

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

May 15, 2012

Chairman Robert DiGloria called the meeting to order at 2:04 PM in the Conference Room of the North Palm Beach Village Hall located at 501 US Highway One, North Palm Beach, FL. Those persons present were:

TRUSTEES PRESENT

Robert DiGloria
Maria Walden
Henry Maki
Robert Coliskey

TRUSTEES ABSENT

Jacob Stone

OTHERS PRESENT

Bonni Jensen; Law Office of Perry & Jensen
Denise McNeill; Resource Center
Steve Stack; ICC Capital
John McCann; Thistle Asset Consulting
Loren Slaydon; Village Human Resource Dept

ITEMS FROM THE PUBLIC

The Chairman, Robert DiGloria, invited those present to address the Board with public comments. There were no public comments at this time.

ICC CAPITAL

Steve Stack appeared before the Board to present the Investment Review Quarterly Report for the quarter ending March 31, 2012. He noted the total fund is up 7.34% for the quarter. He explained there is much international "noise" as investors are concerned with international markets around the globe. Mr. Stack noted ICC held higher cash the end of March and have rebalanced from international. Mr. Stack reported in April the market experienced the largest stock sell-off in a long time of \$18B. Mr. Stack noted the last two quarters have been stronger than the fiscal year ending September 2011. He explained significant market volatility continues and noted that as of December 31, 2011 financials were the worst performing sector in the S&P and then they were the top performing sector at the quarter end of March 31, 2012. Discussion followed regarding the JP Morgan notice. Mr. Stack explained the JP Morgan matter is currently an unrealized loss and is not really an issue until the holding is sold at which time any loss is then realized. Mr. Stack noted there was a flight from safety into more risky asset classes at the end of March however there was flight back to safety in April. He reported that he feels stocks will continue to be traded in the low range. He explained if there is a shift of presidential control, it is unknown what will happen to the market. Mr. Stack advised that if the capital gains tax changes to 35% in January, many people are expected to sell off at year end. Steve Stack departed the meeting at 2:18 PM.

THISTLE ASSET CONSULTING

John McCann appeared before the Board to present the Executive Summary for the quarter ending March 31, 2012. Mr. McCann began by advising he does not recommend any rebalancing at this time. Mr. McCann went on to review the quarterly report in detail. He noted the total fund was up 7.19% for the quarter, below the policy of 7.41%. Equities were up 13.48% beating the policy of 12.33%, fixed income was at 0% below the policy of 0.30%, Large cap value was up 13.41% beating the policy of 12.59%, the ADR portfolio was up

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

May 15, 2012

11.87% beating the policy of 10.98% and large cap growth was up 13.37% below the policy of 14.69%. He noted the total fund ranked in the bottom 92nd percentile in the public fund universe comparison. Discussion followed regarding asset allocation. Mr. McCann explained he likes real estate for the diversity and it is almost always negatively correlated with the market. Mr. McCann presented a real estate manager search comparing American Realty Advisors and Intercontinental. He recommended the Board consider investing \$1M into a real estate investment. He noted that both managers are good at what they do and they each have different processes. He reminded the Trustees that real estate is a long term investment.

REAL ESTATE MANAGER PRESENTATIONS

AMERICAN REALTY ADVISORS: Richelle Hayes appeared before the Board to present a real estate investment to the Board. She introduced herself and provided historical information about the company. She explained they have over 50 public pension plans in Florida and they are a real estate product only. She explained they offer a core commingled fund. The firm has no debt and there is no litigation against the senior partners or the firm. She explained real estate is not correlated to any other asset class and has become a safeguard against market fluctuations. Mrs. Hayes explained they purchase properties that are income producing. She explained that 60-70% of the growth is from income and 30-40% is from appreciation in the value of the property. She explained they expect 8-10% annually return. Dividends are paying at 1.5% each quarter and the Plan may choose to reinvest or take as cash. American purchases core Class A buildings, no changes are needed to the buildings and they are 90% full of tenants. They own the properties seven to nine years on average and they only purchase office, retail, industrial and multi-family properties. Mrs. Hayes noted the properties are valued quarterly and jobs and the economy are taken into consideration at the time of value. American currently has \$2.4M awaiting investment and they have cash if they need to invest in specific properties. Mrs. Hayes recommended the Trustees inquire into how other real estate funds handled the market drop in 2008 and 2009. She explained American had no issues contractually and did not have an exit queue. She noted they have 19.5% leverage and can go as high as 30%; however they have never been that high. She reviewed the portfolio diversification in detail. She advised they are well diversified and do not typically have one tenant with more than 5% space. Mrs. Hayes explained American uses an outside company to value their properties each quarter. She then reviewed specific properties held in the portfolio. Fees were quoted as 1.10%. Mr. McCann asked several questions and Mrs. Hayes reported they hold 75-80 properties, all in the United States, and they are expecting their next capital call to be July or October. Mrs. Jensen inquired into the index used for comparison and Mrs. Hayes explained the index is comprised of eighteen similar companies holding leverage and investing in similar types of properties. Mrs. Hayes responded to several questions confirming they have \$2.4M in cash, the fund has total assets of \$2.7B, there is no debt on their company balance sheet and the fund itself has 19.5% leverage. The Trustees inquired into the company's debt maturity and Mrs. Hayes explained all apartment debts were re-financed at 4% through 2017. Mrs. Hayes departed the meeting at 3:00 PM.

