

VILLAGE OF PALM SPRINGS GENERAL EMPLOYEES' PENSION FUND
MINUTES OF MEETING HELD
August 6, 2013

The meeting was called to order at 2:00 P.M. at the Conference Room on the First Floor of Village Hall in Palm Springs, Florida. Those persons present were:

TRUSTEES

Virginia Walton
Patti Waller
Rebecca Morse
Vicki Van Fossen

OTHERS

Bonni Jensen, Fund Counsel
Margie Adcock, Administrator
Topher Fearey & Kevin Osten, Brown Advisory
Tyler Grumbles, Monitor
Chad Little, Actuary

MINUTES

The Board reviewed the minutes of the meeting held May 7, 2013. A motion was made, seconded and carried 4-0 to approve the minutes of the meeting held May 7, 2013.

INVESTMENT MANAGER: BROWN ADVISORY

Topher Fearey & Kevin Osten appeared before the Board. Mr. Fearey stated that he was part of the relationship team. He introduced Mr. Osten from their product specialist group. He provided a brief background and overview of the portfolio. He stated that the total market value of the portfolio as of June 30, 2013 was \$4,525,215. He provided a firm update. They have over \$35 million in assets under management as of June 30, 2013 with \$12.575 million in the institutional large cap growth area. Mr. Osten stated that the large cap growth equity asset class has a soft closed status. He stated that they are conservative about their target and are not taking on any new large clients. Mr. Fearey reviewed the equity investment team. He reviewed their investment approach. He reviewed investment performance as of June 30, 2013. For the quarter ending June 30, 2013 the portfolio was up 1.14% net of fees while the Russell 1000 Growth was up 2.06%. Since inception of May 11, 2011 through June 30, 2013, the portfolio was up 8.13% net of fees while the Russell 1000 Growth was up 9.89%. Mr. Osten reviewed the market environment. He stated that there was a massive stretch for yield in April, which resulted in their underperformance that month. It was their third worst month in the last ten years. They saw performance come back in May and June. He reviewed the quarterly attribution detail by sector noting underperformance in information technology and industrials. Mr. Osten reviewed the top five contributors and bottom five contributors to performance for the quarter. He stated that they added one new name in the portfolio this past quarter – Whole Foods Market, Inc. He stated that there are 33 names in the portfolio. He reviewed the portfolio holdings.

Topher Fearey & Kevin Osten departed the meeting.

INVESTMENT MONITOR REPORT

Tyler Grumbles appeared before the Board. He reviewed the market environment for the period ending June 30, 2013. He stated that international markets and fixed income were down for the quarter while domestic equities were up for the quarter. He reported on the performance of the Fund for the quarter ending June 30, 2013. The total market value of the Fund as of June 30, 2013 was \$16,213,859. The asset allocation was 53.3% in domestic equities; 12.1% in international; 31.0% in domestic fixed income; and 3.5% in cash. The asset allocation by manager was 28.0% with Garcia Hamilton Fixed Income; 28.6% with Anchor All Cap Value; 28.0% with Brown Large Cap Growth; 12.1% with Manning & Napier; and 3.3% with Vanguard TIPS.

The total portfolio was down .09% net of fees for the quarter while the benchmark was up .44%. The total equity portfolio was up 1.25% for the quarter while the benchmark was up 1.93%. The total domestic equity portfolio was up 1.73% for the quarter while the benchmark was up 2.69%. The total fixed income portfolio was down 2.59% for the quarter while the benchmark was down 2.69%. The total international portfolio was down .90% for the quarter while the benchmark was up .73%.

Mr. Grumbles reviewed the performance of the managers. The Anchor All Cap Value portfolio was up 2.10% for the quarter while the Russell 3000 Value was up 3.14%. The Brown Large Cap Growth portfolio was up 1.35% for the quarter while the Russell 1000 Growth was up 2.06%. The Manning & Napier portfolio was down .90% for the quarter while the EAFE was down .73%. The Vanguard TIPS portfolio was down 7.35% for the quarter while the benchmark was down 7.05%. The Garcia Hamilton Fixed Income portfolio was down 1.99% for the quarter while the benchmark was down 1.78%.

Mr. Grumbles stated that at the last meeting there was discussion on adding a global fixed income mutual fund. However, since the current Ordinance does not allow such an investment, the Ordinance needs to be amended. Based on the current market environment, Mr. Grumbles recommended amending the Ordinance as quickly as possible.

