MINUTES OF THE BOYNTON BEACH POLICE OFFICERS' PENSION FUND QUARTERLY MEETING HELD ON TUESDAY, MAY 12, 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
Scott Caudell

Barbara LaDue, Pension Administrator
Bonnie Jensen - Board Attorney

ABSENT:

Joe DeGiulio
John Huntington

I. CALL TO ORDER – Toby Athol, Chair

Chair Athol called the meeting to order at 10:34 a.m. He announced Joe DeGiulio and John Huntington were sick and Ms. Serene would be present via telephone.

II. AGENDA APPROVAL

The following additions were made:

- Item III - Approval of Minutes of the Special Meeting of March 17, 2015
- Item VII, B, 4 - Attorney Report, Amendment of Disability Section of the Ordinance to allow 30 days if terminated for medical reasons. (Proposed language in the backup material.)
- Item VII, B, 5 - Legislative Review from Attorney Jensen.

Motion

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

III. APPROVAL OF MINUTES – March 17, 2015 Special Meeting

Motion

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

IV. FINANCIAL REPORTS:

A) Quarterly Investment Review – March 31, 2015

1) Russell Investment Group – MJ (Candioto) Serene, CFA

a) Investment Review –

Mary Jane Serene, CFA, Russell Investment Group, joined the meeting at 10:39 a.m. via phone. Ms. Serene reviewed occurrences during the first quarter in the Capital Market. They moved away from U.S. equity markets and there was a leadership change. For the trailing one-year period, equity markets were very strong, but in the third quarter, U.S. equity markets were up just shy of 2%. Their non-U.S. developed counterparts were double that and emerging markets were up as well. The second theme was the U.S. dollar was appreciating. Non-U.S. developed equities were up 3.9% without a currency hedge. For the Multi-Asset Core product (MAC) which was 50% non-U.S., there was a 50% hedge. During the first quarter, European Markets were up 15% in local currency terms. The Euro depreciated about 11%, leaving a 4% return. If they were 100% hedged, the fund would have gained a 15% return. The third theme during the quarter was strong fixed income returns were driven by oil price declines. One component of the yield was an inflation expectation. From a fixed-income perspective, there was a lot of volatility at the beginning of the year which Ms. Serene anticipated would continue. As of March 31, 2015, the yield was 1.9%.

Ms. Serene reviewed Quantitative Easing, (QE). The U.S. was first and most aggressive with QE. In 2013, Europe, Japan and other countries emulated the U.S. She commented the QE program was slowing and moving forward and would be influential with equity markets. Ms. Serene explained the only underperforming asset class was commodities, which was driven because a third of the index came from oil. She noted energy was a small component of the portfolio.

Ms. Serene anticipated in the future there would be a diverging central bank policy. The U.S. stopped the QE program at the end of October and was now considering when they would raise rates. Europe and Japan have favorable monetary policies. Things were improving in Europe and from a market perspective, she thought there was more opportunity. Given developed non-U.S. markets did well, valuations, while attractive, had more growth opportunity in other parts of the world.

Chair Athol inquired how the 2016 U.S. elections would affect the quarter and how far out would the elections affect the market. Ms. Serene explained they have consistently noted the market does not like change and there would be volatility. From a long-term perspective, it would impact sector performance. He asked if the quarter before the elections would stagnate. Ms. Serene thought it would be impacted more by outside factors and much of it would be situational.

Ms. Serene reviewed the fund's asset allocations. The fund had a 7% target allocation to the real estate equity fund. In February, the Board wanted to increase the allocation from 5% to 7% in private real estate. The 2% would be taken from the multi-manager bond fund. The total foreign exposure, including equities, fixed income and real assets, as of the end of March, had about a 20.7% exposure to non-U.S. assets. She noted the Board had been contemplating taking a percentage from the multi manager bond fund to the Absolute Return Fixed Income Fund.

At the start of the year, the fund had $81.5 million in assets. Outflows were 1.1 million, and a market gain of about $1 million. At the end of the quarter, the portfolio had about $82.2 million in assets and as of May 11th, had $82.3 million. There was $800,000 in outflows up to May 11th, and the same type of return from market appreciation.

On the total plan level, the portfolio had about an 8% return, net of fees, for the one-year period, just shy of 5% fiscal year-to-date and slightly more than 2% for the first quarter of this year. The positive returns were driven across all asset classes outside of commodities. Net of fees, the portfolio was 35 basis points ahead of the Russell Custom Benchmark for the period. For the one, three and five-year periods, the portfolio was flat net of fees.

