

TOWN OF LONGBOAT KEY CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES QUARTLY MEETING

MINUTES: May 22, 2015

1. CALL TO ORDER

Chairman Steve Branham called a meeting of the Board of Trustees for the Town of Longboat Key Consolidated Retirement System to order at 8:32am in the Town Commission Chamber located at 501 Bay Isles Road, Longboat Key, Florida.

Those persons present included:

TRUSTEES

Steve Branham, Chair
Frank Cona, Vice-Chair
Ann Ross, Secretary
Bill Forcht
Jim Haas
Sandi Henley (8:45am)
Lou Levy
Nancy Woodley

OTHERS

Lee Dehner, Christiansen & Dehner
Scott Baur & Vanessa Rodriguez, Resource Centers
John Thinnis, Boghahn Consulting
Mark Rhein & Lynn Skinner, Salem Trust
David Wheeler, Graystone Consulting
Sue Smith, Finance Director

TRUSTEES ABSENT AND EXCUSED:

Judd Jensen

All present recited the Pledge of Allegiance.

2. PUBLIC COMMENT

No members of the public were present to comment.

3. APPROVAL OF THE MINUTES

Nancy Woodley made a motion to approve Minutes for Special Meeting of April 24, 2015. The motion was seconded by Lou Levy and approved by the Trustees 7-0.

4. REPORTS

Salem Trust (Mark Rhein, COO)

Mark Rhein reported that 90% of Salem Trust clients concluded the adverse opinion on the SSAE-16 audit had no impact on the services provided by Salem; the other 10% of Salem Trust clients completed additional testing and found no issues as a result. Mr. Rhein then explained the purpose of the SSAE-16 audit, stating that some auditors do not even rely on the SSAE-16 as part of the normal audit process. He stated that staff at Salem now meet on a weekly basis to address gaps identified in the report. Testing on the next cycle will begin July 1, 2015. Mr. Rhein expressed confidence that Salem will not have any more such issues on the next cycle. Mr. Rhein then addressed the fraud issues experienced by an investment affiliate. He stated that, among assets seized from the person selling fraudulent securities, the Orlando hotels are up for sale and will go to auction. Salem acted as the custodian for the short term investment fund and mutual fund for Pennant, the investment affiliate that purchased fraudulent securities in the portfolio. He indicated that the entire process to settle claims and related litigation will likely take a

couple of years to even determine the final loss to investors in the portfolios. He reiterated that those investors did not include any Florida public funds.

Sandi Henley joined the Meeting at 8:45am.

Mr. Rhein expects Salem to receive an unqualified opinion on the next SSAE-16 audit by September 30, 2015, with the actual report issued shortly after September 30. Mr. Rhein then stated that Salem has not lost any custody clients due to this specific issue. Salem has lost 15 accounts to date, but the company also raised fees on some unprofitable business causing clients to leave for other reasons.

Graystone (David Wheeler)

Dave Wheeler from Greystone Consulting had a brief discussion on unemployment, noting unemployment had decreased without corresponding increases in jobs. Mr. Wheeler continued to make comments on the domestic economy and global markets.

The investment assets for the former Police Retirement System returned 1.19% for the quarter ending March 31, 2015, compared to a return of 1.82% for the benchmark. For the fiscal year to date, the assets gained 3.86% compared to 3.68% benchmark. The investment portfolio for the former Police Retirement System had assets of \$7,014,000 as of March 31, 2015. The investment portfolio for the former Firefighters Retirement System, meanwhile, returned 1.06% for the quarter ending March 31, 2015 compared to a return of 1.82% for the benchmark. For the fiscal year to date, the assets for the Firefighters Retirement System returned 3.26% compared to a return of 3.68% for the benchmark. The investment portfolio for the former Firefighters Retirement System had assets of \$15,449,000 as of March 31, 2015.

Mr. Wheeler then made comments about individual managers for each portfolio, and he briefly addressed the watch list for managers with recent underperformance. He also reviewed compliance of the assets with the Investment Policy for the former Police and Firefighters Retirement Systems. He stated that the portfolio and managers should perform better when the market includes some down periods, since the extended period of recent market gains left most of the managers trailing the market itself.