INTERCONTINENTAL REAL ESTATE CORP: Peter Hapgood and Paul Nasser appeared before the Board to present a real estate investment to the Board. Peter Hapgood introduced himself and Mr. Nasser and provided historical information regarding their firm. Mr. Nasser noted that Boston, DC and the Los Angeles markets have relatively bounced back while most of Florida, Arizona, and Southern California are still lagging. He explained it is a good time to buy at low prices. Mr. Nasser explained they have an open-ended fund and the Plan may exit any quarter if they choose. He explained their strategy is different from American in that they

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

May 15, 2012

hold 80% core and 20% in core plus which he explained are value added properties. They feel their structure allows them more latitude, depending upon the market. Mr. Nasser explained they recently had an exit queue which is scheduled to be paid on May 17, 2012. He noted they had a manager transition and have lost some clients who left with that manager. Mr. Nasser explained they have an entry queue being called in the next 60 days. He then explained they have a leverage target of 50% and it is currently at 52%. Mr. Nasser explained a third party appraiser provides quarterly updates and each property is valued annually. He noted that all properties were valued on December 31, 2011 due to the management change; however properties are normally valued on their anniversary date. Fees were quoted at 1.10% and it was noted there is also a performance fee of returns over 8% as well as a finance fee. John McCann asked several questions and Mr. Nasser reported they hold 31 properties in the fund, they are expecting their next capital call in thirty days, leverage is currently at 52% and they plan to begin moving that number down to 30%, they have \$1.2B in this particular plan, they have 95 investors of which 31 are Florida Public Plans. Mr. Nasser noted the income yield is currently at 6% and they expect a total return of 11-16%. He explained they hold office, retail, multi-family, industrial and some assisted living properties. Mr. Nasser and Mr. Hapgood departed the meeting at 3:48 PM.

Lengthy discussion followed regarding each company's process, philosophy, income and fees. Mr. DiGloria inquired with Mrs. Jensen if it would be a conflict for him as he has interest in a couple of the same holdings listed by the managers who presented. Mrs. Jensen explained that would not be an issue. The Trustees referred to John McCann's report of other real estate managers in comparison to each of the presenters. The Trustees expressed concern with Intercontinental's high leverage. Mrs. Jensen advised that once the Board selects a manager, she will need to review all contract factors and will bring a detailed breakdown to the Board at a following meeting for discussion. Discussion followed regarding the Trustees preference of American Realty Advisors. The Trustees addressed a previous summary Mr. McCann had provided to the Board of how the fund would have returned a higher percentage if they had the real estate asset class in that period. The Trustees instructed Mr. McCann to invite Mrs. Hayes of American Realty Advisors back to discuss the matter further with the Board at their August meeting.

MINUTES

The minutes from the February 21, 2012 meeting had been presented for the Trustees review and approval.

- Henry Maki made a motion to approve the minutes as presented. The motion received a second from Robert Coliskey and was approved by the Trustees 4-0.

ATTORNEY REPORT

SUMMARY PLAN DESCRIPTION (SPD): Mrs. Jensen presented a revised Summary Plan Description inclusive of all recent Plan changes. She reviewed the changes in detail with the Trustees.