What drove the performance versus the benchmark was the return seeking MAC product. The portfolio was overweight in Europe and Japan and overweight in the U.S. dollar and underweight in commodities. One thing that did not work was the portfolio was underweight in interest-rate sensitive stocks. Ms. Serene had anticipated last year, interest rates would slowly rise and the opposite occurred which hurt the portfolio in the first quarter.

Ms. Serene explained the real estate equity fund, for the quarter, was up 3.44% which would have added 16 basis points to the total portfolio. Part of the return from private real estate came from the income component and capital appreciation. She anticipated capital appreciation would be muted going forward.

b) Absolute Return Fixed Income Fund (ARFI Fund) –
Review and discussion –

Ms. Serene recalled the Board was contemplating diversifying fixed-income exposure away from duration-sensitive portfolios and considering an appropriate time to do so. She explained at the high level, the Absolute Return Fixed Income (ARFI) fund was different than any Resolution Trust Corporation funds used in the past. It was structured in a private placement structure and the funds could only be invested in retirement assets. The RIFL product could invest in most retirement assets and non-profit assets. It is a co-mingled structure. They launched that fund in the RIFL complex to make it available to as wide of a client base as possible. After the last meeting the Board reviewed the documents for the fund.

Mr. Wan reviewed the Investment Policy Statement and commented, generally they were interested in the fund, but needed further education. Attorney Jensen agreed with

Mr. Wan and commented she has seen a lot of these funds, and did not understand them. She understood other funds invest in the product. It was a partnership and there are potential tax implications. She understood the product to be a K1 product which is a taxable partnership. It was something the government was looking at more closely. Governmental plans are not subject to taxation, but that point continues to be raised. She advised the product could potentially have taxable income. She did not know if there was any leverage in the product and there were 11 pages of risk associated with this investment.

Chair Athol did not fully understand the concept of the product and did not know how the risk would even out. Mr. Wan commented the idea was to diversify away from stocks and bonds. This product did not correlate to either which was a benefit to the fund. The product would provide the LIBOR rate plus a certain percentage of increase above it. It was designed to be more stable, but it had more risk than bonds. The bond portfolio was up 3.5% and this product was up 2.3%. Mr. Wan suggested watching it to see how it performed in a rising rate and economically sensitive environment and how stable it was. The Board could then make a fair judgment. He noted this quarter, rates drastically increased and the ARFI outperformed bonds. He suggested taking some time to learn more about the potential risks and liabilities while monitoring the product. He also commented it would increase international exposure.

Ms. Serene clarified the allocation would come from the multi-manager bond fund. There was about 33% of incremental non-US exposure and if the Board moved 2% from it to the absolute return fixed income product, it would increase non-US exposure by two-thirds of a percent. A modest allocation would not derail the portfolio. As to absolute return fixed income she explained it was not steady income. The product would yield LIBOR plus 3%, but there would be positive and negative returns each quarter. It would be a return independent of whichever way interest rates moved. She reviewed the methodology of the product. The objective was to obtain a bond-like return and bond-like risk, over the medium term that was not dependent on interest rates. Ms. Serene wanted to ensure the Board kept track of where they are from an investment/legal and administration perspective. Chair Athol suggested they monitor the product for the next couple of quarters and inquired what the product would cost.

Ms. Serene recalled at the last meeting, there was a vote to change their fee structure. She explained the new schedule was structured to move 2% into private real estate from the multi-manager bond fund and 2% from the multi-manager bond fund into the absolute return fixed income without an increase in fees. The new fee schedule was implemented retroactively to the first quarter. The absolute return fixed income was twice as expensive as the multi-manager bond fund. By moving 2% into the absolute return fixed income, there would be an increase in fees on the total fund level by one basis point. Looking at the way the fees were structured from the beginning of the year, there would have been no change.

Attorney Jensen commented 2% did not seem like a lot, in terms of providing a level of stability, but it did not seem like they would get their bang for the buck. Ms. Serene agreed, but pointed out 2% of the entire fixed income portfolio was about 7%. The main reason to hold fixed income was for capital preservation and risk reduction. She did not expect a lot of return from core fixed income in the future, especially in a slow rising rate environment, but it was important to reduce risk. She did not recommend a big change, but would find value in reallocating some assets to a product that would have similar returns, and have the potential to have a more positive return than the core portfolio in a rising rate environment. The portfolio also has bond exposure in the multi-asset core product, but in that product, it serves a different function.

