

VILLAGE OF PALM SPRINGS GENERAL EMPLOYEES' PENSION FUND
MINUTES OF MEETING HELD
November 5, 2019

A meeting was called to order at 2:02 P.M. in the Planning and Zoning Conference Room at Village Hall in Palm Springs, Florida. Those persons present were:

TRUSTEES

Patti Waller
Ed Horton
Mariana Ortega-Sánchez

OTHERS

Bonni Jensen, Fund Counsel
Margie Adcock, Administrator
Jennifer Gainfort, Monitor
Chad Little, Actuary
Janna Hamilton, Garcia Hamilton

PUBLIC COMMENTS

There were no public comments.

MINUTES

The Board reviewed the minutes of the meeting held August 6, 2019. A motion was made, seconded and carried 3-0 to approve the minutes of the meeting held August 6, 2019.

ACTUARY REPORT

Chad Little appeared before the Board. It was noted that the State sent a letter dated October 14, 2019 advising that all Valuations through October 1, 2018 have been accepted.

Mr. Little discussed the definition of actuarial equivalence and the issues regarding same. He stated that he would bring an example of the before and after change so the Board can see how the calculation is affected.

INVESTMENT MONITOR REPORT

Jennifer Gainfort appeared before the Board. She reviewed the market environment for the period ending September 30, 2019. She stated that it was another volatile quarter. Returns were mixed. Domestic equities, except for small cap, continued to outperform international. It was noted that international was negative for the quarter. Fixed income outperformed equities for the quarter and the fiscal year. The Fed cut interest rates twice in the quarter. Lower risk assets performed better than higher risk assets as people looked for safety in investing. Utilities, real estate and consumer staples were the best performing sectors. Energy and health care were the worst performing sectors for the quarter.

Ms. Gainfort reported on the performance of the Fund for the quarter ending September 30, 2019. The total market value of the Fund as of September 30, 2019 was \$26,954,379.

The asset allocation was 53.3% in domestic equities; 10.8% in international; 21.3% in domestic fixed income; 4.2% in global fixed income; 9.6% in real estate; and .9% in cash. The total portfolio was up .65% net of fees for the quarter while the benchmark was up .75%. For the fiscal year the total portfolio was up 3.16% net of fees while the benchmark was up 4.32%. The total equity portfolio for the quarter ending September 30, 2019 was up .59% for the quarter while the benchmark was up .51%. The total domestic equity portfolio was up 1.04% for the quarter while the benchmark was up 1.16%. The total fixed income portfolio was up .65% for the quarter while the benchmark was up 1.08%. The total domestic fixed income portfolio was up 1.42% for the quarter while the benchmark was up 1.38%. The total international portfolio was down 1.59% for the quarter while the benchmark was down 1.70%. The total global fixed income portfolio was down 3.09% for the quarter while the benchmark was down .13%. The total real estate portfolio was up 1.59% while the benchmark was up 1.38%.

Ms. Gainfort reviewed the performance of the managers. The Anchor All Cap Value portfolio was up 3.40% for the quarter while the Russell 3000 Value was up 1.23%. MFS Growth Fund was up 1.14% and PRIMECAP Odyssey Growth Fund was down 2.97% while the Russell 1000 Growth was up 1.49%. Ms. Gainfort stated that it continues to be quite a struggling year for PRIMECAP. For the fiscal year they were down 10.70% while the benchmark was up 3.71%. Their underperformance has hurt the Plan overall. They are very concentrated in three sectors, one being healthcare which was the worst performing sector. The Vanguard Mid Cap portfolio was up .61% for the quarter while the Russell Mid Cap was up .48%. The Vanguard Total Stock portfolio was up 1.11% for the quarter while the Russell 3000 was up 1.16%. The Garcia Hamilton Fixed Income portfolio was up 1.42% for the quarter while the benchmark was up 1.38%. The Templeton Global Fixed Income portfolio was down 3.09% for the quarter while the benchmark was down .13%. The Europacific Growth portfolio was down 1.59% for the quarter while the benchmark was down 1.70%. However, EuroPacific has had strong outperformance over the fiscal year being up 1.14% compared to the benchmark which was down .72%. She stated that the current portfolio manager is leaving the firm. EuroPacific originally said it was an unexpected retirement but it was discovered later that he was forced to resign due to a violation of a personal investment. She stated that they are disappointed that EuroPacific was not upfront about it as they rely on the managers to be forthcoming with information. They think the remaining team is fit to run the portfolio. The Principal portfolio was up 1.59% for the quarter while the benchmark was up 1.38%.

