The Town of Palm Beach Retirement System
Board of Trustees
Minutes of February 20, 2014 Meeting

I. Call to Order and Roll Call

Chairman Snow called the meeting to order at 8:32 am in 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
Brett Madison, Trustee
Nicholas Caristo, Trustee
Wilbur Ross, Trustee *
Robert Garvy, Trustee

* Mr. Ross left the meeting for one hour because of an unavoidable meeting conflict.

ALSO PRESENT:
William P. Hanes, Pension Administrator
James Linn, Attorney
Lawrence Marino, Segal Rogerscasey
Rosemary Guillette, Segal Rogerscasey
Jane Struder, Director of Finance
Danielle Olson, Director of Human Resources
Judy Arenz, Arthur J. Gallagher
Michael Futterman, Marcum
Enriquie Lierina, Marcum
Brad Armstrong, GRS
Fernando de Aguero, ICMA
William J. Diamond, Town Council Member

II. Approval of Agenda

Mr. Garvy made a motion to approve the agenda. Mr. Elwell seconded the motion. The trustees unanimously approved the agenda.

III. Comments by Trustees

Mr. Garvy noted the Police and Fire are still underfunded on the actuarial report, which is a concern, and all the funds are under the 80 percent level. Mr. Goldsmith stated that the funding and volatility should be brought to the attention of the Town Council. Mr. Wearn apologized for his absence last fall due to medical issues, and noted he is glad to be back. Chairman Snow discussed the Town's staffing and growing retiree population.

IV. Approval of Minutes: November 22, 2013

Mr. Hanes noted that on page 3 there was a typographical error that has been corrected.

Mr. Ross made a motion to approve the November 22 Minutes with correction. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

V. Financial Report, Jane Struder, Finance Director

Ms. Struder presented the quarterly financial report for December 31, 2013. She noted that a $2.5 million dollar transfer would be needed for bills and retiree payroll.

Mr. Wearn made the motion to approve the transfer as requested by Ms. Struder. Mr. Garvy seconded the motion. The trustees unanimously approved the motion.

Mr. Elwell made the motion to adopt the Financial Report and approve for Audit. Mr. Madison 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 renewal of the fiduciary insurance policy and presented the different levels of coverage. Mr. Snow gave the history of the levels of insurance that the board has previously purchased. Mr. Elwell noted that the Town's code basically indemnifies the Board for anything except malfeasance. He recommended that the operating expense should be saved and the policy renewed at the lower limit. Mr. Garvy questioned if the quotes were offered in writing and if there were other verbal offers given. Mr. Snow inquired from Ms. Arenz the state of the industry. Ms. Arenz noted that there were written offers from Chubb and RLI, and stated that due to the nature of the process the board may not have received all the offers in time to be included in the board packet. Mr. Hanes had shared the information he had received in a prior memo regarding the offers, and included it in the board packages delivered to trustees a week prior to the meeting. Mr. Hanes noted that Mr. Ross had previously expressed to him that he is in favor of the $10 million dollar limit. There was additional discussion regarding comparison of the offers. Ms. Arenz recommended the board remain with RLI. Mr. Wearn noted that last year there was a split vote and that it appears that 10 million in coverage is less than 5 percent of the amount that the plan has under administration. He noted that the balance of any liability beyond the 10 million would come from the taxpayers of the Town and for their protection he feels that more than 10 million is needed. Mr. Wearn also noted the ongoing problems with the custodian and he would hate for the taxpayers of the Town to be held responsible if an accidental liability is encountered. He stated his opinion that it is responsible to go at least 5 million more and that the trustees should consider as high as 25 million dollars in coverage. Mr. Snow requested an explanation regarding the other carriers that declined to provide written quote. Ms. Arenz explained the process timeline and reasons why she believed a carrier might decline to provide a written quote.

Mr. Elwell made the motion to approve the $10 million dollar limit. Mr. Garvy seconded the motion. The trustees unanimously approved the motion. Mr. Wearn made a motion to increase coverage to $15 million. The motion died for lack of a second.

Ms. Arenz commented that the Board should be consistent from year to year because it shows a prudent business decision. She stated that it reflects well when the insured shows consistency.

