

GENERAL EMPLOYEES PENSION BOARD

Minutes of November 20, 2014

Meeting was called to order by Chairperson, Stephen Swank at 1:04 p.m.

Item 1. Roll Call

Members Present: Teresa Cantore, Vincent Dole, James Smith, and Stephen Swank
Members Absent: Francine Ramaglia
Guests Present: John McCann, Brendon Vavrica (Thistle Asset Consulting), Noel Pfeffer, Karen Schell, Jack Warner, Milena Walinski and Aida Smith.

Item 2. Approval of the General Employees' Pension Board Agenda for November 20, 2014.

Mr. Dole moved to approve the agenda for November 20, 2014, seconded by Mr. Smith. Said motion passed unanimously.

Item 3. Approval of the General Employees' Pension Board Minutes for August 21, 2014.

Mr. Smith moved to approve the minutes of August 21, 2014, seconded by Mr. Dole. Said motion passed unanimously.

Item 4. Public Comments.

Mr. Warner brought up two items for discussion; reimbursement of legal and auditors expenses and comparison of investment returns and differential between managed funds and index funds between General Employees' and Police and Firefighters pension plans. Both items will be discussed further on the agenda in detail.

Item 5. Consent Agenda:

A. Approval of the Following Invoices:

- a. Denver Investment Advisors LLC, dated August 8, 2014, in the amount of \$10,547.27 for quarterly investment management fee for the period of April 1, 2014 through June 30, 2014.
- b. State Street Global Advisors, dated August 14, 2014, in the amount of \$2,500.00 for investment management fee for the period of April 1, 2014 through June 30, 2014.
- c. Gabriel, Roeder, Smith & Company, dated August 12, 2014, in the amount of \$5,266.00 for benefit calculations for Constant, Stanganelli, Simmons and Koch, further preparation of the October 1, 2013 Actuarial Valuation Report and GASB no. 67 exhibits.
- d. RhumbLine Advisers, dated October 8, 2014, in the amount of \$8,173.00 for quarterly investment management fee for the period of July 1, 2014 through September 30, 2014.
- e. Dana Investment Advisors, Inc., dated October 11, 2014, in the amount of \$13,902.71 for quarterly investment management fee for the period of October 1, 2014 through December 31, 2014.
- f. The Boston Company Asset Management, LLC, dated October 16, 2014, in the amount of \$17,180.26 for quarterly investment management fee for the period of October 1, 2014 through December 31, 2014.
- g. Thistle Asset Consulting, Inc, dated November 10, 2014, in the amount of \$7,750.00 for performance monitoring for the quarter ending September 30, 2104.
- h. Denver Investment Advisors LLC, dated October 30, 2014, in the amount of \$10,542.96 for quarterly investment management fee for the period of July 1, 2014 through September 30, 2014.
- i. State Street Global Advisors, dated November 8, 2014, in the amount of \$2,500.00 for investment management fee for the period of July 1, 2014 through September 30, 2014.

B. Approval of the Following DROP Retirement(s):

- | | |
|-------------------------|------------------------------------|
| a. Name: | Leon Slydell |
| Age: | 55 |
| Monthly Pension Amount: | \$2,933.85 |
| Benefit Commenced: | November 1, 2014 |
| Benefit Requested: | 66 2/3% Joint and Survivor Annuity |

C. Approval of the Following Termination Refund(s):

- Daniel Sunday (City Garage) in the amount of \$266.65.
- Katie Perez (City Clerk) in the amount of \$1,795.04.
- James Lester (Water & Sewer) in the amount of \$3,404.85.
- Maudeline Jean-Claude (Fire) in the amount of \$8,344.24.
- Tamara Genius (Environmental Services) in the amount of \$2,614.13.

D. Approval of the Following Beneficiary Disbursement(s):

- Carole Sanzone, beneficiary of Jerome Sanzone, in the amount of \$1,604.53 for one year and then reduced to \$962.72 until the earlier of her death or remarriage.

