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12-8-15

**MINUTES OF THE BOYNTON BEACH POLICE OFFICERS' PENSION FUND
QUARTERLY BOARD MEETING HELD ON TUESDAY, NOVEMBER 10, 2015
AT 10:30 A.M., AT RENAISSANCE COMMONS EXECUTIVE SUITES
1500 GATEWAY BOULEVARD, SUITE NO. 220, BOYNTON BEACH, FLORIDA**

Present:

Toby Athol, Chair
Jason Llopis, Secretary
Scott Caudell
Joe DeGiulio

Barbara LaDue, Pension Administrator
Bonni Jensen, Board Counsel

Absent:

Russell Faine

I. CALL TO ORDER – Toby Athol, Chair

Chair Athol called the meeting to order at 10:39 a.m.

II. AGENDA APPROVAL –

Ms. LaDue added VII B item 4, Firefighters' Joint RFP and Third Party Administrator and item D, change the February meeting date to accommodate the auditors.

Motion

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

Chair Athol advised Russell Faine would not be present at the meeting. He had sustained a broken ankle attending a pension conference.

**III. APPROVAL OF MINUTES – Special Meeting 07-21-2015
Quarterly Meeting 08-11-2015**

Motion

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

IV. FINANCIAL REPORTS:

A) Quarterly & PYE Investment Review – 09-30-2015

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

- a) LSEG agrees to proposed sale of Russell Investments
- b) Investment Review

MJ Serene, Certified Financial Analyst, announced in October, an agreement was reached between the London Stock Exchange Group (LSEG) and TA Associates, a private equity firm, regarding the sale of Russell Investments and the transaction will close the first half of 2016. A third player, Reverence Capital Partners will be a minority partner. Both LSEG and TA Associates are long-term investors that do not effect quick flips. They are interested in multi-asset investments and they have known Russell Investments for 20 years. Their first priority is ensuring clients are happy. They are still owned by LSEG, and they would not hear much from TA Associates beyond general commitments to continue to do what Russell does for its clients.

B. Investment Review.

Ms. Serene advised the third quarter was a rough period for the markets and there were some declines. Russell Investments did not think this was the start of a bear market, rather it was a retreat from market conditions from the first part of the year.

At fiscal year-end, U.S. markets were down slightly and there were materially negative numbers in developed and emerging markets. There were slightly positive returns in the fixed income markets and negative commodity returns that were minus 26% over the year.

The Plan was up 1.5%, which was a respectable return. From a calendar year-to-date perspective, the Plan was down -3%. In October and early November, U.S. markets rebounded about 8% and Ms. Serene noted there were pullbacks.

China impacted other emerging market economies, and to a lesser extent, more developed economies. China has the largest world population. From a global economy view, China is 60% of the size of the U.S. and it was a growing economy. They were looking at double-digit growth in the Gross Domestic Product (GDP), but it slowed 6% to 7%. Compared to the developed world, growth was closer to 2% or 3%.

Despite those factors, China was not a big player in the stock market and only comprised about 3% of the world market cap. The Plan's exposure to China was not astronomical, but it was a good diversifier. Despite negative returns, year to-date over the last year, the returns were flat.

Ms. Serene expected moderate growth and thought the Federal Reserve would make a change in December. Over the last three years, Europe was behind the U.S. from an economic perspective. They stopped quantitative easing. They stopped the bond buying program over a year ago and Europe was still in an easing mode. The GDP growth would be muted, but Ms. Serene anticipated greater potential from a stock

market equity return perspective. Oil prices were low and there were many favorable things for Europe which had a key overweight in the portfolio and the multi-asset core fund. Russell Investments was looking at commodity producing economies such as Canada, New Zealand and Australia.

The asset allocation summary showed the largest holding was 39% in the MAC fund, which is growth return seeking diversified fund with 75% in global equities, 15% in listed real assets, and 10% in fixed income. The Russell Large Cap Defensive Equity Fund was a U.S. only defensive equity strategy. The biggest reason for the equity strategy was to ensure they did not cross over the foreign threshold.

The portfolio started this fiscal year with \$76.2 million. Inflows netted to zero for the year. There was \$1.8 million in investment gains, and the portfolio market value ended with just under \$77.9 million. The real estate results would be issued later and Ms. Serene would email the records to the members. There was a slight adjustment due to positive real estate trust returns of 3%. As of yesterday, the portfolio was at \$84.5 million including the City's contribution.

Mr. Llopis left the meeting at 10:58 a.m.

Ms. Serene explained for the fiscal year, the numbers were adjusted by 20 basis points due to real estate. Net of all fees, the portfolio returned 1.55%.

Mr. Llopis returned to the meeting at 10:59 a.m.

This was 1% higher than the benchmark return. The defensive U.S. equity fund was in line with the benchmark, and it was a value add from an absolute point of view.

U.S. large cap markets were down 7% and the Russell 1000 defensive fund was down 3.5%.

