The Town of Palm Beach Retirement System
Board of Trustees
Minutes of February 20, 2015 Meeting

I. Call to Order and Roll Call

Chair Pro-Tem Goldsmith called the meeting to order at 9:02 am in the Town of Palm Beach Town Hall Chambers, 360 South County Road, Palm Beach, Florida 33480.

In Attendance:

TRUSTEES:
Gerald Goldsmith, Chair Pro-Tem
James McC. Wearn, Secretary
Wilbur L. Ross
Thomas G. Bradford, Town Manager
Robert Garvy
Brett Madison
Lieutenant Michael Marx
Detective Daniel Wilkinson

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Finance Director
Danielle Olson, Human Resources Director
Rosemary Guillette, Segal Rogerscasey
Danielle H. Moore, Council Member
James Linn, Plan Attorney

Mr. Ross joined the meeting at 9:05am.

II. Administer the Oath of Office to Town Manager Thomas Bradford, Denise Carmona, Town Clerk's Office

Ms. Carmona administered the oath of office to Mr. Thomas G. Bradford.

III. Approval of Agenda

Mr. Wearn made the motion to approve the agenda. Mr. Garvy seconded the motion. The Trustees unanimously approved the agenda.

IV. Comments by Trustees

Mr. Wearn welcomed Mr. Bradford to the board and announced that he is looking forward to working with him again. Mr. Wearn provided an overview of cash assets, employee demographics, and liability. He discussed the responsibilities of the board.

V. Public Comments

No public comments

VI. Approval of Minutes: November 21, 2014

Mr. Wearn made the motion to approve the minutes of November 21, 2014. Mr. Garvy seconded the motion. The trustees unanimously approved the motion.

VII. Financial Report, Jane Struder, Director of Finance

Ms. Struder briefly presented the quarterly financial report. She reviewed the report and requested a transfer of funds and ratification of the disbursements made.

Mr. Wearn made the motion to approve a transfer of funds in the amount of $2.5 million from the money managers. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

Mr. Wearn made the motion to approve disbursement of funds. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Mr. Garvy made the motion to lift the probation on State Street due to improvements. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

VIII. Fiduciary Insurance Policy, Karen Temme, Risk Management, and Judy Arenz, Vice President, Arthur J. Gallagher & Co.

Ms. Temme presented information regarding the fiduciary insurance policy and recommended that the Board obtain the Fiduciary Liability coverage with Federal Insurance Company for a $10,000,000 aggregate limit of liability and a $150,000 deductible at an annual premium of $30,385.

Mr. Garvy made the motion to approve and accept the recommendation. Mr. Ross seconded the motion.

Mr. Wearn stated that he believes there should be higher insurance coverage and suggested that it be above the $10 million suggested. He suggested that the insurance coverage for the board should be $15 million since the coverage as proposed is insignificant to the exposure and assets held by the plan. Mr. Wearn discussed the current cost implications to the Town of Palm Beach and taxpayers with regard to the investment transitions. Mr. Garvy clarified that the coverage is primarily for mismanagement of funds and believes that $10 million is sufficient. Mr. Ross reminded the board that the subject of coverage was discussed last year at a board meeting with the previous Town Manager Mr. Elwell, and that Mr. Elwell stated then that $10 million coverage is sufficient. Mr. Goldsmith stated that he believes $10 million is sufficient. Mr. Bradford stated that he believes that Mr. Wearn's argument for more coverage is valid and supports going to $15 million in coverage.

The majority of the Trustees approved the motion. Motion passed. Mr. Wearn and Mr. Bradford voted no.

