Town of Palm Beach Retirement System
Board of Trustees
Minutes of August 24, 2018 Meeting

I. Call to Order and Roll Call

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

In Attendance:
TRUSTEES:
Daniel Stanton, Chairman
Gerald Goldsmith, Chairman Pro Tem
Brett Madison, Secretary
Jane Le Clainche, Trustee
Brad Kaufman, Trustee
Ed Carter, Trustee
Michael Marx, Trustee
Dan Wilkinson, Trustee

Absent: Jeff Amling

ALSO PRESENT:
William P. Hanes
Kirk Blouin
Pete Strong, GRS
Dave West, AndCo Consulting
Zachary Chichinski, AndCo Consulting
Council Member Margaret Zeidman
Council President Danielle Moore
Council Member Lew Crampton
Pat Cooper, Civic Association
Brian Burns, Resident

II. Approval of Agenda

Mr. Goldsmith moved to adopt the agenda. Mr. Carter seconded the motion. The trustees unanimously adopted the motion.

III. Trustee Comments

No comments were made by the trustees.

IV. Public Comments

Mr. Pat Cooper made comments representing the Palm Beach Civic Association. He commented he had spoken with Mr. Carter and Chairman Stanton regarding an "aspirational plan", or something in the future that you shoot for something you are doing on the way. He commented that voting today is fitting to the plan, and his plan is to see an investment portfolio that is much less volatile, requiring more bonds and fixed income to the portfolio while removing volatility and risk to help along the way. Mr. Cooper recognized this aspirational goal would require a different environment than what we have today.

V. Approval of Minutes: May 18, 2018

Mr. Kaufman made comments that the minutes did not properly reflect what he had meant to say. He stated that his comment was that we would be better off in a portfolio with individual bonds so that we don't fall prey to what happens with bond funds, meaning as interest rates rise that bond funds go in the opposite direction since people head for the door to sell at the most inopportune time. He stated that with individual bonds you can control your own destiny.

Chairman Stanton made two small corrections for the minutes. Mr. Madison made comment about a motion that he approved when he was absent from the meeting. The corrections have been made.

Trustee Goldsmith made the motion to approve the minutes as corrected. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

VI. Report of July 10, 2018 Town Council Annual Retirement Report, Ed Carter

Mr. Carter noted that a written presentation was provided to the Mayor and Town Council, and circulated to others. He commented on the matters he discussed at the Town Council meeting, and applauded Town Council for their efforts. He commented there has been a lot of progress with transparency and awareness and highlighted the very good performance over the last fiscal year, but discussed the preceding year losses and the unrecognized losses that have not yet been recovered. He noted that the Town is paying 17 ½ percent of last year's operating budget toward pension costs, not including the $5.42 million supplement provided last year by Town Council. He stated that were the Town's pension fund to be 100% funded, the total pension cost would be only .9% of the operating budget. He noted that the board has been very pro-active, and transitioned over

$50 million dollars at the last quarterly meeting. Mr. Carter stated that if the Town wants to achieve full funding, it must come from the Town's supplemental contributions, or a new plan B. He stated that hoping for the market to bail us out will not work.

Chairman Stanton made note that Mr. Blouin has left the board and replaced by Finance Director, Ms. Jane Le Clainche as trustee with a change to the Code. He introduced Assistant Director, Ms. Amy Wood, who will be replacing Ms. Le Clainche for providing future quarterly financial reports.

VII. Proposal to reduce amortization period from 25 to 15 years, Pete Strong GRS

Chairman Stanton provided a background introduction regarding a shortened amortization period of 15-years as proposed to Town Council by Town Manager Kirk Blouin. Mr. Hanes commented that the code provides that the board must set the amortization period. Chairman Stanton stated the board would like to take affirmative steps to improve the funding of the plan while not backing Town Council into a corner from which they will not be able to escape. Town Manager Kirk Blouin commented that he is in favor of solving the problem that has a significant impact on the resources of the Town.