E. The General Employees' Pension Board accepts that the Plan has received the following check(s) which have been deposited in the Trust Account.

- Lisa Hartman in the amount of \$350.00, deposited October 3, 2014 for reimbursement of actuarial fees for the purchase of air time calculations.
- Alberta Gaum Rickard in the amount of \$350.00, deposited November 4, 2014 for reimbursement of actuarial fees for the purchase of air time calculations.
- James Schmitz in the amount of \$500.00, deposited November 7, 2014 for reimbursement of actuarial fees for the purchase of air time and purchase of government calculations.

F. The General Employees' Pension Board is being advised of the class action settlement report from both Portfolio Monitoring Agencies.

G. Distribution of the Quarterly Meeting Schedule for the General Employees' Pension Board for Calendar Year 2015.

Mr. Smith moved to approve the consent agenda, items 5A through 5G, seconded by Mr. Dole. Said motion passed unanimously.

Item 6. Review of Signature Authorization.

Ms. Schell indicated at times it was difficult to obtain signatures as individuals are at meetings or out of the office quite frequently. As Ms. Teresa Cantore is now a board member, she is requesting approval from the board to have her added as a signee.

Mr. Dole moved to approve the addition of Ms. Cantore as a signee, seconded by Mr. Smith. Said motion passed unanimously.

Item 7. Review of Actuarial Contract.

Mr. Swank indicated at the last meeting City Attorney was to interpret whether the Board was able to enter into agreements such as this.

Mr. Pfeffer indicated the Board has the power to retain this individual for services. You may go ahead and enter into that contract.

Mr. Swank reiterated we are now advised that we may enter into this agreement which means the Board goes back to reviewing the actuarial contract. There were questions that we deferred pending the okay for us to deal with this matter.

Mr. Swank indicated this item will shall be put on the agenda for the next meeting. In addition requested Karen to contact Mr. Amrose to let him know we are looking forward to reviewing the contract with him in February.

Item 8. Review of GRS letter-Senate Bill No. 534.

Ms. Schell indicated Mr. Amrose of GRS had already gone over this with the Board previously. This is something that has to be done; it's just a matter who the Board wants to have complete it.

Mr. Swank indicated in addition to GRS calculating the assumed rate of return that is 2% below the Plan's assumed rate of return which is intended to illustrate the discount rate sensitivity of the Plan; GRS proposes calculations using an assumed rate of return that is 2% above the Plan/s assumed rate of return.

Mr. Vavrica confirmed yes, the Board is required to report 2% less which is completely arbitrarily and make your plan look much worse than it actually is. However, if numbers are being picked out of the hat, why doesn't the board also do the calculations of 2% above to show how much better it will be? Just about every plan in the state is paying a little extra money to show that secondary calculation.

Mr. Dole moved to have GRS complete the calculations of 2% below and 2% above with reference to Senate Bill No. 534; seconded by Mr. Smith. Said motion passed unanimously.

Item 9. Review Reimbursement of Legal Expenses.

Mr. Warner has not yet discussed this item with City Attorney. He is not going to presume to set their rates. One way to set rates would be what he calls is a cost of services reimbursement; the other would be on a value of service basis.

Mr. Swank questioned what caused all of this to start.

Mr. Warner indicated the new Chief Financial Officer..."I was surprised to find the General Employees' pension plan was not charged for legal expenses." Police and Fire pay their own legal counselor.

Mr. Swank indicated Ms. Schell's cost/salary is split between the two funds. This would make a difference because we are only using a small percentage of the time of the legal department. Mr. Swank suggested Mr. Warner come back to the board with his methodology. Mr. Swank questioned if the Board should expect any other overhead type items.

Mr. Warner indicated this board does not have an independent auditor; they share the city's auditor. This may be a small expense.

