

**PALM TRAN ATU LOCAL 1577 PENSION PLAN  
MINUTES OF QUARTERLY MEETING HELD SEPTEMBER 5, 2019**

Chair Dwight Mattingly called the meeting to order at 8:52 AM at 50 S. Military Trail, West Palm Beach, FL, 33415. Those persons present included:

TRUSTEES

Dwight Mattingly, Chair  
Marcos Rodriguez  
Lisa Pontius

OTHERS PRESENT

Ken Harrison, Sugarman & Susskind  
Bonni Jensen, Klausner, Kaufman, Jensen & Levinson  
Burgess Chambers, Burgess Chambers & Associates  
Frank Wan, Burgess Chambers & Associates  
Chad Little, Freiman Little Actuaries  
Mary Shah, Strategic Benefits Advisors  
David Hulme, Advent Capital  
Janna Hamilton, Garcia Hamilton  
Maggie St. Fleur, Palm Tran HR

APPROVAL OF THE AGENDA

Lisa Pontius made a motion to approve the Agenda, seconded by Marcos Rodriguez, and approved by the Trustees 3-0.

PUBLIC COMMENT

There was no public comment.

APPROVAL OF THE MINUTES

Frank Wan reported follow-up to the investment of the sweep account. The prime account with institutional share class is not available for investment. Therefore the sweep account will remain invested in treasuries.

Bonni Jensen reported as follow-up to page 7 of the June 6<sup>th</sup> meeting minutes, a policy of handling VTs has been drafted.

Lisa Pontius made a motion to approve the Minutes for the Quarterly Meeting of June 6, 2019. Marcos Rodrigues seconded the motion, approved by the Trustees 3-0.

INVESTMENT MANAGER: DAVID HULME (ADVENT CAPITAL)

David Hulme presented a review of Advent Capital Convertible Securities Fund focused on convertible securities. This is a \$9.3 billion fund with 46% assets in public funds. This investment is to perform as defensive equity. It is fixed income with an option. The funds accepts a lower coupon payment for the optionality of the stock. There is asymmetry in risk/reward – upside with a guaranteed coupon payment. Convertibles have a return in between bond and equity returns.

Mr. Chambers asked why more pension assets are not invested in convertibles? Palm Tran’s plan size allows the plan to be nimble. Not all plans are large enough.

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When equities go down, convertibles go down less. Page 12 of the presentation shows that the convertible fund captured 87% of upside of the market and only 63% of the downside.

There was a change made recently to the Investment Policy to allow SEC 144A investments. Mr. Hulme said this has been helpful and there is discount opportunities for pricing.

Convertible fund is a balance strategy and targets capturing 75% - 85% of upside and limiting downside to 50%. The fund is diversified and typical positions are 1% - 3%, not more than 5%. Current yields are 2.1% per year, year-to-date return is 15.4%, slightly ahead of benchmark.

Convertibles are more liquid than high yield bonds.

Mr. Wan reported that both managers have signed off on NCPERS code of conduct.

INVESTMENT MANAGER: JANNA HAMILTON (GARCIA HAMILTON)

GHA is a fixed income investment and has been a manager for the pension fund since 7/31/2017. The fixed income securities are least investment grade of A and short in duration. The fund's investment strategy is staying the course and following the fundamentals of the market.

Ms. Hamilton reported the GHA fund's returns: YTD return of 4.68%, Quarter return of 2.33%, and Inception to date return of 3.68%. 2019 returns are lagging the benchmark but inception to date returns are ahead of the benchmark. The market is priced at a two standard deviation event but GHA is not seeing that in the marketplace. There is lots of market noise.

Ms. Hamilton noted that you can look at futures to see what Fed expectations are (p. 11 shows pricing). She thinks bias will shift to see less rate cut expectations. Money supply continues to grow which is good for the economy.

Burgess Chambers asked how long it takes for changes to policy to take effect. Banks are willing to lend more money. This is the catalyst of money growth. The government is paying less interest on excess reserves.

