



TOWN OF PALM BEACH

TOWN MANAGER'S OFFICE

MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING HELD ON FRIDAY, May 19, 2023

Please be advised that in keeping with a recent directive from the Town Council, the minutes of all Town Committees and Commissions will be "abbreviated" in style. Persons interested in listening to the meeting, after the fact, may access the audio of that item via the Town's website at www.townofpalmbeach.com.

I. **CALL TO ORDER AND ROLL CALL**

Mr. Storkerson called the meeting to order at 2:30 p.m.

Mr. Chris Storkerson, Chairman
Ms. Kathleen Anderson, Vice Chairman (Absent)
Ms. Jacqueline de Sanctis
Mr. Lloyd McAdams
Ms. Annette Geddes

Staff Members present were:
Robert Miracle, Deputy Town Manager

II. **PLEDGE OF ALLEGIANCE**

Chair Storkerson led the Pledge of Allegiance.

III. **ANNUAL ELECTION OF CHAIRMAN AND VICE CHAIRMAN**

The Chairman and Vice Chairman were elected through a ballot process as follows:

Mr. Chris Storkerson to remain Chairman by a vote of 4-0.

Ms. Kathleen Anderson to remain Vice Chairman by a vote of 3-1.

IV. **INTRODUCTION OF NEW MEMBER – ANNETTE GEDDES**

Ms. Geddes introduced herself and gave a short overview of her professional history.

V. **APPROVAL OF AGENDA**

**Motion made by Ms. DeSanctis and seconded by Mr. McAdams to accept the agenda.
Motion carried unanimously, 4-0**

VI. **COMMUNICATION FROM CITIZENS**

There were none.

VII. APPROVAL OF MINUTES

- a) Minutes from the February 17, 2023, Meeting

Motion made by Ms. DeSanctis and seconded by Mr. McAdams to approve the minutes as presented. Motion carried unanimously, 4-0.

VIII. FLORIDA LEAGUE OF CITIES (FMvT)

A. Quarterly Performance Report

Jeff Bromley, Florida League of Cities and Jim Womack, Atlanta Capital

Mr. Bromley gave a brief overview of the town's investment in the Florida Municipal Investment Trust. The town uses three short-term bond funds, which Atlanta Capital manages.

Jim Womack, Atlanta Capital Investment Manager, reviewed objectives of the three portfolios managed for the Town of Palm Beach. He stated the three funds being managed for Palm Beach are rated AAA by Fitch. He said the goal for these portfolios is to outperform with less volatility. He discussed what happened in the short-term duration fixed income space. Mr. Womack said yields declined approximately 40 basis points, primarily due to the volatility that arose from stresses from the banking sector. Some pull-back in inflation, although inflation is still high. He said performance was near benchmark performance, but slightly below. Over the last one year, there were modest returns. The portfolios were managed somewhat defensively and have outperformed in a meaningful way over the past twelve months.

Mr. Womack spoke about the economy and what Atlanta Capital thinks is happening and how they are positioned.

IX. PFM ASSET MANAGEMENT

A. Quarterly Performance Report

B. Benchmark Comparison

Scott Stitcher, PFM Asset Management

Mr. Stitcher stated the assets he and Jim are talking about today are non-pension operating assets for the town. A very conservative approach is taken, driven by the Florida Statutes. He said his firm manages approximately \$210 billion and 100 percent of that is institutional monies.

a) QUARTERLY PERFORMANCE REPORT

Mr. Stitcher reviewed the economic presentation. This was a quarter where diversification worked against some funds because treasuries were king during the quarterly. However, PFM will continue to take the diversified approach long-term, it is the right thing to do and will serve the town well.

Mr. Stitcher said most assets are in the 1-5 year strategy. He reviewed the Sector Allocation

Analysis.

b) BENCHMARK COMPARISON

Mr. Stitcher presented a consolidated summary of the assets for which his firm is responsible. Regarding the longer-term portfolio, statistics were provided, with the year ending at more than \$40 million with the portfolio's duration standing at 2.35 years versus the benchmark of 2.47 years. There have not been many additions made to the portfolio.

Vice Chair Anderson questioned whether many corporations would start buying back their debt. Mr. Stitcher responded that was a great point; with interest rates where they are, there will be penalizations associated with issuing debt at higher yields to retire lower debt.

The portfolio returned approximately .98% versus the benchmark at .94% and after fees at .96%. Some slight outperformance net of fees.

Relative returns were discussed earlier, -5.04 for the trailing twelve months versus the benchmark at -5.25 percent. Always want to give up less than the market.

Year to date, the town is ahead of the benchmark by approximately 18 basis points. There is still some time before the quarter ends.

X. **ANDCO CONSULTING [Dave West, Andco Consulting]**

a) QUARTERLY PERFORMANCE REPORT

Mr. West presented an annual firm update and status on AndCo.

The quarterly performance report was provided. He discussed thematic shifts taking place in the marketplace. A brief summary of the December quarter was discussed. Major market indexes were shown with explanations by Mr. West. He said interest rates have increased in the short term but have decreased in longer maturity, with a net total return for the aggregate bond market of 1.9% for the quarter.

Mr. West said it is important to remain patient during the current economy. If looking back at the yield curve inversion, it can take 10 months or even 18 months for the actual recession to materialize if higher rates work their way through the system. He said given what transpired this week, it is possible to earn 5% in a six-month US Treasury bill, 5% in a one-year US Treasury bill, and the curve starts to go down two-year treasuries being 4.6% and five years at 4% and ten years down to 3.83%: huge inversion but massive opportunity in the cash management portfolio.

