

VILLAGE OF PALM SPRINGS GENERAL EMPLOYEES' PENSION FUND
MINUTES OF MEETING HELD
February 4, 2020

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
Rebecca Morse

OTHERS

Bonni Jensen, Fund Counsel
Margie Adcock, Administrator
Jennifer Gainfort, Monitor
Chad Little, Actuary
John Boles, Anchor Capital

PUBLIC COMMENTS

There were no public comments.

MINUTES

The Board reviewed the minutes of the meeting held November 5, 2019. A motion was made, seconded and carried 3-0 to approve the minutes of the meeting held November 5, 2019.

ACTUARY REPORT.

Chad Little appeared before the Board. He discussed the definition of actuarial equivalence. He stated that every time an assumption is changed, the factors change. It may not be drastic but it does happen. He provided a comparison of the option factors both before and after the net assumed rate of return change for October 1, 2020 to September 30, 2021 retirements. Mr. Little noted that the 1983 table noted in the Ordinance is very out of date and it not applicable right now. If the Ordinance is being modified, it should be modified to bring the mortality to a more modern table

There was discussion on the interest rate assumption. He stated that they are reducing the assumed return to 6.25% which is the lowest return for any of his plans. He noted that the investment allocation has not shifted though. When the allocation is shifted more towards fixed income the return would probably be about 4.25%. The definition of actuarial equivalence provides a rate of investment should be less than 5% a year. There is no push to move towards a more conservative allocation. However at some point the Fund will need to make that reduction

Mr. Little discussed the mortality tables. Generally such tables are attached to the lifetime income. However public sector plans are defined benefit plans and the general population does not have defined benefit plans. The public safety mortality tends to be longer than the general public, with teachers living the longest. Mr. Little stated that he was having an issue with his internet connection and asked to finish his report later in the meeting

INVESTMENT MANAGER REPORT – ANCHOR CAPITAL

Jon Boles appeared before the Board. Mr. Boles stated that he was the Director of Institutional Marketing and Client Service. He provided an overview of the firm. He stated that it was a good year for the firm. They will be adding a senior analyst in two weeks. In 2019 they added a new controller. They have \$9.5 billion in assets under management.

Mr. Boles provided a market overview. He reviewed the balance of risk and return. He discussed the importance of downside protection over the last 15 years. He stated that the recovery period is much quicker than broader markets. He reviewed the risk and return analysis. Mr. Boles reviewed the performance of the portfolio. The total market value as of December 31, 2019 was \$3,771,257.75. The asset allocation was 95.6% in equities and 4.4% in cash. The portfolio was up 24.84% in 2019 while the Russell 3000 was up 26.26%. Since inception of March 3, 2010 through December 31, 2019 the portfolio was up 11.08% while the Russell 3000 was up 11.72%. Mr. Boles stated that the primary detractor in 2019 was cash they had an average cash allocation of 4-7%. Stock selection drove the performance in 2019 with holdings like Dollar General, Apple and Microsoft. He reviewed the year to date purchase and sales. Mr. Boles reviewed the market outlook. They think the accommodative Fed will keep inflation in check; unemployment is still at record lows; the housing market is still favorable; consumers continue to drive the market; and wages are up.

Mr. Boles discussed a fee unification for all of their clients with AndCo. He stated that the fee was being increased to 60 basis points on the first \$8 million with 50 basis points thereafter. He stated that in January 2005 they had a fixed income mandate here but also had bonds. In 2010 the Fund went to an all cap value account but the fee remained at 50 basis points. He stated that it was their mistake in not adjusting the fee at that time. In May 2012, the fixed income account closed. He stated that he would be sending a letter to the Board regarding their proposed fee that will be effective January 1, 2020. There was a lengthy discussion. The Board was concerned with a fee tied to the relationship with the Investment Monitor. There was a concern expressed of getting a separate rate because of the relationship with the Monitor. The Board wants an independent report from the Monitor and wants to know if these relationships exist. The Board expects; that information to be revealed and explained every time. Mr. Jensen stated that such information would normally be provided. Ms. Gainfort stated that they always disclose such information. She stated that the fee is still below the average fee in that field. The average fee for an all cap value is about 83 basis points. She stated that 50 basis points was a very low fee. When the account was split out the fee should have been adjusted then. She stated that she thinks it is a very fair fee. There was Board consensus to accept the fee increase.

