

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

August 21, 2012

Chairman Robert DiGloria called the meeting to order at 2:03 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
Robert Coliskey
Jacob Stone (2:14)

TRUSTEES ABSENT

Henry Maki

OTHERS PRESENT

Bonni Jensen; Law Office of Perry & Jensen
Denise McNeill; Resource Center
Steve Stack; ICC Capital
John McCann; Thistle Asset Consulting
Richelle Hayes; American Realty
Ed Greene; Village Manager
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 June 30, 2012. He noted the total fund is up 14.49% fiscal year to date; however ICC did not do well for the prior quarter and was down -3.04%. He explained that April reported the largest outflow of stock trades in 15 years. He reported the bond world has been even more challenging than stocks. Mr. Stack noted the last week of June was strong and made up much of the prior quarter loss. He reported that ICC has not changed their stocks much and it is relatively the same portfolio as the past five years. Mr. Stack advised that in the 1920's the average investor held a stock just over a year, then began holding the stocks longer over time and since 2004 people tend to hold a stock for less than one year. Mr. Stack explained that a Plan's investment consultant would have an issue with a manager turning over stock in a portfolio so frequently. He noted that the way the portfolio is set up, the process is cyclical. Mr. Stack went on to review the sector allocations and portfolio holdings in detail with the trustees. He advised that international will remain slightly underweight due to the environment at this time.

AMERICAN REALTY ADVISORS

Richelle Hayes appeared before the Board to present a real estate investment. She had been invited back from the prior meeting to address the real estate process in more detail. She explained they have over 50 public pension plans in Florida and they are a real estate product only. She explained they hold over 70 properties in one commingled fund. She provided a list of Florida clients and noted the Trustees are welcome to check references. Mrs. Hayes explained that generally almost 70% of the growth is from income and 30% is from appreciation in the value of the property; however commercial property has improved so much

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in the past few years that the income has been more 60%/40%. Ms. Hayes explained the portfolio acts as an inflation hedge and remains steady through potential inflation. She noted the worst commercial real estate markets in history were experienced in 2008 and 2009. The market was down 25% at that time; however their portfolio did not have to sell off any properties. She explained they did have a waiting queue to exit noting they were the last real estate fund to initiate a waiting queue and they were the first to end it. Mrs. Hayes reported the portfolio currently has \$6M awaiting investment and they expect their next capital call in October. Mrs. Hayes went on to review the portfolio noting they purchase 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. They are a core investment holding properties in office, industrial, retail and multi-family. Mrs. Hayes explained they receive approximately 400 applications per week and their investment committee meets every Monday to review. Mrs. Hayes explained they subcontract property management using local managers at various locations. American is an open-ended, core commingled fund with 235 investors. 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. Mr. McCann explained he would expect the Plan would take interest payments as cash as an alternative for fixed income. Mrs. Hayes responded to several questions. John McCann summarized the following: American would attend quarterly meetings, the Plan could potentially invest in January, they currently have 18% leverage, the fund has total assets of \$2.9B, they have 52 Florida clients, 235 investors, properties are typically held 7-9 years and all properties are appraised at least one time per year on a rolling quarterly schedule. John McCann explained he would recommend the Plan invest \$1.1M and it would be taken from fixed income. He also noted the Investment Policy Statement would need to be updated. Mrs. Jensen explained the agreement with American Realty is a more complicated agreement than the Board is accustomed to. Mr. McCann explained he feels it is a good time to buy real estate. It was noted if the agreements and revised IPS are signed in November, they may be able to invest in January. Mrs. Hayes departed the meeting at 2:56 PM. John McCann inquired into the Trustees thoughts on the investment. Maria Walden explained she had phoned a Trustee of Palm Beach Gardens Firefighters Pension Fund since they have funds invested with American Realty and that Trustee had explained that the market loss has been tough, however they have been happy with American Realty overall and spoke highly of the company.