IX. Investment Report, Rosemary Guillette, Segal Rogerscasey

a. Defined Benefit Performance Report

Ms. Guillette provided an overview of the Town of Palm Beach Retirement System investment performance, including financial market conditions, domestic equity, international equity, fixed income, alternatives and hedge funds, commodities, private equity, real estate, and the manager roster.

b. Allocation of assets

Ms. Guillette reviewed asset allocation targets, and the current target status of each fund asset class. She discussed cash assets, private equity, real estate and investment strategy of private equity funds. Mr. Hanes stated that the Board is holding 11% of the portfolio in cash. The Board discussed future longer term cash needs versus current needs to cover payroll with monies held with the investment managers. The trustees requested that Segal Rogerscasey prepare a report for discussion at the next meting on overlay strategies that the board may want to execute. Ms. Guillette suggested that the discussion should include a strategy within a fixed income portfolio. Mr. Garvy stated he does not think that 25% of the funds should be in the fixed income asset class. Mr. Wearn commented that because the asset allocation adopted and in effect has cash and cash equivalents at 0, he does not want to wait until next meeting for the report in order to move the cash and suggested that the Board should move cash into equities in the interim. Mr. Garvy noted that the Board is at the maximum of the range for equities. Mr. Wearn stated he believed the Board can justify an increase to the maximum, and can change the guidelines to accommodate if needed.

The Board discussed concerns regarding Wellington, but decided to wait until the Asset Allocation report to be presented at the May 15 board meeting before making any decisions regarding that manager. Ms. Guillette stated that she will provide a more robust report with appropriate indexes for the asset class at the next Board meeting.

Ms. Guillette recommended that half of the existing cash assets go into the S&P 500 Index with the other half of the cash assets directed to fixed income. The Board discussed other options for the cash including REITs and Commodities.

Mr. Ross made the motion to put $2 million from the cash into the TAP fund (Commodities) and from whatever balance is remaining, put 50% into the S&P 500 and the other 50% to the Vanguard REIT, with a quarterly amount held in cash for payment of bills and retirement benefits. The motion was seconded by Mr. Garvy. The trustees unanimously approved the motion.

Mr. Goldsmith recognized the presence of Town Council Member Danielle Moore.

c. Defined Contribution Performance Report

Ms. Guillette provided an overview of the Town of Palm Beach Retirement System Defined Contribution Plan. Mr. Garvy commented that fund fees will be reduced with the new fund lineup, which will be much better for the long term investment of employees. Ms. Guillette reviewed demographic information relative to plan participation.

X. Manager Performance

a. JP Morgan Venture Capital, Rob Cousin and Meena Gandhi

Mr. Cousin and Ms. Gandhi provided an overview of JP Morgan including biographies, existing clients, and the philosophy behind the funds. Ms. Gandhi discussed the company performance and general matters of venture funds. Ms. Gandhi proposed the Venture Capital Fund V, which has already been activated and has experienced a positive performance. The trustees discussed with Ms. Gandhi an overview of the fees and limitations. Ms. Gandhi discussed that Venture Capital V is currently available for investment and the advantages for the Town of Palm Beach. She discussed two fee options offered for Fund V. Mr. Garvy inquired as to if there are limitations on secondaries and directs, and Ms. Gandhi answered that there is a 35% maximum.

Mr. Marx left the meeting to attend a call to duty at 11:07 am. Mr. Marx returned to the meeting at 11:14am.

The presenters left the room.

b. Performance Venture Capital, Larry Rusoff and Alex Rogers

Mr. Rogers provided an overview of the fund history. He specifically discussed matters of separate account management and comingled vehicles. Mr. Rusoff spoke of the team members and fund strategies. He stated that the philosophy is about selection and portfolio construction. He commented that Performance Venture Capital Fund III is already committed at $104 million and has $28 million invested, and that fund has already had a distribution. He commented that the Palm Beach plan will be able to come in before a final close. He discussed the fee options with the trustees. Mr. Garvy asked if the fund would be focused in Silicon Valley. Mr. Rusoff answered in the affirmative, and noted that the fund is invested heavy in technology. Mr. Rusoff discussed the performance of the funds. Mr. Ross inquired about the fees and how to calculate net of fee performance. Mr. Rusoff discussed how to calculate net of fees. Mr. Rusoff clarified that the fee

added to the fee carry will represent between 200 and 250 bps. Mr. Rusoff discussed fee options.
The presenters left the room.

