

**PALM TRAN ATU LOCAL 1577 PENSION PLAN
MINUTES OF QUARTERLY MEETING HELD MARCH 5, 2020**

Chair Dwight Mattingly called the meeting to order at 8:32 AM at 50 S. Military Trail, West Palm Beach, FL, 33415. Those persons present included:

TRUSTEES

Dwight Mattingly, Chair
Marcos Rodriguez
Lisa Pontius
Sean Smith

OTHERS PRESENT

Ken Harrison, Sugarman & Susskind
Bonni Jensen, Klausner, Kaufman, Jensen & Levinson
Frank Wan, Burgess Chambers & Associates
Chad Little, Freiman Little Actuaries
Mary Shah, Strategic Benefits Advisors
Curtis Jones, Palm Tran HR
Masimba Mutamba, County Attorney
Donna Raney, County Attorney
John Hipsher and Deborah Schwartz, Barings Core Property Fund

Marcos Rodriguez arrived at 8:49.

APPROVAL OF THE AGENDA

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

PUBLIC COMMENT

There was no public comment.

APPROVAL OF THE MINUTES

Lisa Pontius made a motion to approve the Minutes for the Quarterly Meeting of December 5, 2019. Sean Smith seconded the motion, approved by the Trustees 3-0.

INVESTMENT MANAGER: JOHN HIPSHER AND DEBORAH SCHWARTZ (BARINGS CORE PROPERTY FUND)

John Hipsher introduced himself as the Global Sales Relationship Manager of the fund and Deborah Schwartz as one of the fund's Portfolio Managers.

The Barings Core Property Fund is a diversified core real estate fund that takes a defensive approach. Great returns are due to the superior occupancy in growth areas. The Barings fund has more exposure to the South markets than its peers. Population growth of the South presents opportunity.

The Palm Tran fund has invested in Barings since 2011. Investments total \$11.9 million as of December 31, 2019, about 10% of portfolio. The fund has yielded an annual gross return of 9.76% since inception comprised of 4.58% income and 5.01% appreciation. The annual net return since inception is 8.6%.

During 2019, the Barings fund outperformed their peers in every quarter. Barings has avoided investing in power centers and malls. Their retail focuses on neighborhood community centers

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anchored by Grocers. They want the trade area (3 mile radius) to support growth and spending. Look for areas with average household income of at least \$100,000.

They gave a couple of examples of their properties. There is a Boca Raton property that is a mixed use asset where there is some office space surrounded by restaurants. The main tenant is a financial services firm where clients are taken to adjacent restaurants. Restaurants are all booked at lunch and early dinner times.

Barings is owned by Mass Mutual. Mass Mutual is an investor at 15%. This is a unique situation that gives a base of stability. This is where Mass Mutual is getting their core real estate exposure. Insurance companies not likely to take on risky assets making this a stable investment.

Barings compares well on leverage at 23% compared to a maximum of 35% allowed. The fund has enough cushion to meet debt obligations and dividends. They have on average 90% occupancy and income support value. The cap rate is 5.3% on average. 6% of portfolio is rolling over in 2020. This is mostly an industrial property in Texas that is expected to be renewed.

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

Frank Wan opened with a discussion about the lack of predictability of the market. The market has seen an 18% decline as a reaction to the Corona virus. Typically markets come back in 4 months from the market low in these types of situations. Question is when will the market low hit. If the virus spreads to countries with more developed healthcare, will the impact be as bad as China? Japan seems to be more contained and that is a more developed healthcare system than China.

Factories in China are impacting companies such as Apple, Nike, and Under Armor. Mr. Wan is hoping to see the "V" shape recovery once the virus is contained. Warmer weather may help. However, if there are signs of an outbreak in the fall, that may be the time to derisk the portfolio. BCA is continually reviewing risk adjusted spreads to see when best to decrease or increase risk in a portfolio. Since the U.S. is a service based economy (vs. manufacturing), it should be more insulated.

The Palm Tran fund's exposure to China is through the American Europacific fund. Mr. Wan expects the fund to help limit the downside as the China investments are not as concentrated in manufacturing.

For the one-year period, the Fund was up \$19.2 million, or +19.4% (+18.9% net), ahead of the 35/15/50 benchmark (+18.4%) and ranked in the top 38th percentile. The three best performing assets were: Vulcan Large Cap Value (+45.6%), Fidelity Large Cap Growth blend (+34.7%) and Fidelity Mid Cap blend (+29.6%).

For the three and five-year periods, the Fund earned +9.5% (+9.1% net) and +6.9% (+6.3% net) per year, respectively.

During 2019, the Board changed the IPS and got rid of TIPS and Pipelines. They also allowed investment in 144A securities. Vulcan Large Cap Value had a big return. The Board was patient and stuck with Vulcan.

