Town of Palm Beach Retirement System
Board of Trustees
Minutes of May 17, 2019 Meeting

I. Call to Order and Roll Call

Chairman Dan Stanton called the meeting at 9:00 am in the Town of Palm Beach Hall Chambers, 360 South County Road, Palm Beach, Florida 33480

In Attendance:

TRUSTEES:
Daniel Stanton, Chairman
Ed Carter, Chairman Pro Tem
Brett Madison, Secretary
Gerald Goldsmith, Trustee
Jane Le Clainche, Trustee
Tom Parker, Trustee
Mike Marx, Trustee
Dan Wilkinson, Trustee

ALSO PRESENT:
William P. Hanes, Retirement Administrator
Dave West, AndCo Consulting
James Linn, Attorney
Margaret Zeidman, member of Town Council
Amy Wood, Assistant Finance Director
Dean Mealy, Town Purchasing Manager

Absent: Brad Kaufman (prior notice of conflict)

II. Election of Officers

Mr. Linn reviewed the process of officer elections. Ballots were distributed to the trustees. The trustees re-elected Mr. Stanton as Chairman. Mr. Carter was elected as Chairman Pro Tem. Mr. Madison was re-elected as Secretary.

III. Approval of Agenda

Chairman Stanton announced that at 11:00 am the board will recess from the regular meeting to begin a special meeting with trustees serving as selection committee members of the pension administrator RFP committee. He stated that the board will reconvene after adjournment of the selection committee meeting.

Mr. Goldsmith made the motion to approve the agenda. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

IV. Trustee Comments

No comments.

V. Public Comments

No comments.

VI. Approval of Minutes: March 15, 2019

Mr. Goldsmith made the motion to approve the minutes of March 15, 2019. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

VII. Town Council Salary and Benefit discussion

Ms. Margaret Zeidman, member of Town Council, provided a detailed discussion regarding Town Council considerations toward future changes in employee work schedule, salary, and retirement benefit enhancements. She indicated that as a member of Town Council, she is not able to provide any opinions, and the reason for the considerations is because of the turnover of public safety employees. She discussed issues that surfaced with a compensation study that have been provided to Town Council. She indicated Town Council's objective is to better attract and retain good public safety employees. Ms. Zeidman invited Chairman Stanton and the trustees to attend the next Town Council meeting on June 11, 2019. She commented that Town Council is seeking input from the board. She reviewed the actuarial impact statement provided by the actuary.

Chairman Stanton stated that he believes this board is supportive of the proposed compensation increases to employees, and commented that past Town Councils have not looked at all the implications that Ms. Zeidman has described. He commented that the elephant in the room seems to be that over the last many years the plan's portfolio rate of returns has earned on average something better than 4% rates of returns. He discussed there has not been a recession in 10 plus years, and noted there are factors that could make the target for investment return unattainable. He discussed the volatility with investments, and noted from what is already known about the current year that it appears the end of year performance will likely be below the benchmark 7.2% return. Mr. Carter noted that if the board were to move the assumed investment rate of return from 7.2% to 5.0%, the cost is approximately 220 bps, or $77 million in additional liability, creating a $177 million UAAL. He noted how this could significantly increase the Town contributions and taxes. Chairman Stanton stated that Town Council needs to have a hard talk about the pension and create a plan to reach acceptability. Mr. Parker commented that he regards the pension plan obligation as the most senior obligation of the Town, and that he is for increasing the urgency of reducing the discrepancy between what we have and what we owe.

(The board moved to Item IX forward until the 11:00 am scheduled time certain with item VIII.)

IX. RFP Custodian

Chairman Stanton provided a status summary of the Custodian RFP. Mr. Hanes and Ms. Le Clainche commented a satisfaction with the selection of Salem Trust. Chairman Stanton asked that the motion previously made to accept Salem Trust be restated for the record.

