

Rec 11-2-15

**MINUTES OF THE BOYNTON BEACH POLICE OFFICERS' PENSION FUND
QUARTERLY MEETING HELD ON TUESDAY, AUGUST 11, 2015, AT 10:30 A.M.
RENAISSANCE EXECUTIVE SUITES, SUITE 220, CONFERENCE ROOM 1
1500 GATEWAY BOULEVARD, BOYNTON BEACH, FLORIDA**

PRESENT:

Toby Athol, Chair
Jason Llopis, Secretary
Russell Faine
Joe DeGuilio (*arrived 11:28 a.m.*)

Barbara LaDue, Pension Administrator
Bonni Jensen, Board Counsel

ABSENT:

Scott Caudell

I. Call to Order

Chair Athol called the meeting to order at 10:37 a.m.

II. Approval of Minutes - Quarterly Meeting May 12, 2015

Motion

Mr. Llopis moved to approve the minutes. Mr. Faine seconded the motion that unanimously passed.

III. Approval of the Agenda

The following items were added to the agenda under VII New Business:

- Item E, Rental Agreement Starting October 1; and
- Item F, Trustee Expenses

Motion

Mr. Llopis moved to approve the agenda as amended. Mr. Faine seconded the motion that unanimously passed.

IV. FINANCIAL REPORTS:

A. Quarterly Investment Review – June 30, 2015

1. Russell Investment Group – MJ (Candioto) Serene, CFA
 - a) Investment Review

Ms. Serene reviewed there were no changes to report since the last meeting regarding Russell organizational changes. The firm was for sale and the London Stock Exchange Group bought the entire firm. They decided to sell the non-index portion of the business, which the Board's Pension Plan fell under, because it was not a strategic part of their business. Ms. Serene commented they had a semi-annual update that indicated everything was on track and they were looking to close by the end of the year. She anticipated they should have a letter of intent with a buyer identified soon.

Ms. Serene reviewed the Plan's client service team. She also advised their client conference would be held in Arizona. Previously it was held the first week in May. This year it will be held the third week in May.

Ms. Serene gave a snapshot of the fund's performance for the quarter and advised the total portfolio was flat although there was a lot of volatility. There was a threat of exiting the Euro without materially impacting overall markets and economies and the Chinese market tumbled. There were still ongoing questions about the Central Bank Policy.

Earnings were flat for the quarter in developed U.S. and non-U.S. equity markets. Emerging markets had a slight gain and then faltered in the third quarter. There were also slightly negative returns because of increased interest rates.

There were concerns Greece would exit the Euro, and the Euro was weak. European equities dropped and Russell made purchases for the portfolio, which was now overweight in Europe. It was noted less than 2% of the European economy was driven by Greece.

Ms. Serene anticipated the Gross Domestic Product (GDP) would increase 2.5% to 3% during the remainder of 2015 and there would be an interest rate hike. From a market perspective, the U.S. was overvalued compared to other parts of the world. They were watching China and commodity producing countries. They were overweight in Japan on a hedged basis so they would not pick up currency exposure. Ms. Serene advised the strategy worked out very well.

The fund's asset allocations were in balance with the targeted weights. Fiscal year-to-date, the fund started with \$76 million in assets. Inflows outpaced outflows by about \$500,000 and there was about \$4 million in appreciation. The fund ended the quarter just shy of \$81 million. There were positive returns from real estate. For the three month period, net of fees, there was \$230,000 and as of yesterday, the portfolio had \$81.5 million in assets.

For the quarter, net of fees, real estate was 30 basis points ahead of the benchmark and about 65 basis points on a year-to-date basis. Ms. Serene reviewed being underweight in interest-rate sensitive securities such as utilities, REITS and high yielding securities, drove the Multi-Asset Core (MAC) product to perform above the benchmark. Previously, these securities dragged over the year, and it was good to see the strategy worked. The portfolio was also overweight in Japan and was recently

rebalanced, which resulted in excess returns over the trading year. They were overweight in Europe relative to commodity producing countries and for the same reason they were overweight in U.S. dollars.

Fixed income rates increased during the quarter. On a year-to-date basis, the fund started the year with the 10-year treasury at 2.1%. At the end of March, it was 1.9% and it ended the quarter at 2.9%. The Multi-Manager Bond (MMB) return was slightly ahead of the Barclay Capital benchmark.