Mr. Smith indicated the auditor was at a recent meeting and indicated the amount of time they spend on this plan is very minimal and would not be much in the way of fees.

Mr. Swank indicated Mr. Warner should bring further information back to the board at the next meeting.

Item 9. Review of Plan's Performance Evaluation for the Period Ending September 30, 2014.

A. Review of Asset Allocation.

Mr. McCann started with a review of the Equity Analysis for the plan. This report illustrates the plan assets; 5% of plan assets shall not be in any one security.

Mr. Vavrica reviewed the Compliance report stating Dana's equity return over the trailing 3-year period did not exceed the R1000G Index (2 yr. 18.94 vs 19.21) and the 5-year period did not exceed the R1000G Index (3 yr. 22.32 vs 22.45); nor did Dana's equity return rank in the top 40% of the Mobius Broad Large Cap Growth Universe (48th). RhumbLine's Midcap equity return over the trailing 3-year (22.38 vs 22.43) or 5-year (16.34 vs 16.37) period did not exceed the S & P 400 Index. RhumbLine's Large Cap Value equity return over the trailing 3-year (23.83 vs 23.93) or 5-year (15.19 vs 15.26) period did not exceed the

R1000V Index. RhumbLine's Large Cap Growth equity return over the trailing 3-year (22.39 vs 22.45) or 5-year (16.44 vs 16.50) period did not exceed the R1000G Index. Denver fixed income return over the trailing 3-year period did not rank in the top 40% of the 65% Mobius Broad Fixed Income and 35% Intermediate Fixed Income Universe (2-year 61st).

Mr. Vavrica continued with the review of the Executive Report. The asset allocation illustrates a total of \$110,314,000; Midcap \$18,116,000 (16.4%), Large Value \$26,374,000 (23.9%), Large Growth \$25,563,000 (23.2%), International \$4,993,000 (4.5%), Fixed Income \$34,022,000 (30.8%) and \$1,246,000 in Cash (1.1%).

The total fund for the quarter was -0.72% vs. -0.52% ranking 67th; for one year the return was 12.26% vs. the policy of 10.887% ranking 20th; three years 14.84% vs. the policy of 13.42% ranking 27th; and five years 10.83% vs. the policy of 10.63% ranking 29th. Equity return for the quarter was -0.83% vs. the policy of -0.957% ranking 46th; one year 16.58% vs. the policy of 16.00% ranking 19th; three years 22.77% vs. the policy of 21.86% ranking 12th and five years 15.12% vs. the policy of 15.09% ranking 12th. Fixed Income return was -0.42% vs. the policy of 0.07% for the quarter ranking 80th; one year 4.03% vs. 3.33% ranking 67th; three years 2.64% vs. the policy of 2.27% and five years 4.25% vs. the policy of 4.03%.

Boston Company's quarterly return was 1.25% vs. the policy of -0.19% ranking 9th; one year 20.33% vs. the policy of 18.89% ranking 9th. Dana's quarterly return was -0.01% vs. the policy of 1.49% ranking 79th. Harding Loevner's quarterly return was -4.34% vs. the policy of -4.56% ranking 17th.

RhumbLine's Midcap quarterly return was -4.00% vs. the policy of -3.98% ranking 64th; one year 11.79% vs. the policy of 11.82% ranking 53rd. RhumbLine's Large Cap Value quarterly return was -0.18% vs. the policy of -0.19% ranking 57th; one year 18.80% vs. the policy of 18.89% ranking 25th. RhumbLine's Large Cap Growth quarterly return was 1.50% vs. the policy of 1.49% ranking 30th; one year 19.09% vs. the policy of 19.15% ranking 30th. Denver's quarterly return was -0.03% vs. the policy of 0.01% ranking 51st; one year 3.41% vs. the policy of 2.97% ranking 73rd and State Street's quarterly return was 0.18% vs. the policy of 0.17% ranking 49th.

