

GENERAL EMPLOYEES PENSION BOARD

Minutes of Special Meeting June 12, 2015

Meeting was called to order by Chairperson, Stephen Swank at 1:02 p.m.

Item 1. Roll Call

Members Present: Teresa Cantore (arrived 1:04pm), Vincent Dole, Francine Ramaglia (arrived 1:10 pm), James Smith, and Stephen Swank (left 1:50 pm)
Members Absent: None
Guests Present: Brendon Vavrica (Thistle Asset Consulting), Karen Russo, Mark Rhein (Salem Trust) and Karen Schell.

Item 2. Approval of the General Employees' Pension Board Agenda for June 12, 2015.

Mr. Dole moved to approve the agenda for June 12, 2015, seconded by Mr. Smith. Said motion passed unanimously.

Item 3. Review of Investment Policy.

Mr. Vavrica indicated the changes are in response to the audit findings discussed at the last board meeting. A few specifications were requested; on page 4, under the Fixed Income section, item 3, a credit rating of BBB was changed to BBB-. Secondly, if a bond was purchased within the terms of the guidelines, but later downgraded what would happen? The proposed additional verbiage was added: "If a security that is held in the portfolio is downgraded below the limitations listed above, the manager shall have the discretion to hold or sell the security based on the best interest of the plan. Should a manager decide to hold a security that has been downgraded below the limitations listed above, they will report on that security with a brief explanation on their decision."

Board members questioned about inserting a time frame.

After a brief discussion, board members agreed to add at the end of the new verbiage "within 45 days".

Mr. Smith moved to approve the investment policy change on page 4, under Fixed Income as discussed, seconded by Mr. Dole. Said motion passed unanimously.

Mr. Vavrica continued with one more additional change under the Target Asset Mix Table: change Fixed Income's target weight to 15 and Convertible Bonds' target weight to 7.5 with a maximum weight of 12.5.

Mr. Smith moved to approve the investment policy change on page 6 under the Target Asset Mix Table as indicated above, seconded by Mr. Dole. Said motion passed unanimously.

Item 4. Review/Discuss Salem Trust Internal Control Report.

Karen Russo introduced Mark Rhein who works out of the Tampa office. He will discuss the SSAE16 report, answer questions from the Board, inform the board of where Salem Trust is today and what has been accomplished.

Mr. Rhein, Chief Officer of Salem Trust, indicated the SSAE16 is a report of control objectives and control points from the perspective of what Salem Trust is doing to support their activity so auditors can use it when they complete their audit report.

Back in June of 2013, Salem Trust went through a trust accounting conversion. This conversion was a benefit conversion transferring a system provider to a new system provider for pension retirees. Retirees began receiving their retirement payments by ACH and/or debit cards. There were no problems with this

conversion. Comments received were much better appreciated because retirement benefits were on time without having to wait for the check to be delivered and processed through the bank.

The second conversion was the trust conversion. Salem Trust made the decision to convert and is left with the consequences. One very important part of the conversion process is having your service partners follow directions as requested. When converting, we requested all investment consultants to alert the broker that all settlements and trades are forwarded to the new mailbox as there is a new system in place. Most individuals followed directions; however, there are always those that do not and the problems manifested themselves from that event. Those problems required manual intervention. Mr. Rhein shared the differences of how it should have been processed and what happened; automatic transactions are similar to the ATM; put your card in, enter your pin, receive your money. Manual intervention, one goes to the branch, writes out a check, goes to the teller, teller reviews the account to make sure you have the funds, etc. Different manual steps along the way when dealing with a manual process involving settlement of securities. There were approximately 2,000 transactions which peaked to approximately 5,000; that put Salem Trust behind. Individuals processing the settling of those securities were trying to get those sale trades processed quickly so the statements could be produced (which were delayed). Statements were not available until October; normal statement cycling occurred the beginning of January.

During the review period of June 1, 2013 through June 30, 2014, the external auditors indicated Salem Trust had a control point for settling securities on a daily basis where a daily settlement journal was completed. They requested that journal; Salem Trust did not have it. Didn't mean activity wasn't being performed, one could see that on the statements. Salem Trust did not receive a favorable opinion let alone the SSAE16 audit due to the lack of source documentation. As a consequence, the adverse opinion was issued for the SSAE16.

