GENERAL EMPLOYEE PENSION COMMITTEE MEETING
TUESDAY, FEBRUARY 23, 2016 2:30 P.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA

A G E N D A

1. **CALL TO ORDER**

2. **APPROVAL OF MINUTES**

A) November 4, 2015

3. **PUBLIC COMMENT**

4. **NEW BUSINESS**

A) Prudential Quarterly Investments
B) Review and approval of the Actuarial Valuation (members will receive document before the meeting)

5. **OLD BUSINESS**

6. **ATTORNEY'S MATTERS**

7. **SET NEXT MEETING DATE**

8. **ADJOURNMENT**

This is a Public Meeting. Should any interested party seek to appeal any decision made by Council with respect to any matter considered at such meeting or hearing, he will need a record of the proceedings and that, for such purpose he may need to ensure that a record of the proceedings is made which record includes the testimony and evidence upon which the appeal is to be based. Anyone who needs a special accommodation for this meeting may contact the City's Americans with Disabilities Act (ADA) Coordinator at least 48 hours in advance of the meeting.

GENERAL EMPLOYEE PENSION PLAN COMMITTEE MINUTES
TUESDAY, NOVEMBER 4, 2015 - 2:30 PM
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA

PRESENT: Jim O'Connor, City Manager; Wayne Coment, City Attorney; Tammy Vock, City Clerk; Cindy Lawson, Finance Director; Gabrielle Manus, HR Director. **Also Present:** Kathy Taube, Benefits & Risk Administrator and Glenn Thomas, Committee Attorney

Mr. Dean Molinaro & Ms. Milissa Dumont - Prudential

1. **CALL TO ORDER**

   Today's meeting was called to order at 2:30 p.m.

2. **APPROVAL OF MINUTES**

   Ms. Lawson requested "smooth value" be changed to "smoothed value", in two places on page 3 of the August 13, 2015 Minutes. Ms. Vock made a motion to approve the Minutes of August 13, 2015 with changes, and the September 21, 2015 and August 12, 2015 Minutes. Mr. Coment seconded the motion.

   The motion to approve the Minutes with changes passed unanimously.

3. **PUBLIC COMMENT**

   None.

4. **NEW BUSINESS**

A. **Prudential – September 30, 2015 Quarterly Investment Review**
Full report on file at City Clerk's Office.

Mr. Dean Molinaro presented the Quarterly Investment Review:

Calendar 3rd Quarter Return (Fiscal 4th Quarter) -4.04%
Plan Year Return 1.20%
1 year return (end of September) 1.20 %
3 year return 8.19%
5 year return 8.77%
10 year return 5.20%

Assets as of the end of September total $71,918,678
Distribution of Assets – in line with long-term strategy:

- 60% Traditional Equities (Diversified between Large, Mid & Small Cap US, and an allocation to Non-US Emerging Markets will develop)
- 5% Real Estate
- 35% Fixed Income

As of the end of September no transfers were necessary to rebalance the portfolio.

During the last quarter U.S. Equities, as measured by the S&P 500, were down .6% and Non-U.S. Equities were down 8.6% during that same period of time.

For the year ending September 30, 2015 the typical Morningstar Balanced Fund lost 2.5%, while our plan was positive 1.2%. Those comparisons continue to be favorable to the plan on the 3, 5 and 10 year basis. Over the last 3 years a calculated return of 8.19% while the typical Morningstar Balanced Fund was up 6.4%, over 5 years 8.77% vs. 7.3%, and over 10 5.2% vs. 5.1%.

We have a little bit of a buffer where the market value of assets have exceeded the actuarial value of assets, so the immediate effects of this year relative to the return assumption will not be immediately reflected in any additional contributions.

For context, if you were to look at the 5 year return of the 8.77% and compare it to the portfolio returns vs. net contributions chart it gives some longer term perspective. Five years ago the portfolio totaled $48.9 million, as of the end of September the portfolio totals $71.9 million. Over that period of time there was slightly negative cash flow, disbursements running around $6 million per year, exceeding contributions by about $2.5 million. The large bulk of gain is coming from investment returns, which corresponds with the 8.77% five year return.

The one year return of active managers outperformed equity managers. There is a 5% real estate target, and the real estate portfolio is up 16%. There is a 2.5% emerging market allocation, emerging markets were down over 18%. Generally active managers and the allocation to real estate a positive, somewhat negative is the return on emerging markets.

