

**VILLAGE OF PALM SPRINGS GENERAL EMPLOYEES' PENSION FUND**  
**MINUTES OF MEETING HELD**  
**February 7, 2017**

The meeting was called to order at 2:02 P.M. in the Council Chambers on the First Floor of Village Hall in Palm Springs, Florida. Those persons present were:

**TRUSTEES**

Patti Waller  
Mariana Ortega-Sánchez  
Ed Horton  
Rebecca Morse  
Steve Loughrey (2:05 P.M.)

**OTHERS**

Adam Levinson, Fund Counsel  
Margie Adcock, Administrator  
Tyler Grumbles, Monitor  
Chad Little, Actuary  
William Rice & Jon Boles, Anchor Capital

**PUBLIC COMMENTS**

There were no public comments.

**MINUTES**

The Board reviewed the minutes of the meeting held November 1, 2016. A motion was made, seconded and carried 4-0 to approve the minutes of the meeting held November 1, 2016.

Steve Loughrey entered the meeting.

**INVESTMENT MANAGER REPORT – ANCHOR CAPITAL**

William Rice and Jon Boles appeared before the Board. Mr. Boles stated that he was on the client service team and Mr. Rice was the President and Founder of Anchor Capital. Mr. Rice provided an overview of the firm. He stated that he has been the portfolio manager for the entire 11 plus years they have been with the Fund. He stated that the members of the investment team are the same. They have very low turnover.

Mr. Rice stated that they have \$8.8 billion in assets under management. He reviewed the performance of portfolio as of December 31, 2016. The total market value as of December 31, 2016 was \$2,827,036.37. The asset allocation was 88.2% in equities and 11.8% in cash. The portfolio was up 15.47% for 2016 while the Russell 3000 Value was up 18.40%. Since inception through December 31, 2016 the portfolio was up 11.49% while the Russell 3000 Value was up 12.79%. He stated that 2016 was disappointing as they trailed the benchmark. He stated that they were nicely ahead as of September 30, 2016 with an overweight in health care and consumer discretionary. Then there was an unexpected result in the November election with a complete shift in the market and they ended up lagging the benchmark for the year. He stated that it was a frustrating 4<sup>th</sup> Quarter. However, they are off to a good start so far in the 1st Quarter 2017. Mr. Rice reviewed the holdings as of December 31, 2016. He stated that there was a good mix of large cap and mid-cap stocks. He reviewed the purchases and sales in 2016. He stated

that they purchased CVS which continues to gain market share. He reviewed the capital markets environment outlook. He stated that they are looking for 2.25% GDP growth; expecting two modest Fed interest rate hikes; strong fundamentals in the Eurozone; and steady growth in Asia-Pacific. He stated that the domestic economy is improving. There is rising confidence and the leading indicators continue to be positive. China's economy is in transition but it is slowing, not collapsing. Mr. Rice stated that he thinks there is a bubble with social networking stocks, much like the technology bubble years ago. He discussed the possible impacts of Trumponomics and the political tailwinds and headwinds. He stated that historically it has paid to own stocks. He noted that 74% of the time the US equity market has posted calendar year returns above zero. He stated that they do not let short term events derail long term plans. Their discipline and diversification help manage through uncertainty.

William Rice and Jon Boles departed the meeting.

### **INVESTMENT MANAGER REPORT – BROWN ADVISORY**

Mr. Grumbles stated that Brown's performance has been very poor this past quarter so he asked them to address the Board. He stated that their underperformance has been sustained for a while. They are a very growth manager which has been out of favor but they have had one really bad year and a couple of mediocre years.

Mary Gregory and Kevin Osten appeared before the Board. Ms. Gregory stated that they have had a tough year. The portfolio underperformed for 2016. She stated that they have had disappointing performance overall. She reviewed the firm. She stated that the investment team is stable. Their process and philosophy remains the same which has produced long term performance. Ms. Gregory stated that in recognition of their poor performance they were offering the Fund a fee discount of 15% for 2017. As such, the fee would go from 80 basis points to 68 basis points back to January 1, 2017. The fee concession is an incentive to keep the Board's patience during this time. Ms. Gregory stated that this is an unusual situation. The interest rates have remained at a low level and they had the expectation that the interest rates would rise. As a result, the higher yield stocks performed which hurt their performance because they do not focus on higher yield. She discussed the macroeconomics. She stated that they are taking a closer look at prices now. They will sell out of names more quickly than previously where they would wait for a purchase until they sold out of a name.