ACTUARY REPORT (CONTINUED)

Mr. Little presented the Actuarial Valuation as of October 1, 2019. He noted that the Valuation set forth the contribution requirements for the fiscal year ending September 30, 2021

He stated that the Valuation includes reducing of the assumed investment return from 6.50 to 6.25%. He stated that the contribution increased from \$887,452 to \$928,740. He stated that the funded ratio was 92.87% compared to 92.40% last year. Payroll increased similar to last year. Payroll increased 5.2% versus the expected 5.7%. The net return on the market value of assets was 3.02% in comparison to the 6.50% assumed rate of return such that there was an actuarial investment gain. Mr. Little stated that there were no changes in Plan provisions. He reviewed the assessment and disclosure of risk. He reviewed the ratio of benefit payments to contributions and stated that the ratio is almost three times what it was back in 1997. He reviewed the cash flow derived by asset and the reconciliation of change in the Village minimum required contribution. Mr. Little stated that it was all good news from an actuarial standpoint. A motion was made, seconded and carried 3-0 to approve the Actuarial Valuation as of October 1, 2019.

It was noted 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. It was noted that the Board just approved the return of 6.25% in the Valuation. A motion was made, seconded and carried 3-0 to determine the expected rate of return using the rate of 6.25%. Ms. Gainfort stated that she would prepare the letter to be sent to the State.

INVESTMENT MONITOR REPORT

Jennifer Gainfort appeared before the Board. She provided an update on the firm. She stated that the firm is celebrating their 20 year anniversary. They have six offices with 89 employees. They have \$92 billion in client assets under advisement. In 2019 they hired nine new team members and added two more partners for a total of ten partners.

Ms. Gainfort reviewed the market environment for the period ending December 31, 2019. She stated that the year had started off in a strong fashion and ended that way too. It was one of the best years they have seen in a strong decade. She stated that they do not anticipate any Fed rate hikes or cuts on the horizon. The US and China reached a Phase 1 trade deal which has provided clarity and the markets were happy with that. Small cap did better than large cap for the quarter. Emerging markets did better than both developed markets and domestic equities. Growth did better than value for the quarter and the one year. The economy appears to be on strong footing with wages increasing and unemployment low. There is no recession predicted. She stated that she thinks people are anticipating a recession because it has been so long but everything appears to be strong.

Ms. Gainfort reported on the performance of the Fund for the quarter ending December 31, 2019. The total market value of the Fund as of December 31, 2019 was \$28,467,879. The asset allocation was 53.8% in domestic equities; 10.9% in international; 20.1% in domestic fixed income; 3.9% in global fixed income; 9.2% in real estate; and 2.0% in cash.

The total portfolio was up 5.62% net of fees for the quarter ending December 31, 2019 while the benchmark was up 6.20%. The total equity portfolio was up 8.34% for the quarter while the benchmark was up 9.08%. The total domestic equity portfolio was up 7.98% for the quarter while the benchmark was up 9.10%. The total fixed income portfolio was up .63% for the quarter while the benchmark was up .77%. The total domestic fixed income portfolio was up .39% for the quarter while the benchmark was up .47%. The total international portfolio was up 10.11% for the quarter while the

benchmark was up 8.99%. The total global fixed income portfolio was up 1.87% for the quarter while the benchmark was up 1.97%. The total real estate portfolio was up 1.25% while the benchmark was up 1.53%.

Ms. Gainfort reviewed the performance of the managers. The Anchor All Cap Value portfolio was up 5.39% for the quarter while the Russell 3000 Value was up 7.48%. MFS Growth Fund was up 8.55% and PRIMECAP Odyssey Growth Fund was up 12.84% while the Russell 1000 Growth was up 10.62%. The Vanguard Mid Cap portfolio was up 6.88% for the quarter while the Russell Mid Cap was up 7.06%. The Vanguard Total Stock portfolio was up 9.01% for the quarter while the Russell 3000 was up 9.10%. The Garcia Hamilton Fixed Income portfolio was up .39% for the quarter while the benchmark was up .47%. The Templeton Global Fixed Income portfolio was up 1.87% for the quarter while the benchmark was up 1.97%. The Europacific Growth portfolio was up 10.11% for the quarter while the benchmark was up 8.99%. The Principal portfolio was up 1.25% for the quarter while the benchmark was up 1.53%.

Ms. Gainfort discussed global tactical asset allocation. She stated that this has been postponed for a couple meetings in the hopes of getting the full Board to be present. The Board stated that they would like to postpone further discussion on this until the next meeting when a full Board should be present.