The next SSAE16 time period is July 1, 2014 through June 30, 2015. Mr. Rhein stated he is part of the group meeting every week to insure all is being done that needs to be when the external auditor comes in again. (Same auditors, same entity.) The auditors have agreed to start sooner than originally scheduled; should be on site starting July 6th. Normally this report is released towards the end of October; we are aiming for an early October delivery date.

The real impact after the emotional consequence and the dire reviews of the adverse opinion were replaced by sound judgment. As a result of the SSAE16, Salem Trust asked what else needs to be done; 90% of their clients said nothing, the other 10% felt additional testing needed to be completed. Reputation of Salem Trust stands. From a reputation standpoint, the impact is broader than the financial impact on their clients. Whenever one is in the midst of a crisis, one will have the consequences of the crisis. In this case, the crisis was the conversion. It is also true the magnitude (impact) of the crisis can be reduced if you have the right people on staff; Salem Trust did not. We now have a new Director of Operations with different people working in our operations area. Due to this change, Salem Trust feels very confident the next review period will have a much more favorable opinion.

Ms. Ramaglia questioned if Salem Trust lost clients due to the reputation and how it has impacted them getting new clients.

Mr. Rhein responded, first question is have we lost clients, yes. As a direct consequence of the conversion, since 2014 Salem Trust has lost approximately 15 clients; however, not all 15 were the direct result of a client initiated action. About 6 left because of an action Salem Trust took. For clients not profitable, Salem Trust basically said in order for you to remain with them, for the full scope of services, the depth of resources they have, two offices in Florida, six relationship managers with a full competent staff delivering the highest quality service in the state of Florida, you do not get a Sebring price for Delray Beach experience. Those clients, who were in that position, were asked to consider a fee increase; they declined and went with a different service provider (they made their decision based on price).

During this period of time, Salem Trust also received increases from clients despite the conversion and the SSAE16; reason being the quality of people in the field. All daily administrative items were being taken care of, quickly, promptly, diligently and efficiently. Not once did a request come into our relationship manager that was missed.

Ms. Ramaglia questioned putting in perspective, if none of the clients left by their choice, how is that relative to the total client roster, and have you had to expand or contract.

Mr. Rhein stated it's important to know the services provided to Delray Beach are not the only types of service Salem Trust offers. It is an important component to their business; however, Salem Trust also provides services for insurance companies, nonprofits and endowments. From the SSAE16 perspective and the conversion perspective they were relatively unimpaired. Different type of service and expectation; they are all fiduciary but don't have individuals like Delray's consultant looking at the statements every month to make sure all is okay. From the revenue screen, Salem Trust still has enough revenue to support them. From the standpoint of the employee composition, an employee submitted her resignation in December to move to a different organization for a different type of experience. Salem Trust is almost exclusively the defined benefit market; they don't participate in the defined contribution plan. This employee received a job offer with the defined contribution plan in which she wanted to learn more about.

Mr. Smith questioned how many clients like Delray Beach, Salem Trust has in Florida and outside.

Mr. Rhein responded approximately 250, exclusively in Florida.

The second part of Ms. Ramaglia's question is business development. Most of Salem Trust's time has been talking with people just like Delray Beach; trying to spend more time working through the consequences of the SSAE16 so businesses are fully informed of the magnitude. It is very difficult from the business development side to attract more business with this reputation out there. Once the reputation is behind us, we expect more business.

Mr. Dole questioned Ms. Schell's relationship with Salem Trust.

Ms. Schell commented Salem Trust is very good and thorough with requests submitted. If there were items or documents not received, they are addressed immediately; they are her eyes also. Ms. Schell has no problem with them, they respond on a timely basis.

After a brief discussion, Mr. Dole (stepped up as Vice Chairperson) reiterated the consensus of the board was to have a verbal visit from Salem Trust for the August meeting and a final report for the November meeting.

Motion to Adjourn:

There being no further business, Mr. Smith moved to make a motion for adjournment, seconded by Mrs. Cantore. Said motion passed unanimously. The meeting adjourned at approximately 1:52 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 June 12, 2015 which minutes were formally approved and adopted by the General Employees' Pension Board on August 20, 2015.



Karen Schell
Secretary General Employees' Pension Board