The existing multi-manager bond fund holds a very small piece of the absolute return fixed income fund. If the non-US piece was not a restriction, it would be recommended they move 5% from the multi-manager bond fund into absolute return fixed income. Regardless of the restriction, they were only talking about a small amount. Ms. Serene gave several examples of how the product had similar aspects from a risk-return view, while being very different than core fixed income.

Chair Athol inquired who the typical clients in the fund were and what their typical shares were. Ms. Serene responded investors in the fund were multi-manager bond managers. There was a similar strategy in the RIFL complex for non-profit clients. The majority of investors were their clients. Other investors are clients concerned they have large assets in fixed income and want to diversify in rising rate environments. So far, the majority of clients were non-profit and public plan clients. Chair Athol requested the performance, net of fees, be included in the report for the next two quarters. Ms. Serene commented they set up a call for Mr. Wan to become familiar with the product with the portfolio manager for the absolute return fixed income and multi-manager bond fund . He would also call into the next meeting for questions and answers.

Attorney Jensen explained the product was very difficult to comprehend. From an investment perspective, Ms. Serene could answer questions, but could not from a fund structure or legal document perspective. Attorney Jensen explained she read a lot of the documents and commented it was not a transparent product. There are a lot of expenses and conflicts of interest in the product. It is a very different structure than the Board was familiar with. Attorney Jensen commented the product was not one she would stand in front of as the Trustees have the authority to conduct due diligence and invest in products that would be a benefit to the fund. She questioned if the Board, from a basic benefit cost analysis standpoint, wanted to pursue the product. It would be a 2% investment yielding a potential small gain for the fund. The one basis point increase would be at the total plan level.

2.) Burgess Chambers & Associates - Head of Research, Frank Wan
a) Fund Performance review –

Attorney Jensen forwarded the Investment Policy Statement, (IPS), which Mr. Wan reviewed and had some concerns. He noted it indicates they will invest in third-party funds, operating similarly to a hedge fund using underlying managers and having two layers of fees. The document indicated they can invest up to 10% of the fund's net assets in equities unhedged, which will result in equity sensitivity. There are times they will invest Exchange Traded Funds. The IPS mentions duplicate expenses and fees. Additionally, there is illiquidity and this product may have similar characteristics. In the event the market is distressed this could be an issue. Mr. Wan commented there was a limited ability to verify the valuation information. The product was closer to a hedge fund than the traditional vehicles they used.

Mr. Wan advised the best return was from global equities which comprised 58.2% of the portfolio. They were over weighted in equity exposures which really helped the portfolio. The U.S. dollar was now very strong because other countries wanted to reduce their rates and currencies to boost their inflation. In April, emerging markets were up 7%.

The multi-asset core product was one of best performers in the portfolio and was up 30.5% for the quarter. The hedge strategy supported higher returns and having a diversified pool helped. In the US stock market, large companies did not do as well as small or mid-sized companies because large company profits are driven internationally and when they convert their foreign profits into US dollars, they took a hit. Real estate was up 3.4%. He noted they recently took $1.4 million from bonds that were losing 4%, and put it in an asset class that should be positive for the quarter. They saved a lot of loss in the second quarter. Mr. Wan thanked Ms. LaDue and Attorney Jensen for their efforts in making the new document changes.

For the one-year period ending December 31, 2014, the portfolio performance was ranked fourth in their Public Pension Universe He commented the City had to publish this data online as part of GASBY's 60-T implementation.

V. CORRESPONDENCE:

1) **Kamp Consulting Solutions –"Liabilities Aware"** memo dated March 5, 2015

Ms. LaDue explained this firm contacted her. This item was for information only.

VI. OLD BUSINESS:

A) Disability Application: Update/Status

1) **Gregory Kenny** – In process of Functional Capacities Exam

Attorney Jensen advised Mr. Kenny completed his Functional Capacity Exam (FCE) and they may get the report the next day. When they receive the report they will send it back to Drs. Worth and Harris. They also received an updated MRI from one of the doctors. Attorney Jensen advised they could have a special meeting when an opinion is received. Chair Athol noted the City may want to do something as well. Human

Resources should collaborate with them, but it was noted it was difficult to obtain feedback. Attorney Jensen explained the Board would review the records and make an initial determination. It was up to Mr. Kenny if they would make a presentation.

