The Town of Palm Beach Retirement System
Board of Trustees
Minutes of Meeting
August 17, 2012

I. Call to Order

Chairman Snow called the meeting to order at 8:10 am at the Town of Palm Beach Town Hall Chambers, 360 South County Road, Palm Beach, Florida 33480.

In Attendance:

TRUSTEES:
Raymond Snow, Chairman
Gerald Goldsmith, Chairman Pro Tem
James McC. Wearn, Secretary
Peter Elwell
Wilbur Ross
Alvin Parven
Brett Madison
Jayson French

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Finance Director
James W. Linn, Attorney
Sean Higman, Prime Buchholz
Gwelda Swilley-Burke, Callan
Brad Armstrong, GRS
Alexia Varga, NHM
Walter Maxwell, Rampell & Rampell

Absent: Michael Lynch (advised Administrator in advance)

II. Approval of Agenda

Mr. Ross made a motion to approve the agenda. Mr. French seconded the motion. The trustees unanimously approved the motion.

III. Comments by Trustees

Mr. French discussed the buy-out plan document that he had distributed at the last meeting. He stated that the document at the time had not factored hiring additional employees, and so the numbers will change. He stated that he would still like the plan to be considered by the Board or Town Manager if it saves the Town money. He thanked the Board for the consideration.

Mr. Wearn stated that he would like to discuss the issue regarding the number of investment consultants to be chosen at the end of Agenda Item No. 13.

IV. Approval of Minutes May 18, 2012

Mr. Ross made a motion to approve the minutes. Mr. Madison seconded the motion. The trustees unanimously approved the minutes.

V. Financial Report

A. Alexia Varga, Nowlen, Holt, & Miner

Ms. Varga presented the report for the Police Officers plan regarding the compiled financial statement for the nine months ending June 30, 2012. The net assets held in trust for pension benefits are $56.6 million.

Chairman Snow directed the Board's attention to the last paragraph on Page 1 that stated there was an adjustment made to beginning net assets due to an alternative investment. Ms. Varga explained that the paragraph must be included until the next audit of September 30, 2012.

B. Walter Maxwell, Rampell & Rampell

Mr. Maxwell stated that a draft report regarding Firefighters was issued and submitted for the Board packets and a final copy of the report was provided prior to the beginning of the meeting. He stated that the Florida State Statutes Chapter 175 amount was not previously available but now included in the final copy. He noted the total investments were $58 million, with total assets just under $59 million. He stated total liabilities were at $3.6 million, with primarily $2.7 million held at ICMA in individual DROP and Share accounts and the prepaid Town contribution representing $620,000. He noted total net assets were $55.2 million.

Mr. Maxwell stated that the Chapter 175 moneys are anticipated to be received by the end of the month. Mr. Goldsmith asked Mr. Maxwell if there was a response from the State in regards to the Florida State Statutes Chapter 185 Police Officer money. Chairman Snow explained that it was to be received and a final report was to be issued. He asked Mr. Linn to address the issue.

Mr. Linn stated that the report illustrates that for the Firefighter plan, the State has indicated that the full amount of the taxes collected for 2011 will be distributed this month. He stated that a letter from the state was received in regards to the Police plan stating that the payment is held up due to technical reasons that will be resolved. Mr. Linn noted he did not file the demand letter directed by the board at the last meeting, as Mr. Hanes spoke with the State, and the State has indicated that the money would be released. Mr. Linn stated that the letter was not sent because it was not necessary. He mentioned that the funds are distributed on a calendar year basis. Mr. Elwell further clarified the position taken by the State and the process followed, stating the State will not reimburse for the first quarter of 2012 based on the fact that payments into the fund do not come in on a regular interval throughout the year, and there is not a proration that is appropriate to capture this time period. He stated that to do so may overpay some and underpay for other properties. He stated he is not prepared to concede the issue and suggested the board should wait to get the checks first before pursuing the other disbursement for the 2012 collections. Mr. Hanes explained that it was a timing issue and that he has discussed it with the State. Mr. Wearn suggested that the board's position be put in writing to the State. Mr. Linn explained that there is an appeal system in place. Mr. Goldsmith asked Mr. Hanes to put it on the Board agenda for the first quarter next year.

C. Jane Struder, Finance Director

Ms. Struder discussed her Financial report regarding the General Employees plan as of June 30, 2012. She noted total assets of $71,029,764 with total liabilities of $702,756 for a total net assets held in trust for pension benefits of $70,327,008.