- Henry Maki made a motion to approve the revised Summary Plan Description as amended. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

Mr. Maki advised he will work on having the document distributed to all active Plan members electronically.

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

May 15, 2012

FORM 1 FILING: Mrs. Jensen reminded the Trustees that their Form 1 Filing was due July 1, 2012 and must be filed with the Supervisor of Elections in the county in which the Trustee resides. She explained the Commission on Ethics had clarified the requirements for the financial filing noting the Trustees must report specific stock held if the amount of that single stock is over the threshold (\$10,000 or 10% of net worth). She noted that many Trustees have changed to 10% of their net worth for the filing. She then noted that some Trustees are attaching copies of their individual statements and redacting the personal information.

LEGISLATIVE UPDATE: Bonni Jensen explained the House did not pass specific pension fund provisions however they did pass a couple of rules that will affect the Plan. She reviewed the detailed changes regarding the confidentiality for members which now extends to their spouses and children. She provided an updated confidentiality form for both active and retired members. She explained the employee's signature invokes the privacy on behalf of their family. Mrs. Jensen then addressed the beneficiary matter effective July 1, 2012 for any deaths. She noted the dissolution of marriage will now delineate a beneficiary's eligibility at the death of the member which complicates matters for the Board. She explained the Pension Board must now look at the death certificate and if divorced, cannot pay to the designated beneficiary unless certain criteria have been met. Mrs. Jensen recommended updating the beneficiary form and developing procedures for gathering records. She noted that upon the death of a member who has divorced, she expects the research will be an issue. Mrs. Jensen recommended the Plan renew efforts to collect revised beneficiary forms annually. She explained there are affidavits provided by the State that can be used in the event of such a member's death and divorce matter. Mrs. Jensen recommended the Village HR Department add the form to their process for open enrollment changes.

Mrs. Jensen then addressed a tax law update regarding a Private Letter Ruling (PLR) from the IRS. In this case, the IRS ruled regarding a matter involving certain early retirement subsidies that were being eliminated so many employees "retired" to take advantage of the benefits. The employer allowed the employees to do so, and then rehired them the next day. According to the PLR, such retirements violate the Internal Revenue Code 401(a) and could result in disqualification or penalties to a Plan. She noted they can do in-service distributions as long as the Plan has a required normal retirement age (for Public Safety that age is 50). She explained if the Plan allows in-service distributions, they must have a retirement age of 50. She advised the rule is delayed until January 1, 2015.

Mrs. Jensen then reminded the Board of the requirement to complete Form 9 for all gifts received over \$100.

DISBURSEMENTS

Mrs. McNeill reviewed the interim Financial Statements that were presented in the Trustee packets for review. Mrs. McNeill then reviewed the disbursements (also presented in the Trustee packets).

- Robert Coliskey made a motion to approve all disbursements as presented. The motion received a second from Henry Maki and was approved by the Trustees 4-0.

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

May 15, 2012

ADMINISTRATIVE REPORT

BENEFIT APPROVAL: Denise McNeill presented benefit approvals for Scott Hindle and Scott Van Deusen.

- Henry Maki made a motion to approve the benefits for Scott Hindle and Scott Van Deusen as presented. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

ADMINISTRATIVE FEE INCREASE: Denise McNeill presented a proposal for a fee increase. Lengthy discussion followed regarding the process and Mrs. McNeill explained their fee was last considered in 2009 when the Resource Center provided a three year rate guarantee. Mrs. McNeill offered a fee of \$1900 effective June 1, 2012 with 3.5% COLA effective January 1, 2013 or \$1950 monthly fee effective June 1, 2012 with a three year rate guarantee.

- Robert Coliskey made a motion to approve payment of a fee increase to \$1900 monthly for one year with no COLA. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

Discussion followed regarding the administrator's fee request. Mrs. Jensen explained she currently has an RFQ (Request for Quote) out on administrative services for another group that can be shared with the Board at the next meeting. The Board instructed Mrs. Jensen to bring the fee information to the next meeting for further discussion.

Maria Walden inquired regarding the pension process when a member is divorced. Mrs. Jensen explained the Pension Plan will not honor QDRO's and will honor IDO's for alimony or child support only.

Discussion followed regarding the upcoming FPPTA conference in June.

There being no further business,

- Henry Maki made a motion to adjourn at 5:18 PM. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

Respectfully submitted,

Henry Maki