Ms. Le Clainche made the motion to approve the hire of Salem Trust to serve as custodian. Mr. Brett Madison seconded the motion. The trustees unanimously approved the motion.

Ms. Le Clainche commented that the transition will take between 60-90 days, and will begin shortly after there is a contract executed.

X. Town of Palm Beach Retirement System Annual Report

Ms. Amy Wood, Assistant Finance Director, presented the report. Chairman Stanton stated the report is comprehensive.

The board approved without motion.

XI. Financial Report and Disbursements

Ms. Wood presented the Financial Report and Disbursements from the retirement Trust as of March 31, 2019. She reported on the statement of net assets that equaled $224,640,567. She reported on statement of change in assets, noting a net increase in assets for the quarter of $4,896,681. She stated that the investment and operating expenses totaled for the fiscal year ending March 31, 2019 is $435,240. She discussed cash flow projections for the next quarter, and the need to transfer $4.7 million from managers. She reported cash flow projections for 2019 fiscal year, and the disbursements made from March 1, 2019 through April 26, 2019 of $221,616.56.

Mr. Carter made the motion to approve the disbursements. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XII. Investment Report

Mr. Dave West presented the investment quarterly report. He discussed the leverage position of the plan, and that the board has redefined the purpose of the investment program to reduce the UAAL. He discussed reconstruction of the portfolio.

Mr. West discussed volatility in the markets since fiscal year end of 2018, and reviewed by asset class the performances over the past quarter. He discussed that the net returns on the portfolio was 8.37%, which was below the fund policy of 9.2%. He noted the total fund policy was 7.95%, and stated that fiscal year to date is slightly negative at - .49%. He noted that April was very strong.

Chairman Stanton asked Mr. West if there were any reservations he might have over Oakmark and Geneva performance. Mr. West commented that for the recent time period underperformance seems to be related to stock selections in consumer discretionary and IT. He added that Geneva's focus has been on low leverage, higher profitability, with higher quality type of companies. He noted there has been several ownership changes, and the research team has recommended holding the line. He suggested Geneva be bumped up to the watch list to watch how the current quarter performance goes. Chairman Stanton asked Mr. West to make note to make comments regarding the Geneva performance at the next few board meetings. He also asked that Mr. West make comments regarding the periods of poor performance at Oakmark. Mr. West stated Oakmark does not have a historical presence in Europe, but since the first quarter in 2019, the manager has held some pro--cyclicals in Europe, including recovery positions in banks. He commented Oakmark has characteristically continued to be overweight and the natural propensity has been to invest in Europe that arguably is responsible for the underperformance.

Chairman Stanton asked if AndCo keeps a watch list. Mr. West discussed there is a quantitative list with a process established so if there are performance trigger points it will go before the AndCo investment list with the research managers called in to address the issues. Mr. West confirmed that an AndCo watch list could be generated.

Mr. West continued discussion regarding manager performances, and noted disappointment over the quarter with JP Morgan performance. He stated the income component generated for the quarter at just short of 1%, and the depreciation component for the quarter was about 50 bps. He noted there was valuation activity that impacted four of the malls held in the portfolio, representing about 11% of the mall real estate holdings in the portfolio. He commented that the remaining 89% of the mall properties maintained their values on the books. Chairman Stanton asked what percentage of the total portfolio is with malls. Mr. West did not know, but stated he will find out. Chairman Stanton asked Mr. West to provide an email response with this percentage. He commented that it is interesting since a lot of malls are suffering because of e-commerce competition. Mr. West stated the strategy is to stay with the marque malls to remain profitable, but the write downs were with secondary properties.

Chairman Stanton made a comment to the Town Council members in attendance. He discussed from the investment report the prior years with the prior consultant, and noted managers were all performing in the third and fourth quartile. He commented this is called bottom feeders, and noted that while the return assumption is probably higher than it should be considering current markets, the prior consultant added mightily to the problem. Mr. West discussed how the portfolio peer rating has improved based on changes recommended by AndCo after their arrival.

