MARINER

To: Town of Palm Beach Retirement System Board of Trustees

From: Dave West, CFA

Date: April 2024

Re: Retirement System: Mid – Year Summary Investment Review

The Town of Palm Beach Retirement System "the Plan" achieved a preliminary, net rate of return on invested assets of 4.62% for the quarter ended March 31, 2024. Plan assets earned 13.1% (preliminary) for fiscal year to date 2024.

Preliminary Investment Returns

Performance and valuations presented in this report are preliminary, with 93.8% 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 March 2024:

FYTD Year Return: 13.1% (net)

Quarter Return: 4.6% (net)

Market Value: $288,943,569

Summary Attribution

The residual effect of Fed interest rate policy and the anticipation of a "policy pivot" continues to be of primary significance to general market investment results. The U.S. economy continues to show resilience adopting the new interest rate operating regime. The pace of inflation temperament has slowed with resent data showing some resistance to further decline as the economy strengthens. The Fed's published "Dot Plot" shared expectations of three quarter-point rate cuts during the year. Corporate earnings continue to deliver upside surprise above analyst expectations providing a valuation push for equities independent of expectations for any reduction in interest rates.

US equities moved broadly higher during the first quarter based on expectations of a more favorable interest rate environment in the coming year. The S&P 500 Index rose 10.6% for the quarter. International stocks experienced robust growth to begin the year, albeit muted by a strengthening US Dollar (USD). USD performance lagged local currency (LCL) performance in most regions for the quarter, though both currency readings were positive.

Fixed-income markets pulled back slightly to start the year with many domestic and international bond indexes finishing modestly lower during the quarter. Yields remain elevated due to the Federal Reserve's decision to maintain rates at their current levels. The Treasury yield curve continues gradually flatten as longer maturity interest rates reflect less bullish revisions to policy forecast.

Tactical actions FYTD:

The investment program continues to execute on a previously adopted tactical approach to asset allocation consistent with policy targets and allocation parameters. Consistent with this policy, the investment program maintained an overweight to domestic equity during the measurement period. This allocation was the primary driver of the Retirement System investment results. The allocation to Emerging Markets was eliminated consistent with the ongoing program risk assessment and alignment with the reduced target ROR objective.

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 debt markets has improved significantly with current valuations reflecting the generally higher level of interest rates. The following actions were completed consistent with the Retirement Plan's risk management mandate:

- The Committee continues to implement a policy of “advance liquidity management” as benefit payment demands will continue to be a significant element of Retirement System’s operations and investments. The current term-structure of interest rates continues provides a substantial yield opportunity through participation in U.S. Treasury money market funds. Prospective returns in such investments offer a tactical advantage to the Retirement System investment program providing both liquidity and a stable fixed income investment that is accretive to the overall investment objective. The current allocation strategy will ensure that the program has sufficient funds to operate through fiscal year end.

- Opportunistic allocation addition to private debt. The committee completed a general review of this area of investment identifying the opportunity to increase prospective returns significantly through income generation while minimizing undesirable exposures to general market interest rate movements. The Committee completed a general review of the private debt market opportunity and of applicable manager product structures. The opening commitment and engagement was allocated to Ares Capital Management.

- The LMCG Serenitas Gamma II Fund was added to the Non-Core Fixed Income allocation. The manager strategy is structured to minimize the valuation impact of changes in interest rates and idiosyncratic credit risk while maximizing total return. The strategy has worked exceptionally well during the challenged interest rate operating environment.

Real Estate commitments continue to detract from overall plan performance as the general investment cycle continues to be challenged by the economics of the new rate regime. Allocation to this area of investment has been set below the long-term allocation target. Investment in this area continues to be subject to an industry-wide liquidity queue for redemptions.