At this time Mr. Vavrica addressed Mr. Warner's request of comparisons between the General Employees' plan and Police and Firefighters. In reviewing the Police and Fire's September 30th report, the General Employees' plan has done quite a bit better in terms of return. A few reasons, one is there is a difference in allocation; the GE plan is heavier in equity. The Police and Fire's report indicates their equity at 51%; however, they have some alternatives that need to be counted in that category. The difference in allocation is not as great as it might seem. The biggest difference is the return of the asset classes that the General Employees' has. Over the last 3 years, the GE plan's equities have outperformed the Police and Fire by 2.5% each year. Police and Fire's real estate has done 10%; however, that is just 4% of their assets. If one looks at the 5 years, the majority of the time, GE had less equity than Police and Fire. It's just the equities that the GE plan had.

Mr. Warner commented he is actively looking at structural changes. He believes there are ways for both funds to receive the benefits of the same manager without either funds decision interfering. In addition he is thinking of a total combination of government administration and management that would contain two separate funds. Other than that, everything would be unified. What are the combinations from where we are now? It would not take a Florida Statute change but changes at the city level. Number one thought is in improving performance; two is to reduce total administrative costs which the city can help with that; and third to improve the presentation of the fund. I would like to be sure the actuarial representations we are receiving of the funds are as accurate as possible.

Mr. Vavrica commented the fact that the General Employee plan has done better does not necessarily make it a guarantee that a year or two years from now it would be the same situation. Keep in mind if one looks at the total equity section of the General Employees' report, they will see over the trailing 5 years that the benchmark, the index has been in the 13th percentile; that's unusually high. In short what that is telling us is in the past 5 years it's very much favored passive indexing versus active. One of the components, the reason the General Employees' plan has done better is because of its passive share; but that could switch around in a month. We've had a tail wind behind the passive side which has benefited the plan beautifully.

Mr. Vavrica continued with the review of asset allocation stating there has not been much change since the last quarter. Equity is slightly overweight; it is slowly being pulled back by the monthly redemptions. There is a bit more in passive. You're essentially split equally between large value and large growth.

B. Review of City's Annual Contribution.

Contributions from the City are due to come in mid-December. Mr. Vavrica suggested when contributions from the City are received, they be allocated to fixed income. Mr. Vavrica commented if the city were to pay on a quarterly basis, the plan would earn money on that lump sum payment throughout the year; to the extent returns are positive, the city would benefit. It ultimately lowers the contributions.

Mr. Dole moved to allocate city contributions to the Denver account (fixed income), seconded by Mr. Smith. Said motion passed unanimously.

Mr. Vavrica indicated over the trailing 3-years, Dana underperformed the benchmark by 13 basis points; that's equivalent to an index fund fee, they've essentially been flat to an index fund. They've not provided any excessive returns; however, it's not been a deficit either. Mr. Vavrica suggested to continue to slowly pull down on the passive; if there is a tide shift, then possibly make more of an allocation change as oppose to just a slow draw down.

Mr. Swank commented he is more of a proponent of indexing and does not want to see a continue draw down in index funds.

Mr. Vavrica stated the draw down schedule would be approximately 1.5% over six months. In total equity the plan's performance is 22.8%; the benchmark if 21.8%. You've beat it by 100 basis points; mostly due to Boston. But the plan's active share is the reason equities have outperformed the benchmark. If it were passive only; equity would be worse by approximately 100 basis points.

Item 11. Other Business.

None.

Motion to Adjourn:

There being no further business, Mr. Dole moved to make a motion for adjournment, seconded by Mr. Smith. Said motion passed unanimously. The meeting adjourned at approximately 2.48 p.m.

The undersigned is the Secretary for the General Employees' Pension Board. The information provided herein is the minutes of the City of Delray Beach General Employees' Pension Board of November 20, 2014, which minutes were formally approved and adopted by the General Employees' Pension Board on February 19, 2015.



Karen Schell
Secretary General Employees' Pension Board