c. Horsley Bridge Venture Capital, Fred Giuffrida and Du Chai

Mr. Giuffrida provided an overview that included the fund history, membership, and strategies. He stated that the primary fund strategy is making good decisions with private equity funds. He stated that there are two areas of focus for long term return prospect - early stage venture and small end of buy-outs. He discussed that the fund is well diversified and represents broad geography. Mr. Chai discussed global technology, and stated that the fund has had 800 initial public offerings (IPOs) with the funds portfolios. He discussed the large market cap represented with those IPOs. He commented on the companies represented by Europe and the Chinese. Mr. Goldsmith asked why there are not other Asian markets for the fund. Mr. Chai answered that from a Venture Eco System, they believe China is above the rest. Mr. Giuffrida discussed the strategy of Fund 11 for consideration to the board. He discussed the J curve with respect to the fund strategies. Mr. Ross raised issues and discussed matters regarding the fees.

The presenters left the room.

Mr. Garvy discussed the similarities and differences in characteristics among the three companies, including performance and experiences. He stated that the hardest part to understand is the performance differences. Ms. Guillette was asked by Mr. Ross to give her recommendation and rank the companies. She ranked them first to last in order as Horsley Bridge Venture Capital, JP Morgan Venture Capital, and then Performance Venture Capital. She explained that she ranked Horsley Bridge Venture Capital as number one because they have the highest capital exposure, which is the asset class the board is seeking. Mr. Garvy commented that Horsley Bridge has recently not performed as well as previously. The trustees reviewed with Ms. Guillette the fee structure of each fund. Mr. Garvy noted that Horsley is a billion dollar fund, where the other two funds are much smaller in a market that is frothy at a time when there is a lot of capital. He stated that Horsley has a very long J curve, and should experience a lot of negative or flat returns for a number of years.

Mr. Wearn stated that he has significant concern about approval for this investment for this asset class at this time, and would like to continue discussion of the investment at the next meeting of the board. He stated that he is not prepared to vote today. Mr. Goldsmith and Mr. Garvy stated that the venture capital is an investment that should be made now, and Ms. Guillette commented that if a decision is postponed to the next meeting, two of the companies will no longer be available with a fund to which the board will be able to make an investment. Ms. Guillette clarified that this investment will be with a fund of funds, meaning the investment is not made directly with companies, but in a set of underlying funds. Mr. Ross and Mr. Garvy discussed with Ms. Guillette reasons why Venture Capital is an appropriate investment within the private equity space allocated. Mr. Wearn stated that he did not believe the amount of return is worth the risk taken with the investment. Mr. Garvy explained that the investment is with fund of funds, and the manager will go out and select among the venture funds and diversify from an array of venture funds that select actual companies. Ms. Guillette reminded the trustees that before the fund managers are selected to be interviewed by the trustees, they are recommended by Segal Rogerscasey only after an extreme amount of due diligence. Mr. Ross commented that all markets are frothy now but that the investment will be put to work over multiple years, so presumably it will not always be a frothy market during the whole investment period of this fund and the underlying funds. The trustees repeated the discussion with Ms. Guillette that funds available now with two of the interviewees will not be available later if the board delays the decision.

Mr. Bradford asked which firm had the best performance after fees, and from where will the $5 million commitment be taken. Ms. Gillette stated Horsley Bridge Venture Capital has the best net performance and that the funding would come from the S&P 500 index or cash. Mr. Garvy commented that while Horsley's long-term performance has been better, it is much closer over the more recent years. Mr. Madison asked which firm had the lower J curve, and Mr. Gravy stated that JP Morgan and Performance Venture Capital have the lower J curves. Mr. Madison recommended picking a firm with a lower J curve in order to receive a quicker return.