Attorney Jensen suggested the members read the pension plan document pertaining to disabilities set forth in Section 18-169C. She will send and give a copy of the disability process to the members. She commented the meeting was not a hearing. The meeting would be the members' first initial review of the documents and it is based on the Plan. The members would then determine if he sustained a medically substantiated service connected injury, disease or disability. At the meeting, the members would either grant the request, deny it or request additional information.

B) Response in reference to media coverage on Pensions - update

Attorney Jensen explained they were working with Sue Marden to prepare the information from the actuarial evaluation and audit. They have a cover memo to be included with the SB 534 information which will help explain it. This information is due to be filed at the end of June.

Chair Athol advised they have the new computer hard and software installed and the cost was split with the Fire Department. The software is up and running and is working flawlessly. The program would shadow the process Ms. LaDue has for the next few months to ensure there were no issues. The next step was to coordinate with them with Dave Williams, who handles their quarterly mail out and have their own pension website where members can access their information.

Attorney Jensen explained they need the most recent financial statement referring to documents the actuary has. They need to post the actuarial valuation, the chart showing five years of actual and assumed rates of return, and the actual asset allocation. There would be a link to the fact sheet the actuary has to put together.

Chair Athol hoped in the future they could coordinate with Mr. Williams and send a flyer to send a link to reduce the mailer to 10% to 15% of the members because the others will be able to access the report online. Attorney Jensen suggested contacting I Retire or Scott Bauer. Chair Athol thought they could have a link from their website. Attorney Jensen will contact them to determine the cost. The Fire Department will be contacted regarding a generic website for the Police and the Fire Departments. It was important to have a secure server.

VII. NEW BUSINESS:

A. Invoices for review and approval:

1. Russell Investment Group – Quarter End 03-31-2015 - $137,952
2. Russell Payment Services – Quarter End 03-31-2015 - $ 921.87

3. Bonni Jensen PA – Service February, March & April 2015 - $2,954.16 – Special Disability FCE cost Kenny - $682
4. Burgess Chambers & Associates – 1st Quarter 2015 fee - $6,250
5. Gabriel, Roeder, Smith & Co- Service thru Mar 2015 - $5,253
6. Davidson, Jamieson & Cristini – Audit balance billing $4,700 & State Report for 2014 - $1,200.
7. Professional Indemnity Agency, Inc. – **Renewal Premium $16,445 paid 4-7-2015 for 4-10-2015/4-10-2016 – Review and ratification**

Motion

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

B) Attorney Report - Bonni Jensen

1) Statement of Policy for Trustee Expenses – Review and approval

Attorney Jensen prepared an updated policy on trustee expenses for mileage reimbursement and to use a per diem policy similar to what the Firefighters use. She noted there were changes on pages 2 and 3 regarding the daily rate of reimbursement for out of pocket expenses and meals to be $60 per day, exclusive of lodging, transportation, parking, tolls, etc. Included with the daily rate were reasonable gratuities and phone calls, but it shall not include reimbursements for personal expenses such as recreation charges, movies, etc. The amount will be adjusted 3% annually, effective January 1, 2016. All expenditures require a receipt in order to be reimbursed.

Attorney Jensen deleted the provision for expenses. She noted State Statute has a per diem rate, which is different than reimbursement for expenses. The per diem rate includes lodging, food and all expenses. The State policy would provide $50 a day. Attorney Jensen recommended, given there is an expense reimbursement, they strike the per diem language.

Motion

Mr. Llopis moved to strike the per diem provision in the policy. Mr. Caudell seconded the motion that unanimously passed.

2) Annual Form 1 Filing

Attorney Jensen advised Form 1s are due and the Trustees should file them in a way to ensure they were delivered and received. There was discussion Ms. LaDue sends them via certified mail. Attorney Jensen provided clarification and instruction to the Trustees regarding the form.

3) HB 534 – Implementation requirements & Section 112.664, F.S. by Keith Brinkman, Bureau Chief

GRS will put together a document and would contact the City when it is complete. The City has to post information on their website and the Police will post information on their site. Ms. LaDue had already contacted the City regarding this requirement.

4) Attorney Report, Amendment of Disability Section of the Ordinance to allow 30 days if terminated for medical reasons. (Proposed language in the backup material.)

Attorney Jensen discussed the Disability Ordinance allows terminated people who were not eligible for disability benefits except for medical reasons to apply within 30 days after termination. She commented there was a question from the Finance Department they just received as they use the same 30-day window for in-line-of-duty disabilities. Ms. LaDue inquired if Human Resources always gives a reason. Chair Athol did not know and thought if terminated for medical reasons, they could ask Human Resources.