Mr. Strong provided a presentation and explanation in summary of each of the six scenarios with charts prepared for each scenario. Mr. Strong stated that the added $5.42 million contribution by the Town is very small, and the reason you do not see from the charts a more significant reduction in unfunded liability for the first few years is driven by the payroll growth assumption embedded in the amortization assumption. He commented that the amortization method is back loaded because of the method used - level percentage of payroll. He stated that with a 25-year amortization method covers only a little of interest because each payment toward the unfunded amount over the 25 years goes up because of the 2.75% per year wage increase assumption, causing a stair step increase to the payment with payoff after 25-years.

Mr. Strong illustrated that for the 15-year amortization period the Actuarial Determined Employer Contributions (ADEC) start out about $1 million to $1.5 million higher than the 25-year period, and remain higher over the next 10 years. He commented that you pay a little more in contributions over the 15 years, but with a much better funding ratio at the end of the period. He commented that you remain locked in once you choose the lower amortization period, but you can always change for future basis. Mr. Strong discussed a stress impact scenario that assumes a future experience of 5% investment return, and noted that even if the experience is an average 5% return over the next 10 years you get to a much better funding status.

Mr. Carter asked Mr. Strong about the number of variables that go into the model. Mr. Strong stated we are assuming a stationary population, and that new people come in to replace those that leave. He commented that there are approximately 6 major assumptions that impact the valuation outside the main investment return assumption.

Chairman Stanton stated he is interested in hearing the views of the members of Town Council and Town Manager. Mr. Blouin commented that he is very interested in adopting the 15-year amortization period, and if adopted, it will represent an ADEC increase of $1.4 million. He stated that the Town currently is using discretionary funds of $5.42 million, and the only down side is a loss of flexibility but with a 15-year amortization you reach full funding faster, reduce the interest payments faster, and it has a positive impact on the budget faster. He noted that the real concern for Town Council is should we experience another recession with depreciation in property values that will likely result with employee salary reductions or increase in taxes.

Town Council President Danielle Moore spoke and indicated that after consultation with the Town attorney, she advised it is inappropriate for members of Town Council to comment at this retirement meeting. Board attorney Jim Linn stated this is based on the state Sunshine law.

Council Member Margaret Zeidman spoke and requested from Mr. Strong how the $5.42 million supplemental impacts funding of the plan. Mr. Strong stated that the monies are the primary driver in reducing the unfunded liability.

Mr. Linn stated that he believes it is possible for the board and Town Council to schedule a joint meeting to discuss these issues. Chairman Stanton stated that the reason the plan is in the current position is because past administrations have sort of "kicked the can down the road", and it accelerated over the last 10 years. He commented that his fear is that when the next recession occurs, that the priorities that seem non-negotiable, may result in the $5.42 million supplemental being eliminated. He commented that a hidden benefit with a 15-year amortization period is that there is a lot more that becomes non-discretionary. So, there will not be the wiggle room predecessor trustees and members of Town Council have had in the past.

Ms. Le Clainche stated that she had been involved with discussions with Mr. Strong regarding a hybrid amortization period with part of the period representing 15 years and remaining 20 years. Mr. Strong stated a 15-year amortization period is optimal, but a hybrid could be in between, looking at a shorter period for gains/losses and plan changes, and another longer period for changes made to assumptions or funding methods.

Chairman Stanton stated that the more aggressive approach is with a 15-year amortization period, but with a 5% real return it will take the total contribution the Town will need to make into the $17 plus million dollars. He asked Mr. Blouin whether the Town has the ability to make the contributions if that is the case. Mr. Blouin stated that it would place him into a tight spot with the budget, and that he understands the Town assumes this as a risk by adopting a shorter amortization schedule. He addressed what is the desired outcome, and commented to the point of kicking the can down the road that all the choices are hard decisions and often the leaders may not understand or are not willing to make the choice. He stated he believed the Town can make the additional contributions and there is a need to make the additional contributions. He noted as a budget note that building the Town docks should create a significant revenue stream for these additional pension funding payments. Ms. LeClainche commented that the changes in contributions are incrementally small over the years of making contributions.