- Jacob Stone made a motion to invest in real estate. The motion received a second from Maria Walden and was approved by the Trustees 4-0.
- Jacob Stone made a motion to hire American Realty Advisors, reallocating funds from fixed income to the new real estate investment. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

THISTLE ASSET CONSULTING

John McCann presented a revised investment policy guideline, inclusive of real estate. He reviewed the changes in detail explaining that the new real estate investment would be considered part of the fixed income portfolio. Mrs. Jensen explained she had not been provided with the document prior to the meeting to review; however in quick review she noted it needs further amendment to clarify the real estate, replacing prohibited transaction and changing the date to December 31, 2012. Mr. McCann will revise and send to the administrator, attorney and managers accordingly.

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- Maria Walden made a motion to adopt the revised Investment Policy Guidelines as amended. The motion received a second from Robert DiGloria and was approved by the Trustees 4-0.

Mr. McCann went on to present and review the Executive Summary for the quarter ending June 30, 2012. Discussion followed regarding the cash held in the portfolio. Mrs. McNeill explained the final lump sum distribution is scheduled to be made on October 1st. Mr. McCann recommended that ICC invest any of the remaining cash into fixed income. Mr. Stack explained that ICC typically keeps 3-4% in cash and the cash may vary depending upon the timing of activity in the portfolio. Mr. McCann went on to review the quarterly report in detail. He noted it was a poor quarter and the total fund was down -3.11% for the quarter, below the policy which was down -1.16%. Equities were down -6.63% below the policy of -3.42%, fixed income was up 2.12% beating the policy of 2.06%, Large cap value was down -6.54% below the policy of -2.75%, the ADR portfolio was down -7.13% below the policy of -6.85% and large cap growth was down -5.42% below the policy of -4.02%. He noted the total fund ranked in the bottom 80th percentile in the public fund universe comparison. He noted the fund is currently up 1.5% for the quarter to date. Mr. McCann will bring a year end equity analysis to the Board at the next quarterly meeting.

ATTORNEY REPORT

DIVISION OF RETIREMENT – CONTRIBUTION FUNDING: A notice had been received from the State that Plans may be funded as either a percentage of payroll or a fixed dollar amount. The State had previously take a position that all municipalities should fund as a percent of payroll; however Plans are now to decide with their actuary which process makes sense for the Plan. The actuary had put together an analysis for the Board advising they will use a percent of payroll unless otherwise directed by the Board. It was noted that fixed amounts are sometimes easier for municipalities to budget. Lengthy discussion followed regarding the process. It was noted if a percentage of payroll is used; it is possible the Village will end up having to fund more money at the end of the year whereas a fixed dollar amount may be easier for budgeting. Mr. Green, Village Manager, spoke on behalf of the Village advising that it will be insignificant to the Village either way.

- Jacob Stone made a motion to continue the contribution funding as a percentage of payroll. The motion received a second from Robert Coliskey and was approved by the Trustees 4-0.

LEGAL UPDATES: Mrs. Jensen reported that due to the recent changes in HB401, she had sent a notice to the Human Resource Department requesting a revised beneficiary form be sent to membership with open enrollment. She noted that a letter can be sent to retirees advising if they have divorced after retirement, the member should contact the administrator to address the change. The administrator will have a notice sent to the retirees along with their monthly payment notice.

Discussion followed regarding having the attorney and administrator do a pension workshop. Loren Slaydon requested they coordinate the workshop with the ICMA rep and do all pension related benefits at the same time. Ms. Slaydon will inquire with Mr. Sizemore of ICMA in an effort to coordinate.

John McCann departed the meeting at 3:44 PM.

