TOWN OF LONGBOAT KEY CONSOLIDATED RETIREMENT SYSTEM

BOARD OF TRUSTEES SPECIAL MEETING

MINUTES: October 8, 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 9:03 AM in the Town Commission Chamber locates at 501 Bay Isles Road, Longboat Key, Florida.

Those persons present included:

<u>TRUSTEES</u>

Steve Branham, Chair
Frank Cona, Vice-Chair
Ann Ross, Secretary
Randy Thompson
Sandi Henley
Lou Levy
Nancy Woodley

<u>OTHERS</u>

Lee Dehner, Christiansen & Dehner
Scott Baur & Vanessa Rodriguez , Resource Centers
Charles Mulfinger, Graystone Consulting
Sue Smith, Finance Director
Doug Lozen, Actuary
Jo Anne Mixon, Deputy Town Clerk

TRUSTEES ABSENT AND EXCUSED:
Joe Fabrizio
Jim Haas

All present recited the Pledge of Allegiance.

2. OATH OF OFFICE

Steve Branham thanked Anne Ross for her service on the Board, noting that she accepted a new position as the Executive Director for Lakewood Ranch. She expects to begin her new position in November, prior to the next Quarterly Meeting of the Board. Chair Branham then stated that the Town Commission reappointed Lou Levy to another term on the Board, along with Joe Fabrizio replacing Bill Forcht. Mr. Fabrizio was not available for the meeting given his appointment earlier in the week.

Jo Ann Mixon administered the oath of office to Trustee Lou Levy, the term for his new appointment expiring on September 30, 2018. She reminded the Board and the administrator that Joe Fabrizio needed to complete the Form 1 Financial Disclosure for 2014, while Bill Forcht must complete the final Form 1-F.

3. PUBLIC COMMENTS

No members of the public were present to comment.

4. APPROVAL OF THE MINUTES

The Trustees reviewed the draft Minutes for the Quarterly Meeting of August 28, 2015, suggesting minor revisions.

Nancy Woodley made a motion to approve Minutes for Quarterly Meeting of August 28, 2015 as amended. The motion was seconded by Frank Cona and approved by the Trustees 7-0.

5. REPORTS

Foster & Foster (Doug Lozen, Foster & Foster)

Doug Lozen addressed the Board, since the Trustees must adopt an Investment Return Assumption for the October 1, 2015 Valuation for the Consolidated Retirement System. Mr. Lozen reminded the Board that the former General Employees Retirement System last adopted a 7% return assumption, while the Boards for the former Police Officers and Firefighters Retirement Systems assumed that the assets would earn 7.5%. If the Board lowers the return assumption, then the actuarially determined Town contribution will increase. Nancy Woodley observed that the Town already adopted a budget for the 2015 fiscal year, but the October 1, 2015 Valuation will set the Town contribution for the fiscal year starting October 1, 2016. The Board discussed the funding requirements, noting that the ultimate amount contributed to the Retirement System by the Town will not change based on the assumptions set by the Board, only the timing of those contributions. The Trustees also discussed the new mortality assumptions mandated by the Florida legislature, which will cause the Town contribution to further increase for the fiscal year starting October 1, 2017.

Mr. Mulfinger, Investment Consultant to the Board, advised that the Board had a greater likelihood to meet a lower return assumption based on the current return assumptions for various asset classes. He also completed a new asset allocation study for the Board, concluding that the Board had less than a 50% probability to achieve a net 7% return in the next 7 years but greater than 50% probability to achieve that return over the next 20 years. Finally, Mr. Lozen concluded that the Division of Retirement would not likely accept a return assumption above 7% with one of the legacy plans already assuming a 7% investment return.

Lou Levy made a motion to adopt a 7% net expected investment return for the October 1, 2015 Valuation. Nancy Woodley seconded the motion, approved by the Trustees 7-0.