Ms. Gainfort discussed the Vanguard Institutional Shares Preliminary Demotion List. She stated that in September 2019 Comerica reached out regarding the investment in the Vanguard Total Stock portfolio. She stated that the minimum investment for the institutional share class has always been \$5 million. The Fund has \$3.6 million but as long as other investors using Comerica had an aggregate of \$5 million the Fund has always been qualified to reach the minimum. However, Comerica categorizes the holdings here as reinvested and not reinvested. When the Fund went from reinvesting to not reinvesting recently, the Fund was recategorized and did not fall within the group of investors that had an aggregate of \$5 million to reach the minimum. Ms. Gainfort stated that there are three options: increase the investment up to \$5 million which would be a pretty substantial increase, find a new fund to invest in, or invest in a different share class. There is an identical fund with a different share class but the fee is 4 basis points versus 3 basis points. It was noted that Vanguard automatically converted the Fund to the Admiral Share class on November 1, 2019. There was discussion on moving back to

reinvesting. However, the Board thought the move to not reinvesting was done to account for the cash flow needs of the Fund. The Board decided to discuss this further at the next meeting when Ms. Morse would be able to advise better on the cash flow needs.

Ms. Gainfort discussed global tactical asset allocation. The Board stated that they would like to postpone further discussion on this until the next meeting when a full Board should be present.

INVESTMENT MANAGER REPORT: GARCIA HAMILTON & ASSOCIATES

Janna Hamilton appeared before the Board. She reported on the performance for the quarter ending September 30, 2019. She stated that they outperformed for the quarter but underperformed for the fiscal year. The portfolio was up 1.41% for the quarter while the benchmark was up 1.38%. For the fiscal year, the portfolio was up 7.02% while the benchmark was up 8.08%. The total market value of the portfolio as of September 30, 2019 was \$5,741,814.46. Ms. Hamilton stated that they were short duration which caused the underperformance in the year. They have made a few adjustments but are still maintaining a short duration. She stated that they think there will be a resolve with China. They think the economy is in a good place and there are good unemployment numbers. The Fed cut rates two times in the quarter. They think there is a bit of an overreaction right now. There was a third rate cut this past week and the Fed said they were going to pause on further cuts. She stated that they agree with that. They do not agree with the rate cuts and think it is an extreme overreaction to the noise in the market. They do not feel the market will see negative rates like have been seen in other countries. Ms. Hamilton stated that they are overweight in corporate inflationary rate bonds. It has been a buffer as interest rates have declined. They disagree that a recession is imminent. There is a tight labor market, wages are increasing and consumers are spending. They think long term rates will continue to increase. She reviewed the current fixed income market factors, noting that all factors are negative. She reviewed the fixed income portfolio characteristics. The average duration in the portfolio is 2.5 years versus the benchmark of 3.5 years. Ms. Hamilton provided a firm update. They were founded in 1988 and are 100% employee owned. They added two new partners to the firms at the beginning of the year. They have about \$15 billion in assets under management. They have a cyber insurance policy and continue to increase their errors and omissions insurance as they continue to grow.

ATTORNEY REPORT

Ms. Jensen provided AndCo's Cyber Certificate of Liability Insurance. She stated that they increased their insurance to \$5 million and provided the certificate of liability insurance. Ms. Jensen stated that she would provide her firm's certificate of cyber liability insurance to the Board at the next meeting.

Ms. Jensen provided an update regarding changing language in the Ordinance regarding the 5th Trustee and the requirement that there not be a connection with municipal government. She stated that she has not received anything from the Village as of yet.

Ms. Jensen provided an update on the matter involving Mr. Davis. She stated that the matter is on appeal. The initial brief is due to be filed by November 18, 2019. She will continue to follow up on this matter.

Ms. Jensen presented a Revised Professional Services Agreement to the Board for her legal services. She stated that they are increasing their hourly rate from \$265 to \$300 for any work done outside of the retainer for such things as litigation, hearings and tax issues. She stated that the last time she increased the hourly rate was three years ago. She stated that the Revised Agreement incorporates the prior agreement and adds that they will continue to carry cyber liability and will comply with public records laws. A motion was made, seconded and carried 3-0 to approve the increase in the hourly rate from \$265 to \$300 and execute the Revised Professional Services Agreement.

ADMINISTRATIVE REPORT

Ms. Adcock presented the disbursements. A motion was made, seconded and carried 3-0 to pay all listed disbursements.

Ms. Adcock provided the Board with certification from the Resource Centers that they successfully completed their SSAE 16 SOC 1 Audit as of June 30, 2019.

Ms. Adcock provided the Board with a letter dated October 7, 2019 from the Resource Centers regarding their cyber security measures. There was a lengthy discussion regarding cyber security.

OTHER BUSINESS

There being no further business, the workshop was adjourned.

Respectfully submitted,

Mariana Ortega-Sánchez, Secretary