The Town of Palm Beach Retirement System
Board of Trustees
Minutes of February 7, 2013 Meeting

I. Call to Order and Roll Call

Chairman Snow called the meeting to order at 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
John Cuomo, Trustee

ALSO PRESENT:
William P. Hanes, Pension Administrator
James W. Linn, Board Attorney
Lawrence Marino, Segal Rogerscasey
Rosemary Guillette, Segal Rogerscasey
Daniel Westerheide, Segal Rogerscasey

Absent:
W Michael Lynch
Wilbur Ross, Trustee

Alvin Parven, Trustee (entered meeting after roll call)

II. Approval of Agenda

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

III. Comments by Trustees

Chairman Snow welcomed Mr. Cuomo to the board, and requested that the trustees take a packet for the February 15 meeting before leaving. Mr. Cuomo thanked Chairman Snow. Mr. Elwell welcomed Mr. Cuomo.

IV. Asset Liability Modeling (ALM) Study

Daniel Westerheide, Segal Rogerscasey

Mr. Marino introduced Daniel Westerheide, and briefed the board on his qualifications. Mr. Westerheide discussed the ALM Presentation beginning with the executive summary of September 30, 2012. He stated that the funded ratio for the plan was at 81% on a market value basis.

Mr. Wearn stated that at the previous meeting the figures for general, fire and police were different and questioned if there was a different method used to get the funded ratio.

Mr. Westerheide explained that the calculation method for the funded ratio is done on market value whereas in actuarial evaluations they use an asset smoothing method.

Mr. Westerheide commented that when Segal Rogerscasey refers to funded ratios or contribution rates they refer to them in the aggregate across general, fire, ocean and police. He reviewed the public contribution rates. He discussed that the liability is maturing and money may need to be raised to meet benefit payments when markets downturn. He gave a review of the capital market outlook.

Mr. Parven stated that he read an article in the Wall Street Journal that advised against TIPS when looking for inflation protection, and it provided real estate or commodities as sources for inflation protection.

Mr. Westerheide explained that TIPS have a real yield component and an inflation pass through. He discussed that the real yield component is at extremely low levels and is a successful hedge in CPI's. Mr. Parven asked for the alternatives and suggested Mr. Westerheide read the article. Mr. Westerheide responded that real estate may be a hedge against inflation. He noted an article on pension funds and commodity investing that advocated against commodities because they were too volatile and did not track inflation. He pointed out that the ALM perspective on inflation is how it affects your obligation that you promised your plan participants. He noted that there are still significant risks across long investment horizons that will be focused on from an ALM perspective. He briefed the board on the importance of asset allocation, and provided a brief overview of how the firm established the Capital Market Assumptions. He noted that the cash assumption over the next ten years is 2%, and 3.6% over the next 20 years.

Mr. Elwell requested clarification regarding the asset allocation concept as it relates to where we are now, and in regards to how the concept changes over time. Mr. Westerheide explained how the different alternatives balance out and confirmed that Mr. Elwell's view is correct. He added that the data for mixes five or six push down the risk of the portfolio. He discussed that a Sharp ratio, the measure of risk adjusted return for that portfolio, is still .44 which means that absent a certain bias on risk appetite these portfolios would be equal although one has a lower return than the other but is balanced out by lower risk. Mr. Elwell noted that the fact that the Sharp ratios are equal but the projected return different, he understands there is a bit more risk, but the sharp ratio takes into account to try to make sure we are not being too risky to achieve the return. He opined that there is a substantial reward to being in number 3 as compared to being in number 5 or 6 at the same sharp ratio. Mr. Westerheide confirmed Mr. Elwell's view.

Ms. Guillette commented that they looked at where the Town is currently, which is a combination of the three portfolios, and used it in that recommendation to bring down some of the U.S. equity risk by diversifying the international equities and adding private equities. They also diversified some of the fixed income through high yield and TIPS so it was not all in core fixed income. She added that mix 3 is a great mix but mix 5 could also be good depending on where you want to go.

Mr. Westerheide reviewed how stochastic modeling works. He added that it tries to take a complex situation such as capital markets, actuarial liability, and cash flow timing, to help you understand trends and risks around those trends. Embedded in the capital market assumptions are probability distributions that define the likelihood of various returns from the various asset classes and their interaction. Mr. Westerheide presented a 10 and 20 year snapshot of all six portfolios.

Mr. Marino wrapped up the ALM presentation by discussing the recommended discount rate and real estate allocation.

There was a 5-minute break.

Mr. Snow noted that the regularly scheduled meeting will be held on Friday February 15th at 9am and asked that members pick up their packets before leaving.

Mr. Hanes noted that there is an item regarding professional liability insurance that is missing and will be available at the meeting.

Mr. Snow noted that the special meeting will be March 8th, and requested Mr. Marino to go over the timetable for the next meetings.

Mr. Marino noted that next week they will go over recommendations for terminations within the fund, recommendations for asset allocations, a time table for the searches, and a time table for when the searches will be done.

Mr. Snow requested the plan for March 8th. Ms. Guillette responded that the entire day was scheduled, however, her thought is from 9:00am to 1:00pm. She added that it was scheduled as a run over from this meeting. Mr. Marino noted that the meeting in March may not be needed if they are able to go over everything today or in the next meeting.

Mr. Marino reviewed the number of searches anticipated at each meeting and the time frame needed. He discussed the large cap equities, international, fixed, hedge, inflation hedging, and real estate, and reviewed the recommendations for each. He offered the board the opportunity to vote today.

Mr. Elwell noted that he would be prepared to vote today, but questioned if other board members were comfortable with this. Mr. Snow stated that it is only one more week and he would like to give it more thought between now and next week. Mr. Wearn concurred with Mr. Snow. Mr. Madison asked if there would be a discussion of percentage for each asset class. Mr. Marino responded that there would be a range. Mr. Hanes responded that the consultants have been very involved and would continue to make recommendations for change within the investment policy. Mr. Marino agreed. Ms. Guillette responded that when a new investment policy is adopted it goes to the Town and the Town has 30 day to ratify/sign it. She added that it goes into effect 30 days after it has been filed with the Town.

Mr. Elwell stated that the new ordinance should be checked before speaking definitively. He stated that under the old ordinance prior changes to the investment policy for any of the three plans were first acted upon by the board and were subject to the approval of the town council by resolution, and it would be approximately 30 days but not necessarily within 30 days.

V. Other Matters

There were no other matters.

VI. Adjournment

There was a motion made by Mr. Goldsmith to adjourn the meeting at 11:19 am. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

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