Lou Levy requested that the Consultants provide the quarterly investment reports in advance of the Board meeting.

Mr. Wheeler addressed the specific performance for Wentworth Hauser for the former Firefighters Retirement System. The Board for the legacy Firefighters Retirement System originally adopted a more conservative investment approach overall, then added Wentworth Hauser as a more aggressive international manager to add some diversification. Wentworth Hauser, however, had consistently performed under the corresponding international value benchmark since. Mr. Wheeler explained that Wentworth Hauser makes substantial sector bets. For the most recent quarter, however, the portfolio managed by Wentworth Hauser lost -12% compared to a return of -2.3% for the benchmark. Mr. Wheeler stated that the Board might consider replacing Wentworth.

Nancy Woodley questioned how long the Board should tolerate underperformance before firing the manager. Mr. Wheeler explained that the market had no negative returns for the past 13 quarters apart from the most recent quarter. Managers that perform better defensively, therefore, will trail the market during extended periods of gains. Frank Cona requested additional details regarding the performance by Wentworth. Mr. Cona favored immediate replacement of Wentworth Hauser, liquidating the portfolio and holding the assets in the corresponding EFT index until the Board selects a replacement manager.

Frank Cona made a motion to direct Morgan Stanley to terminate Wentworth Hauser and recommend alternatives, investing the portfolio in the MSCI EAFE Index ETF until such time as the Board selects a replacement manager. The motion was seconded by Lou Levy and approved by the Trustees 8-0.

Bill Forcht asked Mr. Wheeler if the Police portfolio had used managers with a similar mandate to Wentworth. Mr. Wheeler indicated that Delaware managed a similar portfolio for the former Police Retirement System. David Wheeler indicated that he would complete a search and recommend possible replacements for Wentworth with a week, so the Board could review the alternatives at a special meeting. Mr. Wheeler also stated that Morgan Stanley would need additional authorizations to purchase an ETF in the portfolio as a replacement asset for Wentworth.

Sandi Henley made a motion to authorize the chair to execute documents for Morgan Stanley to make the interim changes directed by the Board. The motion was seconded by Frank Cona and approved by Trustees 8-0.

Morgan Stanley will sell assets in existing account, then move assets to new account for purchase of the MSCI EAFE ETF.

Bogdahn Consulting (John Thinnes)

John Thinnes from Bogdahn Consulting committed to providing reports to the Board by the end of the month following the quarter end.

John Thinnes stated that interest rates decreased again during the quarter, with \$2 trillion of European securities now with negative yields. As a result, overseas investors are pouring cash into US due in search of higher yields. He therefore sees long rates likely to remain low for some time. Mr. Thinnes reported that the former General Employees Retirement System had assets of \$10,620,502 as of March 31, 2015. The portfolio gained 1.96% net of fees for the quarter ending March 31, 2015, compared to a gain of 2.07% benchmark. For the fiscal year to date, the assets gained 4.7% compared to 4.6% benchmark.

Mr. Thinnes recommended replacing Manning & Napier with a mutual fund alternative due to consistent under performance relative to the benchmark for that manager, and he has mutual fund alternatives for the Board to consider. Mr. Thinnes then reviewed the checklist for compliance of the portfolio with the Investment Policy. He further addressed long term performance issues. Lou Levy suggested the Board should increase the allocation of assets to international securities. Mr. Thinnes showed the performance for international equities compared to domestic equities.

Mr. Thinnes reviewed 3 recommended replacement options for Manning & Napier including the Europacific Growth Fund, Pear Tree Polaris and a Transamerica International Equity portfolio. He considered the expense ratio for each portfolio, along with portfolio holdings and turnover. The Europacific Growth Fund has the greater diversification and lowest expenses of the choices. Pear Tree Polaris, meanwhile, had much greater volatility than the other managers. John Thinnes recommended replacing Manning & Napier with the Europacific Growth Fund. Bill Forcht asked if the Board should first consolidate assets before implementing the change. Chairman Branham noted that the Board needed to manage assets during consolidation process as well. The Board of Trustees further discussed the recommendations from John Thinnes.

