirements over the year, for a total of 5 retirements (or DROP entries) and a higher-than-expected mortality experience for retirees. The net actuarial experience loss caused the total required Town contribution to increase by approximately $616,000. He explained the funded ratio and the impact of smoothing on the ratio. Mr. Carter spoke regarding the influence of the bond market as opposed to the equity market and inquired if there is anything else that the Board should be contemplating to improve the fund. Mr. Strong responded and spoke regarding the required contribution, plus the amount approved for the additional contribution will exceed the cap. He stated that there should eventually be a recommendation to negotiate that cap and discussed the index.

**Motion was made by Board Member Guelli, seconded by Board Member Copeland, to approve the Annual Actuarial Evaluation Report. The motion passed unanimously.**

**Motion was made by Board Member Copeland, seconded by Board Member Lambert, to keep the rate of return assumption at its current rate. The motion passed unanimously.**

## XII. ADMINISTRATOR REPORT. EDEMIR ESTRADA, GRS

Ms. Estrada reviewed the Administrator Report, provided by the Town. There were no retirements since the last meeting's report.

**Board Member Copeland made a motion to approve the Administrator Report, seconded by Board Member Debrincat. The motion passed unanimously.**

## XIII. ATTORNEY REPORT, JANICE RUSTIN, ATTORNEY

Attorney Rustin stated that the Town Council adopted an ordinance in February, amending the Pension Plan to reflect a change in the Town's policy to re-employ retirees. She explained the change, which adopted an in-service distribution provision. Under this plan change, retired employees who are rehired by the Town no longer are required to have a 30-day separation of employment from the Town. Also, this change allows an employee planning to retire to have a a pre-arranged agreement to come back to work for the Town after retirement. She explained that a re-employed Town retiree cannot participate in the plan.

Attorney Rustin provided background information on the SECURE 2.0 Act of 2022 Provisions and the impact on the Plan.

## IX. UPCOMING MEETING SCHEDULE

Friday May 19, 2023 at 9:00 am

## XV. ANY OTHER MATTERS

There were no other matters discussed.

## XVI. ADJOURNMENT

**There being no further business, the Retirement Board of Trustees meeting of March 3, 2023, adjourned at 11:31 am.**

Respectfully Submitted,

MAY 27, 2023

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