Clients first.

To: Town of Palm Beach Retirement System Board of Trustees
From: Dave West, CFA
Date: May 20, 2022
Re: Retirement System: Mid – Year Review

The Town of Palm Beach Retirement System "the Plan" achieved a preliminary, net rate of return on invested assets of -5.32% for the quarter ended March 31, 2022. Plan assets earned -1.39% (preliminary) for fiscal year 2022.

Preliminary Investment Returns

For the period ending March 2022:
FYTD Year Return: -1.39% (net)
Quarter Return: - 5.32% (net)

Market Value: $289,653,120

Summary Attribution

Inflation remained the focal point of concern for markets and the Fed during the March quarter. The Russian invasion of Ukraine added to inflationary concerns in energy and commodities. The primary investment narrative now underscores the delicate balance of policy decisions required to curb inflation without leading to a US recession. Newly elevated levels of uncertainty drove a thematic shift in sentiment driving a period of selling across both equities and fixed income.

Real Estate allocations continued to deliver very strong returns as core property real estate continues to generate solid operating income from strong leasing activity in differentiated industrial properties and thematically focused activity in the apartment and office property sectors. Net returns for fixed income investments were dramatically negative as bond investors suffered losses due to the realization of mark to market price changes in a period of rapidly rising interest rates. Equities experienced losses broadly across allocations.

Tactical Actions:

Following a period of voluminous asset growth in fiscal 2021, the investment narrative shifted early in fiscal 2022 as investors contemplated inflationary head winds. While the U.S. economy exhibited solid fundamentals and economic growth exceeded expectations, a myriad of supply concerns emerged and continues to evolve the outlook for inflation. The Russian invasion into Ukraine continues to factor heavily as governments now contemplate implications of changing established trade agreements and supply chains.

- The Retirement Committee has adopted a position of general "neutrality" to policy targets. Plan investments, fully invested to allocation targets, continue to emphasize domestic equity and full allocations to real estate. These areas of investment have performed well historically through inflation cycles.
- Fixed income allocations and manager engagements were and will continue to be reviewed for allocation efficiency. The Retirement System will maintain the high-quality orientation for bond investments established during the pandemic. The total return outlook for public debt remains asymmetric with greater risk skewed to the downside at current yields. Credit markets are priced to perfection. The active manager, GHA, continues to position the bond allocation defensively in anticipation of potentially rising interest rates.
- Post pandemic core property real estate valuations continued to improve dramatically, driven by a continued resurgence of capital market activity, improving operating fundamentals and extraordinary tenant demand in high growth markets. Increasingly

higher inflation expectations are discounting bond valuations, providing a strong tailwind for real estate capital flows.

- The Committee has moved to a policy of “advance liquidity management” as benefit payment demands will continue to be a significant element of Retirement System’s operations and investments. Preemptive liquidity management practices will ensure that the program has sufficient funds to operate through fiscal year end. The Retirement Board will make investment decisions for the allocation of the annual Town contribution at the summer meeting.
- The allocation to public international equity will be subject to ongoing review for allocation suitability. Non-U.S. equities continue to underperform domestic equity as dollar strength and varying states of global economies impact investment results. Investment in this area remains allocated to no more than the policy target of 20%.