One concern the Trustees had was whether to move money from fixed income. They moved some money to private real estate. Then they discussed the absolute fixed income strategy. That fund was recently launched and it did not have a long track record.

Ms. Serene explained there is a strategy that is not interest rate sensitive that has a specific return pattern that allows managers in the portfolios to add alpha. The Board was invested in RTC funds for pension plans. Russell Investment created a similar private placement fund with a different legal structure from what non-qualified clients typically had. Clients would have to qualify as institutional investors, but it created additional review.

Attorney Jensen thought it had to be a K-1 Plan. Ms. Serene responded they would be issued a K-1 schedule because there are taxable investors that invest in the product. It would not impact non-taxable investors. Attorney Jensen commented the product was still exempt under the current state of the law, but it was discussed at a National Association of Public Pension Attorney Conference that taxability was potentially pending.

Frank Wan, Head of Research, Burgess Chambers Associates, suggested the Board prioritize what they want to accomplish and decide to address risk management, risk individually, market risk or interest risk. He noted the portfolio needed more alternative investments and many pension plans invest in hedge funds which have significantly more risk than what Ms. Serene was proposing. The fund may be a good start, but the idea was to watch the fund first to ensure it performed as expected. They could not measure the fund because rates did not increase.

The members discussed if they should move money out of fixed income. Ms. Serene recommended if the Board was concerned about rising interest rates, they could take funds from fixed income or the MMB fund and move it to the absolute fixed income. They also have to be mindful of a higher proportion of non-U.S. exposure. Any movement would have to be modest. The fund costs 99 basis points where the MMB fund costs 49 basis points. The Board had previously discussed Russell adjusting their fee to be more in-line with the rest of their clients, and the fees were reduced from 79 basis points to 77 basis points. Mr. Llopis inquired if the product would mitigate the market impact when interest rates rise and Ms. Serene thought there was reason to

believe there would be an equity market premium. If it was an alpha only strategy and if the managers performed poorly, there could be no gain.

Mr. Wan agreed and noted over the last two quarters, the absolute return strategy outperformed by almost 2% and the second quarter by 1%. He agreed if interest rates do not move, bonds would do better, but there was plenty of time to decide whether to invest in the product.

For the benefit of new member Russell Faine, Chair Athol gave an overview of the fund, the role of Ms. Serene and Mr. Wan, and fund diversification and allocations. Ms. Serene agreed to provide additional information at the next meeting to help in this regard. She explained the large cap defensive equity fund was a U.S. large cap fund that is used in the portfolio to help keep non-U.S. exposure below the 25% threshold. The portfolio has global equities, fixed income, real estate, infrastructure and commodities. She explained Russell uses underlying managers as part of the fund structure to manage funds for their clients and a manager who handles the overall exposures based on strategic preferences. Russell manages macro risk, hires and fires managers, and adjusts weights or positions to counter market changes. Russell Investments manages the portfolio. Asset allocations are driven by the Investment Policy Statement (IPS) the Trustees adopted. They operate within its established guidelines established and in compliance with Florida Law.

(Joe DeGuilio arrived 11:28 p.m.)

Chair Athol advised many Boards have different managers. When changes in the market occurred, they would have to meet with all the different managers to make changes and it caused a lag. Russell Investments was hired to invest the funds and handle the managers. The Trustees originally split the fund between two managers, but Russell significantly outperformed and the Board took the entire fund and invested it with Russell Investments. The Board gave Russell Investments the ability to make the changes timely. They have a pool and a percentage range in which to work and they adjust allocations as needed. Mr. Wan monitors the fund.

Mr. Faine asked about the cost. Chair Athol responded at the end of the year, they look at the net of fee returns. Mr. Wan compares the Boynton Plan to other similar funds. If they pay more, it is worth it. The Boynton Beach Plan was the only plan Mr. Wan was aware of that operates in this fashion. Mr. Wan explained two years ago, the Board switched from a manager of managers to a multi-core product.

Ms. Serene suggested Keith Brake, the lead portfolio manager for the absolute fixed income product and the MMB fund, speak with the Board in the future. It was hoped Mr. Brake could attend a meeting, but at a minimum, he could participate by phone. Chair Athol thought they would likely do a cost study and go from there six to nine months down the road.