Mr. Mattingly asked if loosening up lending will lead to a market crash. Ms. Hamilton responded that debt is a looming number. Mr. Wan noted that there is \$160,000 per person in government debt. Personal debt has come down. Ms. Hamilton noted that personal spending and credit is up which correlates to a good economy. She doesn't see an imminent need for rate cuts. If the Fed continues cutting rates then what can be done when the economy goes bad and rates are too low with nothing to cut?

Ms. Hamilton also noted that corporate tax deduction changes has been beneficial to the market. Mr. Mattingly commented that there are less sources to pay down debt and income is not keeping up with inflation. Ms. Hamilton thinks there will be pressure on wages and this will put pressure on CPI.

GHA doesn't see a recession looming and thinks this is market noise. You want a big spread between corporate and treasury bonds buying corporate bonds. The spread is narrow right now.

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The fixed income portfolio has 46% weight in corporate bonds. Right now it looks like there is an overweight in corporates because floating rate bonds are included in corporates. Otherwise, weight is in line with benchmark.

Mr. Chambers commented that a year ago he would've expected to see 2 rate increases but actually saw 1 rate decrease.

INVESTMENT CONSULTANT: BURGESS CHAMBERS AND FRANK WAN (BURGESS CHAMBERS & ASSOC.)

Burgess Chambers opened with remarks that there has been an anemic recovery of the market over the last 10 years (not strong). The Fed bail out of banks took rates down to basically nothing. Where do we go from here? Banks will have to get back to lending money.

Mr. Wan explained that Germany and Japan are in a negative interest rate environment. The recession is due to trade wars. There is an interesting dilemma because the economy is doing well. Even if there is China trade war, China could decrease 1.5% and the U.S. only 0.5%.

Mr. Wan presented the fund's second quarter performance. The pension fund experienced market-based gain of \$3.1 million or +2.9% (+2.8% net), behind the benchmark (+3.6%). The best three performing assets were: Vulcan large cap value (+4.9), Fidelity large cap growth blend (+4.7%) and SSI convertibles (+4.4%).

For the one-year period, the Fund was up \$6.0 million, or +6.0% (+5.6% net). The best three performing assets were: Cohen & Steers Global Listed Infrastructure CIT (+16.0%), Fidelity large cap growth blend (+10.3%) and Fidelity Real Estate blend (+9.5%).

For the three and five-year periods, the Fund earned +9.0% (+8.4% net) and +5.6% (+5.0% net) per year, respectively.

The pension fund has benefited from 144A investments. Advent was trailing the benchmark until implementation of 144A in April. SSI has also benefited from 144A.

GHA is down 4% based on interest rate bet. Mr. Chambers commented that if the board wants to reflect index returns then invest in an index. GHA is taking a bet and the board should give them another year to see how it works out. Market cycles are 3 to 5 years and the pension fund has only been invested at GHA since July 2017.

In addition the allowing 144A investments for convertibles, the board changed the TIPs weighting which has been helpful for fixed income returns. The reduction of MLP exposure by 1/2 and moving to Cohen & Steers has also helped performance.

Domestic equities was the only winner with large cap performing better than mid cap. Index funds have been favorable and change to Fidelity has reduced costs.

Mr. Wan commented on REITs. As rates fall, the return increases. Rent is the same and there is a cheaper cost to borrow. REITs are up 22% through today since rates have decreased more than expected. Some of the bigger funds are under pressure because of malls (UBS & JP Morgan). Smaller funds, like Barrings, have benefited.

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Mr. Chambers asked if we should trim back REITs. BCA made the following recommendations:

1. Move the remaining TIPs to Fidelity index funds since there are no signs of inflation. The current IPS supports this recommendation.
2. Move the balance of the Westwood MLP to Cohen & Steers Infrastructure fund.
3. Draw down overweight in REITs to cover benefit payments. BCA has already been given discretion to make decisions with regard to raise cash to cash flow needs.