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ADMINISTRATIVE FEE ADDENDUM: Mrs. Jensen explained the administrator had presented a fee request at the prior meeting. At that time, she had explained they were in the process of doing an RFQ for administrative services for another Pension Fund and would be willing to share the results with this Board. Mrs. Jensen presented an update of the other client's RFQ responses. She noted that the other plan was considerably larger in size and required a few more administrative duties than this Plan would require. She explained of the nine administrators requested, five provided no response, three advised they would not bid on the services and the one response reflected an administrative fee of \$8,000 per month for the full services which was nearly double the cost of the Resource Centers' renewal pricing for that other client. Mrs. McNeill explained she felt that quote was extremely high, even for the level of services required by that other client. Discussion followed regarding the administrative fee increase. The Trustees acknowledged they could go out for full RFP; however they are happy with the administrative services being received by the Resource Centers and they only wanted to confirm the cost is relative to other groups. Discussion followed regarding the revised fee quoted by the administrator.

- Robert Coliskey made a motion to repeal the prior meeting 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.
- Robert Coliskey made a motion to accept a three year fee agreement for a rate of \$1950 per month with no COLA. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

Discussion followed regarding the effective date.

- Maria Walden made a motion to make the administrative fee addendum effective June 1, 2012. The motion received a second from Jacob Stone and was approved by the Trustees 4-0.

MINUTES

The minutes from the May 15, 2012 meeting had been presented for the Trustees review and approval.

- Maria Walden made a motion to approve the minutes as presented. The motion received a second from Jacob Stone and was approved by the Trustees 4-0.

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). It was noted that an additional administrative fee will need to be billed retroactive to June 1, 2012.

- Robert Coliskey made a motion to approve all disbursements with the amendment of the fee to the administrator. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

ADMINISTRATIVE REPORT

Salem Trust Money Market Notice: Denise McNeill addressed the notice received from Salem Trust advising that Salem receives a profit from the mutual fund company used for the money market account. Mrs. Jensen explained that the custodian can legally receive up to 25% profit

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on such an arrangement. Steve Stack explained that ICC had been asked to choose the money market account and they had tried to select the least expensive one.

BENEFIT APPROVAL: Denise McNeill presented a benefit approval for Kenneth Mildworm.

- Maria Walden made a motion to approve the benefit for Kenneth Mildworm as presented. The motion received a second from Jacob Stone and was approved by the Trustees 4-0.

NEW BUSINESS

ANNUAL REPORT AND CHAPTER FUNDS: Denise McNeill reported that the Fund's 2011 Annual Report had been approved by the Division of Retirement and the Plan is scheduled to receive their 175 and 185 funds accordingly. Maria Walden inquired into the new change regarding use of the 175 and 185 funds. Mrs. Jensen explained the change is brand new and she has not spoken with the State regarding the matter. She explained the State has recently taken the position that the March 12, 1999 date is no longer the dividing line. The Plan would now need to see if the Plan is using the money to fund the minimum requirements. She explained the League of Cities has put out a memo and Florida pension attorneys will be discussing the matter. Discussion followed regarding benefit changes. Mrs. Jensen explained all benefit changes are to be bargained. She explained the law has been in place since 1999 and this new interpretation may change things considerably. She will keep the Board posted on the matter.

DISABILITY REVIEW: Robert DiGloria inquired into the disability review process and if there was a limit on re-employment or income. Mrs. Jensen confirmed there is a provision to re-examine disability retirees; however there is no limit on their income. She explained if the retiree is considered to be no longer disabled, they can be put back to work. Mrs. Jensen noted the Board does not currently have a standard process of recalling disabled members for review. Mrs. Jensen explained the Board can require the member do an annual affidavit and provide medical records to qualify they are still eligible for disability under the rules of the Plan. Lengthy discussion followed regarding the matter. Mrs. Jensen advised there are two disability retirees under the Plan. One who is already beyond normal retirement and the second is a new retiree effective February 1, 2012; therefore an annual review is not an issue for the Board at this moment. Mrs. Jensen explained if a member is determined to be recovered; the Pension Fund would stop payment. It would then be up to the Village if they put the member back to work. The attorney will work on a disability affidavit form for the Plan.

There being no further business,

- Robert Coliskey made a motion to adjourn at 4:45 PM. The motion received a second from Maria Walden and was approved by the Trustees 4-0.

Respectfully submitted,

Henry Maki