

**West Palm Beach Police Pension Fund
2100 North Florida Mango Road
West Palm Beach, Florida 33409**

Minutes

**March 10, 2017
8:30 AM**

CALL THE MEETING TO ORDER

Mr. Frost called to order the West Palm Beach Police Pension Fund Meeting on March 10, 2017 at 8:32 AM, in the main conference room of the Ernest George Building of the Palm Beach County Police Benevolent Association.

Present at the meeting: Jonathan Frost, Board Chairman; Troy Marchese, Board Secretary; Joseph Ahern, Board Trustee, and Craig Kahle, Board Trustee.

Also present: Lou Penque, Member; John Boles, Anchor Capital; Jeff Amrose, Board Actuary of Gabriel Roeder Smith; John McCann, AndCo Consulting; Bonni Jensen, Board Attorney, Klausner, Kaufman, Jensen & Levinson; Dave Williams, Plan Administrator. Marisa DeMato, Labaton Sucharow via conference call.

PUBLIC COMMENT

Mr. Frost congratulated Troy Marchese for his recent promotion to the rank Captain. This sentiment was echoed by the others present as well.

APPROVAL OF THE MINUTES

Mr. Frost asked if there were any changes required to the minutes of February 10, 2017. Mr. Frost's offered his comments, which were duly noted. Mr. Ahern made the motion to approve the minutes, which was seconded by Mr. Marchese. All Trustees voted yes, and the motion was passed 4-0.

APPROVAL OF DISTRIBUTIONS

New Warrants were presented for review and execution. Warrants approved at the last meeting were presented to the Board in spreadsheet format by Mr. Williams. A formal administrative report was also provided for consideration. After Mr. Williams outlined the report (which included the refund of contributions for Wolfgang Brunnet), Mr. Marchese made the motion to approve, which was seconded by Mr. Ahern. All Trustees voted yes, and the motion was passed 4-0.

INVESTMENT MANAGER PRESENTATION – MIDCAP VALUE

Mr. John Boles of Anchor Capital came before the Board and provided a firm update, to include the secession plan for the founder. Mr. Boles also provided a market update prospective and highlighted the index movers where the actual companies did not earn revenue. Investments in firms that generate little or no revenue would not be a company that Anchor Capital would be interested in for investment. Mr. Boles felt those investments would not be prudent for long term growth. Mr. Frost spoke of the quality argument raised by Mr. Boles. The upside and downside protection was also noted. In short, Mr. Boles capsulized his position by reporting the passive market was driven by the Federal Reserve. Recent purchases and sales were also provided.

Anchor Recent Performance:

Performance	
	Fiscal Year to Date (10/01/16-02/28/17)
Total Portfolio*	9.79
Russell Midcap Value	10.3

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Anchor Allocation:

Asset Allocation		
Asset Class	Market Value	% of Total
Equities	\$ 14,671,718.94	93.2%
Fixed Income	\$ 0.00	0.0%
Cash & Equivalents	\$ 1,073,698.79	6.8%
Total	\$ 15,745,417.73	100%

Mr. McCann completed a Morningstar analysis and affirmed that Anchor Capital are doing what they were hired to do.

ACTUARIAL VALUATION REPORT

Mr. Jeff Amrose, Board Actuary of Gabriel Roeder Smith came before the Board and presented the September 30, 2016 Actuarial Valuation Report.

Contribution requirements for the plan year beginning October 1, 2017 were reported as follows:

Defined Benefit Contributions for For Fiscal Year Beginning	Contributions Expressed as Percents of UnDROPed Payroll(1)			Contributions Expressed as Percents of Payroll Including DROP		
	October 1, 2017		October 1, 2016(3)	October 1, 2017		October 1, 2016(3)
	After Changes	Before Changes		After Changes	Before Changes	
Normal Cost:						
Service pensions	16.65 %	16.91 %	16.73 %	14.31 %	14.54 %	13.74 %
Disability pensions	1.54	1.64	1.64	1.32	1.41	1.35
Survivor pensions						
Pre-retirement	0.34	0.20	0.20	0.29	0.17	0.17
Post-retirement	1.14	0.77	0.76	0.98	0.66	0.62
Termination benefits:						
Deferred service pensions	0.98	1.01	1.01	0.84	0.87	0.83
Refunds of member contributions	0.79	0.78	0.78	0.68	0.67	0.64
Total Normal Cost	21.44	21.31	21.12	18.42	18.32	17.35
Unfunded Actuarial Accrued Liability (UAAL):						
Retired members and beneficiaries	0.00	0.00	0.00	0.00	0.00	0.00
Active and vested terminated members	1.07	0.75	4.32	0.93	0.65	11.94
Total UAAL	1.07	0.75	4.32	0.93	0.65	11.94
Administrative Expenses (net of charges to Share and DROP accounts)	0.97	0.97	0.92	0.83	0.83	0.76
Total Calculated Contribution Requirement	23.48 %	23.03 %	26.36 %	20.18 %	19.80 %	30.05 %
Adjustments to Calculated Contribution Requirement:						
Temporary full funding credit	0.00	0.00	0.00	0.00	0.00	0.00
FS112.64(5) compliance	0.46	0.31	1.17	0.39	0.26	0.44
Total adjustments	0.46	0.31	1.17	0.39	0.26	0.44
Total Adjusted Contribution Requirement:	23.94 %	23.34 %	27.53 %	20.57 %	20.06 %	30.49 %
Member portion	11.00 %	11.00 %	11.00 %	9.46 %	9.46 %	9.04 %
Chapter 185 portion	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
City portion	12.94 % ⁽²⁾	12.34 %	16.53 %	11.11 %	10.60 %	21.45 %
Expected Covered Payroll for Contribution Year	21,758,873	21,758,873	20,520,962	25,310,972	25,310,972	24,975,132
City Contribution Requirement Paid Quarterly	2,815,599	2,685,046	3,392,116	2,815,599	2,685,046	3,392,116
City Contribution Requirement Paid at Beginning of Fiscal Year	2,709,311	2,583,687	3,285,065	2,709,311	2,583,687	3,285,065