Mr. Osten reviewed the 2016 contribution to return by dividend yield. He stated that the stretch for yield drove the index returns. He reviewed the large cap growth composite rolling returns noting the cyclicalities within their own composite. He stated that they do not track very closely to the benchmark so they will have variances. He stated that over the long term they have good performance over market cycles where the market cycle is allowed to play out. He stated that he thinks the market is near the end of the market cycle for them. He encouraged a little more patience to see if that is true. He stated that they are not keeping up with their peers but noted that they have a number of stocks not held by the peer group. If the market is rewarding yield then they will underperform. He stated that at times yield has really impacted them. Mr. Osten reviewed the five bottom and five top contributions to calendar year 2016.

Mary Gregory and Kevin Osten departed the meeting

There was a lengthy discussion. It was noted that the economy has not been favorable to their style but the market is turning. The Board decided to look at them quarter by quarter. If there is another miss, then Mr. Grumbles stated that he would recommend a change in managers.

### **ACTUARY REPORT**

Chad Little appeared before the Board. He presented the Actuarial Valuation as of October 1, 2016. He stated that the contribution increased from \$777,969 to \$801,394. He stated that the funded ratio was 91.27%. He recommended reducing the assumed investment return from 7.5% to 7.0%. He reviewed the participant data noting that active members decreased from 49 to 40 and inactive members increased from 85 to 93. Mr. Little stated that there was a demographic gain primarily due to the vested terminations of four members during the year and a change in the form of benefit from a 100% joint and survivor to a life annuity for a retiree who passed away. There was also an actuarial gain because of the 3% expected COLA, but only a .6% COLA was granted. Gains were offset by salary increases of 6.9% versus the 5.9% expected. There was an actuarial gain due to an investment return of 8.34% versus the 7.5% expected return. Mr. Little reviewed the assumptions and methods. He reviewed and discussed the revised mortality table which is a required change. He stated that he will update the table again in November which will have a very small impact. He reviewed reducing the investment return from 7.5% to 7.0%. He reviewed the reconciliation of change in the Village's minimum required contribution. He reviewed the GASB 67 and 68 Supplement as of September 30, 2016. There was discussion on terminated vested participants that have gone past their normal retirement date because they did not turn in their paperwork. It was noted that the Board policy has always been to provide the benefit retroactive to their normal retirement date without interest or COLA's. A motion was made, seconded and carried 5-0 to approve the Actuarial Valuation as of October 1, 2016.

Mr. Grumbles stated that the Board needs to formally determine the expected rate of return for the short term and long term, as is required by the State. A motion was made, seconded and carried 5-0 to determine the expected rate of return using the rate of 7.0%. Mr. Grumbles stated that he would prepare a letter for the Board to send to the State. He stated that he would also update the Investment Policy Statement to reflect the change in the investment return to 7.0%. A motion was made, seconded and carried 5-0 to approve revising the Investment Policy Statement to reflect the change in the investment return to 7.0%.

### **INVESTMENT MONITOR REPORT**

Mr. Grumbles stated that their firm was rebranded early last month and their name has been changed from the Bogdahn Group to AndCo Consulting. They changed their name to better reflect their vision for the future of their company and to acknowledge that their clients come first. It was noted that 5 of their employees became partners in early January. Mr. Levinson provided an Addendum to the Agreement for New Name for AndCo Consulting. A motion was made, seconded and carried 5-0 to approve the Addendum to the Agreement for New Name for AndCo Consulting.

Mr. Grumbles reviewed the market environment for the period ending December 31, 2016. He stated that the big news item in the quarter was the election. He stated that the markets initially reacted negatively to the election, but then turned around very quickly. He stated that domestic stocks did well and small cap did well. International markets and fixed income markets were down for the quarter. The international underperformance had a lot to do with currency translation. The fixed income underperformance was due to the strong rise in interest rates. The financial sector did very well, as did industrials and materials. Health care, consumer staples and real estate were down for the quarter.

