

VILLAGE OF PALM SPRINGS GENERAL EMPLOYEES' PENSION FUND
MINUTES OF MEETING HELD
February 6, 2018

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

TRUSTEES

Patti Waller
Rebecca Morse
Ed Horton
Mariana Ortega-Sánchez

OTHERS

Bonni Jensen & Cassandra Ward, Fund Counsel
Margie Adcock, Administrator
Tyler Grumbles, Monitor
Chad Little, Actuary
William Rice & Jon Boles, Anchor Capital
Richard Reade, Village Manager

PUBLIC COMMENTS

There were no public comments.

MINUTES

The Board reviewed the minutes of the workshop meeting held November 7, 2017. A motion was made, seconded and carried 4-0 to approve the minutes of the workshop meeting held November 7, 2017.

INVESTMENT MANAGER REPORT – ANCHOR CAPITAL

William Rice and Jon Boles appeared before the Board. Mr. Boles stated that he was the Director of Institutional Marketing and Client Service and Mr. Rice was the President and Founder of Anchor Capital. Mr. Boles provided an overview of the firm. He provided a market overview. He stated that the good news is that there is no inflation. There is no slowdown in terms of global growth. Earnings are looking very strong. They are seeing a bubbling of passive investment. They focus on the long term. He noted that valuations are getting a little cheaper. Mr. Boles reviewed the performance of portfolio as of December 31, 2017. The total market value as of December 31, 2017 was \$3,205,582.74. The portfolio was up 2.78% for the quarter ending December 31, 2017 while the Russell 3000 Value was up 5.08%. Since inception through December 31, 2017 the portfolio was up 12.21% while the Russell 3000 Value was up 12.84%.

Mr. Rice reviewed the holdings as of December 31, 2017. He reviewed the purchases and sales in 2017. He stated that the domestic and global earnings are strong. China's economy is in transition but recent headlines are somewhat encouraging. Some sectors of the stock market are worrisome like social networking stocks, Tesla, and bitcoin. He stated that the two other concerns are the bond market and interest rates. It has been a bull bond market until a few months ago. Interest rates have begun to move up. He does not

think they will move up a lot unless inflation moves up. He thinks the market will continue to be in a somewhat deflationary environment. He reviewed the possible impacts of “Trumponomics”. He stated that diversification remains an excellent response to the market and economic uncertainties.

Mr. Rice provided a consent letter for the Board’s consideration. He stated that 11 years ago a bank holding company bought part of their firm. He stated that they have bought back the firm. They are buying back total control of the company from Boston Private. The SEC requires them to get consent of assignment wherever there is a change of control. He stated that nothing will change with respect to the Board’s relationship with Anchor. A motion was made, seconded and carried 4-0 to approve the assignment of contract and authorize the Chair to sign the consent agreement.

William Rice and Jon Boles departed the meeting.

ACTUARY REPORT

Chad Little appeared before the Board. He presented the Actuarial Valuation as of October 1, 2017. He stated that things are going well. He stated that the Valuation includes a reducing of the assumed investment return from 7% to 6.75%. The contribution increased from \$801,394 to \$809,354. He stated that the funded ratio was 92.10%. Mr. Little stated that there was a demographic gain primarily due to the vested termination of members and because salary increases were less than expected. Additionally, there was an actuarial gain because the COLA was lower than expected. They expected the maximum COLA of 3% but only a 1.5% COLA was granted. The net return on the market value of assets was 12.22% and return on the smoothed actuarial value of assets was 7.90% in comparison to the 7% assumed rate of return such that there was an actuarial investment gain. Mr. Little reviewed the historical investment returns since September 30, 1995. He reviewed the reconciliation of change in the Village’s minimum required contribution. He stated that it increased \$8,000 from last year. The vast majority of the change is due to the decrease in the assumed rate of return. He reviewed the development of the historical market gains and losses for asset smoothing. He reviewed the development of the actuarial value of assets. There was discussion on the amortization period. It was noted that the amortization period is currently 15 years. Mr. Little stated that if that period was shortened, there is a potential for volatility. There was discussion on enacting a fresh start and reducing the amortization period by a year each year. A motion was made, seconded and carried 4-0 to approve the Actuarial Valuation as of October 1, 2017. A motion was made, seconded and carried 4-0 to use a fresh start amortization of the unfunded and in future years reduce it by one year.