VII. Auditor Report, Michael Futterman and Enrique Lierena, Marcum

Mr. Futterman presented the draft audit report and highlighted the main points of the report. He noted that the professional auditing standards changed, and it required a new presentation of the report format. He also noted the changes in format of the financial statements. He noted the plan increased its net position by $11.2 million for the year ended September 2013. He provided information from the Actuarial Valuation for the General, Police Officers and Fire Fighter groups as of September 30, 2013; General employees were 79.8% funded, Police Officers were 76.2% funded, and Fire Fighters were 70.5% funded. He noted there were no material weaknesses or deficiencies. He noted that there was issues with the fair value measurements discussed with plan management that should be maintained at the plan level. He added that some of the investments, including hedge funds and private equities, do not report the values as of September 30, so it is important to have correct valuations as of September 30, and not on a lag.

Mr. Hanes commented that he is perplexed with the questioning of methods of valuation and discussed with Mr. Futterman.

Mr. Wearn made inquiry regarding the negative cash flow on page 8 of the report. Ms. Struder explained this was due to the issue with State Street Bank, and that there was additional discussion regarding the negative cash balance at the prior meeting of the board. Mr. Wearn requested that this be noted on the report.

Mr. Garvy made the motion that the auditor should include a note that explains the matter of negative cash flow caused by State Street, and the board action to direct notation to the 2013 final audit. Mr. Elwell seconded the motion. The trustees unanimously approved the motion.

Mr. Elwell made the motion to accept the audit report. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

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

Ms. Struder presented the 2013 Draft Annual Report. She noted that the financial and actuarial information is as of September 30, 2013, and the DC Plan is based on the calendar year of January 1, 2013 through December 31, 2013. Mr. Wearn requested that it be noted that the demographic information is for the fiscal year and not the calendar year. Mr. Wearn noted that the retiree numbers are increasing while the active employees are decreasing. Mr. Elwell commented that both of those lines will stabilize and especially the current participants' line. He stated that he does not anticipate further decline or any noticeable increase in retirement rate in the foreseeable future. He added that the retirees will experience additional increases but not at the same rate as in the last couple of years. He stated that this ratio between retirees and employees represents a continuing challenge for as long as we can forecast into the future. He commented that this demographic situation has been taken into account when forecasting is done for the Town. He discussed that he feels that even though this is a continuing challenge to the board and the Town, it is not a precarious situation.

Mr. Wearn moved that the board applaud Ms. Struder and her staff for a job well done. Mr. Goldsmith stated his agreement. The remaining trustees agreed without comment.

Mr. Garvy commented from page 12 that the Town contributes 40 percent of payroll to the retirement payroll of employees and that it is a very significant number.

There was a 5-minute break.

IX. Actuarial Considerations, Brad Armstrong, GRS

Mr. Armstrong presented the September 30, 2013 actuarial report, and made note of a minor correction made to future contributions based on an error in calculating the amortization period. He reviewed the 10-year projections consistent with the Town's budgeting practice, and commented that everything is pretty much on schedule from where they sat a year ago. He reviewed the funded ratio and noted that the increase for Police Officers and Fire Fighters next year would be pretty close to nil, but they are expecting it to stabilize and start to increase thereafter. He reviewed the general market rate of return for each group and noted that 7.5 percent is now the target rate of investment return. He commented that the General employees exceeded the assumption while the Police Officers experienced a 5.1 percent market rate of return, and the Firefighters were at 5.6 percent market rate of return.

Mr. Garvy noted that the Federal Reserve has been consistent indicating a target inflation rate of 2 percent for the past couple of years, and he questioned why we maintain a 3 percent rate of inflation on the plan. Mr. Armstrong stated that this is wage inflation (related to group salary increase as opposed to consumer price increase).

Mr. Wearn made the motion to approve the Actuarial Report and its recommendations in the executive summary. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Elwell asked for clarification that the Board is taking this action subject to modification of one paragraph indicated by Mr. Armstrong in presentation as having been corrected.

Mr. Wearn made the motion that the preceding approval is based on the correction as discussed by the Actuary. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Ms. Struder questioned whether or not the board desires that expenses from investment revenue continue to be allocated based on the market value of the plan. She noted that the actual payroll expenses are based on reality but the investment expenses are based on market value in the report.