Nancy Woodley made a motion to move funds from Manning & Napier into the Europacific Growth Fund on the advice of the consultant. Jim Hass seconded the motion, approved by Trustees 8-0.

Administrator Report (Scott Baur)

Scott Baur stated that the Board needed to update signature authorizations on file with First State. The Board previously provided such authorizations to Morgan Stanley, although First State requires separate Board authorizations.

Mr. Baur then addressed archived cassette tapes of past meetings for the closed Firefighters Retirement System and Police Officers Retirement System retained by the Town in records storage. The Town wishes to dispose of the old cassette tapes rather than continue to keep and maintain the equipment to play the old meeting recordings. The meeting recordings no longer serve any apparent useful purpose, the meetings have approved minutes on file, and state records retention guidelines allow for their disposal.

Nancy Woodley made a motion to update signature authorizations for First State. Lou Levy seconded the motion, approved by Trustees 8-0.

Nancy Woodley made a motion to allow disposal of archived cassette tapes in a manner consistent with any applicable state records retention guidelines. Anne Ross seconded the motion, approved by Trustees 8-0.

The Board took a brief recess.

Attorney Report (Lee Dehner)

Lee Dehner provided the Board with a brief legislative update. Mr. Dehner stated that SB 534 mandated new reporting requirements. Senate Bill 242 and House Bill 1309 require all local retirement systems to use the same mortality assumptions as FRS (Florida Retirement System). His office is currently working on updating the ordinance for routine compliance. Mr. Dehner reminded the Board to file the annual Form 1 financial disclosure by July 1st with the Supervisor of Elections in the county in which each Trustee resides. He recommended that the Trustees keep proof of filing for their records. Nancy Woodley asked if she needs to fill out and file another Form 1, since she just completed the disclosure form when she joined the Board. Mr. Dehner responded that every Trustee must file by July 1. Bill Forcht clarified that the Board must comply with the mortality assumption changes by October 1, 2016.

Mr. Dehner stated the Consolidated Retirement System is not subject to budget requirements mandated by Senate Bill 172, since those provisions apply only to Chapter 175 and Chapter 185 local police and fire plans in Florida.

5. RATIFYING OF INVOICES.

The Board reviewed the Warrants for payment of invoices dated May 22, 2015, for the former General Employees, Police Officers, and Firefighters Retirement Systems.

Jim Haas made a motion to approve the Warrants dated May 22, 2015, seconded by Sandi Henley, and approved by the Trustees 8-0.

6. NEW BUSINESS

Scott Baur explained the current process for the Board to solicit proposals for service providers. Any Requests for Proposals for the Retirement System will go through the Town procurement process, with a selection committee appointed to review and narrow the responses. The Board will have input to that selection committee process. From there, the full Board will consider the selection of any service

providers before making a formal recommendation to the Town. The Town will then contract the selected provider for services.

Mr. Baur reported that the selection committee reviewed and ranked proposals received for Trust Custody and payment services, narrowing the responses down to three finalists: First state, Key Bank and Fiduciary Trust. The three finalists will make presentations to the selection committee, which includes Chair Branham, Sue Smith, and Lisa Silversmith. The selection committee will then choose from the finalists at a meeting in June, and the Board may hear a presentation from the provider chosen by the selection committee. For the current process underway for the Request for Proposal for trust custody and payment services, the Board can identify an alternative provider to Salem Trust if needed.

The Trustees considered the next scheduled meeting date for the Board in June.

Bill Forcht made a motion to move Agenda Item 9, schedule for the next meeting date, for immediate consideration. Sandi Henley seconded the motion, approved by Trustees 8-0.

The Board further considered dates and options for the next meeting of the Trustees. Chairman Branham set the date for the next meeting on June 18, 2015 at 8:30 AM. He indicated that Vice Chair Cona would Chair that meeting, since he would be out of town. The Board then moved the start time for the scheduled July 22, 2015 meeting time to 1:30 PM, subject to room availability.