Mr. Kaufman stated that the obligation he has as trustee of the retirement board is to prudently manage the assets in order to meet the pension obligations of the Town and beneficiaries. He stated he would listen to the actuary for a way to do it in the most conservative way in order to get to a 100% funding, and in that role does not have the concerns of the Town expressed by Mr. Blouin. He noted this is an obligation as a trustee to the pension plan and stated he is ready to vote for the 15-year amortization period if this is the most conservative route. Chairman Stanton stated that he agrees with Mr. Kaufman, and commented that the 15-year amortization period may be the most constructive path offered by any manager of the Town of Palm Beach over the last 20 years. Mr. Carter stated he concurs. Mr. Blouin stated that he believes the Town Council wants to see this done, the board wants to see this done, and he (Blouin) wants to see it get done. Mr. Goldsmith stated this is the first time that the board, Town Manager, and Town Council seem to be on the same side.

Mr. Carter asked Mr. Strong to opine as a professional if this is a best practice. Mr. Strong replied that there are probably a million different ways to pay it off with many scenarios, but to determine best practice you should look at what the experts are saying. He discussed sources of professional opinions that supports a sweet spot at the 15-20-year period. Mr. Hanes asked Mr. Strong to comment on the difference between the level percentage and level dollar methods. Mr. Strong discussed.

Mr. Lew Crampton asked that given the model discussed, what would be the difference in contributions if the target is to stop at 85% funded versus 100% funded. Mr. Strong answered that you would get to 85% on 9/30/27 when the supplemental payments would discontinue, and the state does not allow for public pension a less than 100% funding target.

Mr. Strong said there may be a consideration of lowering the payroll growth rate. Ms. Le Clainche discussed that the Town has experienced cuts in employees and vacancies are not likely to be filled, so salaries will not likely increase and not satisfy the states required payroll growth assumption requirement. Mr. Strong stated that if the state sees evidence that the payroll growth is not increasing, it will want to see an increase commensurate with your payment on the unfunded liability based on level percentage of payroll.

Chairman Stanton stated he wants something done, and complemented Mr. Blouin for his comments that take a very difficult problem and aggressively deals with it. He expressed his concern those in years ahead that the people making these decisions may push back on the matter of pension funding. He stated this is an existential problem in the Town of Palm Beach, and he likes the idea of locking future administrations into a protocol that we have the guts to approve now. He commented that he believes it appropriate to take action in conjunction with a meeting with Town Council and suggested the matter not be voted on today.

Chairman Stanton stated he is a supporter of the 15-year amortization period recommended by Mr. Blouin. Mr. Blouin stated that he agrees with a joint meeting with Town Council. Mr. Kaufman noted that we are 9 years into what has become the longest bull market in history, and the longer we wait the less aggressive we get. He commented his desire to be as aggressive as we can be, and he is in favor of the 15-year amortization period. Mr. Goldsmith agreed and also stated he believes the board should reduce the return assumption. Mr. Carter commented he has been in search for a balance, but is now in agreement to defer a decision until meeting with Town Council, and to do something later that is hopefully jointly approved in an open forum. He suggested that the actuary provide more information on the hybrid with 15-year amortization based on gains and losses, and 20-years on assumptions changes. Mr. Madison stated he believes it is his fiduciary duty to use best practice, and does not want to continue kicking the can down the road. He agreed with a 15-year amortization schedule and would like to hear more about the hybrid. Mr. Marx stated he likes the 15-year approach to achieve the goal of 100% funded in the fastest way. He said he would also like to hear more about the hybrid approach. Mr. Wilkinson stated he too is in favor of 15-year amortization. Ms. Le Clainche stated she is in favor of the 15-year amortization period, but would like to hear more from Pete regarding the hybrid. All agreed to defer for a joint meeting with Town Council.

Mr. Brian Burns, resident and lawyer, discussed his practice and the subject of unfunded liabilities. He noted his experience with company unfunded liability, and complemented the trustees on the meeting. He discussed the problem of unfunded liability, and stated the current investment return assumption of 7.2% is too high, and should be lowered. He applauds the 15-year amortization period.

Mr. Pat Cooper commented that the lock-in period for changing the amortization period is what bothers him and others, and agreed a 15-year amortization schedule is "tough medicine."