Similarly, the MAC product returned 1% above the benchmark for the third quarter, earning 4% for the fiscal year. The portfolio continues to be overweight in Europe and has a more optimistic view of the European market. Commodity exposures changed from an underweight exposure to a neutral exposure because the asset class was extremely negative. Russell Investments removed the commodity underweight, but still remained underweight to commodity producing country equities. They were also underweight in interest rate sensitive securities. Alternative investment returns in private real estate were 11.88%. On a fiscal year-to-date basis, the return was 15.56%. Ms. Serene noted private real estate typically lags, and there will be an income component, but not as much interest appreciation. When the Federal Reserve approves a rate increase, this would not have an immediate impact because it is a private investment. Real Estate Investment Trusts (REITS) could be immediately impacted. Russell values real estate once a year, so it would take a while to reflect

adjustments, but it is not subject to volatile market reactions. Attorney Jensen noted the manager manages the rates of return.

Chair Athol inquired what changes were made that worked and did not. Frank Wan, Head of Research, BCA, responded they increased private real estate this year and it continues to do well. The managers are actively shifting inside the portfolio and currently the shift was towards Europe. Mr. Wan commented even though the fund was down 3% for the quarter, it was one of the best performing funds in the country.

**2) Burgess Chambers & Associates - Head of Research
Frank Wan**

a) Fund Performance review –

Mr. Wan commented on the state of the pension system. He reviewed all pension plans from the 50s into the 80s. Most plans invested between 85% and 100% in bonds because they could fairly certainly receive an 8% return, but as bond yields decreased, the difference in the return had to come from stocks. Over the last 30 years, risk increased. Mr. Wan explained they cannot avoid market risk, but it could be defined as beta risk. Mr. Wan reviewed beta in the different asset classes over the past 10 years. If more risk was wanted, they should invest in mid to small cap stocks, but in the long run, the risk should be rewarded. Russell Investments made recommendations to invest in other asset classes such as REITS, commodities, private real estate and infrastructure, which in the aggregate, should lower the risk of the fund. He noted the product achieved that goal.

Despite having a large exposure to internationals for the past few years, although the MAC product was down, it did well compared to its peer group and it had a lower beta. Mr. Wan credited the fixed income managers at Russell Investments because the way the portfolio was positioned was rewarded.

All the alpha risk in the portfolio came from private real estate. Real estate for the past year was up 15.6% and the Board added more to it before the market correction. They have an 8% exposure there and it kept increasing. Real estate was a significant value add.

Overall, the portfolio was doing well. Mr. Wan had suggested postponing the discussion about the Russell Absolute Return product. When they contemplated the product, they were looking for bond alternatives. Mr. Wan noted, given the uncertainty in the market, they should be more aware of equity risks because the risk premium in owning equities did not justify the investment. There was also uncertainty about global stocks and many global issues have not subsided. There is uncertainty about rates and no one was projecting inflation. He thought having a low defensive position, some diversification and real estate has been good for the portfolio. The fixed income exposure was fine and they should continue to monitor risk within the equity portion of the multi-manager assets.

Mr. Wan explained they have to take some risk. Hedge funds did not work out for the last six years. He noted larger pension plans were graduating towards hedge funds, but after the fees, they were not producing the results they should. The absolute return was like a hedge fund, but he suggested using real estate. Real estate has a 93% occupancy rate and a net operating growth of over 9%. He thought they should take direction from the Federal Reserve and from other central governments. There are 28 large central banks in the world that were lowering their rates and Mr. Wan thought the fund was well positioned. The Plan ranked well since the recovery.

Mr. Wan announced his firm was migrating to a new system and the Trustees would see a different visual report. They collected information from more pension funds and would have over 650 peers in their universe from throughout the country. Chair Athol asked if they could compare the funds based on size and learned they could. Currently with Florida's regulations compared to other plans, they were in-line with small or large plans.

V. CORRESPONDENCE:

- 1) GRS – Authorization from the Board to work with City to comply with new GASB 68 disclosure.

Motion

Mr. DeGiulio moved to send authorization to the City to comply with the GASB 68 disclosure. Mr. Llopis seconded the motion that unanimously passed.

Ms. LaDue will send the letter.

VI. OLD BUSINESS: N/A

VII. NEW BUSINESS:

A. Invoices for review and approval:

1. Russell Investment Gp. – Quarter End 09-30-2015 - \$131,372
2. Russell Payment Services – Quarter End 09-30-2015 - \$1,004.99
3. Attorney Jensen PA – Service Aug, Sep & Oct. 2015 - \$5,253.22
4. Burgess Chambers & Assoc – 3rd Qtr 2015 fee - \$6,250
5. Gabriel, Roeder, Smith & Co- Service thru Aug 2015 - \$7,192

Motion

Mr. Caudell moved to pay the bills. Mr. DeGiulio seconded the motion that unanimously passed.

B) Attorney Report - Bonni Jensen

- 1) Relocation Notice

Attorney Jensen announced she relocated to the Plantation office and had a different telephone number which she gave to the members.