Marcos Rodriguez made a motion to accept BCA's recommendation of moving the remaining TIPs to Fidelity index funds, Lisa Pontius seconded, approved by Trustees 3-0.

Lisa Pontius made a motion to accept BCA's recommendation of moving the remaining Westwood MLP investment to Cohen & Steers Infrastructure fund, Marcos Rodriguez seconded, approved by Trustees 3-0.

Dwight Mattingly raised a concern about rankings moving in wrong direction.

BCA commented that over the past 5 years rankings have favored those with higher equity rankings. The Palm Tran pension fund is better positioned for market downturn. The goal is to be steady and protect against the downside. This strategy will lag the market in a bull market.

BCA noted that the strategic benchmark comparison is a more favorable measure because it is closer to the pension fund's strategy. Mr. Mattingly asked if there is a peer ranking with similar weightings as the pension fund's strategy? There is a concern with peer ranking showing being out of compliance with IPS. Mr. Chambers commented that the board has made a lot of changes in the past 3 years. Three-year returns are in the top 49%. One must look at the market cycle when seeing how effective investment strategy is.

The board has taken the right actives by reviewing managers and understanding the reasons for recent market performance. The 3-year performance is beating the benchmark. The 1 year and quarterly performance is irrelevant. The IPS only specifies 3 year and 5 year performance. The 5 year returns of the funds is lagging, however, those performance issues have been addressed. The 3 year returns reflect current policy.

There are two separate decisions that the board makes: manager vs. allocation. The manager decision can be measured against the benchmark returns. The investment allocation decision is much harder to measure.

There is a Barrings letter to sign. There is a fee reduction and the board needs to sign to acknowledge the fee reduction.

Two securities monitoring firms will present at the next meeting. Mr. Harrison reported that he can have agreements ready to sign at the next meeting.

SBA will request a report from STC (potentially CCC) of claims the pension fund has received in a quarter.

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Marcos Rodriguez made a motion for Mr. Harrison to prepare agreements for the two security monitoring firms presenting at the next meeting, Lisa Pontius seconded, approved by Trustees 3-0.

ACTUARY REPORT: CHAD LITTLE

Mr. Little discussed recent updates to long term return expectation in JP Morgan's 10-15 year outlook. Fixed income went up 75-100 bps and real estate went up as well. Equity went down 50 bps.

This report doesn't change Mr. Little's long term return assumption recommendations.

Mr. Little noted that the FLA contract has been approved and is ready to be signed today.

Mr. Mattingly mentioned that parties are in negotiations with the agreement expiring 9/30/2019. Negotiations will not likely be completed by 9/30/2019. There are 2 options on the table: DROP plan and to bring Tiers 3 and 4 up to Tier 2.

There is a need for the actuary to provide pricing. Ms. Jensen and Mr. Harrison say the pension fund's Actuary can provide pricing if both parties agree. The pricing would be public information. The board can pre-certify this approval.

Lisa Pontius made a motion to pre-certify the Actuary to do the calculations of the change in the unfunded liability and contribution requirements if both parties agree. A report is to be provided to the board. Marcos Rodriguez seconded, approved by Trustees 3-0.

The process should be to send a letter to FLA requesting pricing and copy the board.

Lisa Pontius made a motion accept BCA's investment report, Marcos Rodriguez seconded, approved by Trustees 3-0.

ATTORNEY REPORT: BONNI JENSEN AND KEN HARRISON

Bonni Jensen reported recent cyber attacks. There is a question in the insurance community if ransoms should be paid. Board doesn't own data. Service providers do this. There needs to be a policy of running a concurrent system and there be another source for data. Ms. Jensen recommends a \$5 million policy. STC has cyber insurance policy for \$2 million. Mr. Jensen's firm has a policy for \$1 million.

City of Naples paid invoice of \$700,000 to someone who they thought they were doing business with. Ms. Jensen's recommends that if a service providers gets an email asking for something out of the ordinary, contact them using an independent number. When responding, make sure it is to the correct email address.