Chairman Stanton commented he is glad there seems to be unanimity on the board, and looking forward to further discussion with Town Council.

Mr. Kaufman stated that the board is supportive of a change to a 15-year amortization period, and moved to have a meeting with Town Council sometime in the near future with further input from actuarial firm GRS, before making the change. He stated that the actuary should include discussion on what a hybrid will look like and other things that are controllable and based on significant impact. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

5-MINUTE BREAK.

VIII. Disability Application, Jim Linn, Attorney

Mr. Linn discussed the disability application before the trustees and reviewed the requirement for a review. He explained the process and that the review today with the board represents an initial hearing. The applicant made testimony regarding his active duty injury as a Police Officer, and the medical evidence was made available. Mr. Linn identified a letter certification made by the medical examiner that satisfied the requirement for a duty disability retirement benefit.

Mr. Goldsmith made the motion to grant the duty disability application by Mr. Pina. Mr. Kaufman seconded the motion. The trustees unanimously approved the motion.

Mr. Wilkinson made the motion to pay Mr. Pina commencing the day following his last day of paid employment for the Town of Palm Beach. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Kaufman expressed his appreciation to Mr. Pina for this dedication and service for the Town of Palm Beach.

IX. Investment Report, Dave West, AndCo Consultant

Chairman Stanton requested that Mr. West limit his comments, noting the long discussion in previous items.

A. Quarterly Investment Performance

Mr. Dave West provided information regarding performance of the funds. He commented that the core purpose, or stand-alone objective, of the investment portfolio is to achieve the rate of return assumption, and to minimize the Town contribution volatility as a result of underlying investment volatility.

B. Administrative Update on Investment Activity

Mr. West addressed the administrative update. He commented that they have completed the rebalancing as directed by the board, which effectively reduced the international equity exposure and raised funds for the quarterly distribution. He addressed the timely transition from Artisan International equity manager to MFS and WCM, Goldman Sachs was transitioned out and replaced by Garcia Hamilton separately managed portfolio, and discussed the transition from Thompson Siegel Walmsley to the Cooke & Bieler portfolio.

Mr. West completed the review of the quarterly performance and peer group rankings. He commented that with the transitions completed during the last quarter that he feels we are in a good position with the asset allocation and manager lineup in place going forward. He forecast that we should begin seeing additional traction toward achieving the appropriate rate of return and improve peer group rankings.

Mr. West discussed the schedule of assets that are reported with delays. He commented that only 88% of the assets are reported over the quarter, but will be updated next quarter. He discussed benchmark-to-benchmark comparisons between the funds, and noted the funds were up .63% over the quarter; fiscal year to date at 4.05%; one-year to end of June is 7.73%; 3-years at 5.3%, and 5-years at 6.14%. He noted that the domestic equities were the better performing asset class.

Mr. West reviewed cash flow of the plan. He reported that the quarter began with over $219 million and followed the reported illustration for transactions made. He commented that the June 30 quarter end equaled a market value of over $216 million, and the fiscal year to date income is $858,622 with appreciation of $8,382,285 net of fees.

Mr. West recommended that the Town retain the $4.7 million that is required for the December quarterly distributions, which creates a balance of $11.4 million, or 5% of assets. The recommendation is to place $7 million in the S&P 500 Index fund, and place $4.4 million with Garcia Hamilton. He commented that there is roughly $8 million with the Vanguard Total market Index fund that should be tapped first along with the S&P 500 Index fund for at least the next two quarters for distributions.

Chairman Stanton commented that it appears we are at the policy allocation for domestic equities, and asked if placing a chunk of money with the State Street S&P fund is going over the percentage policy at a time when fixed income is about 12% with the policy at 17 1/2%. Mr. West discussed the asset allocation as of June 30, 2018 and how to manage better returns out of the space. Chairman Stanton expressed that considering the unrest in the Federal Government coupled with the long equity market duration he would not be bothered with more of a fixed income cushion. Mr. Carter acknowledged agreement, and inquired of the near-term risk profile for increasing domestic equity investment versus the risk profile for having a higher amount of fixed income. He noted the fixed income is a drag on the portfolio now, but a market correction that will happen is a lot bigger drag than the little drag we will have with fixed income. Chairman Stanton agreed. Mr. Kaufman stated it is apparent with how we are underweight in fixed income, and agreed we should follow our policy guidelines.