Mr. Baur updated the Board on the preparation of the Request for Proposal for investment consulting services. Once the Town issues the Request for Proposal, members of the Board will serve with representatives from the Town on the selection committee to narrow the responses. Lou Levy indicated that he would like to serve on that selection committee. He asked if the Request for Proposal process could be designed in such a way as to reduce the volume of material provided by companies submitting proposals; he would prefer to receive only the volume of documents from the finalists identified by the selection committee. Mr. Baur will review the process with the Town to determine if Town procurement guidelines allowed for such a process.

Sue Smith, Finance Director, addressed possible cash payouts for members with greater than 10 years of service. She provided two different scenarios and summarized the results of a study completed by the actuary. If all eligible members selected a cash payout, Consolidated Retirement System assets would only reduce from \$32M to \$26M. As such, Graystone provided an opinion that the proposed cash payout would not significantly impact return assumptions, investment performance, or asset diversification in the portfolio. The Trustees briefly considered the mechanics of any payout offered by the Town to the members. Bill Forcht questioned whether the Town could offer a similar payout to retired members of the plan or members still in the DROP.

Chairman Branham wanted the actuary and Board counsel to consider any further impact from the proposed cashout. Bill Forcht stated the amounts of payouts offered to the members depends on the plan assumptions, so he questioned which assumptions the actuary would use. Doug Lozen based the payout amounts on the original assumptions used for the past cash payouts for consistency.

Eric Cumberland, Firefighter of Longboat Key, addressed the Board. He stated that the Firefighter members support the process by the Town to offer the cashouts to vested members. The Town previously offered the option to only non-vested members. The Board considered whether the process should include previously vested terminated members. Mr. Cumberland also agreed that members should have a window to make such an election.

Dave Bullock, Town Manager, addressed the Board. He stated that the decision to implement the cashout would be addressed in bargaining between the Town and the union. He simply wanted the Board to make a recommendation to the Town regarding the process. Chairman Branham suggested some additional time to review the process, to make certain the Board and the Town used accurate assumptions and properly considered any definitions of actuarial equivalency contained in the ordinance.

7. OLD BUSINESS

Chairman Branham reported that staff at the Town had another meeting to consider the authority of the Board to engage certain service providers. The meeting included Chairman Branham, Lee Dehner, Jim Linn, Maggie Portale, Sue Smith and Dave Bullock. Following the meeting, he received a draft ordinance that he believes still merits further discussion and consideration of the role of the Board in the process.

Lee Dehner advised that the Trustees should have discretion over all service advisors to the Board, while the draft ordinance left the contracting for all service providers to the Town. Mr. Dehner explained that the Trustees have a fiduciary to the plan, and as such, the Board should not delegate the authority to hire appropriate advisors to the Town. He also believes that the Board should have input to the provisions of the agreements with service providers as well. The Board considered the process for the Board to retain investment managers. Chair Branham advised the current ordinance gives the Board authority over the selection and retention over the service providers related to oversight and investment of the plan assets. Sue Smith explained Chapter 38 of the Town Charter, which sets forth the procurement guidelines for the Town. Chair Branham indicated that the process to resolve any issues is still ongoing.

Bill Forcht withdraws his request to invite the Senator to address the Board.

David Wheeler, Greystone Consulted, addressed the Wentworth Hauser replacement. He provided the results of a replacement manager search to the Board for consideration. He reviewed operations, asset allocation, performance, and expenses for the managers. He reported that the managers included in the search results added value through excess returns on a risk adjusted basis. He then made specific comments and recommendations regarding Federated and Lazarus, two of the managers. Mr. Wheeler advised the current agreement with Morgan Stanley only allowed the Board to select individual managers. Morgan Stanley will need new agreements with the Board to purchase an ETF in the portfolio. Mr. Levy suggested the Board ultimately consider a separate allocation to emerging markets.

Lou Levy made a motion to move assets from Wentworth Hauser to Delaware Investments, rather than the MSCI EAFE ETF. Frank Cona seconded the motion and approved by Trustees 8-0.

8. BOARD COMMENTS

The Trustees had no additional comments.

9. ADJOURNMENT

There being no further business, Chairman Branham adjourned the meeting at 12:30pm

Respectfully Submitted,

Ann Ross