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As exhibited above, the Total Normal Cost as of October 1, 2017 is valued at 21.44% of payroll (or 18.42% if including dropped payroll). Further, the Unfunded Actuarial Accrued Liability cost is valued at 1.07% of payroll (or 0.93% if including dropped payroll). Mr. Amrose valued the Total Calculated Contribution Requirement to be 23.48% as of October 1, 2017, which is a net decrease from October 1, 2016 of 2.88%.

Additionally, pursuant to F.S.112.64(5) an expense of 0.46% is imposed due to the lack of payroll growth. That is a decrease from 0.71% for the fiscal year October 1, 2016. Based on the foregoing, the Total Adjusted Contribution Requirement was valued at 23.94%, or a decrease of 3.59% from October 1, 2016. The active member portion is 11.00%, Chapter 185 portion is 0.00%, which leaves a net percentage due from the Fund Sponsor (City of West Palm Beach) of 12.94%, or \$2,815,599. ¹

It was highlighted that the funding level was valued at 98.9% as of October 1, 2016, which is an increase from the October 1, 2015 level of 97.01%.

Mr. Amrose indicated that the results for the September 30, 2015 Actuarial Valuation exhibited in this Report reflect the proceeds from a Pension Obligation Bond in the amount of \$50 million deposited into fund assets in July 2016, as detailed in the study dated October 20, 2016. As directed by the Board, all of the proceeds from the Pension Obligation Bond were used to write down the amortization base established as of September 30, 2011 for the combined unfunded actuarial accrued liability (with an outstanding balance of \$54,307,433 and an shortened amortization period of 10.7062 years remaining as of September 30, 2015).

The mortality assumption was changed from the RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvements projected to all future years after 2000 using Scale AA to the mortality assumption used by the Florida Retirement System (FRS) for Special Risk Class members in the actuarial valuation as of July 1, 2016. The current FRS mortality tables for “healthy members” are the RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for post-retirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. For males, the base mortality rates include a 90% blue collar adjustment and a 10% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. *This change was made in compliance with Florida House Bill 1309, which requires all public pension plans in Florida to use the same mortality tables used in either of the last two actuarial valuations reports of FRS no later than September 30, 2016.* The state mandated assumption change described above increased the Required Employer Contribution by 0.60% of covered payroll.

Another potential area of variability has to do with the annual payment on the unfunded accrued liability (UAL). This payment is computed as a level percent of covered payroll under the assumption that covered payroll will rise by 4.5% per year. According to the Florida Statutes, this payroll growth assumption may not exceed the average growth over the last ten years which is 1.03%. Amortizing the UAL as a level percent of payroll using a 1.03% payroll growth assumption instead of a 4.5% payroll growth assumption caused the required contribution to increase by approximately \$100,000. ²

Mr. Amrose explained for this valuation a long-term average annual future net investment return assumption of 8.00%, or about 8.5% before investment expenses, was used. While this assumption is identical to that used in the previous valuation, it is materially above the 50th percentile average returns in our capital market outlook models which are based on the long-term forecast of eight investment consulting firms.

¹ This amount is reduced to 12.45% (\$709,311) of covered UnDROPEd payroll if the contribution is made on October 1, 2017.

² (5)(a) If the amortization schedule for unfunded liability is to be based on a contribution derived in whole or in part from a percentage of the payroll of the system or plan membership, the assumption as to payroll growth shall not exceed the average payroll growth for the 10 years prior to the latest actuarial valuation of the system or plan unless a transfer, merger, or consolidation of government functions or services occurs, in which case the assumptions for payroll growth may be adjusted and may be based on the membership of the retirement plan or system subsequent to such transfer, merger, or consolidation.

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Based on a generic 65% equity, 35% fixed income portfolio, the model's 50th percentile average annual long-term future return is significantly lower than 8%, and the likelihood of actual long-term future returns meeting 8% is significantly less than 50%. An assumed net rate of return of 7.0% would be more in line with projected expected returns over the next 20-30 years. He recommend that consideration be given to lowering the investment return assumption, even if achieved over a period of years.