Attorney Jensen gave a legislative update and advised two bills had passed. One bill clarified the ability of the Firefighters to collect Chapter 175 funds for areas they provide services for through an Interlocal Agreement. The bill did not include Police which would impact Boynton Beach. Chair Athol explained they do not have ILAs with any of them and the service area has to be a municipality.

Senate Bill 172 had passed. The newspaper reported the governor was unhappy with the bill and is in the 15-day period to decide if he will sign it or not. This bill pertained to the use of future funds and how it would be used. The Police in the next collective bargaining need to say they set up the supplemental plans by mutual consent. Every plan has to set up a share plan, but it was unknown if the plan would be funded. Attorney Jensen advised they will know more on the 23rd regarding whether they had to comply. If passed, they will have to create a budget. The budget does not have to be approved by the City. They have to post it and send it to the members. If there is mutual consent, they do not have to follow the process they set up. They have a collective bargaining agreement, and this provision would become effective October 1, 2015 for non-collective bargaining units or upon entering into a collective bargaining agreement on or after July 1, 2015. She suggested they indicate it was by mutual consent they created supplemental benefits and monthly benefits. Chair Athol noted they have agreed to match 1% of the 185 funds. Mutual consent was important because they cannot impose anything on the members.

Attorney Jensen announced the State passed House Bill 1309 requiring the Board to use the FRS mortality tables in one of the two most recent years. She commented the Board had recently changed the table and had to change it again. She pointed out they cannot smooth the change in. They just have to drop it in. It was noted FRS makes their own tables. They use parts of the RP 2000 table and combine it with others.

Mr. Llopis noted their collective bargaining agreement specifies new hires would be in different tier with a 3% multiplier, but they need to do something right away. He inquired how soon after the contract is ratified they would have to update the Ordinance and learned it would need to be done right away. Chair Athol requested Attorney Jensen start drafting the language. Chair Athol will send the contract to Attorney Jensen. It was noted they will have to determine its actuarial impact.

C) Verification of Retirement Benefits:

1) Chad Shane – Vested Deferred Benefit

Motion

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

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

Ms. LaDue would retire between July and December of 2016. They will draft a Request for Proposal to review and approve for the next meeting. Sometime after August they will issue it to try to obtain a pool of candidates by the end of the year. At the beginning of the year, they would go through the selection process, hire a candidate and have a six-month window to shadow Ms. LaDue. They will also work with the Fire Department who uses Ms. LaDue. The Board would review the responses. It was also noted there are three or four companies that do what Ms. LaDue does and some individuals as well. Attorney Jensen would send it to those entities. Attorney Jensen distributed a sample and explained the list could be customized. Chair Athol suggested Ms. LaDue and Attorney Jensen work together on the scope of services. Chair Athol inquired when would be the best time to issue the RFP and September, October or November was suggested.

VIII. PENSION ADMINISTRATOR'S REPORT

Chair Athol understood Officer Maiorino resigned. If so, he was entitled to a refund of contributions. Attorney Jensen recommended having the documents signed by him, even though his wife had a notarized Power of Attorney as the Power of Attorney laws had changed. After further brief discussion, there was agreement to contact his attorney who could handle the matter. A check will be made out and mailed to him.

Chair Athol announced John Huntington resigned from the Board and he was the appointed member. As a Board, the members could appoint someone else to conclude his term. They could agenda the item and bring nominations for the fifth trustee to the next meeting on August 11th.

1. Benefits as of May 5, 2015

Ms. LaDue provided benefits information from October through May 1, 2015. No action was needed on this item.

2. Pension Hardware/Software Update – Desktop/Monitor and All-purpose Printer - Existing program transfers completed and working with no problems March 23, 2015

Ms. LaDue advised all of her new hardware and software was installed and all of her old programs had been transferred. She will run the new program side by side in the next four to six weeks.

Ms. LaDue pointed out Invoice #7, the Trustee Renewal Insurance was paid. She requested the members review it. It had to be paid by April 10th and the actual amount was $19,000.

It was noted John Huntington will have to fill out both Form 1 and Form 1F.

IX. COMMENTS:

None.

X. ADJOURNMENT:

There being no further business to discuss, Chair Athol properly adjourned the meeting at 12:50 p.m.

Catherine Cherry

Catherine Cherry
Minutes Specialist
060415