2. Burgess Chambers & Associates - Head of Research, Frank Wan

a) Fund Performance review –

Mr. Wan, explained the investment policy is the benchmark policy which Russell strives to achieve. For the last year, Russell made 4.6% net of investment fees, versus the target of 2.9%. He explained the compliance report and advised the fund needed to achieve the 7.75% number consistently over time. This would relieve the City and participants from having to contribute more to the Plan. Mr. Wan explained they break down all the assets into other components, such as global equities, fixed income, global REITS, infrastructure and commodities and they are embedded in the multi fund product that was previously discussed. Currently there was a strategic plan for Russell to underweight REITS and commodities, and this strategy worked well for the Plan.

Mr. Wan reviewed the Multi-Asset Core (MAC) product had REITS. They try to benchmark everything to get an idea of how the asset classes perform. For the past year, commodities were down 23.7%. For the most recent quarter, REITS were down 9.1%, so having an underweight in those asset classes had been helpful. He explained commodity producing nations are very sensitive to economic cycles and to the U.S. dollar. The value of the dollar continued to climb so oil prices and other commodities had fallen. There is an inverse relationship between the two. Most pension plans do not hedge and the product would protect the fund from extreme volatility.

REITS are sensitive to interest rate changes, and the fund was moving away from interest-rate environments. Ms. Serene explained the real estate in the portfolio were globally listed REITS, which are stocks that are traded. These were in the MAC product. There is also a private U.S. real estate holding and the underlying managers physically purchase buildings. Mr. Wan explained \$6.1 million of the portfolio was invested in real estate that is more than 90% occupied. He thought the portfolio was moving in the right direction and they try to rank the managers against their benchmark. Every product they have, including the multi fund product, has a component he reviews. If any product deteriorates, he alerts the Board to watch and he makes inquiries to Ms. Serene.

Mr. Wan advised they have earned 7.5% on average every year and were paying down the unfunded liability. The Boynton Beach Plan ranked in the top 29th percentile and for the last five years, earned 9.7%.

Chair Athol inquired if there was a correlation between the Boynton Beach Plan and Russell being able to make changes right away, as opposed to the other plans that have a lag. Mr. Wan thought it was a difficult question because the Board's return patterns were not typical pension return patterns. Their risk is not as high as typical pension risk. Measured by the standard deviation, they were at 8.1% five years ago and the average peer group had 8.5% to 8.8%. During the last three years, the Plan's average deviation was 4.6% and the average peer group had 6% deviation. By having indirect exposure, the Board can allocate more money to a fund they are already in, as opposed to having to enter a queue to enter a fund in which they were not invested. This resulted in higher earnings.

Mr. Wan explained they moved money into real estate and it exceeded the threshold of 7% in the IPS by 3%. He distributed an IPS with one change. Ms. Serene inquired if she needed to increase the target weight from 5% to 7%. Mr. Wan thought they should keep it at 5% and increase the upper threshold to 10%.

Motion

Mr. Llopis moved to approve the change in the policy range from 0% to 7% to 0% to 10% while keeping the strategic allocation the same. Mr. DeGuilio seconded the motion that unanimously passed.

Mr. Wan commented from a portfolio standpoint, the Plan was performing better than other plans in Florida.

IV. CORRESPONDENCE: N/A

V. OLD BUSINESS:

A. Disability Application: Update/Status

- 1) Gregory Kenny – Final Order LOD Disability – Approved July 21, 2015

Attorney Jensen announced Mr. Kenny's Final Order was approved. He separated from service from the City and his first benefit check was this month. They had to sign the Order for his disability which Ms. LaDue will put in his file and send him a copy. Chair Athol signed the document.

VI. NEW BUSINESS:

A. Invoices for review and approval:

1. Russell Investment Gp. – Quarter End 06-30-2015 - \$136,783
2. Russell Payment Services – Quarter End 06-30-2015 - \$1308.50
3. Bonni Jensen PA – Service May, Jun & Jul 2015 - \$6,489.62
4. Burgess Chambers & Assoc – 2nd Qtr 2015 fee - \$6,250
5. Gabriel, Roeder, Smith & Co- Service thru June 2015 - \$3,593

Motion

Mr. Llopis moved to pay the bills. Mr. Faine seconded the motion that unanimously passed.

B. Attorney Report - Bonni Jensen

1. 2015 IRS Determination Letter 7-28-2015

Attorney Jensen announced the IRS determined the Plan was tax qualified and could continue to operate in a tax-free manner. The prior Determination Letter expired in 2014. They extended the letter to January 31, 2016 and 2016 would be the last time the IRS reviews individually designed plans such as pension and governmental plans because they cannot afford to run the program. They will only review plans when they are initially created and to determine if it is an individually designed plan. Attorney Jensen was waiting for the comment period to make further inquiries.