INVESTMENT MONITOR REPORT

Tyler Grumbles appeared before the Board. He provided a firm update. He stated that Dan Johnson was offered an equity position in the firm and is now a Director. They have 87 employees.

Mr. Grumbles reviewed the market environment for the period ending December 31, 2017. He stated that returns have been good for domestic equity. He stated that they have seen continuing flattening of the yield curve. Mr. Grumbles reported on the performance

of the Fund for the quarter ending December 31, 2017. The total market value of the Fund as of December 31, 2017 was \$25,224,484. The asset allocation was 52.8% in domestic equities; 15.9% in international; 17.7% in domestic fixed income; 4.5% in global fixed income; 9.1% in real estate; and .0% in cash. The total portfolio was up 3.74% net of fees for the quarter while the benchmark was up 4.14%. Mr. Grumbles stated that the main driver of the small underperformance was Templeton. The total equity portfolio was up 5.38% for the quarter while the benchmark was up 6.05%. The total domestic equity portfolio was up 5.73% for the quarter while the benchmark was up 6.34%. The total fixed income portfolio was down .30% for the quarter while the benchmark was up .06%. The total domestic fixed income portfolio was up .06% for the quarter while the benchmark was down .07%. The total international portfolio was up 4.23% for the quarter while the benchmark was up 5.06%. The total global fixed income portfolio was down 1.73% for the quarter while the benchmark was up .58%. The total real estate portfolio was up 1.79% while the benchmark was up 2.12%.

Mr. Grumbles reviewed the performance of the managers. The Anchor All Cap Value portfolio was up 2.78% for the quarter while the Russell 3000 Value was up 5.08%. Mr. Grumbles stated that it was a rough quarter for Anchor. They had a rough time with the strong up market. Their underperformance was due to the conservative nature of their strategy. The Brown Large Cap Growth portfolio was up 8.12% for the quarter while the Russell 1000 Growth was up 7.86%. Mr. Grumbles stated that Brown had a good quarter. It was driven by stock selection which is good news. He stated that he brought a manager search but it is not a fire sale. The Board has been very patient and he hoped Brown would do much better than their peers. They have done well but not as well as needed. The Vanguard Mid Cap portfolio was up 5.64% for the quarter while the Russell Mid Cap was up 6.07%. The Vanguard Total Stock portfolio was up 6.34% for the quarter while the Russell 3000 was up 6.34%. The Garcia Hamilton Fixed Income portfolio was up .06% for the quarter while the benchmark was down .07%. The Templeton Global Fixed Income portfolio was down 1.73% for the quarter while the benchmark was up .58%. Mr. Grumbles stated that Templeton's underperformance is primarily driven by the Euro which they shorted. The Europacific Growth portfolio was up 4.23% for the quarter while the benchmark was up 5.06%. The Principal portfolio was up 1.79% for the quarter while the benchmark was up 2.12%.

Mr. Grumbles provided a large cap growth equity manager search. He reviewed the four candidates: American Funds Growth Fund of America; MFS Growth Fund R6; PRIMECAP Odyssey Growth Fund; and Brown Advisory. He stated that the Growth Fund of America is extremely large and they do not tend to outperform so much. It is the most conservative strategy. MFS is traditional growth, while PRIMECAP is a little more value oriented. Mr. Grumbles reviewed the various firms and their investment information as of December 31, 2017. He reviewed their current portfolio comparison as of December 31, 2017. He reviewed the trailing performance over the last ten years and calendar performance from 2007 to 2017. There was a lengthy discussion. Mr. Grumbles stated that he would recommend MFS and PRIMCAP as they are not as exposed to swings in the market. It was noted that MFS and Growth Fund of America track the benchmark very closely. A motion was made, seconded and carried 4-0 to follow the recommendation of the Investment Monitor and terminate Brown Advisory and replace them with MFS Growth Fund R6 and PRIMECAP Odyssey Growth Fund.

