

TOWN OF JUPITER POLICE OFFICERS' RETIREMENT FUND

MINUTES OF MEETING HELD

December 17, 2018

Chairman Marc Dobin called the meeting to order at 10:12 A.M. in the Council Chambers at the Town Hall, Jupiter, Florida. Those persons present were:

TRUSTEES PRESENT

Marc Dobin
Mike Salvemini
Jason Alexandre
Nick Scopelitis

OTHERS PRESENT

Denise McNeill, Pension Resource Center
Ken Harrison, Sugarman & Susskind P.A
Chad Little, Frieman Little Actuaries
Burgess Chambers; Burgess Chambers & Associates
Michael Villella; Town of Jupiter

PUBLIC COMMENTS

Marc Dobin noted there were no members of the public present and no public comments were made.

APPROVAL OF MINUTES

The Trustees reviewed the revised minutes of the meeting held May 2018 along with the minutes of the August meeting. Mrs. McNeill explained that she had noticed a typo in the approved May minutes.

- Jason Alexandre made a motion to approve the revised May 2018 minutes as presented. The motion received a second by Nick Scopelitis and was approved by the Trustees 4-0.
- Nick Scopelitis made a motion to approve the August 2018 minutes as presented. The motion received a second by Jason Alexandre and was approved by the Trustees 4-0.

INVESTMENT MANAGER REPORT – AMERICAN REALTY

Jay Butterfield of American Realty joined the meeting via conference call to present the updated investment report. He provided the following updates: There have been no changes at the firm. Returns continue to be representation of changes made in 2016 to the portfolio and gratifying in total with the fund up 6.66% and ahead of the bench for six of the last seven quarters. The Fund is broadly diversified, core real estate with high quality and well leased. The target geographically is the top 25 major gateway cities. Leverage was 23.4% as of September 30, 2018 and they anticipate remaining within 1% of that same amount into 2019. No one tenant represents more than 3% of the total portfolio. They will be fully drawing down capital at the end of the year. They like South Florida in the industrial space as there is strong growth and demand. The Fund is underweight in the mid-west due to the lack of industry growth. The portfolio composition shows the fund is neutral across markets with no big industry bets. The economy is growing; however not as quickly as expected. Space is well leased and predictable with no large space expected to be empty at any given time. There is some build to core in the portfolio. Discussion followed regarding debt management. Mr. Butterfield explained there has been a fundamental change the past few years to move away from asset specific debt and they have moved to portfolio based debt which allows bargaining for more attractive rates. The purchases and sales were reviewed. Discussion followed regarding the debt instruments and Mr. Butterfield explained they use structured finance, various tranches of Freddie Mac, traditional high quality, low default mortgages. They are purchasing "B" category and are able to acquire premium rates and the income helps to offset assets that are in development and not yet providing income to the portfolio. Mr. Butterfield explained they have a long term income plan and are self-liquidating with varied duration. He noted many have been discussing a recession since 2013 and they have been seeing opportunities while specifically avoiding markets that are considered soft. Even if the market has a future disparity of quality, the Fund should still be in a good position. Mr. Butterfield responded to several questions from the trustees noting the exposure to Amazon, Google and Apple is solely office space. The majority of the financial piece in the past several

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years has been private placement secured by the balance sheet of the core fund. The most recent was with a major insurance company who offered to take all such placement from American Realty going forward. Any debt in the portfolio can be easily paid off by the cash flow. The telephone call with Mr. Butterfield ended at 10:50 AM.

INVESTMENT CONSULTANT REPORT

Burgess Chambers appeared before the Board on behalf of Burgess Chambers and Associates to provide a report on the investment performance of the portfolio for the quarter ending September 30, 2018. He began with reviewing information of indexing with Fidelity at a lower cost. He recommended moving iShares to Fidelity as it is the same product for less cost which would result in approximately \$26,000 savings on all three iShare funds annually. Mr. Chambers explained Fidelity had a significant outflow of assets the past year and the fee reduction is part of their marketing action to regain business.

- Nick Scopelitis made a motion to move assets from iShares to the comparable Fidelity assets for each (iShares R1000 growth, R1000 value and S&P midcap). The motion received a second by Jason Alexandre and was approved by the Trustees 4-0.

FIFTH THIRD ASSET TRANSFER: Mr. Chambers explained at the prior meeting, the Board approved moving \$1M from Advent to CWB. The funds were raised; however the transaction should have occurred on a Friday and was instead not processed until the following Monday. Mr. Dobin had requested the consultant address the issue of the delay and the consultant found the one day delay caused a loss of \$7,226. Discussion followed regarding the process. The Trustees instructed the investment consultant to prepare a letter regarding the loss of \$7,226 which resulted from the one day delay.