The US Economy continues to be on a growth trajectory growing anywhere between 2 and 3%. Last quarter GDP at 1.5%, but still growing. Consumer lead indicators such as labor, housing and auto sales continue to be relatively positive. Depressing GDP are weak markets overseas; additionally there has been a drawdown in inventory.

While plan assets were at $71.9 million at the end of the quarter, subsequently there has been a material rebound, with plan assets yesterday at $75.3 million. At the end of the quarter the S&P was down 5.2%, and through yesterday the S&P is up 2 or 3%.

Growth indices and managers continue to outperform Value indices and managers. And from a market cap perspective, small cap has underperformed large and mid cap equities.

No managers are on a watch list and all are in good standing. All managers are meeting return criteria. The relative performance of the manager base has driven incremental returns over the last year. On a one year basis, all of our equity managers outperformed relative to their indices.

In summary, slightly over a 1% return for the plan year; longer term returns continue to be healthy relative to actuarial term targets; asset mix is in line with our long term strategy and there is no need to do any rebalancing.

B. REVISED ACTUARIAL INVESTMENT STATEMENT – DEFINED BENEFIT PLAN FREEZE

Ms. Lawson reminded the Committee about the Impact Statement that was prepared by our actuary, which was approved by the Board and transmitted to the State to accompany the Freeze; and that after going back and forth a bit with Mr. Beckendorf from the State Division of Retirement, he requested that we change the Impact Statement by using the smoothed value of the assets rather than marking the assets to market, in order to leave ourselves a cushion for the future, in addition to using a discount rate of 6.5%. The revision was made, approved by this Board on August 13th, and resubmitted to Mr. Beckendorf.

Ms. Lawson continued that Mr. Beckendorf has now asked for one additional change, which he considers to be more conservative. Rather than use the old payroll growth assumption rate of about 3% for the assumption on interest growth for the contributions, he has requested that the higher amount be used. She explained that, theoretically, this impacts our contribution by a couple of hundred thousand dollars per year.

Ms. Lawson clarified that there are two issues to consider, one is that it is very important that the State Division of Retirement be satisfied with our Impact Statement in order for us to receive their blessing on the freeze. The 2nd is to remember that this is just an Impact Statement, and is somewhat of a projection. Our Actuarial Valuation will be done for the Fiscal Year beginning October 1, 2015 which is when we will really know what the effect of everything that has changed since last time, the freeze, the current value of the assets, these revised assumptions; so our it's hard to say what our actual contribution will be until we do our "real" actuarial valuation which our contribution will be based on.

She indicated that after having discussed this with Rocky and Jeff Williams from Segal, they are recommending approval as something that we really need to do to satisfy the State requirements.

Ms. Lawson then made a motion to approve this change. Ms. Manus seconded the motion. The motion to approve this change passed unanimously.

Mr. O'Connor stated that it seemed the downside would be that we run afoul of the State; and there is no real financial downside because if the number shows what it is in our valuation, we would have to pay it anyway.

Ms. Lawson agreed, and continued that If everything in the Impact Statement was exactly equal to the reality of this year's actuarial valuation, it would mean an impact of a couple of hundred thousand dollars. But the chance that all those other moving parts haven't changed at all as we do the valuation is not that good; and the low performance last quarter will probably have more of an impact on our contribution than this change.

Ms. Lawson further explained that this is the year that GASBI has separated the funding requirements from the reporting requirements. We will do our actuarial valuation as required by the State, which our contribution to the plan will be based on, and the assets in that actuarial valuation will reflect the smoothed actuarial assets and the other assumptions we've made; but in our financial statements this year, because of the new GASBI pronouncement we'll actually be reporting market value, which will actually be better than the actuarial experience.

4. ATTORNEY'S MATTERS

None

5. NEW BUSINESS

None

6. OLD BUSINESS

Ms. Lawson formally requested an updated version of the current plan document, which would include the old plan document and the adopted resolution with all the suggested changes and updates. She will forward her documents to the City Attorney who will work with Mr. Thomas to that end. Mr. Thomas suggested that he draft an entire restatement in legislative form, to be adopted into the code by ordinance, in outline form so that it matches up when sent to Municode.

7. **NEXT MEETING DATE** – February 17, 2016 at 2:30 p.m.

8. **ADJOURNMENT**

Today's meeting adjourned at 3:05 p.m.

/kft