Mr. Amrose concluded his presentation by issuing an opinion that the required contribution rate determined by the most recent actuarial valuation is sufficient to meet the Fund's funding objective, presuming continued timely receipt of required contributions.

The Trustees were very pleased with the report and discussed the possibility of adjusting the investment return assumption. The Trustees felt that the representatives of the city should be made aware of the proposed change and to have a seat at the table to discuss the implementation and the impact. By consensus all Trustees agreed to table the approval of the report at this juncture. Trustees were inclined to hold a special meeting on this topic and invite the city representatives. A tentative date of May 26, 2017 was identified. The Trustees also discussed a formal allocation study. Mr. Ahern felt a true allocation should be conducted and made a motion to direct the actuary to move forward with the study accordingly. Mr. Marchese seconded the motion. All Trustees voted yes, and the motion was passed 4-0. Mr. McCann will also prepare an allocation projection as well as a counter balance perspective.

ATTORNEY'S REPORT

HLLS Litigation & DFC Global: Mrs. Jensen advised that these cases were potentially being settled. Further information will follow as warranted.

Legislative Update: Mrs. Jensen stated that HB1135 was assigned to the special act.
<https://www.flsenate.gov/Session/Bill/2017/1135>

Ed Thomas Matter: Independent Medical Examiners (IME) were provided to the Board to consider. After review and discussion, Mr. Ahern made a motion to retain the services of Dr. Jeffrey Worth for the IME, this motion was seconded by Mr. Marchese. All Trustees voted yes, and the motion was passed 4-0.

Cyber Liability Insurance: Mrs. Jensen reported the coverage outlined at the last meeting was bound and the policy is now in effect. As the underwriters was Lloyd's, which is a non-admitted carrier a formal acknowledgement was required. Motion by Mr. Ahern to provide full authority to the Chairman to execute the acknowledgement form, seconded by Mr. Marchese. All Trustees voted yes, and the motion was passed 4-0.

AndCo Contract: Mrs. Jensen presented the new agreement that will replace the prior agreement(s) with AndCo, Bogdahn and Thistle. Mrs. Jensen reminded the Trustees her position that a new contract was in order with the recent changes with AndCo Consulting. The approval to complete the contract was made at the February 10, 2017 meeting. Motion by Mr. Ahern to provide full authority to the appropriate parties to execute the agreement, seconded by Mr. Marchese. All Trustees voted yes, and the motion was passed 4-0.

Lannett: A conference call was made to Ms. Marisa DeMato of Labaton Sucharow with regard to the Lannett litigation. Ms. DeMato cited a motion from another plaintiff in the case regarding an antitrust case that Labaton Sucharow is litigating. While there is no conflict, Labaton Sucharow felt that it would be in the best interest of our Plan to withdraw as lead plaintiff. After discussion and consideration, Mr. Marchese made a motion to withdraw accordingly from the case. This motion was seconded by Mr. Ahern. All Trustees voted yes, and the motion was passed 4-0. A formal filing to withdraw will follow.

ADMINISTRATOR'S REPORT

Recent Deaths: Mr. Williams sadly reported recent member deaths to the Board of Trustees, Mr. Earl Walker (2/14/2017), Mr. Fred Walling (2/15/2017) and Mr. James Chappell (2/24/2017). A benefit review is underway in conjunction with Mrs. Jensen.

5th Member Appointment: Pursuant to the action of February 10, 2017, Mr. Williams advised that he provided formal notice to the city regarding the reappointment of Mr. White as the 5th Trustee.

Income Deduction Order: Mr. Williams reflected an Order was received and provided to Mrs. Jensen as it was believed to be legally insufficient. Mrs. Jensen concurred and addressed the deficiencies with the legal counsel who sought the Order. The affected plan member was also apprised.

SC13-1882: For informational purposes, Mr. Williams included a recent Supreme Court of Florida case for the Board to review. It should be noted that Robert Klausner of Klausner, Kaufman, Jensen & Levinson argued the case before the court for the Plaintiffs. The court ruled in favor of the Plaintiffs.

<http://www.floridasupremecourt.org/decisions/2017/sc13-1882.pdf>

Cyber Security: For informational purposes, Mr. Williams included a recent cyber security article by Mr. Amed Avila, Fiduciary Trust for the Board to review.

http://www.wpbbpf.com/docs/announcements/Cyber%20Security_FTCI%20Article%20.pdf#zoom=100

Education: Mr. Williams reminded the Trustees of two upcoming local conferences to consider: Klausner, Kaufman, Jensen and Levinson Client Conference (March 19-22, 2017) in Fort Lauderdale and National Conference on Public Employee Retirement Systems - NCPERS (May 20-24, 2017) in Hollywood.

OPEN DISCUSSION

Mr. McCann provided a verbal flash report that the Plan return was approximately 5% fiscal year to date.

ADJOURNMENT

Being there was no other business; the meeting was adjourned at 10:28 AM.

Next meeting is scheduled for April 14, 2017 at 8:30 AM



Troy Marchese, Board Secretary