Attorney Jensen asked if the Board wanted to file. She advised it will be the last time they could and she thought it was worthwhile to do so. After brief discussion there was agreement to continue to submit the letter until the IRS stopped their review.

Motion

Mr. Faine moved to complete the final IRS Tax Assessment. Mr. Llopis seconded the motion that unanimously passed.

2. Amendment/Clarification to Disability Provision – Actuarial Impact Statement.

Since the last meeting, there were two proposed amendments for the Plan; one for the changes made to the Collective Bargaining Agreement and the other for the 3% tier for new members. Attorney Jensen advised she was unsure it passed. Chair Athol gave the history of a prior disability application to Mr. Faine. Other plans gave 30 days to file for disability after termination. He explained there would be a language change to the Boynton Beach Plan to allow members to do the same.

3. Pending Deadlines – New Reporting Requirements – Memo 7-8-2015

Attorney Jensen discussed Senate Bill (SB) 534 passed in 2013. The actuaries received a final ruling about it at the end of April so they filed the new SB 534 report.

- a. Required Reports/Disclosures for City's Website 6-23-15

Attorney Jensen advised the Trustees have to post the 534 Report and have it available for members and the public to view. Attorney Jensen advised they could post the report, the actuarial valuation, audit, a document showing years or return, the actuarial assumptions and asset allocations and a link to a summary fact sheet the State has on the webpage. Chair Athol had spoken with Scott Bauer and they will create a website for the Board. Chair Athol pointed out West Palm Beach has a website where members can go online and check their DROP accounts. He advised they would like Boynton Beach members to be able to apply online in the future although the Board still wanted physical contact with a Pension Administrator for verification. Ms. LaDue commented she had sent all the information to the City to include on the website.

Attorney Jensen spoke about the next collective bargaining agreement. The members have until September 30, 2016 to address the issues. They will need to negotiate a share account plan and decide whether to fund it, whether they will follow the statutory provisions or stay status quo. The League of Cities was encouraging all to opt for mutual consent. Attorney Jensen explained they needed to renew their request about whether they are a supplemental plan. The State never responded to the Board's question and they did not pursue the matter because the legislation died. They still needed an opinion. Chair Athol inquired if they qualified or were already a share plan. Attorney Jensen would have to determine when the plan was created and thought it had to be after December 2000. She explained if it was a share plan, they would still have to address the mutual consent issue.

b. Revised Chapter 112.664 by GRS 6-26-15

4. Memo to Interested Parties June 2015 – Reporting Requirements

5. Administrative Expense Budget – Sample 7-15-2015

a. Administrative Expenses for past years 2011, 2012, 2013 & 2014

Attorney Jensen explained this had to be filed with the City before October 1st. The previous expenses for 2011 through 2014 were included in the meeting backup. She explained they need to use all the items in the administrative expense column and the performance monitor because administrative expenses was defined as all the items in the administrative expense column and all other consultants. She recommended increasing those amounts by 20% because as of September 30, 2014, it did not include what was expended this year. She also recommended adding a miscellaneous expense line item to deal with any potential disability applications. The legal fees listed did not include Mr. Epstein's disability because insurance paid for it. The actuary figures will increase due to new reporting requirements. After discussion, the members approved the following expenses for the 2015/2016 budget:

- Actuary fees - \$40,000;
- Administrator's fees - \$30,132;
- Audit fees - \$16,000;
- Bank Charges - \$250;
- Computer service - \$10,000;
- Liability insurance - \$30,000;
- Dues and subscriptions - \$725;
- Legal fees - \$20,000;
- Medical advisor would be handled as a miscellaneous expense;
- Office expenses - \$1,800;
- Office rent - \$8,000;
- Pension program maintenance - \$5,000;

- Seminars and training - \$35,000;
- Printing expense - \$4,000; and
- Miscellaneous expenses - \$50,000.
- Performance Monitor - \$20,000
- Total - \$270,907

It was noted they need to bid liability insurance and use a different broker.

Attorney Jensen explained this item will be on every meeting agenda because they need to compare the current expenses against the budget. Ms. LaDue noted sometimes they do not have financials for the quarter.

Motion

Mr. Llopis moved to approve the budget of \$251,907 per the categories. Mr. DeGuilio seconded the motion that unanimously passed.