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Scout is still struggling. If they don't provide some protection during this quarter, then BCA may recommend replacing them. Cohen & Steers had an incredible year. Mr. Wan expects them to provide some market downside protection. If the market is down 18%, he would only expect them to be down 12%.

Mr. Wan explained that real estate is a hard asset and should provide some downside protection even though REITs tend to move with the market. Barings Core fund is more stable.

GHA continues to be a problem. They have taken a bet that rates will go up. However, the portfolio has index fund exposure which has helped offset GHA's underperformance. GHA tends to either be at the bottom or the top. In 2018, they were ranked in the top 10%. If have patience, GHA will hit a home run when rates rise.

Mr. Mattingly asked if there was a concern with cost of the number of holdings. Mr. Wan responded that even though the plan is invested in 16 different funds, you do not count the index funds. There are only seven active managers and this is a reasonable number.

Mr. Mattingly asked about the comparison of investment fees to their peers. Mr. Little commented that comparing gross vs. net return, it seems to be about 50 bps and this seems reasonable.

Lisa Pontius made a motion to accept BCA's investment performance report, Marcos Rodriguez seconded, approved by Trustees 4-0.

ACTUARY REPORT: CHAD LITTLE

Mr. Little informed the Board that SBA will be providing them valuation data this week and the Auditor has indicated that they are on track to provide draft financials at the end of April. This timing will allow FLA to present the valuation results at the June meeting.

Mr. Little commented that the FRS adopted the new public mortality table for the 1/1/2020 valuation. It will be mandatory for the Palm Tran plan to adopt the new mortality table for the 1/1/2021 valuation, however, the Board may want to evaluate the impact of the new mortality table and adopt the table with the 1/1/2020 valuation to be presented in June.

Mr. Little continues recommending the Board lower the ARA assumption. The ARA is currently 7.75% and ultimately a 7.0% assumption is more appropriate. The FRS is at 7.2%.

Mr. Wan commented that the average ARA for Florida plans is 7.2% as well. The Division of Retirement continues to question the plan's assumption. Last year BCA produced an analysis supporting 7.7% and as a result, the Board lowered the ARA to 7.75%. The State approved the ARA at 7.75% after rejecting the valuation completed at 8.0% ARA. Mr. Wan commented that after a market hiccup, the supporting analysis will likely be less than 7.7%.

Mr. Mattingly asked what the appropriate ultimate ARA assumption is. Mr. Wan commented that over a 30 to 40 year period, the number would range from 6% to 8%. Achieving 8% might only have a 20% probability. The appropriate target rate would likely be around 7%.

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Mr. Harrison commented that many of his clients are decreasing their ARA assumption gradually. Typically decreasing the ARA after a good asset performance year makes sense because the unexpected positive news will help offset the impact of the change in ARA.

Mr. Smith recommended the Board come up with ultimate target assumption for the ARA because this will be an issue every year otherwise. The Board will make incremental changes toward that target assumption. Ms. Pontius thought a target rate of 7% was reasonable. It seems appropriate to make a similar adjustment as last year. A 25bps decrease to 7.5% would mean approximately \$500,000 increase in contributions for 2021.

Lisa Pontius made a motion to decrease the ARA to 7.5% for the 1/1/2020 valuation, seconded by Sean Smith.

Ms. Jensen mentioned that Board could ask Mr. Little to run the valuation at 7.5% to see the impact before approving the assumption change. Mr. Smith's concern is that the County is setting budget now and concerned about waiting to approve assumption change.

Mr. Mattingly commented that the sooner we get to the ultimate ARA assumption, the sooner the contribution amount will stabilize for the County. He recommends asking BCA to come to the next meeting with a recommendation for the ultimate ARA assumption.

Lisa Pontius amended her previous motion to include having the Investment Consultant come back to the Board with an ultimate ARA recommendation, seconded by Sean Smith, approved by Trustees 4-0.

Lisa Pontius made a motion for the Actuary to evaluate the impact of the new mortality table in the 1/1/2020 valuation to be presented at the June meeting, seconded by Sean Smith, approved by Trustees 4-0.

Mr. Mattingly mentioned that collective bargaining was contemplating a DROP program. Mr. Little has estimated that the actuarial study will cost \$2500. In order for the study to be paid from the plan, both parties would need to agree on the provisions. Mr. Smith indicated this was premature since both parties have not come to agreement. Each party does have the right to asking for pricing if they are willing to pay for the cost.

Once both parties agree on provisions, then the plan will be amended (can be concurrent with the collective bargaining agreement) and an actuarial impact statement will need to be generated. A study is different than an actuarial impact statement. The amendment with impact statement would be submitted to the County Commissioners for approval.