Ms. Jensen provided the Board with a draft of two possible proposed Ordinances. The first version would allow the Board the broadest discretion. As long as the Fund was in compliance with the Investment Policy Statement, permissible investments would be allowed. This would provide the Board with more opportunities in the market. The second version would allow broad discretion with a certain level of restriction. It was noted that the second version is more conservative. There was a lengthy discussion. Mr. Grumbles stated that the second version outlines what investments were allowed. He stated that right now he was not recommending anything that was not listed in the second version. However, he could not say that in a few years he would not recommend another investment that was not listed. He stated for that reason, he would recommend the first version but noted that the Board needed to determine its own comfort level. Ms. Jensen noted that the second version does give a little discretion by allowing 5% in investments not included on the list. There was further discussion. A motion was made, seconded and

carried 4-0 to seek to amend the Ordinance using the second proposed version that would allow broad discretion with a certain level of restriction.

Mr. Grumbles provided a proposed updated Investment Policy Statement that would comply with the proposed Ordinance. He reviewed the changes. He noted that the proposed Statement changes the target allocations to add diversified fixed income and changes the international equity benchmark to the MSCI AC world ex USA. There was a lengthy discussion on investment grade. Mr. Grumbles stated that there would be more risk with diversified fixed income but he thinks in the long term it would add value to the portfolio. The Board decided to look at the actual investment being proposed before going any further.

Mr. Grumbles presented information regarding diversifying fixed income. He discussed how interest rates impact bond prices. Historically a 2% rise in interest rates caused bond prices to decrease by about 11%. He projected an impact of a 2% rise in interest rates today to result in about a negative 4.19% return over a two year time period. As such, he was suggesting a diversified bond portfolio, which would include developed foreign, emerging and high yield bonds. He stated that the opportunities of such an investment would be to increase current income, diversify interest rate risk, as well as potential total return enhancement. He stated that the risks of such an investment would be increased sensitivity to economic cycles and geo-political events, and increased volatility of returns. He reviewed the diversification benefits and currency risk. He stated that the three possible candidates were the PIMCO Diversified Fund; the Templeton Global Bond Fund; and Templeton Global Total Return Fund. He compared the three candidates with regard to hedging currency risk, sector allocation and fees. He recommended the Templeton Global Total Return Fund. He reviewed the trailing returns as of June 30, 2013 and calendar year returns as of June 30, 2013. He reviewed the risk and return analysis. He stated that the Fund would be adding slightly more risk but would be adding greater potential for return. He noted that there would be more volatility, but stated that it would not put the portfolio at risk. Mr. Grumbles recommended investing 5% in the Templeton Global Total Return Fund. He stated that the Templeton Global Total Return Fund is more volatile than what the Fund has now, but noted that the Fund will be facing a lot of headwinds with the US bond market. There was a lengthy discussion. A motion was made, seconded and carried 3-1 to adopt the revised the Investment Policy Statement effective upon passage of the proposed Ordinance. Ms. Van Fossen opposed the motion. A motion was made, seconded and carried 4-0 to accept the recommendation of the Investment Monitor and invest 5% in the Templeton Global Total Return Fund upon passage of the Ordinance and Investment Policy Statement.

ATTORNEY REPORT

Ms. Jensen presented a Memorandum regarding IRS Determination Letters dated May 13, 2013. She stated that the Fund previously received a Favorable Determination Letter, which Letter is due to expire on January 31, 2014. The IRS is allowing an extension of the effective date until January 31, 2016. Ms. Jensen recommended that the Board adopt that extension date and decide next summer if the Board should file for another IRS

Determination Letter. She stated that she thinks the Board should take advantage of not filing for another IRS Determination Letter next year and wait until January 31, 2016. The Board agreed with the Attorney's recommendation.

Ms. Jensen presented a Memorandum regarding Important Pension Disclosure Amendments to Chapter 112 (SB 534) dated June 2013. She stated that the change in the law imposes significant additional disclosure requirements that the Actuary will have to do. Both Ms. Jensen and Mr. Little reviewed and discussed the new provisions of the law.

ADMINISTRATIVE REPORT

Ms. Adcock presented the Board with the benefit calculation and election approval for Christine Dafoe. A motion was made, seconded and carried 4-0 to approve the benefit election of Christine Dafoe.

Ms. Adcock presented the disbursements. A motion was made, seconded and approved 4-0 to pay the listed disbursements.

OTHER BUSINESS

There being no further business, the meeting was adjourned.

Respectfully submitted,

Patrick Rothenburg, Secretary