

## GENERAL EMPLOYEES PENSION BOARD

### Minutes of November 21, 2013

Meeting was called to order by Chairperson, Stephen Swank at 1:27 p.m.

#### **Item 1. Roll Call**

Members Present: Vincent Dole, James Smith, Stephen Swank and Milena Walinski  
Members Absent: None  
Guests Present: John McCann and Brendon Vavrica (Thistle Asset Consulting), Brian Shutt and Karen Schell

#### **Item 2. Approval of the General Employees' Pension Board Agenda for November 21, 2013.**

Mr. Smith requested to add an item for public comments as discussed at the last meeting. It was agreed to table the election of secretary to the next meeting.

Ms. Walinski requested to add review of GRS contract as Item 7a and review of Salem Trust Contract as Item 7b.

Mr. Dole moved to approve the agenda as amended for November 21, 2013, seconded by Ms. Walinski. Said motion passed unanimously.

#### **Item 3. Approval of the General Employees' Pension Board Minutes for August 15, 2013.**

Mr. Dole moved to approve the minutes of August 15, 2013, seconded by Ms. Walinski. Said motion passed unanimously.

For the record, there were no members from the public.

#### **Item 4. Consent Agenda:**

##### **A. Approval of the Following Invoices:**

- a. Denver Investment Advisors, LLC, dated August 6, 2013, in the amount of \$10,134.18 for quarterly investment management fee for the period of April 1, 2013 through June 30, 2013.
- b. State Street Global Advisors, dated August 9, 2013, in the amount of \$2,500.00 for investment management fee for the period of April 1, 2013 through June 30, 2013.
- c. Thistle Asset Consulting, Inc., dated August 5, 2013, in the amount of \$7,750.00 for performance monitoring for the quarter ending June 30, 2013.
- d. City of Delray Beach, dated September 24, 2013, in the amount of \$3,065.00 for the revised monthly reimbursement for Karen Schell, Pension Administrator.
- e. Dana Investment Advisors, Inc., dated October 8, 2013, in the amount of \$11,678.63 for quarterly management fee for the period of October 1, 2013 through December 31, 2013.
- f. The Boston Company Asset Management, LLC, dated October 14, 2013, in the amount of \$15,736.92 for quarterly management fee for the period of October 1, 2013 through December 31, 2013.
- g. State Street Global Advisors, dated November 8, 2013, in the amount of \$2,500.00 for investment management fee for the period of July 1, 2013 through September 30, 2013.

##### **B. Approval of the Following Deferred Retirement(s):**

a. Name: Alison MacGregor Harty  
Age: 60  
Monthly Pension Amount: \$2,267.09  
Benefit Commenced: October 1, 2013  
Benefit Requested: 100% Joint and Survivor Annuity

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

- a. Christopher Wilson (Water & Sewer) in the amount of \$12,235.77.
- b. Jennifer Nixon (Police Department) in the amount of \$1,541.52.
- c. Michael Gaylord (Parks & Recreation) in the amount of \$1,576.87.
- d. Corey Battie (Water & Sewer) in the amount of \$3,169.08.
- e. Nicholas Windsor (Police Department) in the amount of \$3,517.96.
- f. David Boyd (Finance Department) in the amount of \$6,247.24.
- g. Sindy Rivera (Parks & Recreation) in the amount of \$1,011.41.

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

- a. Vantagepoint Transfer Agents, LLC in the amount of \$37,395.00, deposited August 16, 2013 for Marlo Dahl purchase of air time.
- b. Arthur Lang, in the amount of \$350.00, deposited September 3, 2013 for purchase of previous year's 3% multiplier.
- c. Allan Nichols, in the amount of \$2,204.02, deposited September 10, 2013 for refund of overpayment of DROP benefits.
- d. Mary Ann Young, in the amount of \$350.00, deposited October 10, 2013 for purchase of previous year's 3% multiplier.
- e. Guy Buzzelli, in the amount of \$350.00, deposited October 10, 2013 for purchase of previous year's 3% multiplier.
- f. Katie Hartmann, in the amount of \$350.00, deposited October 10, 2013 for purchase of previous year's 3% multiplier.
- g. Maria Marino-Bollan, in the amount of \$350.00, deposited October 10, 2013 for purchase of previous year's 3% multiplier.
- h. Paul Fleetwood, in the amount of \$350.00, deposited October 10, 2013 for purchase of previous year's 3% multiplier.

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

**F. Distribution of the Quarterly Meeting Schedule for the General Employees' Pension Board for Calendar Year 2014.**

Ms. Walinski moved to approve the consent agenda as amended to reschedule the board meeting's start time back to 1:00 p.m.; seconded by Mr. Smith. Said motion passed unanimously.