Ms. Gainfort discussed increasing the allocation to fixed income from 20% to 25% and lowering international from 15% to 10%. There could be a discussion on global tactical asset allocation down the road. This would take some risk out of international equities, which is a little more volatile. She stated that the previous study she showed moved 5% to domestic equities, domestic fixed income, or GTAA. Moving the allocation to domestic equities really did not reduce the risk. There was a lengthy discussion. A motion was made, seconded and carried 3-0 to increase the target to domestic fixed income to 25% and reduce the target to international to 10%. Ms. Gainfort presented a Revised Investment Policy Statement that reflected the change in the asset allocation. A motion was made, seconded and carried 3-0 to adopt the Revised Investment Policy Statement. .

Ms. Gainfort discussed the Vanguard Institutional Shares Preliminary Demotion List. She stated that this is a carryover from the last meeting. 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 two options: 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. Ms. Morse stated that the Fund needs the cash flows. The Board reconfirmed that they were in agreement to converting to the Admiral Share class.

Jennifer Gainfort and John Boles departed the meeting.

ATTORNEY REPORT

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 still not received anything from the Village as of yet.

Ms. Jensen provided a Memorandum dated November 2019 regarding the Uniformed Services Employment and Reemployment Rights Act of 1994. She stated that it was really an educational memo. It sets forth the rights and responsibilities of employers and retirement plans to protect the rights of those who have served or will serve in the United States Armed Forces.

Ms. Jensen provided a Memorandum dated January 2020 regarding the IRS Mileage Rate for 2020. She noted that effective January 1, 2020 the mileage rate has been decreased to 57.5 cents per mile.

Ms. Jensen provided a Memorandum dated January 15, 2020 regarding the SECURE Act and IRS Limits for 2020. She stated that the law was passed at the end of the year and increases the required minimum distribution age from 70 ½ to 72 ½ effective January 1, 2020 for those that have not taken distributions. If someone has already started taking distributions, then they are subject to the old rules regarding minimum distribution requirements. It also addresses death benefits for non-spouse beneficiaries and acknowledges that there are different rules for spousal beneficiaries for lump sum distributions. Ms. Jensen stated that the other part of the memorandum dealt with the IRS limitations for the 415 limits which went up from \$225,000 to \$230,000. The amounts for 457 and 401 plans also increased to \$19,500.

Ms. Jensen provided a Memorandum dated January 2020 Regarding Changes to Florida's Notary Public Law. She stated that Florida's Public Notary Law was changed effective January 1, 2020 to permit remote online notarizations under certain circumstances. It was noted that there are certain exemptions to the new law, such as not being applicable for change of beneficiaries or change of joint survivor annuitants. She stated that certain forms that are required to be notarized will need to be revised to include the new notary acknowledgment.

Ms. Jensen provided a Memorandum dated January 2020 regarding Fiduciary Standards for Local Officers. She stated that the Florida Legislature will be considering HB 1113/SB 1270 which is bill that adds a new section to Chapter 112 of the Florida Statutes establishing a general fiduciary standard for all local officers and appointed public officials. It was noted that this new section may conflict with the fiduciary standards already applicable to public pension plans that is in Section 112.656. As trustees for public pension plans, there is already a fiduciary duty to the participants of the plan, not the governing entity. Ms. Jensen stated that her office is trying to work out this conflict with the Division of Retirement. She noted that the proposed new law would also require five hours of governance training once a term.

Ms. Jensen provided an update on the matter involving Mr. Davis. She stated that the matter is still on appeal. Mr. Davis' brief is due in a couple of weeks. She will continue to follow up on this matter.

Ms. Jensen provided a draft updated Summary Plan Description. She stated that she updated it for the date and some language changes. She reviewed the changes. It was noted that some of the investment managers listed are no longer the managers. The Board asked her to remove the list of managers as they can change. A motion was made, seconded and carried 3-0 to approve the updated Summary Plan Description as amended.

Ms. Jensen discussed Comerica and their annual SSAE SOC 1 Audit. She stated that they had an issue again in this Audit but noted that it is really a carryover from last year. There was a lag of time from when the issue happened to when it was brought to Comerica's attention. Comerica took care of the problem but it was after their plan year. There were no additional issues that were pointed out in the Audit. There was a lengthy discussion. The Board decided to postpone any decision and discuss where there are more Board members in attendance. It was noted that this issue Comerica had with the Audit did not impact this Board. The Board asked to have Felecia Ryans from Comerica to attend the next meeting.

Ms. Jensen provided a Save the Date for their Client Conference. It was noted that the Client Conference was being held May 27-29.

ADMINISTRATIVE REPORT

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

Ms. Adcock presented the Board with the benefit calculation and election approval for Gary Brown. A motion was made, seconded and carried 3-0 to approve the benefit election.

OTHER BUSINESS

There being no further business, the workshop was adjourned.

Respectfully submitted,

Mariana Ortega-Sánchez, Secretary