Ms. Struder stated that there will be $1 million transferred from the money managers to the General Employees account at Wells Fargo. Ms. Swilley-Burke from Callan instructed Ms. Struder that the money will be coming from the S&P 500 Fund.

Mr. Goldsmith asked for clarification if the investment income line item includes cash income and increase in value as well. Ms. Struder affirmed that it did.

Ms. Struder distributed an updated cash flow forecast memo that provided the basis for the forecast. She stated that the assumptions used were based on the Town's long-term plan assumptions of 2% COLA, wage increase of 3% per year, and noted an exception regarding the actuary and attorney's expenses.

VI. Report on investment return assumption, Brad Armstrong, GRS

Mr. Armstrong presented the August 10, 2012 reports regarding investment return assumptions. The reports illustrated how adjustments to the economic assumptions impact the first year of Town contribution rates and funded ratios. He noted that the cost of the plan will ultimately be based on the actions of the members and the benefits and cash flows. He stated that the 8% return is generally the focal point that the retirement plan has been using, which is applied to all years in the plan during employment and during retirement. He noted that the inflation assumption is in respect to liabilities during the employee's active employment as pay increases are involved, and if the percentage is reduced, then current contribution requirements must be increased. He stated that if the inflation assumption is reduced, that it will not offset the costs. Mr. Armstrong discussed the details of the report.

Mr. Armstrong noted that the Town's assumption for wage increase is not expected to exceed 3% per year. Mr. Ross expressed a concern that the assumption used in this report should match the Town's assumption. Mr. Armstrong explained that the percentage that was used in the actuarial report referred to by Mr. Ross was based on a report and workshop prepared for Town Council in 2008. Mr. Elwell explained that the forecast used by GRS was more in the wage growth marker to provide a conservative projection that will allow for change in circumstances. He stated that it was discussed as to what wage inflation rate would be most appropriate for use as an assumption, and that the Town's 10-year long-term plan assumption has been 3%. He stated the assumption would not leave any protection against a sudden change. Mr. Elwell suggested that 3.5% would be a more conservative number that would be closer to the Town's plan and would provide a little protection.

Chairman Snow commented on the ratio of employees to retirees comparing 2008 to 2012. He stated that in 2008 there were more employee participants compared to retirees, while in 2012, the reverse has occurred for all plans.

Retirement Fund	2008		2012	
	Employees	**Retirees**	**Employees**	**Retirees**
General Employees	214	127	164	168
Police	71	78	60	88
Fire	72	79	60	92

Mr. Armstrong stated that the maturity of the plan is an issue that the Board must consider as the plans are now upside down in terms of retiree liabilities versus actives. This demonstrates that outcome is more dependent on investment return rather than wage inflation, as the portion going out to retirees is much larger than what is being contributed. He stated that the assumption of bad investment is key. The trustees noted that these matters were considered by Town Council when considering the pension changes.

Mr. Armstrong was excused from the meeting.

VII. Annual Rate of Interest to be Credited on Member Contributions, Jane Struder, Finance Director

Ms. Struder presented that each September the active members' contributions are credited with a rate of interest for the year. She stated that the General Employees fund has traditionally used the 10-Year Treasury rate as of July 31. She stated that the Police and Firefighter funds have used a 5.5% rate for the past few years. She explained that the board-set rate of return impacts employees who leave and take their pension contributions with them, rather than retire or DROP. She discussed that the rate only affects those leaving the system before vesting. Ms. Struder requested that the Board determine the rate to be used as credit on all active employee contribution reserves as of September 30.

Mr. Elwell made a motion that all three funds use the 10-Year Treasury Bond Index which is currently at 1.51%. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Meeting recessed
Meeting Resumed

VIII. Quarterly Investment Report

A. Sean Higman, Prime, Buchholz

Mr. Higman reviewed the Firefighter fund quarterly report. He noted the total Fund was off 2.7% or 9.2% over the target index of 6.8% for the fiscal year. He noted there was some underperformance in the domestic portfolio which was offset by good performance with international equity. He highlighted the individual portfolios. He discussed two managers, Stralem and CRM, which have underperformed by not meeting their benchmarks. He noted that the two funds are high quality oriented and that has hurt them in the current market cycle. He also noted that Stralem has shown improvement in the month of July.

Mr. Higman reviewed the Police Officer fund quarterly report. He stated the differences between the two plans (Police Officer and Firefighter) in the one and three-year returns coincide with the timing of implementation. He explained that it was almost the same for both plans with minor differences in asset allocations. He discussed that the Wellington Diversified Hedge Strategies has not met their benchmarks, but that Prime, Buchholz continues to support them over the long period of time.