Investment Consultant (Charles Mulfinger, Graystone)

Charles Mulfinger emphasized the importance of the Investment Policy Statement, which sets the asset allocation adopted by the Board. As such, Mr. Mulfinger began his review of the proposed Investment Policy Statement with the asset allocation. He described the various investment vehicles included in the proposed asset allocation. The legacy plans did not include any alternative asset classes due to limitations imposed by the smaller asset size, but the Consolidated Retirement System becomes a qualified purchase at $25 Million in assets. The proposed allocation therefore included smaller allocations to real estate and other alternative assets. Morgan Stanley expects continued slow growth from the global economy, rising domestic interest rates, and limited returns from both equities and fixed income investments. The alternative assets then play an increasingly important role in the portfolio construction.

Mr. Mulfinger explained the proposed allocation to covered calls, which limit the upside opportunity but provide a more consistent return in a volatile market. The covered calls dampen volatility and reduce risk in the portfolio. Mr. Mulfinger recommended a 10% allocation of assets to covered call strategies, with specific allocations to mid- and small-cap strategies as well. The proposed allocation includes a private real estate component through an open-end investment fund vehicle. Mr. Mulfinger would fund the new mandates from both the current fixed income and equity allocations. The modeled portfolios provide increased returns with lower risk or volatility.

Mr. Mulfinger then considered an allocation to an MLP (Multiple Limited Partnership) to focus on energy holdings. The sector right now offers very attractive valuations. The MLPs offer investments in such areas as exploration, storage, and transport. Mr. Mulfinger recommends an allocation to the more conservative storage and transport component, which has better long-term prospects even when energy prices fall. Mr. Levy agreed that the MLPs now offer some attractive opportunities, while Real Estate Investment Trusts trade at a premium. The private real estate holdings still offer some more attractive valuations than the REITs.

Mr. Mulfinger showed projected performance based on increasing the allocation first to international equities, then private real estate, adding the Multiple Limited Partnership component, and finally with a hedge fund allocation. The hedge fund of funds offers greater diversification; however, the many layers of fees make such investments less attractive in a low return environment. The hedge allocation does provide some additional stability to the overall portfolio, with a low or negative correlation to equities. The Board may consider adding a hedge allocation at some point in the future.

The Board considered the requirements to rebalance the portfolio including in the Investment Policy. Mr. Levy did not favor a mandatory requirement to rebalance portfolio allocations back to target allocations. The proposed Investment Policy offers fairly broad ranges for the investment allocations. Mr. Mulfinger described the use of the Receipt and Disbursement to manage cash flows and keep assets balanced to target ranges. He reviewed the costs associated with the various allocation alternatives as well. Mr. Mulfinger stated that managers would not participate in securities lending, and the proposed Policy would limit managers to allocating no more than 10% of any portfolio to one single security.

The Board accepted the Investment Policy recommended asset allocation without a hedge fund of funds. Mr. Mulfinger explained the manager selection process implemented by Morgan Stanley for the manger platform. Morgan Stanley screens managers based on a combination of people, process, and results. Lee Dehner advised that the current ordinance does not impose credit quality restrictions on fixed income investments. Mr. Dehner also stated that the Investment Policy would take effect 31 days after the Board filed the Policy with the actuary, the Town, and the Division of Management Services.

Nancy Woodley made a motion to adopt the Investment Policy as amended, with the target asset allocation excluding the hedge fund investments. Frank Cona seconded the motion, approved by the Trustees 7-0.

The Board took a 10 minute recess.

Mr. Mulfinger reviewed the manager selections for the proposed portfolio in greater detail. He recommended index allocations for the large cap equities. He also showed historical risk and return performance for the other recommended managers. He reviewed and explained the portfolio statistics and measures for the historical performance, explaining that the model allocation provided higher returns with less risk than the historical Retirement System performance. As Mr. Mulfinger addressed the manager recommendations, he considered the survivorship bias in the comparison universe. The recommended allocation had a composite fee of 59 bp to the managers, with an additional 27 bp for consulting, custody, and trading costs. Mr. Mulfinger compared the fee to a similar manager allocation outside of the Morgan Stanley platform, estimating a savings of about 25 bp overall.

Sandi Henley made a motion to invest the Retirement System assets through the Morgan Stanley wrap arrangement. Frank Cona seconded the motion, approved by the Trustees 7-0.