Mr. West discussed the cash flow of the plan. He indicated that the plan opened the quarter market value at $208,700,259, and ended the quarter on March 31, 2019 at $221,526,542. He discussed the various transactions and appreciation/depreciation in values over the fiscal year.

Mr. West discussed the asset allocation, and stated there are no recommendations for change to the current asset allocation model. He noted that there is a gradual and slow late-cycle quality upgrade to the portfolio, primarily from the fixed income side, and secondarily a slow-moving fixed income up to the policy target now that the board has established a high-quality fixed income manager for the portfolio. Mr. West stated that for raising $4.7 million requested by the Town, he recommends that the distribution be made in proportion of 60/40 equities to bonds from the domestic equity Index fund (S&P) and Vanguard bond index funds.

Chairman Stanton asked that Mr. West take a look at Weatherlow along with Geneva and Oakmark to report to the board for next few quarters. He commented that at some point the board may want to start taking away from the poorly performing managers, and to be broader in the pull of money. Mr. Carter agreed. Mr. West agreed to incorporate this into rebalancing thinking.

Chairman Stanton noted that Weatherlow has assets of $13 million, and asked Mr. West if we can take a distribution. Mr. West stated he will need to provide a notice before making a distribution.

Chairman Stanton noted that the combined assets held with Geneva, Oakmark, and Weatherlow is approximately 20% of the portfolio, and suggested the board should continue to look at these managers for making distributions.

Mr. Parker made comment that he believes it may be good to use Treasury Bills to serve the liquidity needs.

Chairman Stanton discussed it is time to recess this portion of the Town of Palm Beach Retirement meeting.

Mr. Carter made the motion to recess the meeting, Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

VIII. RFP Administrator - interview with GRS – Time Certain at 11:00

Roll Call was taken. All committee members were present except Mr. Kaufman.

Purchasing Manager Dean Mealy made comments regarding the past selection committee meeting and the request that GRS be interviewed by the committee. Representatives of GRS made a presentation to the board regarding services offered as pension administrator, and answered questions from the committee members. Mr. Valmiki Ramsewak, Ms. Sue Gigler, and Ms. Edemir Estrada, presented for GRS.

Chairman Stanton commented on the written duties provided by Mr. Hanes as administrator, and discussed the functions. He stated that before leaving this meeting it is important to have the delineation of duties between the various groups.

Mr. Ramsewak discussed the GRS administrative organization. Ms. Gigler discussed the organization, plans, current clients, and participants. She discussed the staff and work for the organization, and the effort made to make it as easy as possible for members. She stated that GRS has never lost an administrator-client. Ms. Edemir Estrada was introduced. She elaborated on the duties associated with interaction with members and the board.

Mr. Ramsewak discussed GRS publications that are available to trustees and the technology and database at GRS. Ms. Gigler stated that the member data is in front of the GRS staff when member calls are received. Mr. Ramsewak discussed the on-line portal, known as GRS advantage, which includes an on-line benefit calculator that clients can use. He provided a demonstration of the estimate of benefit calculator.

Mr. Goldsmith asked to compare costs between the current administration, and the GRS proposal. Ms. Le Clainche discussed the fee difference. Mr. Hanes pointed out that GRS will not be providing duties of transferring the assets, and that currently his office provides that service for the board. He stated that Ms. Le Clainche will be assuming those duties.

Ms. Le Clainche discussed that there will need to be a lot of interaction with GRS in order to get everything in place between GRS and Town staff. She discussed that the list provided by Mr. Hanes was comprehensive, and she felt with only a few exceptions that everyone knows what they are to do. She indicated that Mr. Hanes has hand delivered board material to trustees, going forward it will be mailed. She stated those type of personal touches would change.