ATTORNEY REPORT: BONNI JENSEN AND KEN HARRISON

Bonni Jensen presented the memo on the new Notary requirements. She mentioned that the notary language on applications for retirement, beneficiary changes, and refund of contributions will need to be updated. This includes the acknowledgement form and the waiver of spousal consent. SBA will update the forms.

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Mr. Mattingly asked that SBA report to the Board at the next meeting what is to be notarized by the member. He would like to know if we are having things notarized that don't need to be and vice versa.

Ms. Jensen discussed the two items in the SECURE Act that may be impactful to the plan. Firstly, deferred vested participants who are not 70.5 as of December 31, 2019 do not have to commence their benefits until the April 1 following the calendar year in which they turn age 72. Secondly, non-spouse beneficiaries must take the present value of their benefits within 5 years of death. Ms. Jensen is looking to see if the second item is relevant.

Ms. Jensen noted that the mileage rate for 2020 decreased to \$0.575.

Ms. Jensen noted there are a number of proposed bills on Fiduciary Standards. Mr. Mattingly asked that this discussion be deferred until more information is known.

Mr. Harrison gave an update on the RGRD court case where Palm Tran was added as a plaintiff. The prior case was dismissed and Palm Tran joined another case as plaintiff. The court case is still pending.

Mr. Harrison gave the Board a couple of vendor evaluation forms to review.

Mr. Harrison requested an hourly fee increase from \$275 to \$300 effective June 1, 2020. This fee will be in line with the recent fee increase approved for Ms. Jensen at the December 5, 2019 meeting.

Sean Smith made a motion to approve the hourly fee increase to \$300 for Sugarman & Susskind, seconded by Lisa Pontius, approved by Trustees 4-0.

Mr. Harrison brought an updated agreement for Mr. Mattingly to sign.

Mr. Mattingly asked the Administrator to summarize the cost for both attorneys to attend the 2019 Board meetings. He is estimating \$5,000. He is thinking it may be a good idea to have the attorneys rotate in attendance of meetings. All work would continue to be allocated as currently done.

Ms. Jensen brought up a follow-up item from last meeting regarding the rehire of retirees. She drafted a memo about the process for a rehire and an affidavit for the rehire to sign regarding the status of their prior retirement.

The Board discussed several situations regarding rehired participants. If a "bona fide" retirement is rehired, they will continue to receive their prior retirement benefit. They will be treated like a new hire for their second benefit earning accruals under Tier 4 and must work 8 years to become vested.

If the retirement was not considered "bona fide", then benefit payments will stop upon rehire. The second benefit will accrue as if a new employee under Tier 4, but the rehire will not be

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required to vest again. In other words, if the rehire only works 2 more years, they will be vested in that second benefit.

It was agreed that clarity is needed for vested terms that are rehired. Everyone agreed that the rehire would accrue a second benefit under Tier 4 as if a new employee. It was uncertain if they would be required to vest again under the plan document. Ms. Jensen will draft clarifying language.

ADMINISTRATOR REPORT: MARY SHAH

Mary Shah presented the administrator's report. There were no specific issues to discuss. Mr. Mattingly asked Ms. Shah to provide the average amount of time from later of application and termination to payment of final benefit.

Ms. Shah presented the renewal for the General Liability insurance. It is an annual renewal. The 2020 premium is \$1,264, a \$72 increase from the prior year.

Lisa Pontius made a motion to approve the General Liability insurance renewal, Marcos Rodriguez seconded, Trustees approved 4-0.

Ms. Shah gave a securities litigation update. SBA has completed the necessary documentation for Saxena White and BLB&G to start collecting data from Salem Trust. Ms. Shah also presented the Q42019 securities litigation claims received by the plan, about \$1450 for that quarter. Ms. Shah noted that the interim financials has line item for securities litigation settlements. There were approximately \$11,500 in settlements for 2019.

PLAN FINANCIALS

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

Lisa Pontius stepped out of the meeting for a few minutes.

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

Lisa Pontius returned to the meeting.

Lisa Pontius made a motion to ratify the Warrants dated March 5, 2020, seconded by Marcos Rodriguez, and approved by the Trustees 4-0.

Lisa Pontius made a motion to approve the refund of contributions and final retirement benefits, Marcos Rodriguez seconded the motion, approved by the Trustees 4-0.

BOARD COMMENTS

No comments.

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ADJOURNMENT

There being no further business and the next Quarterly Meeting has been scheduled for Thursday, June 4th, Lisa Pontius made a motion to adjourn the Meeting at 12:38 PM, seconded by Marcos Rodriguez, and approved by the Trustees 4-0.

Secretary