Mr. Grumbles reported on the performance of the Fund for the quarter ending December 31, 2016. The total market value of the Fund as of December 31, 2016 was \$21,827,461. The asset allocation was 51.2% in domestic equities; 14.0% in international; 20.0% in domestic fixed income; 5.0% in global fixed income; 9.7% in real estate; and .0% in cash. The total portfolio was up .19% net of fees for the quarter while the benchmark was up 1.49%. The total equity portfolio was down .23% for the quarter while the benchmark was up 2.98%. The total domestic equity portfolio was up .9% for the quarter while the benchmark was up 4.21%. The total fixed income portfolio was up .43% for the quarter while the benchmark was down 2.62%. The total domestic fixed income portfolio was down 1.38% for the quarter while the benchmark was down 2.05%. The total international portfolio was down 4.15% for the quarter while the benchmark was down 1.20%. The total global fixed income portfolio was up 8.36% for the quarter while the benchmark was down 4.89%. The total real estate portfolio was up 2.47% while the benchmark was up 2.19%.

Mr. Grumbles reviewed the performance of the managers. The Anchor All Cap Value portfolio was up 1.96% for the quarter while the Russell 3000 Value was up 7.24%. The Brown Large Cap Growth portfolio was down 4.53% for the quarter while the Russell 1000 Growth was up 1.01%. The Vanguard Mid Cap portfolio was up 2.14% for the quarter while the Russell Mid Cap was up 3.21%. The Vanguard Total Stock portfolio was up 4.12% for the quarter while the Russell 3000 was up 4.21%. The Garcia Hamilton Fixed Income portfolio was down 1.38% for the quarter while the benchmark was down 2.05%. The Templeton Global Fixed Income portfolio was up 8.36% for the quarter while the benchmark was down 4.89%. The Europacific Growth portfolio was down 4.15% for the quarter while the benchmark was down 1.20%. The Principal portfolio was up 2.47% for the quarter while the benchmark was up 2.19%.

### **ATTORNEY REPORT**

Mr. Levinson provided a Memorandum dated February 6, 2017 regarding the death of a retiree before benefits began. It was noted that Cynthia Atkinson passed away on December 15, 2015. She was eligible to collect a normal retirement benefit but did not apply. The Attorney's Office does not think this situation falls under the pre-retirement death benefit under the Plan. It was noted that there is nothing in the Plan provisions that directly apply in this situation. The Attorney recommended contacting the beneficiary of Ms. Atkinson and advise that he is eligible for a survivor benefit in the form of a 100% Joint and Survivor normal retirement benefit payable to the beneficiary for his life. The Attorney also recommended an amendment to the Plan to provide for a specific provision for the benefit payable to a terminated vested member when the terminated vested

member dies after normal retirement age but has not yet commenced benefits and when a terminated vested member dies before reaching normal retirement age. It was noted that the Attorney will work with the Actuary and bring something back for the next meeting. There was a lengthy discussion. A motion was made, seconded and carried 5-0 to pay a death benefit to the beneficiary of Cynthia Atkinson as an 100% Joint and Survivor payable to the beneficiary for their life.

Mr. Levinson stated that they have not heard anything from the IRS regarding the Determination Letter that was filed. They will keep the Board apprised when they hear back from the IRS.

Mr. Levinson provided a Memorandum dated December 2016 regarding the IRS Mileage Rate for 2017. He noted that effective January 1, 2017 the mileage rate has been reduced to 53.5 cents per mile.

Mr. Levinson reported on an issue that has arisen in the City of Miami Beach regarding internal controls. He stated that an employee had moved money from the City's checking account over a six month period of time. He stated that accounts should be reconciled on a regular basis. He stated that he thought this was a worthwhile conversation for the Board to have regarding internal controls. Ms. Morse stated that she is always staying on top of that kind of stuff at the Village for the Plan.

### **ADMINISTRATIVE REPORT**

Ms. Adcock presented the disbursements. A motion was made, seconded and approved 5-0 to pay the listed disbursements.

### **OTHER BUSINESS**

There being no further business, the meeting was adjourned.

Respectfully submitted,

Mariana Ortega-Sánchez, Secretary