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To: Town of Palm Beach Retirement System Board of Trustees

From: Dave West, CFA

Date: November 2023

Re: Retirement System: September Quarter 2023 Investment Summary and Recommendations

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The Town of Palm Beach Retirement System achieved a preliminary, net rate of return on invested assets of 9.05% for the fiscal year ended 2023. Assets declined by -3.80% in the final quarter of the fiscal year.

Preliminary Investment Returns

Performance and valuations presented in this report are preliminary, with 93% of assets reporting finalized figures. NAVs for non-reporting investments (private equity and real estate) are carried forward from the most recent valuation.

For the period ending September 2023:
Fiscal Year Return: 9.05% (net)
Quarter Return: -3.80% (net)

Market Value: $250,572,437

Investment Program Recommendations

- Adoption of amendments to Investment Policy Statement
- Establishment of Pvt. Debt. Investment
- Investment of Town Contribution

Market Summary

Economies and policy makers around the globe continue to struggle with taming inflation. Uncertainty regarding a hard or soft landing, higher interest rates for longer, stubbornly higher inflation and a resilient labor market have created significant uncertainty throughout fiscal 2023. Perhaps some of the optimism that drove much of the rally during the year was misplaced, particularly expectations that the Federal Reserve would be pivoting to lowering rates. Resilience of the U.S. economy and inflation data remain above the Federal Reserve's 2% target level The dramatic shift in sentiment that occurred during the latter half of the quarter drove U.S. Treasury rates higher throughout the yield curve. Most notably was the almost 80 bps increase in the 10-year U.S. Treasury Yield, pushing rates to 4.59% by quarter end. This resulted in a dramatic narrowing of the curve's rate inversion triggering both market losses for bond investors and equity multiple compression. For much of the year, equity investors continued to focus on the perceived safety of the "Magnificent Seven". Highlighting the market's narrowness, the top 10 performers in the S&P 500 Index represented a record high of 32% of the Index's quarterly return and traded at a 45% premium to the rest of the market.

Institutional real estate investment values declined again albeit at a more moderate pace in the third quarter. This is now the fifth consecutive quarter of depreciation as measured by the NFI-ODCE index. Higher interest rates, challenging capital market conditions, and tight bank lending standards continue to weigh markets.

Investment Program Attribution

Note: All Plan investment results are preliminary with 93% of managed assets reporting. For all measurement periods, private investments which constitute approximately 13% of total assets may be carried forward at the previous period value +/- any contributions and distribution activity. Returns are expected to vary in net contribution to the investment program.

The driver of the positive investment results for fiscal 2023 was the allocation to public domestic equity (overweight to policy target) and the international equity markets. Allocations to Real Estate and Aggregated Private Investments were the most significant detractor to both absolute and benchmark relative returns.

- Equity multiple compression was driven by U.S. Treasury rates rising throughout the yield curve during the quarter. The third quarter's reversal for domestic equity markets did not eclipse the rebound seen in the asset class during the first half of 2023. Each of the Russell indices were positive on a trailing 12-month basis. Within large-cap stocks, the Russell 1000 Growth Index maintains sizable dominance, returning 27.7% and leading the way among style-and-market-capitalization classifications. Market breadth continued to be very narrow with returns in the Vanguard Institutional Index Fund which were largely driven by the Magnificent Seven. The Retirements System's investment in the Vanguard Institutional Index (S&P 500) captured all the anomalous returns. For the above reasons, active management relative performance has been challenged throughout the year. The Geneva Mid Cap Growth returned 15.40% (net), modestly underperforming the manager's benchmark return of 17.47%. Cooke & Bieler results exceeded the Russell Midcap Value Index returning 21.63% vs. 11.05% for FY 2023. Cook & Bieler contributed significantly to the Retirement Systems total return.

- The International Equity allocation and net manager performance was accretive to overall investment results. For International Equity, trailing one-year results were more appealing compared to the quarter's results. Much like domestic markets, trailing one-year performance for international developed and emerging markets rolled off their poor performance from 2022. This resulted in strong returns for the trailing year. Additionally, LCL returns have outpaced USD returns for many developed markets due to the softening USD relative to many of the world's developed market currencies over the year. Combined manager results exceeded the policy benchmark. Growth manager performance was very strong with MFS contributing 18.46% and WCM contributing 18.21%, both managers outperforming the benchmark return of 15.84%. The Pear Tree Polaris value driven strategy performance trailed the benchmark for fiscal 2023 returning 26.94% (net) vs. 31.51%. Allspring EM performance trailed the benchmark return earning 9.96% vs. 11.70%.