Mr. Goldsmith made the motion to continue as allocated last year. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

X. Employee Retirement Education Initiative, Danielle Olson, Director of Human Resources

Ms. Olson presented the retirement education initiative noting that the program began in October, 2013 and continued through January, 2014. She provided the participation statistics for managed accounts, 401(k), 457, and the Roth IRA's. She reviewed and summarized the results of the survey noting that most of the feedback was positive. Mr. Wearn commented that a third of the participants did not find it helpful. Ms. Olson explained that the comments suggested that most of those who did not find it helpful did so because they were expecting more of a personal financial advisor. There was additional discussion regarding the survey. Mr. Goldsmith requested to see the number of participants from month to month. Ms. Olson and Mr. Hanes commented that the information can be found in the administrator's report.

Mr. Elwell observed that staff had provided a very good program for the employees. Mr. Garvy noted that the program was well executed and he commended Ms. Olson and the team. Mr. Madison commented that the lower number of participant experience should be the baseline because it was the first time. Ms. Olson noted that the one on one meetings and group meetings have been held here (Town Hall) and at Public Works, and that staff will continue to reach the employees using other avenues, be it with webinars or newsletters, and that staff have the resources to do that. Mr. Snow stated that this should be shared with the Town Council. Ms. Olson stated that this information will be shared with the employees and the Town Council. Mr. Elwell commented that the Town Council was aware of this pursuit.

Mr. Aguero noted that the ICMA retirement representative, Steve Feigelis, did most of the down in the trenches work that consisted of group meetings and individual consultations. There was additional discussion with Mr. Aguero regarding managed accounts.

XI. ICMA Fund Lineup and Changes, Rosemary Guillette, Segal Rogerscasey and Fernando de Aguero, ICMA

Ms. Guillette presented the lineup changes and reviewed the recommendations. Mr. Elwell clarified that he understands that the changes before the board are a consensus between ICMA and Segal. Ms. Guillette agreed, and noted their offices have been having conference calls every two weeks to come to agreement on changes.

Mr. Elwell commented that there have been challenges with communications regarding the proposed changes, and that he would like to see as much transitional time as possible with the changes being considered. He requested a letter go to the employees that will notify them that a fund has been removed and offer them other options of a similar investment class. Mr. Wearn and Mr. Madison concurred. Mr. Goldsmith commented that the letter should inform the employees that a representative is available to assist them. Ms. Guillette explained the general procedures as she understood it to be noting that it takes about 3 months, and that ICMA sends a letter stating that the employee has an option to move funds before they are moved. There was additional discussion.

Mr. Elwell made the motion to approve the path taken, but not to implement changes until after the June meeting when the trustees are able to review the letter and rollout, and once implemented there be a 12 month window of time for employees in the eliminated funds to remain in those funds before replacement. Mr. Garvy seconded the motion. The trustees unanimously approved the motion.

XII. Investment Report, Lawrence Marino and Rosemary Guillette, Segal Rogerscasey

Mr. Marino presented the Defined Benefit Investment Performance report. He commented it was an extraordinarily good year for equities in 2013 and the Town benefited greatly. He stated that the equities and fixed allocations are way over target. There was discussion on ways to invest the overage.

Mr. Ross made the motion to liquidate the 8 percent above target allocation in the S&P 500 Index Fund, and place it into short-term securities. Mr. Goldsmith seconded the motion.

Mr. Garvy inquired about other alternatives that are short term and may pay more than 3 percent. Mr. Marino stated that daily liquidity is needed and he is not sure if they can get the daily liquidity from other fixed income alternatives.

The trustees unanimously adopted the motion.

Mr. Marino reviewed the performance and commented it was extraordinarily good given the fact that we were not at our target allocation. He reviewed the performance of the managers that were under performing but commented that the underperforming managers were very close to benchmark.

There was a five-minute break.

XIII. Manager Presentations, Rosemary Guillette and Donna Rosequist, Segal Rogerscasey

Pomona Capital, Michael Granoff, CEO

Mr. Granoff provided a brief explanation of the history of Pomona, their investing strategy, and performance.

Landmark Real Estate Partners, Timothy Haviland, President/Managing Partner & Barry Miller, Partner

Messrs. Haviland and Miller provided a brief explanation of the history of Landmark Real Estate Partners, their investing strategy, and performance.