- Mike Salvemini made a motion to authorize the consultant to write a letter to Fifth Third and for the letter to be reviewed and approved by the attorney, insisting on reimbursement of \$7,226 for the loss created by the delayed trade. The motion received a second by Nick Scopelitis and was approved by the Trustees 4-0.

Mr. Chambers returned to the recent quarterly report. He explained current fiscal year to date, the market is down 10-11% and international is down 12%. November earned some of the loss back; however December has been down again. Mr. Chambers reported the following: Statistics show the last seven recessions were preceded by a period when the yield curve flattened. In England sales have dried up and people are worried about BREXIT. The Fed is expected to make a decision mid-week about another rate increase. The Plan has a significant allocation to passive and their returns are considerably below plans with higher risk. Each manager was reviewed in detail. International did well in 2017; however the past year has been poor and the Plan had lost most (if not all) of the prior year earnings. Mr. Chambers reviewed the fiscal year reporting the following; the total fund was up 7.3%; equities were up 11.2%; domestic equities were up 18.3%; large cap infrastructure was up 2.3% (for the quarter); convertibles were up 7.9%; international equity was up 1.5%, REITs were up 4.4%; private real estate was up 7.3%; fixed income was down -0.8% and cash returned 1.1%. An error was noted on page four of the report regarding the amount of the State 185 funds received. The report will be corrected accordingly. Discussion followed regarding rebalancing. Mr. Chambers explained the Plan can be rebalanced in January or they can wait until the typical March rebalance process. He explained that he expects the market to continue to reprice itself. Rebalancing will be added to the February agenda for further discussion.

OTHER REPORTS

It was noted the PomTrack and Robbins Geller portfolio monitoring reports were in the Trustee packets for informational purposes. Mr. Harrison explained in the Robbins Geller reports, the

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Plan may have involvement in the class action; however they are not being requested as lead plaintiff.

ATTORNEY REPORT

PLAN FUNDING TOWN BUILDING: Mr. Harrison reviewed an opinion letter issued to the Plan dated October 22, 2018 regarding a direct investment regarding a Plan sponsor. He explained the issue is borderline and needs careful consideration and planning as it must be prudent and equal to what is available in the market. He confirmed that it is possible to do, it is tricky to do and it will be difficult. Burgess Chambers noted that as long as they have an objective analysis, they should be fine. Marc Dobin inquired of Mike Villella if the Town is interested. Mr. Villella reported the current financing plan for the new Police Department building of \$20M is expected to be paid in majority by the new penny sales tax (\$14M-15M) and the remaining \$5M can easily be financed through a financial institution. Lengthy discussion followed regarding the matter. Mr. Dobin explained when the time is ready, he would be willing to consider the financing and a fairness opinion would be needed. Mr. Harrison referred to the letter of opinion from his office which presented what type of process the Board would need to follow.

SHARE POLICY UPDATE: Mr. Harrison will look into the status of the Share Policy changes.

COHEN & STEERS CIT AGREEMENT: Mr. Harrison explained they have been experiencing issues getting a side letter from Cohen & Steers and the matter is pending.

LEGISLATIVE UPDATES: Mr. Harrison reported the following: The legislative session begins in March and to date; no pre-filed Bills are related to Pension Plans. Regarding the recent change to the rules regarding court action which affects entities such as pension funds; previously if a person took the Pension Board's actions to court, the Court would give deference as long as the matter was handled fairly and within the rules of the Plan (due process, notice, treated fairly and rules correctly applied to the member's case). The change causes the Court to determine "de novo" and not give the Board the benefit of the doubt. Instead, the Court will review the case on its' own from the beginning and could rule differently. The matter seems to have judicial issues the courts will need to review. The line of duty death benefits have been moved from the Statute to the Constitution which is positive. If a Trustee decided to run for a seat on the Town Council, they would have to resign to even run for the seat where previously they only had to resign if they won. People can no longer deduct alimony from tax payments effective January 1, 2019. Mr. Harrison presented holiday gifts that were valued under \$25 for the Trustees.