**Item 5. Review of GASB No. 67 Implementation Package by Gabriel, Roeder, Smith and Company.**

Ms. Walinski indicated the service provided by the actuary for the pension plan, OPEB and the City are defined separately; they are not mixed with the pension plan.

After a brief discussion, the board's decision was to table this item to the February meeting.

**Item 6. Review of COLA Requests.**

Ms. Walinski indicated the General Employee's Pension Plan doesn't have a COLA. Therefore, in the past, every five years the board would review the fund to consider a COLA to retirees. The last COLA approved was in 1999.

After a brief review, the majority of the board members agreed this is not the decision of the board.

Mr. Vavrica commented other plans state if one meets a certain rate of return, usually a return in excess of the assumed rate, it would kick off a 13<sup>th</sup> check to each retiree as a bonus.

**Item 7. Review of Contracts.**

**A. Salem Trust.**

Mr. Smith questioned if staff and Thistle Asset were content with the service provided by Salem Trust.

Ms. Walinski indicated as far as the administrative aspect, Ms. Schell is very happy with Salem Trust. Ms. Walinski commented she has been very displeased with their latest conversion process. Without the monthly reports, the City is not able to document any entries. As of to date, we have not received the October's report; September's was received the second week of November. Trading instructions were changed and their blame is to the investment manager's stating they did not follow instructions.

Mr. Vavrica indicated in May, Salem Trust changed their system causing major delays in the June month end and continued all the way through the third quarter of this year. Literally caused a four week delay in the September statements and is still ongoing; the issues are not behind us. Mr. Vavrica continued, stating they are not able to tell if the Plan's performance has been impacted by all of these problems. The trading was different because the managers can't do what they want to do. We've been telling our clients, when all the dust settles, Thistle Asset will be doing a performance comparison for each of the accounts. Whatever the performance has been to the plan during this period, they will then compare this performance to those accounts of other custodians for that particular investment manager. It's possible the plan could have benefited from this or vice versa. Mr. Vavrica stated no advancement can be pursued until the dust settles.

**B. Gabriel, Roeder, Smith and Company.**

Ms. Schell indicated this contract was tabled because it went before the City Commissioners to see if the Board would be granted the responsibility of the actuary. Mr. Shutt indicated this was approved and the board now has that responsibility.

Mr. Smith has concerns of Gabriel, Roeder, Smith and Company not being before the board for questions. Mr. Smith commented he has concerns with several items listed in the agreement; certainly the cost of living and he objects to the \$300.00 for each pension calculation. He also questions if the liability insurance fee is high enough. Mr. Smith feels this should be put out for bid.

Mr. Swank stated more importantly than the CPI is the based charge; he is not familiar with actuarial rates. All we can relate to is the fact that they have not raised the rates too much over the last few years; they seem to be standard fees. Mr. Swank believes the rates would not be much less. The board is happy with their service.

Mr. Vavrica commented Miami Beach had a similar conversation. Their carrier was offering up to \$1.5 million of coverage for a \$650 million plan. Delray's is similar in percentages, \$100 million with \$250,000.

Mr. Smith also indicated there is a 90 day written notice for cancellation. Mr. Smith continued stating on page 6, GRS shall act with due diligence on all matters, but shall not serve as fiduciary. Shouldn't they have fiduciary responsibility?

Mr. Vavrica indicated several firms are trying to get out of signing as fiduciary.

Mr. Swank questioned what the City's policy is of putting out a contract for bid?

Mr. Shutt stated it was adopted earlier this week; anything above \$25,000 will need to go out for a true RFP bid process. There are exemptions for professionals; actuaries are one of those exemptions in which it does not have to go out for a bid process. Mr. Shutt suggested receiving a copy of the packets from Miami Beach who is currently bidding out for an actuary.

With the board agreeing to pay for copies; Mr. Dole moved to table Gabriel, Roeder Smith and Company's contract pending receipt of City of Miami Beach actuarial packets, seconded by Mr. Smith. Said motion passed unanimously.

**Item 8. Review of Plan's Performance Evaluation for the Period Ending June 30, 2013.**

**A. Performance**

Mr. Vavrica started by reviewing the Compliance report. RhumbLine's Large Cap Value equity return over the trailing 3-year period did not exceed the R1000V Index; 16.18 vs. 16.25. RhumbLine's Large Cap Growth equity return over the trailing 3-year period did not exceed the R1000G Index; 16.89 vs. 16.94.