Tyler Grumbles departed the meeting.

ATTORNEY REPORT

Bonnni Jensen and Cassandra Ward appeared before the Board. Ms. Jensen provided a Memorandum dated November 2017 regarding Required Minimum Distributions for Missing Participants and Beneficiaries. She stated that if the Fund cannot find someone who has reached 70 ½ the IRS has come up with a process. The process includes looking to the employer and sending a notice to all known addresses; using a search method; and sending a certified letter to the last known address. She stated that the important thing is to document what the Fund has done to try to locate and provide notice to such members. There was discussion on sending an Affidavit to retirees receiving a monthly pension. Ms. Jensen stated that she would prepare a form for the Board to review at the next meeting that could be sent to all the current retirees receiving a monthly pension.

Ms. Jensen provided a Memorandum dated January 2018 regarding the IRS Mileage Rate for 2018. She noted that effective January 1, 2018 the mileage rate has been increased to 54.5 cents per mile.

Ms. Jensen provided a Legislative update. She provided a Memorandum dated January 23, 2018 regarding SB980/HB 1363. She stated that the Bill amends the minimum requirements in Florida Statutes Chapter 112, Part VII, which governs the actuarial soundness of the defined benefit pensions and imposes additional reporting requirements.

DISCUSSION ON BENEFIT FORFEITURE

Ms. Jensen provided the Board with a Memorandum dated February 6, 2018 regarding Forfeiture Discussion – Consideration of Application of Florida Statutes 112.3173 to Guilty Plea of William F. Davis. She stated that in December 2017 she was provided with a copy of a plea sheet where Mr. Davis plead guilty to two felony counts of unlawful compensation and a one misdemeanor count of petit theft. Ms. Jensen also handed out an email from Mr. Davis related to this matter. She stated that the Board needs to determine if forfeiture is to be considered in this matter. Mr. Jensen reviewed the facts with the Board. She reviewed the applicable Florida Statute governing the matter. She reviewed the definition of “specified offense”. She stated that the Board needs to decide if there is reason to believe that the rights and privileges of Mr. Davis are required to be forfeited under the Pension Plan. If the Board finds so, the Board needs to give notice to Mr. Davis and hold a hearing in accordance with Florida Statutes Chapter 120. Additionally, such a hearing under Florida Statutes Chapter 120 would necessitate the Board to hire an attorney to act as an advocate in the forfeiture proceeding. There was a lengthy discussion. It was noted that there was not a trial, but rather Mr. Davis plead guilty. Ms. Jensen discussed the process using an Administrative Judge.

The Village Manager Richard Reade asked to address the Board. He stated that this was a serious issue. He stated that he thinks using an impartial person is the best way to handle the matter as too many of the Board Members know Mr. Davis which makes this decision even more difficult. He recommended letting the Hearing Officer hear this matter or delaying the Board’s decision until the next meeting so the Village Attorney can attend and make comments. Ms. Jensen stated that the only way to avoid having a hearing

would be for the Board to find that Mr. Davis did not have a conviction or that the matter did not involve a specified offense. A motion was made, seconded and carried 4-0 to postpone the consideration of application of Florida Statutes 112.3173 to the guilty plea of William F. Davis to the next Board meeting so that the Village Attorney can be present.

ADMINISTRATIVE REPORT

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

Ms. Adcock presented the Board with the benefit calculations and election approvals for John Rouse, Nancie Rathbun and Steve Loughrey. A motion was made, seconded and carried 4-0 to approve the benefit elections.

It was noted that Steve Loughrey retired. As such, there is an employee representative vacancy on the Board. Ms. Adcock advised that she would conduct an election to try to fill the vacancy.

OTHER BUSINESS

There being no further business, the workshop was adjourned.

Respectfully submitted,

Mariana Ortega-Sánchez, Secretary