- Broad Market Fixed Income was not a contributor to program returns for fiscal 2023. U.S. Treasury rates rose throughout the yield curve. The most notable move was the almost 80 bps increase in the 10-year U.S. Treasury Yield to 4.59% by quarter-end. This served to narrow the curve's inversion significantly. While current yields are providing an increased level of income, this was insufficient to offset mark to market declines in longer dated maturities. The GHA portfolio team, preemptively positioning for a decline in market rates, underperformed the benchmark significantly during the quarter returning -4.91% reducing the manager's fiscal year return to -0.37% vs the BB Agg. Index return of 0.64%.

- Non-Core Fixed Income performed well with the recent funding of the Serenitas Credit Gamma II Fund. Performance has been exceptional with the manager returning 2.84% vs. the Barclays Aggregate Index return of -3.23% for the quarter.

- Investment results for leveraged U.S. core and private real estate continues to be a significant detractor to investment program returns, both absolute and relative. Aggregated Real Estate investments experienced a decline of -27.50% vs. the Retirement System policy return of -12.40%. While NFI-ODCE index results continue to be negative, the pace of write downs appears to be moderating. The unsettled interest rate environment challenges price discovery in the calculation of future rents and asset valuation. The high (relative) interest rate environment continues to undermine Real Estate performance putting pressure on the cost of debt and cap rates. The JP Morgan Strategic Property Fund returned -3.35% (net) and -12.99% (net) for the quarter and fiscal year respectively. Allocations to office property continue to challenge manager results.

- Private Real Estate Investments continue to be a significant drag on portfolio performance as measured to policy benchmarks. Aggregated manager returns through June (most current available data and carried forward valuations for the September quarter) experienced a decline of -23.47%.

- Aggregated returns for Private Equity Investments were a significant drag on portfolio performance both absolute and as measured to policy benchmarks. Aggregated manager returns through June (most current available data and carried forward valuations for the September quarter) experienced a decline of -13.46%.

- The Alternatives allocation to the Ark Innovation Fund declined -10.13% for the quarter. This brings the FYTD manager's contribution to 5.14% vs. 32.41% for the MSCI ACWI IMI Disruptive Technology Index (Net). Allocations to this area of investment was a detractor to benchmark relative return.

Amendments to Investment Policy Statement

The objective of the following amendments is to lower overall program investment return volatility while providing for an increased level of liquidity and income return. The secondary objective of the amendments is to update program benchmarking in a manner that is consistent with the total program and investment manager objectives. (Exhibit 1- Draft Changes to Investment Policy Statement)

Target allocation changes:

- Reduce International Equity Allocation Targets (pro rata EAFE and EM) by 5% to 15%
- Reduce Global Macro Allocation Target from 3% to 0%
- Reduce Alternatives Target by 2% to 3%
- Reduce Private Equity Target by .5% to 7%
- Increase Domestic Equity Allocation Target 3% to 38%
- Increase the Broad Market Fixed Income Target by 1.5% to 14%
- Increase the Liquid Reserves Target by 2% (Total allocation to Liquid Reserves 4% or 2 quarters rolling distribution requirements)
- Establish a Private Debt (Direct Lending) allocation target at 4% (non-invested allocation defaults to Broad Market Fixed Income)
- Increase Broad Market Fixed Income minimum quality rating to A

Policy Benchmarking changes to include:

- Elimination of any reference to CPI +
- Utilize PME (Public Market Equivalent) benchmarking for Private Investments
- Total Plan report presentation to include benchmarking using Total Plan Policy, Total Plan Policy x Private Equity and Private Debt.