Chairman Stanton asked Mr. Hanes if he sees any red flags going forward. Mr. Hanes stated that he is more comfortable after the conference call with Town staff than he had been previously. Ms. Le Clainche indicated if and when there is a member that needs to have help at a point of retirement, then someone with the Human Resource Department will be available to help. Mr. Gigler indicated that their office will be able to send someone to the Town of Palm Beach for an additional day if need, which will be an additional fee.

The GRS presenters left.

Mr. Goldsmith complemented Mr. Hanes for his past service to the board.

Chairman Stanton suggested that the board take a vote on selecting GRS as administrator.

Mr. Wilkinson expressed his comfort level with Ms. Gigler. Other trustees expressed agreement. The trustees agreed that a proposal should be made to GRS that Ms. Gigler serve a more significant role with attending board meetings, at least during the transition period.

Mr. Madison made the motion to hire GRS as the Plan Administrator. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Chairman Stanton discussed that Mr. Dean Mealy should ask that Ms. Gigler participate over the next year and be available to attend board meetings in addition to Ms. Estrada. Mr. Madison suggested that the employee trustees should seek feedback from employees. Ms. Le Clainche discussed that Mr. Hanes will not be available to do his current duties after July 1, 2019, and HR will need to take on the duties of interaction with members after that date.

Chairman Stanton discussed there are three things that need to be highlighted to GRS. The first is that the date for beginning with duties toward members is July l, 2019, and Mr. Hanes will not be available after that date except that Mr. Hanes will be around for consulting services only to help them for some period afterward to be determined. The second is we will need flexibility for physical presence more than once a month, even though it might cost more. The third is the board would like Ms. Gigler's presence for a year at board meetings.

Mr. Mealy stated he will address this with GRS.

Mr. Hanes added that the GRS contract should include attendance at special meetings, and work associated with preparing draft reports to Town Council. Chairman Stanton agreed, and that GRS should be involved with the next report to Town Council.

Mr. Goldsmith made the motion to adjourn the selection committee. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

Mr. Goldsmith made the motion to go back into session with the board of trustees meeting. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

Mr. West said once Town funds are raised, the funds are considered part of the retirement system and is sent to the Town's collective local pension operating fund (in trust), and is likely to be managed with some US treasuries. Ms. Le Clainche added that sometime around the beginning of the fiscal year in October the Town will make its contributions, and it is possible that these monies can be made available to put into a money market type instrument, Treasury bills, or other liquid investments that can be drawn from throughout the year for dollar cost average purpose. Chairman Stanton stated that he believes taking the contributions to invest last year was not such a good decision considering the timing, but suggested placing it to cash and spread out over the year should be taken into consideration. Mr. West indicated he will take into consideration, and adjust accordingly to impact dollar cost averaging.

Mr. West discussed the process of reducing assets from Weatherlow as previously decided. Chairman Stanton suggest that AndCo should look at other places for reductions when needed to raise cash.

Mr. West discussed a request from Geneva for a modification to their policy mandate to increase the maximum position size of the portfolio consistent with the model mandate. Mr. Stanton expressed agreement.

Mr. Goldsmith made the motion to approve the request. Mr. Parker seconded the motion. The trustees unanimously agreed to the motion.

XIII. Attorney Report

Mr. Linn discussed the need to take up Mr. Hanes' contract to reduce the scope of his duties with reduction in his fees, but still be involved with the new administrator. He discussed that the monthly fee is $4000 and the actual cost of his fiduciary coverage. The trustees discussed transitional issues with Mr. Hanes.

Mr. Madison moved to approve the contract. Mr. Wilkinson seconded the motion. The trustees unanimously approved the motion.

Mr. Linn discussed a law enacted by the Florida legislature impacting Fire Fighters.

XIV. Administrator Report

Mr. Hanes stated there were no new DROP or Retirements since the last quarterly report.

XV. Other Business

No other business.

XVI. Adjournment

Mr. Goldsmith made the motion to adjourn. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

Brett E. Madison, Secretary
Town of Palm Beach Retirement System
Board of Trustees