- C. Police & Fire Pension Board – RFP for Pension Administrator – Joint venture – Set-up and review process.

Attorney Jensen provided a copy of a standard RFP seeking the services of an Administrative Manager. She believed the Firefighters also received a copy. Chair Athol commented they need to issue an RFP, review the responses next year and interview the candidates. If a candidate is selected between March and June of next year, they can hire someone to shadow Ms. LaDue for six months.

Attorney Jensen commented they had to include in the RFP they have their own software system they would continue to use that keeps track of the members. They could ask if potential candidates were familiar with the current software. Ms. LaDue reviewed the document and inquired if the administrator would draft the minutes in the manner currently provided and Chair Athol did not want to eliminate that service. Ms. LaDue inquired if the language to assist in making arrangements and reservations should be included because the members do that on their own. Chair Athol thought the administrator should be familiar with how to handle those tasks. Attorney Jensen was aware from other administrators that when they know their Board members will attend a conference and no one has made a reservation, the administrator reserves a block of rooms and issues checks directly to the hotel so taxes will not be charged. They need to be able to review and understand expense sheets.

Ms. LaDue recommended removing the word assist with the plan financials in the RFP because there was no assistance in reconciliation of accounts. It is a job they do themselves. They would also remove the word assist from assist in maintenance of the general ledger and the same for creation of financial statements. It was noted they may not use all those skills, but they need to have them.

Attorney Jensen was aware the Firefighters' Pension Board was interested in designing around an outside company and a person. She suggested they indicate their office hours if they come from a company. Chair Athol spoke to one of the Firefighters' Trustees because the RFP would be issued in conjunction with their Board to cover both pension plans. The idea was to hire someone that was able to be in the office. They do not want an outside source via phone or available through a messaging system, even if it was associated with a company. They must be physically in the office and have office hours.

Attorney Jensen commented the General Employees' Board has office hours at City Hall one day a week. Chair Athol wanted normal office hours to be included in the RFP. He recommended any further changes to the RFP be sent to Attorney Jensen. The RFP would be finalized at the November meeting and issued. Attorney Jensen had a list of organizations to send the RFP. She cautioned if the position is advertised in pension magazines, it would cost a lot of money and they would receive responses from all over the country. Chair Athol wanted someone familiar with a Florida plan.

Ms. LaDue was aware of two people already interested in the position. Attorney Jensen also was aware of individuals that would be interested in the RFP. The Firefighters' and the Police Pension Boards should coordinate and issue one RFP. They will have a deadline in January or February, rank the candidates and interviews would be coordinated with both Boards. Then they could have a joint meeting.

- D. Review and Verification of Retirement Benefits:
 - a. Luis Rodrigues retirement into DROP

Chair Athol noted this item was a verification of benefits.

Motion

Mr. Llopis moved to approve. Mr. Faine seconded the motion that unanimously passed.

- b. Gregory Kenny LOD Disability

Motion

Mr. Llopis moved to approve Mr. Kenny's Disability benefits. Mr. DeGuilio seconded the motion that unanimously passed.

- E. Rental Agreement Starting October

Ms. LaDue received the rental agreement and noted there was an increase of 5% for the rent. There were other expenses such as photocopies. It was noted the rent is split between the Firefighters' and the Police Pension Boards.

Motion

Mr. DeGuilio moved to approve the 5% increase. Mr. Llopis seconded the motion that unanimously passed.

F. Trustee Expenses

Chair Athol noted administrative travel expenses are paid per diem. This item would increase the per diem payment to \$60 and increase three percent each year.

Attorney Jensen explained a motion to adopt the revised statement of policy regarding these expenses was needed.

Motion

Mr. Llopis moved to approve. Mr. DeGuilio seconded the motion that unanimously passed.

VII. PENSION ADMINISTRATOR'S REPORT

1. Benefits as of 08-01-2015

Ms. LaDue explained this item was for information only.

2. Review of Scheduled 2016 Quarterly Board Meetings

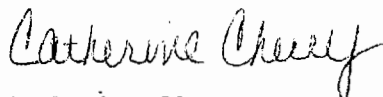
Ms. LaDue explained the City asked for this because they want to include all the Board meetings in the City's calendar.

VIII. COMMENTS:

None.

IX. ADJOURNMENT:

There being no further business to discuss, Chair Athol adjourned the meeting at 12:55 p.m.



Catherine Cherry
Minutes Specialist
102815