2) NCPERS Code of Conduct

Attorney Jensen advised the National Conference of Public Employee Retirement Systems (NCPERS) put together a Code of Conduct to be aware of when hiring and working with service providers. The Code reminds the Trustees of their fiduciary responsibilities. It asks for a level of transparency regarding fees and when making decisions about service providers. Some providers were actively supporting defined benefit plans as opposed to those whom were actively looking to diminish defined benefit plans in the public sector. NCPERS promulgated a list of groups who were actively trying to eliminate defined benefit plans in the public sector and wanted the Trustees to adopt the policy. Attorney Jensen did not have any clients that had done so, and advised the purpose of the item was for the Trustees to be cognizant of the fact that there are individuals seeking to eliminate defined benefit plans.

Ms. LaDue asked why the Leroy Collins Institute or the Florida League of Cities was not on the list. Attorney Jensen responded the list was created on a national level.

3) Determination of Supplemental Benefit – Letter of 10-14-2015

Attorney Jensen sent a letter to the State asking if they were a supplemental plan in accordance with Florida Statutes. She believed at the November Division of Retirement Conference there would be a presentation on the topic and they would discuss these and other questions regarding Senate Bill 172. Attorney Jensen would not be able to attend the conference, and Attorney Adam Levinson would try to attend. The conference would be held in Orlando from November 17th to the 19th. Chair Athol advised they will try to send someone for the Wednesday conference when supplemental plans would be addressed. Attorney Jensen attempted to get the Division of Retirement Director to hold a webinar, and believed the Director would speak at 1 p.m. on Wednesday, November 18, 2015 on this subject.

4) Police & Fire Pension Board – RFP for Pension Administrator – Joint venture set up and review process.

Attorney Jensen noted the Trustees have a copy of the RFP the Firefighters put together based loosely on what the Police did. They have a joint request. The firefighters also wanted to target third-party administrators; however, Attorney Jensen did not think the RFP excluded them.

Currently, the monthly office bill is split which includes the rent, copies, connections, phone and the salary. Ms. LaDue commented not all the firefighters want a third-party administrator.

Attorney Jensen thought the RFP should solicit both and Chair Athol agreed. They could issue the RFP together and provide information separately. The joint request was updated per discussions from the last meeting. Ms. LaDue reviewed it and added Item 3. Currently, the City provided the meeting minutes, but the Administrator should be able to handle that task if needed. The Firefighters wanted to have a review meeting in March and hire someone during the summer. The RFP should be issued by the first of the year and could be sent to individuals interested in the position.

Advertisements in national publications would be expensive. Mr. Wan recommended Florida BIZ.net and the FPPTA and suggested Attorney Jensen compile a list of all the administrators her office works with. Chair Athol wanted someone familiar with pension regulations from Florida. Attorney Jensen agreed to issue the RFP after the first of the year.

Attorney Jensen commented at the last meeting, they had discussed the IRS determination letter process. They did not have to make any changes to the DROP plans. She just received a response from the IRS for St. Lucie County and they filed two years ago. If they filed the Determination letter, they would need an amendment describing how the DROP plan interest is calculated. After discussion, the members thought they should not send it in.

Motion

Mr. Llopis moved to not go forward with the IRS Determination letter. Mr. Caudell seconded the motion that unanimously passed.

C) Alive & Well Statements – Institute \$100 administration fee for late return of Statement

Each year the Alive and Well Statements are sent to retirees in June to sign and return. If received Ms. LaDue continues to make payments. If no response is received in June, another letter is sent in September. There are retirees that do not respond back in time and the administrator has to spend a lot of time trying to make contact with them Chair Athol thought instituting a \$100 administrative fee for late statements to cover the time spent to track down these individuals was appropriate. Whatever the cutoff date was, the proposal was if the response does not arrive on time, they would send a check when it is received less the \$100. Attorney Jensen explained that the statute allows the Board to collect fines. Chair Athol requested Attorney Jensen see if they could institute some type of an administrative fee and she agreed.

D. Change February Meeting Date.

Ms. LaDue wanted to change the February 9th meeting date and explained the auditors always make a presentation in February for the plan year ending the previous September. The Firefighters could not change their February Board meeting on February 3rd. She asked if the Board would change their meeting date so the auditors

would not have to make two trips. Chair Athol noted Trustee School was occurring then, and there was agreement to keep the meeting date the status quo.

VIII. PENSION ADMINISTRATOR'S REPORT

1. Benefits as of PYE 9-30-2015

Ms. LaDue reviewed the payments. There were no comments on this item

2. Pension Administrator – Review for 5% raise effective 10-01-2015 (\$119.85 a month)

Ms. LaDue explained the Firefighters increased her salary 5% and she inquired if the Police would do the same. The amount shown was just the Police portion. The last time she received a raise was last October.

Motion

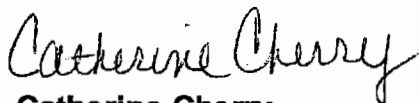
Mr. Caudell moved to approve the 5% raise. Mr. Llopis seconded the motion that unanimously passed.

IX. PUBLIC AUDIENCE COMMENTS: (Limited to three (3) Minutes)

None.

X. ADJOURNMENT:

There being no further business to discuss, Chair Athol properly adjourned the meeting at 12:08 p.m.



Catherine Cherry
Minutes Specialist
113015