Private Equity Investors, David Parshall, Co-Founder/Managing Partner

Mr. Parshall provided a brief explanation of the history of Private Equity Investors, their investing strategy, and performance.

All presenters left the meeting room.

Ms. Rosequist, Segal, was contacted by telephone conference and provided a brief analysis of each manager. There was discussion regarding differences, cost and the J curve impact.

Mr. Ross made the motion to commit $10M with Pomona and to have Segal conduct a Venture search. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Mr. Marino stated that he and Ms. Guillette will present venture search information at the June meeting.

XIV. Attorney Report, James Linn

Mr. Linn discussed a matter of the maximum duration of participation with DROP, and pointed out that 3 current participants in DROP should be able to go beyond the 10-year limitation imposed by the code due to an error made when they signed the form. He recommended that the three DROP participants be allow to complete the 5 year DROP in accordance with the date shown on the form they signed at the time. Mr. Hanes commented that the actuary had indicated no cost, and attorney Linn had opined that there is no conflict with state or local law.

Mr. Elwell made the motion to move for approval of the recommendation made, noting that it is proper for the Board to resolve this problem in favor of the participating employees based on the fact this error was not in their own making. He further stated we are not indicating a changing of the rules, and anyone signing up for DROP after they have accrued more than five years of service past eligibility will know that they do not get a full five years in the DROP program. Mr. Ross seconded the motion. The trustees unanimously adopted the motion.

Mr. Linn suggested that the board defer discussion of the draft disability appeal procedure until the next meeting on June 6, 2014. He then discussed a citizen participation proposal. He noted the law does require that the public be given an opportunity to participate and the Town's procedures mirror this. Mr. Elwell concurred that the Town Council's procedure does mirror this as to how most of the boards and commissions operate. He commented that Mr. Linn's proposal deviates somewhat from the Town in that Town Council has made an explicit intentional decision not to require citizen written notice of participation. He recommended that the board not require people to submit a written request for permission to address the Board.

Mr. Elwell made the motion to approve the policy as drafted with the removal of the one sentence requirement for citizen written notice as indicated in his discussion. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

The trustees deferred discussion of a disability hearing policy to a later date.

XV. Administrator's Report, William Hanes, Pension Administrator

Mr. Hanes discussed that auditors and the IRS are generally urging public plans to seek approved IRS qualification determination letters. Mr. Linn noted that although not legally required, the IRS is encouraging public plans to cross their T's and dot their I's by setting up a voluntarily compliance process which has a $5,000 IRS fee attached for funds of this size. He explained that it requires the plan to go through a checklist to make sure the plan technically meets all the code and regulation requirements for plan qualification. He recommended that the Board submit through the voluntary compliance process. Mr. Hanes noted the total cost would be about 15 to 20 thousand dollars. Mr. Linn concurred. Mr. Elwell requested this be put on the agenda for the June meeting.

Mr. Hanes reviewed the Firefighter election process, and commented that the firefighters will likely have a new board member representing the group at the June 6, 2014 meeting.

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

Mr. Hanes reviewed the retirement report.

Mr. Madison made the motion to accept the report. Mr. Elwell seconded the motion. The trustees unanimously adopted the report.

XVII. Other Business

Mr. Linn reviewed the e-mail procedure that has been adopted by the Town. Mr. Hanes commented that if it's going to a Town computer or to him you don't need to worry about it. Mr. Elwell clarified that if you are communicating to one of us who are already a part of the Town's computer system then you don't need to copy the e-mail account provided in the Town memo, but if you are communicating with anyone else regarding Pension Board business then you do need to copy the account. He explained the reason why is to protect the person as well as the Town. He explained that responding to recent public records requests has been cumbersome because staff has needed to come to individual members and ask to review personal e-mail accounts to find documents that actually qualified as public records because they were communications related to a Town board. He remarked that the new procedure help avoid that kind of confusion and difficulty for the board members in the future, and will make sure that the Town is able to respond promptly with its obligation to provide public records. He stated that we are asking every member of every board to follow this policy.

XVIII. Adjournment

Mr. Goldsmith made a motion to adjourn the meeting at 1:50 pm. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

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