Mr. Vavrica continued with the review of the Executive Report. The asset allocation illustrates a total of \$100,409,000; Midcap \$16,202,000 (16.1%), Large Value \$24,548,000 (24.4%), Large Growth \$22,397,000 (22.3%), International \$4,726,000 (4.7%), Fixed Income \$31,562,000 (31.4%) and \$974,000 in Cash (1.0%).

The total fund for the quarter was 4.56% vs. 4.22% ranking 42<sup>nd</sup>; for one year the return was 13.19% vs. the policy of 11.70% ranking 30<sup>th</sup>; three years 10.76% vs. the policy of 10.56% ranking 32<sup>nd</sup> and five years 8.67% vs. the policy of 8.81% ranking 39<sup>th</sup>. Equity return for the quarter was 6.69% vs. the policy of 6.63% ranking 65<sup>th</sup>; one year 22.52% vs. the policy of 21.27% ranking 27<sup>th</sup>; three years 15.77% vs. the policy of 16.00% ranking 12<sup>th</sup> and five years 10.04% vs. the policy of 10.32% ranking 55<sup>th</sup>. Fixed Income return was 0.60% vs. the policy of 0.58% for the quarter ranking 38<sup>th</sup>; one year -1.24% vs. -1.51% ranking 47<sup>th</sup>; three years 3.04% vs. the policy of 2.91% and five years 5.51% vs. the policy of 5.44%.

Boston Company's quarterly return was 5.55% vs. the policy of 3.94% ranking 12<sup>th</sup>; one year 27.45% vs. the policy of 22.302% ranking 3<sup>rd</sup>. Dana's quarterly return was 7.79% vs. the policy of 8.11% ranking 66<sup>th</sup>. Harding Loevner's quarterly return was 7.90% vs. the policy of 8.74% ranking 86<sup>th</sup>. RhumbLine's Midcap quarterly return was 7.54% vs. the policy of 7.54% ranking 50<sup>th</sup>; one year 27.56% vs. the policy of 27.68% ranking 46<sup>th</sup>. RhumbLine's Large Cap Value quarterly return was 3.93% vs. the policy of 3.94% ranking 82<sup>nd</sup>; one year 22.19% vs. the policy of 22.30% ranking 29<sup>th</sup>. RhumbLine's Large Cap Growth quarterly return was 8.08% vs. the policy of 8.11% ranking 63<sup>rd</sup>; one year 19.23% vs. the policy of 19.27% ranking 73<sup>rd</sup>. Denver's quarterly return was 0.61% vs. the policy of 0.59% ranking 39<sup>th</sup>; one year -1.31% vs. the policy of -1.52% ranking 34<sup>th</sup> and State Street's quarterly return was 0.52% vs. the policy of 0.57% ranking 43<sup>rd</sup>.

Mr. McCann continued reviewing the aggregate portfolio snapshot illustrating the equity managers, Boston, Dana, RhumbLine and Harding Loevner with a total equity portfolio value of \$67,744,397.00. Large cap totals 61%, 32% in mid cap and 6% in small cap; 31% in Value, 30% in Core and 38% in Growth. Mr. McCann continued reviewing each investment manager separately.

Mr. Vavrica indicated RhumbLine has now aggregated all three accounts, with a revised statement with a credit for the last quarter.

At this time Mr. Vavrica reviewed the Convertible Bond Manager Search indicating the first page lists the management followed by illustrations of rankings by year return and risk. Please note the fees are not scored. On page 10 illustrates the scoring and the up/down capture along with the capture spread.

In response to Mr. Smith's question if there were other clients' interest in convertible bonds, Mr. Vavrica stated no. There has been discussion; however, there has not been any interest. Other boards have moved into real estate. In the spectrum, you have bonds on one side and equity on another; both real estate and convertible securities are between the two. Convertible securities are a little closer to equities than real estate. Real estate is close to fixed income, real estate as well as the convertible bonds are in the same general ball park, between the two. As the diversifier you are adding risk, more volatility, closer to equity.

Mr. Vavrica reviewed the investment alternatives with different scenarios; fixed income and equity hybrid. If we're taking money from fixed income and not replacing by real estate, this is one step out being equity/fixed hybrid. This is a longer term projection. Over the next three to five years, you are likely to have a bigger return pick up by diversifying away from the fixed income then what is shown here. The return difference is understated for a few years. There's probably more return benefit than what is actually shown here. When it comes to our recommendation, when we look at this form, we like taking it only from fixed income, not equity. In the investment policy you're talking about taking it from the fixed income; however, your actual fixed income allocation today is at 31%. If completed today, you would be actually

taking it from equity to fund it for rebalancing. Mr. Vavrica recommendation would be to go from 60/40 to 60/35 and 5 for convertible.