B. Gwelda Swilley-Burke, Callan

Weston Lewis was present with Ms. Swilley-Burke. Ms. Swilley-Burke, reviewed the quarterly report for the General Employees. She reported that there was a loss in market value and that Fixed Income was the best performing area for the quarter in terms of absolute returns. She discussed that there was a cash withdrawal of $1.1 million to end the quarter with approximately $70.4 million in asset size. She stated that fiscal year-to-date for the total fund was $13.7 million versus $13.24 million for the target benchmark. She discussed the Investment Manager Returns on Page 23 and noted the return versus the benchmark being 7.44% versus 7.21%, respectively. She stated that in the Fixed Income market over the quarter there was a drop in rates, and the 10-year T-Note reached an all-time low in June of 1.48%. She discussed that since that time, the yield curve has come back up slightly, trading the past week at 1.85%. Mr. Lewis discussed matters of performance of the absolute return fund performance with Mesirow. He discussed that the hedge fund-of-funds as a whole has become significantly more difficult to meet the cash-plus benchmark as it was always intended to be a long-term benchmark. He stated it belongs in the portfolio; however, the assumed outperformance and assumed returns have been disappointing performance.

Ms. Swilley-Burke discussed a handout, "Investment Manager Asset Allocation," that had been previously distributed to the trustees. She commented that the numbers were not available prior to the distribution of the quarterly report. She stated that the returns as of the end of July show weakness in the Small-Mid Cap area, while Fixed Income continued to outperform. She stated that the Absolute Return outperformed for July, and there was a shortfall in International Equity. She discussed the Capital Market Assumptions memo.

Mr. Goldsmith asked both investment managers what they recommended in regards to a percentage rate of return assumption. Ms. Swilley-Burke responded with 7.5%, and Mr. Higman responded that a 7.5-7.75% is a reasonable expectation.

IX. Attorney Report, James Linn

Mr. Linn reviewed the earlier discussed topic regarding State distributions of the State Statutes Chapter 175 and 185 moneys. He stated that a letter was received from the state concerning the plan's submission of the Chapter 185 report and that there was a deficiency noted of approximately $35,000 from 2011 that should have been contributed to the Police Officer plan. Additionally, he discussed that there was an excess in the pre-paid Town contribution of approximately $500,000 noted, and the letter suggested that the Town would be able to handle the deficiency using the excess funds from the Town contribution. There was discussion as to if it would require Board approval to perform this action. It was determined that board action would be appropriate. Mr. Ross asked why there was an excess contribution. Mr. Linn explained that the percentage of payroll had remained the same while payroll had declined and the state's rules changed, requiring that Town contributions be made based on percentage of payroll instead of the dollars represented from the annual actuarial report. Mr. Elwell suggested that the Board continue to make the full dollar contributions based on the annual actuarial report.

Mr. Ross made a motion to accept Mr. Linn's proposal to use the overage of the pre-paid Town contributions to cover the funding deficiency. Mr. Elwell seconded the motion. The trustees approved the motion unanimously.

X. Administrator's Report, William Hanes, Administrator

Mr. Hanes reported that there were contract changes requested by State Street and GRS. He stated that he had reviewed each request and there did not appear to be any significant changes with the State Street contract. He stated that there has not been a fee increase for State Street in the past and noted that GRS's services have been combined to include what recently was work for the three boards.

Mr. Ross made a motion to approve the State Street increases as discussed. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Ross made a motion to approve the GRS actuarial services letter containing the "Regular Actuarial Consulting Services Retainer Fees". Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XI. Retirement/Benefit Payments, William Hanes, Administrator

Mr. Hanes presented the standard report, noting that one employee retired and two employees entered the DROP program.

Mr. Goldsmith made a motion to ratify the actions of paying on the DROP program and retirement. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

XII. Disbursements, William Hanes, Administrator

Mr. Hanes had included in the Board members' packets three separate breakdowns that included Police Officers, Firefighters, and General Employees Plan disbursements.

Mr. Elwell made a motion to ratify payments and disbursements as noted on the three breakdowns. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XIII. Investment Consultant RFP Interviews (CLOSED MEETING)

The board recessed at 11:00 and met in a closed meeting for the RFP finalist Interviews with four Investment Consultant firms at a location across the street in the briefing room of the Police Department. The board subsequently reconvened in open meeting at Town Chambers at approximately 1:00 pm.