Mr. Ross made the motion to select JP Morgan. Mr. Garvy seconded the motion. The majority of the Trustees approved the motion. Mr. Wearn voted no.

XI. Presentation of September 30, 2014 Audit, Michael Futterman, Marcum

Mr. Futterman presented the financial statements and the audit report. Mr. Garvy asked why an opinion was not expressed regarding other matters because of "limited procedures." Mr. Futterman clarified that it is because the information was prepared by others, including the actuary, and that it is standard audit language. Mr. Futterman stated that several reporting changes caused by GASB 67 resulted in several delays for the audit. Mr. Goldsmith commented that the report should reflect whether the board is satisfying the 7.5% benchmark performance target.

Mr. Garvy commented that the net pension liability as a percentage of payroll for Police Officers and Firefighters is stunning. He stated it represents 590% for Police Officers and 685% for Firefighters. He noted that 144% for General Employees is more reasonable, and inquired of Mr. Futterman whether the board should be alarmed by the high percentage for the public safety. Mr. Futterman stated that the standard is new, and he could not answer the question. Mr. Hanes explained that the board will be provided the opportunity to discuss what this means in a report to members of Town Council at the June Town Council meeting. Mr. Garvy asked Mr. Armstrong, GRS, to present information regarding the liability and what it means following the GASB 67 net pension liability.

Mr. Armstrong discussed the liability and explained that our experiences are similar to other like plans across the country, and that actuaries did not explain the impact when increases in benefits were being enacted over the years. He commented that when you increase the benefits you are going to have liabilities growing at the rate of the increased benefit. He stated that the payroll was not impacted by the increase in benefits, but there is an accumulation of assets needed for satisfaction of larger liability figure. He noted that the workforce and overall payroll actually declined for this plan over the last few years, and what we (GRS) sees with this plan is fairly consistent if not better than what we have seen with other public systems across Florida, and specifically with public safety. Mr. Ross asked Mr. Armstrong when a decrease in plan liability should be seen. Mr. Armstrong explained that a decrease should be seen over the next 30 years. Mr. Ross asked Mr. Armstrong about the town's contribution paid to the retirement system throughout the years, and requested more information to prepare for Town Council.

Mr. Garvy noted that the matter of greater liabilities with decrease in payroll is what they saw with Detroit, where the city saw greater benefits paid with a declining payroll. Mr. Armstrong discussed that with the Town retirement plan change in benefits made in 2012 that the liability will over time be reduced more significantly than what was assumed before the change. Mr. Wilkinson requested whether the report reflects the sensitivity analysis previously directed by the board to illustrate what the net pension liability would represent with a 2% above and 2% below the 7.5% assumed discount rate. Mr. Futterman agreed that it had been calculated. Mr. Ross inquired of Mr. Armstrong what time period does the liabilities become reduced. Mr. Armstrong answered that the liabilities emerge with every month of pension checks, and total liabilities include those of the new employees. He explained that the new hire has very little liability, but the new hire liability is not released from the requirement of making benefit payments until what could be 35 years after retirement. He commented that many of the employees today could represent 50 or more years of liability. Mr. Ross stated to Mr. Armstrong that even though the liabilities reported represent large numbers, it does not mean the contributions paid by the Town is going to significantly increase. Mr. Armstrong stated he agreed. Mr. Ross stated that when presenting the report to the Town that he is in favor of adding much more significant explanation. Trustees agreed that the financial statement should include more significant explanation.

Mr. Linn discussed for purpose of the audit financial statement that GASB 67 allows plan attributes to be used to pay for another group when there are more than one group in a plan. He stated that in order to meet state reporting requirements there has been separate reporting of the three groups. Mr. Linn opined that the Town of Palm Beach represents one fund with multiple groups so the report will have the one fund with supplemental information showing the separate accounting for each of the three groups.