Mr. Mulfinger further detailed the proposed manager allocations. The portfolios have no liquidity constraints, other than the private real estate held in custody by the manager rather than through Morgan Stanley. Mr. Mulfinger also explained the fiduciary requirements that each manager must acknowledge to both Morgan Stanley and the Retirement System. Graystone acknowledges a fiduciary to the Retirement System as well. The separate manager accounts all have individual investments in securities directed by each manager, while the index funds mirror the corresponding market index performance.

Nancy Woodley made a motion to accept the list of managers proposed by Graystone for the initial allocation. Anne Ross seconded the motion, passed by the Trustees 7-0.

Mr. Baur described the pending consolidation of assets from Salem Trust to Morgan Stanley. Once the Town executes agreements with Morgan Stanley and First State, he will direct the existing managers to cease trading. Assets will then move from Salem to Morgan Stanley, where Graystone must allocate the securities to the new managers to approximate the target allocations for each mandate in the Investment Policy. The transition cannot begin until 31 days pass after the Board provides a final Investment Policy Statement to the Town. Mr. Baur hopes to transition and consolidate the assets in the second part of November.

Lee Dehner addressed the proposed agreements, stating that he had an acceptable agreement for Morgan Stanley but the proposed agreement between the Town and First State required considerably more work. Lou Levy asked the Minutes to note that the Board reserved the right to reconsider approval of the proposed agreements if the Town subsequently made further substantive changes. Mr. Dehner suggested that the Town should communicate any material changes to the Board prior to execution.

Nancy Woodley made a motion to recommend the proposed agreements to the Town for execution, subject to the review and approval by Board counsel. Sandi Henley seconded the motion, passed by the Trustees 7-0.

Mr. Baur prepared a Board Resolution to establish the new authorized signors for the Consolidated Retirement System. The Resolution adopts the same signors already authorized to First State and Salem Trust as custodians for the legacy Retirement Systems.

Lou Levy made a motion to approve the Resolution for the authorized signors on behalf of the Consolidated Retirement System to First State as custodian. Nancy Woodley seconded the motion, approved by the Trustees 7-0.

6. PLAN FINANCIALS

Interim Financial Statements

Mr. Baur explained the interim financial statements for the three former plans. The financial statements combine to provide the interim financial statement for the Consolidated Retirement System.

Ratification of Warrants

The Board reviewed the Warrants for payment of invoices dated October 8, 2015, for the former General Employees, Police Officers, and Firefighters Retirement Systems. The Warrants included the payment of the premium to the Fiduciary Liability Insurance Policy. The new policy with Euclid includes the Town as an additional named insured.

Benefit Approvals

The Trustees previously approved the October 1, 2015 Cola increases to the retired members of the former Police Officers and Firefighters Retirement Systems. The Board had no other benefits to members pending approval.

7. NEW BUSINESS

Mr. Baur provided the Board with an update on the status and timing of the pending Request for Proposal for legal services. The Board then considered the Selection Committee process. Chair Branham wants the Board to have substantial input on the Selection Committee. Sandi Henley, Randy Thompson, Frank Cona, and Chair Branham all volunteered to serve on the Selection Committee if needed. The Board considered the possible receipt and initial review of proposals prior to the next Quarterly Meeting of the Trustees.

8. OTHER BUSINESS

The Board had no Other Business for consideration.

9. BOARD COMMENTS

The Board thanked Anne Ross again for her service to the Retirement System, and Anne Ross in turn thanked the Trustees.

Chair Branham stated that he provided an oral report on the progress to consolidate the Retirement System to the Town Commission. The Board briefly discussed the recent FPPTA Trustee School, attended by Chair Branham, Frank Cona, and Nancy Woodley. Chair Branham provided the Board with a guideline governance and decision process adopted by the FPPTA.

10. NEXT MEETING DATE

The Board considered a schedule for future meetings. Mr. Baur proposed a November Quarterly Meeting date, a December Special Meeting to address any details related to the selection of legal counsel for the Board, and a January Special Meeting to address any remaining details related to the pending consolidation if needed. Thereafter he proposed the Board might return to a schedule of Quarterly Meetings in 2016 following the completion of the plan consolidation. The Board set the next Quarterly Meeting for Wednesday, November 18 at 1:30 PM.

11. ADJOURNMENT

There being no further business, Chairman Branham adjourned the meeting at 12:26 PM.

Respectfully Submitted,

____

Anne Ross