Mr. Smith moved to change the policy allocation to 60/35 and 5 for convertible, seconded by Mr. Dole.

Ms. Walinski questioned what the convertible bond is.

Mr. Vavrica responded it is a hybrid between the two. There is a convert category. It would be its own category. The funds would come from the accounts that are overweight at the time of the move. We would use this opportunity to rebalance.

Ms. Walinski commented she would not want to change the policy; have it remained at 60/40 and have it classified from fixed to equity.

Mr. Vavrica questioned what the auditor would classify it as. Other clients have managers that utilize convertible bonds as a piece of their pie. The manager has that discretion to buy or not to buy. Here this would be a dedicated slice. There is a component of convertible per that category that could be below investment grade. The mutual funds often have, the way mutual funds are structured, 80% must be a certain way, 20% are flexible. Your fixed income is required to be investment grade or higher. If this were classified as fixed income there is a chance you could conflict with that quality requirement.

Ms. Walinski stated she doesn't want to lower the requirement with the understanding it is not investment grade.

Mr. Vavrica stated it's not talking about going into a high yield bond; and recommended categorizing it as its own category.

Said motion passed with Ms. Walinski dissenting.

Mr. Dole moved to select Allianz for the convertible bond investment, seconded by Mr. Smith. Said motion passed.

**B. Asset Allocation Rebalancing and Cash Disbursements.**

Mr. McCann indicated the first part is to fund the convertible bond appropriately, balancing as we do so. The second part is to split the fixed income. His suggestion was to have 25% with Denver, the intermediate fixed manager, and 10% with State Street (long term). Taking from State Street to Denver; there would be more fixed income into the intermediate.

Mr. Swank suggested having Mr. McCann talk to Denver to see if they have a dedicated intermediate bond, holding off on the balancing until we meet again.

Mr. Dole moved to have the Investment Policy be changed to allow the convertible category to include less than investment grade investment funds, seconded by Mr. Smith. Said motion passed with Ms. Walinski dissenting.

There was discussion on the rising interest rate of the bond portfolio.

**C. Review of City's Annual Contribution.**

Mr. Swank questioned speeding up the annual contribution to save on interest being paid.

Ms. Walinski indicated it depends on when the tax moneys come in.

**Item 9. Other Business.**

Mr. Smith questioned about the employee annual statement.

Ms. Schell indicated the Summary Plan Description is updated every two years.

Mr. Smith continued indicating some meetings the board and county commissioners are part of that board. The only time they come to the meeting is if they want to or if they need a quorum. On our team we have a

small finance staff and two individuals from the department are on the board. Can the finance department afford to have both individuals come to this meeting? In the past, he believes the only person that has ever missed a quarterly meeting has been either of the two representatives from the city. In a way is there a merit to have direction sent to the city commission to consider having both finance people as alternative members.

Third, I'm not sure how two people who work in the same department and are on this board abide by the sunshine requirement. Maybe it's waived for city; but Mr. Smith sees it could be a particular problem.

Mr. Shutt stated it is not waived.

Mr. Swank commented if you have someone filling in once in a while, they would not be following the history of issues. Mr. Swank believes the board is doing fine as it is.

Ms. Walinski stated she felt Mr. Smith casted an aspiration on her that she did not care for.

Mr. Smith said repeatedly that he did not mean for his remarks to be taken personally.

Ms. Walinski continued indicating when Mr. Safford was here, we also followed rules and procedures. If ever there was a time when we thought it would turn to the sunshine law not being followed, we would call in Karen. We have always tried to do the best; and the commissioner who selected me thought I would be the best person assigned for the employee position. When I retire, they can select whoever they want. But no matter who they get as an employee, we are all bound by the same rules of the sunshine law. There's a lot of talk about the board and I know people talk about whatever their decisions are. But when you're talking about fiduciary liability; and it just so happens I heard one of the commissioner's talk and their thinking was it should be favored to the city. When you sit on this board, your fiduciary responsibility is to this board, to the retirees and active members. You can't just say you should be looking out for the citizens of Delray Beach.

Mr. Smith agreed the fiduciary responsibility is for the retirees and active employees of the plan.

**Motion to Adjourn:**

There being no further business, Mrs. Walinski moved to make a motion for adjournment, seconded by Mr. Dole. Said motion passed unanimously. The meeting adjourned at approximately 4:23 p.m.

The undersigned is the Finance Director of the City of Delray Beach and 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 21, 2013, which minutes were formally approved and adopted by the General Employees' Pension Board on February 20, 2014.



Karen Schell  
Secretary, General Employees' Pension Board

cc: Louie Chapman, Jr., City Manager  
Terrill Pyburn, City Attorney  
Department Heads