Investment of Town Contribution

Cash Flow Forecast	
Cash Balance* (as of 11/17/23)	$22,959,881
FQ2	$(6,191,250)
FQ3	$(6,191,250)
Net Available for Investment & Operations**	$10,577,381

*Town Contribution 10/1/23: $18,070,878, FQ1 Distribution $(6,191,250)
**Assumes policy adoption of maintaining rolling 2 quarter cash reserves for Town distribution

Action Recommendations (Exhibit 2: Update to Retirement System NAV 11/17/23):

- Establish Private Debt (Direct Lending) manager engagements.
- Retain current cash allocations to Liquid Reserves for distributions and Private Debt manager capital calls.
- Rebalance International Equity allocation: SELL $5M Fidelity International Index (FSPSX);
- Increase Non-Core Bond allocation: BUY $5M Serenitas Credit Gamma Fund

II. TARGET ALLOCATIONS

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The investment manager(s) are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria.

The Board has established the following asset allocation targets for the total fund:

Asset Class	Target	Range	Benchmark Index
Domestic Equity	38%	33% - 43%	Russell 3000
International Equity	15%	10% - 20%	MSCI-ACWI ex US
Total Equity	***53%***	***48% - 63%***	
Broad Market Fixed Income	14%	10% - 25%	Barclays Aggregate A+
Non-Core Fixed Income[1]	5%	0% - 10%	Strategy Index[3]
Total Fixed Income	***19%***	***10% - 27.5%***	
Real Estate Core / Value-Added Real Estate[1]	10%	0% - 20%	NFI-ODCE Fund Index (EW)
Total Real Estate	***10%***	***0% - 20%***	
Alternatives[2]	3%	0% -5%	Strategy Index[3]
Total Alternatives	***3%***	***0% - 5%***	
Private Equity[2]	7%	0% -10%	Public Market Equivalent[4]
Private Debt[1]	4%	0% - 7%	Public Market Equivalent[4]
Total Private Investment	***11%***	***0% - 17%***	
Total Non-Traditional Assets	***24%***	***0% - 35%***	
Total Liquid Reserves	***4.0%***	***0% - 10%***	***90-day T-Bill***

1. Absent of a full allocation, all or a portion of the target allocation will remain in domestic fixed income with the corresponding allowable range adjustment around the revised domestic fixed income target.
2. Absent of a full allocation, all or a portion of the target allocation will remain in domestic equity with the corresponding allowable range adjustment around the revised domestic equity target.
3. The "strategy index" for alternative assets is defined as the most appropriate index, combination of indices, or absolute return target for the investment(s) in question. The strategy index will be determined at the time of engagement based on the specific investment's long-term objective, prospectus, and/or governing documents and reflected in performance evaluation reports.
4. The "public market equivalent" for private investments is defined as the most appropriate index, combination of indices, or absolute return target for the investment(s) in question. The public market index will be determined at the time of engagement based on the specific investments objective.

The Board of Trustees, with assistance from the Consultant, will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market values available. The Board does not intend to exercise short-term changes to the target allocation.

The Office of the Town Finance Director is authorized to move funds as required within the existing investment structure and its established investments as required for the maintenance of the target allocation, and for the management of Retirement System Cash Flow.

III. INVESTMENT PERFORMANCE OBJECTIVES

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers.

A. Total Portfolio Performance

1. The performance of the total portfolio will be measured for rolling three and five year periods. The Target Index for the Retirement System is defined in the TARGET ASSET ALLOCATION table including within this policy.

2. On a relative basis, it is expected that the total portfolio performance will rank in the top 50th percentile of the appropriate peer universe over three and five-year time periods.

On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumptions as scheduled (effective with the September 30, 2016 actuarial valuation, the assumed rate of investment return was decreased to 7.4% and was further decreased by 10 basis points each year thereafter until the assumed rate reached 7.1% effective with the September 30, 2019 actuarial valuation. The assumed rate was then reduced to 6.8% effective with the September 30, 2020 actuarial valuation. Effective with the September 30, 2021 actuarial valuation, the assumed rate of investment return was decreased 20 basis points to 6.6% with further decreases of 20 basis points each year thereafter until the assumed rate reaches 6.0% effective with the September 30, 2024 actuarial valuation).

B. Equity Performance

The combined equity portion of the portfolio, defined as common stocks and convertible bonds, is expected to perform at a rate at least equal to the respective indices indicated in the target allocation table. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank in the top 50th percentile of the appropriate peer universe over three and five-year time periods.

C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability and liquidity to the total portfolio. The fixed income portion of the portfolio is expected to perform at a rate at least equal to the respective indices indicated in the target allocation table. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank in the top 50th percentile of the appropriate peer universe over three and five-year time periods.