Mr. Bradford stated that he agrees with other trustees from the earlier discussion that there is good reason to add a note of explanation. Ms. Struder suggested that the language explaining the net pension liability be included in the "management discussion and analysis" part of the audit financial statement. Mr. Futterman agreed.

The trustees agreed with comments made by Mr. Linn that there is only one comprehensive fund, even though there exists groups within the plan that are accounted for separately. Mr. Bradford commented that it was clearly the intent of Town Council when enacting the new plan.

Mr. Futterman explained that a significant new change made with GASB 67 is the requirement that market valuation of the assets is to be used when actuarial valuation was previously used.

Mr. Wearn commented regarding differences in the asset target for asset allocation as provided, and noted that cash target is at 0. He asked for the report to be corrected.

Mr. Ross moved to accept and approve the audit for filing subject to final satisfaction of the administrator. Mr. Garvy seconded the motion. The trustees unanimously adopted the motion.

XII. Actuarial Reports, Brad Armstrong, GRS

Mr. Armstrong, GRS, discussed the executive summary. He explained that Ocean Rescue is trending towards 100% and is moving in the right direction. Police funding was flat and Fire Rescue was close to flat but trending in the right direction. Mr. Armstrong made a recommendation to do an experience study and review the actuarial assumptions. He stated that the experience survey will cost roughly $12,000 to $15,000 to determine if the assumptions are supported by actual experiences. Mr. Bradford stated that it would be helpful and that he approves. Mr. Hanes clarified that the study will assist in determining if the assumptions continue to be correct based on experiences of the system.

Mr. Wearn made the motion to have the experience study completed by GRS at a cost not to exceed $15,000. Mr. Garvy seconded the motion. The trustees unanimously approved the motion.

Mr. Madison made the motion to accept the actuarial report. Mr. Wearn seconded the motion. The trustees unanimously accepted the actuarial report.

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

Ms. Struder provided a brief overview of the information provided in the Town of Palm Beach Retirement Systems Annual Report including the plan profile, demographics, and financial highlights.

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

Mr. Garvy left the meeting at 2:00pm

XIV. Attorney Report: James Linn

Mr. Linn provided a status update regarding Oaktree, a real estate manager. He explained that according to Oaktree policies, that any legal action venue would be required to take place in the Cayman Islands. All legal disputes would be required to take place in the Cayman Islands and they will not accept a Florida venue. He also commented that Oaktree does not agree to serving as a fiduciary. Mr. Ross added that he does not believe that Oaktree should by hired as a manager since they will not accept fiduciary responsibilities.

Mr. Ross made the motion to eliminate Oaktree from consideration as a manager. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

XV. Administrator's Report, William Hanes, Administrator

Mr. Hanes reminded the Board that there was an ordinance change impacting DROP participants. He stated that the transfer occurred on January 6, 2015. He discussed the status of the DROP transfer of DROP participant accounts from ICMA to the Town of Palm Beach "system investment method."

Mr. Hanes reported that there is an election in process for the position of a general employee member to serve the Board effective on April 1, 2015, currently held by Mr. Madison. He also reported that there will be a resident member appointment by Town Council at the March meeting to fill the position vacated by Mr. Snow, and will be appointed for a full 3 year term.

XVI. Retirement/Benefit Payments, William Hanes, Administrator

Mr. Goldsmith asked how many participants there are in DROP. Mr. Hanes answered that there are 50 DROP participants. Mr. Hanes stated that he was recently asked about grandfathered members, and that there are 13 employees currently grandfathered to the old pension plan. (This means there were no changes to the legacy plan participation by those members.)

Mr. Ross made the motion to ratify the three individuals that entered DROP or retirement. The motion was seconded by Mr. Bradford. The trustees unanimously approved the motion.

XVII. Other business

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

Respectfully Submitted,

James McC. Wearn, Secretary 15 May 2015
Town of Palm Beach Retirement System