Mr. Harrison reported that ADA has requested for public plan compliance. Do we overpost on websites? Converting charts is problematic. Lisa Pontius commented that ADA compliance is a huge issue with the County and they are removing many items from the County website.

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There is a link to the plan's webpage on the County's website. Ken Harrison will review with SBA the required information to be posted. Ms. Jensen noted that only 5 documents are required to be posted. It was also commented that the plan's website can also create a portal to get around the compliance for members.

Ms. Jensen reported on August 22, 2019 a lawyer was barred from filing any further cases – gas cases.

Mr. Mattingly suggested SBA ask each provider what cyber liability insurance they have in place. He also asked what the County is doing because we are dependent on payroll data from them. Ms. Jensen will think about what to ask each provider.

Mr. Mattingly would like for SBA and the attorneys to come up with a plan. Ms. Jensen suggested insurance that covers notification coverage. That is the board's responsibility.

SBA will notify the board of their cyber insurance coverage. The attorneys, actuary, and administrator will discuss a proposal of cyber policy and questions to ask providers.

Ms. Jensen presented memo on locating lost participants. Ms. Shah requested that a charge of \$35 be approved for a commercial search. Should there be a policy to periodically reach out to participants to verify contact information? If a participant is due a refund of contributions, send to last known address, contact known beneficiaries, and check with Palm Tran HR. The board suggested this memo not be an official part of the benefit policy. The administrator should follow best practices in locating and keeping up with participants.

ADMINISTRATOR REPORT: MARY SHAH

Mary Shah presented the letter to the board appointing the new trustee, Marcos Rodriguez. Ms. Shah brought the Form 1 that Mr. Rodriguez will need to file with the County of which he resides. Frank Stanzione will need to file a Form 1-F.

Mary Shah presented the administrator's report. Ms. Shah discussed the research being completed for VTs who need their earliest commencement date to be determined or accrued benefit to be calculated. She also reported on the progress of locating the 24 participants who are eligible to commence a benefit.

Ms. Shah reported on the progress of paying out refund of contributions for non-vested terminations during 2017 and 2019 to date.

Mr. Mattingly asked about the recent communication to Mr. David Matthews. Ms. Shah thought this would be in regard to being a VT who reached his unreduced retirement date. Ms. Shah will confirm this was the case.

Ms. Shah reported the disability retirement of Duvan Giraldo who was approved for Social Security disability on 6/17/2019. He terminated with Palm Tran on 6/30/2019 with 10 years of service.

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Lisa Pontius made a motion to approve the disability retirement for Duvan Giraldo, Marcos Rodriguez seconded, approved by Trustees 3-0.

Ms. Shah presented the fiduciary insurance renewal effective October 1, 2019 for \$10,401.

Lisa Pontius made a motion to approve the fiduciary insurance renewal, Marcos Rodriguez seconded, approved by Trustees 3-0.

Ms. Shah presented the cyber policy quote and also the cyber liability rider. The board decided to wait until more information is gathered.

Ms. Shah presented the proposed 2020 meeting dates. Everyone should review the dates and they will be approved at the next meeting.

PLAN FINANCIALS

The Board did not have any questions on the Interim Financials or Warrants.

Lisa Pontius made a motion to receive and file the Interim Financials, Marcos Rodriguez seconded, approved by the Trustees 3-0.

Lisa Pontius made a motion to ratify the Warrants dated September 5, 2019, seconded by Marcos Rodriguez, and approved by the Trustees 3-0.

Lisa Pontius made a motion to approve the refund of contributions and final retirement benefits, Marcos Rodriguez seconded the motion, approved by the Trustees 3-0.

BOARD COMMENTS

No comments

ADJOURNMENT

There being no further business and the next Quarterly Meeting has been scheduled for Thursday, December 5th, Lisa Pontius made a motion to adjourn the Meeting at 1:06 PM, seconded by Marcos Rodriguez, and approved by the Trustees 3-0.

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Secretary