D. Non-Core Fixed Income Performance

The overall objective of the non-core fixed income portion of the portfolio, Non-core fixed income shall be defined as investments in various classes of fixed income securities oriented towards credit. Some of these strategies may not be liquid allowing the Retirement System to take advantage of illiquidity premiums available in these market investments. The portfolio is expected to perform at a

Exhibit 2

Town of Palm Beach Retirement System
Rebalancing Update
Based on Salem Trust Values 11-17-2023

Town of Palm Beach Retirement System

Account Name	Before Rebalancing Mkt Value	Current Allocation %	Target Allocation %	Diff	Transfer Out	Transfer In	After Rebalancing Mkt Value	After Allocation %	Diff
Total Town of Palm Beach Retirement System	**$269,168,048**	**100.00%**	**100.00%**	**0.00%**	**$0**	**$0**	**$269,168,048**	**100.00%**	**0.00%**
Total US Equity	**$106,085,474**	**39.41%**	**35.00%**	**4.41%**	**$0**	**$0**	**$106,085,474**	**39.41%**	**4.41%**
Vanguard Instl Index (VINIX)	$80,584,874	29.94%					$80,584,874	29.94%	
Geneva Mid Cap Growth Equity	$13,123,704	4.88%					$13,123,704	4.88%	
Cooke & Bieler Mid Cap Value Equity	$12,376,896	4.60%					$12,376,896	4.60%	
Total International Equity	**$54,132,058**	**20.11%**	**20.00%**	**0.11%**	**$0**	**$0**	**$54,132,058**	**20.11%**	**0.11%**
Pear Tree Polaris Foreign Value	$18,062,150	6.71%					$18,062,150	6.71%	
Fidelity International Index (FSPSX)	$11,605,377	4.31%					$11,605,377	4.31%	
MFS International Growth R6 (MGRDX)	$7,839,549	2.91%					$7,839,549	2.91%	
WCM Focused International Growth (WCMIX)	$8,083,935	3.00%					$8,083,935	3.00%	
Allspring Emerging Markets	$8,541,047	3.17%					$8,541,047	3.17%	
Total Fixed Income	**$46,494,221**	**17.27%**	**20.50%**	**-3.23%**	**$0**	**$0**	**$46,494,221**	**17.27%**	**-3.23%**
Garcia Hamilton Fixed Income Agg	$40,675,242	15.11%					$40,675,242	15.11%	
Serenitas Credit Gamma Fund	$5,818,979	2.16%					$5,818,979	2.16%	
Total Alternative	**$5,685,771**	**2.11%**	**5.00%**	**-2.89%**	**$0**	**$0**	**$5,685,771**	**2.11%**	**-2.89%**
Ark Innovation (ARKK)	$5,685,771	2.11%					$5,685,771	2.11%	
Total Real Estate	**$15,848,326**	**5.89%**	**10.00%**	**-4.11%**	**$0**	**$0**	**$15,848,326**	**5.89%**	**-4.11%**
Gerding Edlen Green Cities II	$1,609,126	0.60%					$1,609,126	0.60%	
Gerding Edlen Green Cities III	$1,940,049	0.72%					$1,940,049	0.72%	
Long Wharf Real Estate Partners Fund V	$2,922,240	1.09%					$2,922,240	1.09%	
Westport Real Estate Fund IV	$1,585,752	0.59%					$1,585,752	0.59%	
JP Morgan Strategic Property	$7,791,159	2.89%					$7,791,159	2.89%	
Total Private Equity	**$17,962,317**	**6.67%**	**7.50%**	**-0.83%**	**$0**	**$0**	**$17,962,317**	**6.67%**	**-0.83%**
Landmark Equity Partners XIV LP	$85,156	0.03%					$85,156	0.03%	
Private Equity Investment Fund V	$522,977	0.19%					$522,977	0.19%	
HarbourVest Partners IX	$8,419,046	3.13%					$8,419,046	3.13%	
Pomona Capital VIII	$736,572	0.27%					$736,572	0.27%	
JPMorgan Venture Capital Fund V	$8,198,566	3.05%					$8,198,566	3.05%	
Total Cash	**$22,959,881**	**8.53%**	**2.00%**	**6.53%**	**$0**	**$0**	**$22,959,881**	**8.53%**	**6.53%**
CASH	$22,959,881	8.53%					$22,959,881	8.53%	