Mr. West commented that it is important to make sure that the portfolio collectively continues to reflect the risk reward expectations that were initially set up. He suggested the risk of moving a smaller amount in and around the policy targets would have minimal impact, as opposed to moving the whole portfolio exactly on the policy targets. He commented that he is trying to be somewhat strategic, but will always default to moving to the target policy, but would want to overlay some relative opportunity bias in the portfolio. Chairman Stanton asked how much money is coming in for October. Mr. West stated it to be $16.162 million. Chairman Stanton asked if $4.7 million would be set aside immediately for December payment. Mr. West agreed.

Mr. West recommended about $7 million going to the S&P equity index fund and $4.4 million to Garcia Hamilton. Chairman Stanton inquired regarding the withdrawal policy at Garcia Hamilton. Mr. West commented that a request could be withdrawn same day if needed. Chairman Stanton asked how Mr. West would feel if the recommendations were flipped, placing $7 million with Garcia Hamilton and $4.7 million with the S&P 500 index. Mr. West commented they would have no problem with the change, bringing the fixed income closer to target.

Mr. Goldsmith asked Mr. West what the duration is with Garcia Hamilton. Mr. West stated that both Garcia Hamilton and the Vanguard fixed income duration are around 6 years. Chairman Stanton asked if using Garcia Hamilton for sources of income from time to time would create problems. Mr. West answered that it would not be a material impairment to the process, but he recommends that the board periodically re-load the Vanguard Bond fund for future distributions as there is no cost for that fund to be used in this manner. Mr. Kaufman agreed.

Chairman Stanton requested from Mr. West for his recommendation for the best way to place the money to fixed income and still be able to produce liquidity when needed. Mr. West suggested $3 million of the contribution to the Vanguard index fund and $4 million to Garcia Hamilton with the balance going to the S&P 500 equity index fund.

The motion was made by Mr. Carter for $4 million go to the S&P 500 equity index fund, $4 million to Garcia Hamilton, and $3 million to the Vanguard fixed income index fund. Mr. Kaufman seconded the motion. The trustees unanimously approved the motion.

Ms. Le Clainche commented that the Town will need $2.5 million prior to September 30, 2018. It was noted that there was $1.9 million of the money already available. Mr. West noted that he anticipates funds being received and will coordinate with Ms. Le Clainche to provide the remaining funds to make up the $2.5 million needed.

X. Quarterly Financial Report and Disbursements, Amy Wood, Assistant Finance Director

Ms. Amy Wood presented the quarterly financial report and distribution, including cash flow projections and disbursements from the prior meeting. She discussed the statement of net assets, with total assets of $219,506,737 and total liability of $1,276,280 million, with net assets of $218,230,457. She discussed the changes in net assets, investment and operating expenses, historical expenses, cash flow, and disbursements from the trust.

Mr. Kaufman made the motion to approve the report and disbursements from the report. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

XI. Member Account Credited Interest, Amy Wood, Assistant Finance Director

Ms. Wood discussed the annual credit provided to each employee account based on the 10-year treasury as the benchmark. The annual change goes from 2.3% to 2.96% beginning October 1, 2018.

Mr. Goldsmith made the motion to approve the new rate of 2.96%. Mr. Wilkinson seconded the motion. The trustees unanimously approved the motion.

XII. Administrator Report, William P. Hanes, Administrator

Mr. Hanes discussed the Retirement/DROP report.

Mr. Kaufman moved to approve the report and payment of benefits. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

XIII. Attorney Report, Jim Linn, Attorney

No report.

XIV. Other Business

The trustees discussed a joint meeting with Town Council in November, and a quarterly board meeting in December. Chairman Stanton stated he would coordinate with Mr. Hanes. He recommended all members attend the joint meeting with Town Council if possible.

XV. Adjournment

Mr. Kaufman made the motion to adjourn. Mr. Goldsmith seconded the motion. The trustee unanimously approved the motion.

Respectfully Submitted,

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