Mr. West said another phenomenon is the latent reevaluation of private assets, both real estate, private equity, and private debt. He said private investments are not subject to the whims of publicly traded securities. The town's real estate portfolio is expected to show a negative rate of return into the next quarter and possibly the subsequent quarter. There is a queue to withdraw from all major real estate managers. The queue is building as investors, institutional investors, pension, and OPEB systems try to rebalance portfolios. The two real estate managers for the Town of Palm Beach are consistent with the industry; no money may be pulled from either of those funds for now.

Mr. West reviewed asset allocations. With the market rally, domestic equity allocation is still close to market control at forty percent. International equity is still marginally underweighting the ten percent target, and broad market fixed income is marginally underweight. Real estate is still overweight.

Mr. West said the liquid capital account is at four percent, the higher end of the range. Mr. West recommended that liquid capital be maintained. His bottom-line recommendation was to stay the course with the current allocation, maintain that slightly above cash and continue to monitor the real estate circumstances.

Vice Chair Anderson asked if getting into the real estate queue would benefit the town. Mr. West responded that this is still viewed as a long-term investment, throwing off a good cash-on-cash yield from operating income. Both managers report solid operating income, good lease roles, and rent increases. They have less exposure to some of the major market areas and some of the trophy marquee office properties under duress. From a strategic standpoint, it would be good to maintain the allocation as it currently stands. Once the door opens, then it would be worthwhile to look at where the bond market is and where the real estate market stands.

Mr. McAdams said the Town of Palm Beach has invested in real estate for a long time. He said the real estate managers are in business to make money. Any belief in liquidity in real estate should not be a core expectation. He is happy with what is being done.

Mr. West said the real estate allocation, by design, was set up with a maximum of fifteen percent of total assets, which is very small. The opt-in was for open-ended real estate funds. The plan is well below the fifteen percent maximum. He said the evaluation disparity between publicly traded companies and the private Odyssey benchmark real estate is more disparate than in history. Ultimately the fair market value is somewhere in the middle, and publicly traded assets tend to get oversold and overbought. He believes having a hard asset real estate portfolio will hold “steady-as-you-go” in the future.

Mr. West said the total fund return was 3.99% for the quarter, slightly below the total fund policy. That was a direct function of the underperformance of the real estate managers to the Odyssey benchmark. As previously discussed, those managers have consistently outperformed the Odyssey benchmark until this quarter.

The new intermediate bond manager is now playing in the most intense area of yield, and the long volatility has been blocked off moving to an intermediate benchmark. They are ahead of the benchmark for the quarter. A limited allocation of 5.5% of total assets in the PIMCO diversified income fund is a nice quarter for them. The real estate managers are down, respectively, and liquid capital at 3.5% is \$1.2 million.

There was a brief discussion about energy sector investments.

XI. **OPEB TRUST FINANCIAL REPORT [Robert Miracle, Deputy Town Manager]**

Mr. Miracle presented the OPEB Trust Financial Report in summary through December 31, 2022. First, the net assets held in trust for retiree benefits is \$36,108,924. For the statement of changes through December 31, 2022, a positive increase of \$1.6 million was experienced. With that, a \$500,000 transfer from the trust investments to the OPEB account is being requested regarding cash flows that have been provided to the committee members.

Motion made by Mr. McAdams and seconded by Ms. DeSanctis to approve the transfer of \$500,000 from the Trust Investments to the OPEB Account. Motion carried unanimously, 4-0.

XII. ANNUAL REPORT TO THE TOWN COUNCIL [Robert Miracle, Deputy Town Manager]

Mr. Miracle stated that Chair Storkerton did speak with the Town Council, providing them with the fiscal year information. They had some questions about performance, and Chair Storkerton answered their questions.

XIII. NOVEMBER INVESTMENT REPORT [Amy Wood, Assistant Finance Director]

Ms. Wood gave the November report and stated that the information is a bit dated. Regarding the November balance, the total amount of funds in the portfolio was \$188,073,074, and she reported the return in November was a positive \$918,224.

XIV. QUARTERLY REPORT FOR OVERSITE OF ONE-CENT SURTAX [Robert Miracle, Deputy Town Manager]

Mr. Miracle said that two distributions had been received for approximately \$118,000 for the undergrounding project on the one percent sales tax report. This surtax is restricted for infrastructure projects, and the council has allocated all of this toward the undergrounding project. It is being presented at the Investment Advisory Committee because the requirement of this through Palm Beach County is that it must be reported to the board. Therefore, it was most appropriate for this to be presented to the Investment Advisory Committee.

XV. PROPOSED MEETING SCHEDULE [Robert Miracle, Deputy Town Manager]

- a) FRIDAY, AUGUST 18, 2023, AT 2:30 P.M.
- b) FRIDAY, NOVEMBER 17, 2023, at 2:30 P.M.

XVI. ANY OTHER MATTERS

Mr. Miracle announced terms ending in April (Mr. Storkerson) and May (Mr. McAdams and Mr. McDonald). He stated that staff will contact the members for their reappointment information, which will be submitted to the Town Council for approval.

XVII. ADJOURNMENT

Motion made by Vice Chair Anderson and seconded by Ms. DeSanctis to adjourn the meeting at approximately 3:50 p.m.

Respectfully Submitted,

Christopher Storkerson, Chairman