ACTUARY REPORT

ASSUMED RATE OF RETURN: Chad Little addressed the assumed rate of return. He explained that traditionally what the Trustees are familiar with is the arithmetic average (mean) and the geometric average provides the median. When using the mean, if they had invested \$100 and lost 20%, then earned 20%, the result would be 0% while the geometric result would be a loss of 2%. They rely on other experts such as JP Morgan, Blackrock and Merrill Lynch for such studies along with a Horizon survey of 38 different economists. The arithmetic return using Blackrock and Merrill Lynch is 5.2% and the geometric return is 4.5%. The arithmetic return using the Horizon survey is 7% and the geometric return is 6.3%. He feels they should not target higher than 6.3%. Mr. Little explained the Plan is currently at 7.75% and feels they should consider reducing the ARR lower as all of his clients are taking steps to reduce their ARR. He is in the process of doing the 2018 valuation and he can do a study of the ARR for further reduction. The Board could reduce in 0.1% increments. Ken Harrison explained if no action is taken, the actuary will have a footnote in the valuation that the ARR should be lower. Discussion followed regarding the different items the ARR reduction affects. Mr. Little explained the interest credited to DROP accounts would be impacted (lowers the corridor of the maximum earnings which is currently

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6.5% - 1% below ARR) and the cost impact to the Town as such changes increase the employer contributions. Mr. Villella explained the Town Council has been discussing the ARR for the past ten years and they have been saying the rate should be lower than the current 7.5% and while the reduction is necessary, he requested the Board consider a gradual reduction of 0.1%. Lengthy discussion followed regarding the process of lowering the ARR.

- Nick Scopelitis made a motion for the actuary to run the 2018 valuation at 7.4%. The motion received a second by Mike Salvemini and was approved by the Trustees 4-0.

Mike Salvemini inquired into the ability to review DROP accounts online quarterly. Mr. Little reminded him the accounts are measured on an annual basis and they cannot run the annual statements until they know the net return for the fiscal year. He further explained they do not have a vehicle that offers online access to the statements. Discussion followed regarding options. Denise McNeill explained the administrator had a similar situation with another client where they were able to create a program to use a spreadsheet from the actuary along with a statement template which allowed members to pull a statement on the administrator's website whenever it was needed; however the statement will still only have the annual detail as of September 30th annually which would not reflect the current fiscal year to date activity. She explained the file and template would need to be provided in a specific manner from the actuary each year. The Trustees requested the administrator provide a quote to program such services on the Resource Centers website for the DROP and the Share accounts. Discussion followed regarding annual benefit statements. Nick Scopelitis explained the Board of Trustees stopped having annual benefit statements created when the online calculator was set up on the Resource Centers website.

Chad Little will send his recommended changes for the Share Policy to the attorney.

APPROVAL OF DISBURSEMENTS

The Disbursement list was presented for consideration. Mrs. McNeill reported the fiduciary liability and general liability policies had been renewed with the approval of the chairman between meetings. Discussion followed regarding the invoices paid.

- Jason Alexandre made a motion to approve the disbursements as presented. The motion received a second by Nick Scopelitis and was approved by the Trustees 4-0.

It was noted the financial statement was included in the trustee packet for review; Draft fiscal year ending September 2018 as well as the current fiscal year through November.

ADMINISTRATIVE REPORT

BENEFIT APPROVALS: A Benefit Approval was presented for consideration inclusive of: DROP entry for Schwebs, vested deferred retirement benefit for Maio and a DROP distribution for Kitzerow.

- Nick Scopelitis made a motion to approve the benefits as presented. The motion received a second by Jason Alexandre and was approved by the Trustees 4-0.

185 STATE FUNDS RECEIVED: The details of the State 185 funds receipt had been included in the trustee packet.

2019 MEETING SCHEDULE: The 2019 meeting schedule was included in the trustee packets. The November 2019 meeting date was discussed and due to Veteran's Day, the Trustees agreed to hold the meeting on November 4, 2019. The revised schedule will be sent to all accordingly.

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2018 FISCAL YEAR END UPDATE: Mrs. McNeill reported the fiscal year end data had been provided to the auditor and actuary accordingly and all was on track for reporting at their February 2019 meeting.

2019 CONFERENCE LIST: A 2019 Conference list was provided to the Trustees in their packet.

CUSTODIAN RFP

The RFP was tabled to the February meeting. Mr. Dobin explained he will plan to have the review completed and recommendations for the Board's February meeting.

OTHER BUSINESS

THE INTERCEPT: Mr. Dobin had sent the article to the administrator requesting the article be provided to all board members accordingly as he felt it was pertinent to the Plan.

NCPERS UNINTENDED CONSEQUENCES: Mrs. McNeill had provided an article from NCPERS for informational purposes regarding the unintended consequences of scaling back on public pension plans

Mr. Dobin explained that he has informed the Town Council he will be leaving the Board at the end of his term in April. He has been on the board for approximately 16 years and feels it is time to relinquish the seat. He is not certain he will be allowed any input with the Town as to their replacement appointment.

The Trustees confirmed the next meeting had been previously scheduled for February 11, 2019.

With there being no further business, the meeting adjourned at 12:35 P.M.



Respectfully submitted,

Jason Alexandre, Secretary