Mr. French raised a proposal from Firefighters that would allow public employees to have an additional investment vehicle for DROP funds other than ICMA and recommended using a local bank. He stated that the bank would basically take the place as custodian. Mr. Hanes suggested that the topic could be brought up at the next quarterly meeting along with the board taking a look at the ICMA investment options. Mr. Hanes suggested that the Board consider requesting the attendance of an ICMA representative in November to address or clarify the issues that are of concern to Firefighters. The board agreed without motion.

Meeting Paused
Meeting Resumed - The Board reconvened in the Town Chambers at 1:33 pm.

Mr. Hanes stated that he had previously checked the references that had been provided by the four finalists. He stated that there was nothing he had discussed with any of the references that he believed would present cause for concern to the trustees. Chairman Snow asked the Board members if they were satisfied with the finalists, or if any trustee had any concern and would like to go back to the RFP process. The trustees discussed and agreed that the choice of firms were to their satisfaction and expectations. The board agreed that it would be able to make a choice from the selection of finalists.

Mr. Elwell raised an issue with legal counsel regarding the appropriateness of making an inquiry at the meeting from the RFP firm representatives present,. Mr. Linn replied that it would be appropriate to ask additional questions from those present for purpose of clarification.

Mr. Elwell requested that he be able to ask a specific question of a firm representative who was present. The Board had no objection.

There was brief discussion in regards to narrowing the choice of investment consultants based on fees to be charged the board. Mr. Elwell noted that the proposed Callan fees were significantly higher than the other three finalists. Mr. Elwell asked The Bogdahn Group representatives to describe their research capabilities. The representatives provided a response. The trustees discussed the strengths and weaknesses of each finalist.

Chairman Snow discussed the voting process to be utilized by the Board in selection of the Investment Consultant. Each trustee was instructed to rank the four consultants in order of preference, one to four, with one being best and four being worst, pending final approval from the Town Council. A paper ballot was taken and the vote was counted and tallied by Mr. Linn. The vote was confirmed by the clerk, Ms. Jody Justice. Callan received a score of 31, The Bogdahn Group received a score of 17, Graystone Consulting received a score of 18, and Segal Rogerscasey received a score of 14. Segal Rogerscasey received the lowest score and was the selection of the Retirement Board.

Chairman Snow and the other trustees recognized Prime, Buchholz for their excellent service over the years to both the Police Officer and Firefighter Retirement Boards. Callan was recognized for excellence over their years of service with the General Employees Retirement Board.

Mr. Elwell made a motion to approve the vote and board selection, consultant Segal Rogerscasey. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Mr. Hanes asked the Board to authorize the new consultant to work with the legacy consultants for a transitional period. Mr. Elwell asked Mr. Linn to draft an interim contract with Segal Rogerscasey that provides for an appropriate transition. He noted that a special meeting may need to be called to determine the transition period and specifics in regards to the contract. He requested that Chairman Snow be delegated authority to act on the Board's behalf.

Mr. Elwell made a motion to authorize the chair to act on the Board's behalf and to authorize an interim agreement and if necessary have a special meeting. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Mr. Ross and Mr. Parven excused themselves from the meeting, but a quorum remained.

XIV. Other business

Mr. Hanes referred to Mr. French's memo regarding the buy-out option for Firefighters. The Board members were asked if they would authorize the actuary to perform the service in an amount not to exceed $3,500.

Mr. Goldsmith made a motion to approve the fee not to exceed $3,500. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

Mr. Hanes discussed the manner in which the minutes are taken for board meetings. He discussed that the Human Resources representative who serves as clerk for the meetings would prepare meeting minutes in a briefer manner than many trustees are accustomed. He stated that proper links are provided to the audio portion of the meeting for public use, and if an individual wants the details of the discussion of a specific topic, he or she will be able to go to the specific portion of the recording. Mr. Hanes stated that he will review and edit the minutes prepared by Human Resources prior to providing to trustees and prior to the next board meeting.

Chairman Snow asked the Board's permission to go before the Town Council and report to it the status of the Retirement Board with publicly available information. He stated that Mr. Elwell will speak with the Town Council President as to the appropriate timing. The Board concurred without motion.

XV. Adjournment

Mr. Goldsmith made a motion to adjourn the meeting at 2:10 pm. Mr. Madison seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

James McC. Wearn, Secretary

16 [illegible] 2012

Date