MEETING OF THE TOWN OF
PALM BEACH POLICE OFFICER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Meeting of August 14, 2008

c/o WILLIAM P. HANES CONSULTING, INC.
P.O. BOX 2112
PALM BEACH, FL. 33480

I Call to Order:

Mr. Ray Snow, Chairman called the meeting to order at 9:15 at Town Council Chambers.

In Attendance:

TRUSTEES:	*ALSO PRESENT:*
Ray Snow, Chairman	William P. Hanes, Pension Administrator
Mike Lynch, Vice Chair	Stuart Kaufman, Klausner & Kaufman
Chris Proscia, Secretary	Alexia Varga, Nowlen, Holt & Miner
Gerald Goldsmith	Sean Higman, Prime Buchholz & Assoc.
James McC. Wearn	

II Approval of Agenda

Mr. Wearn moved that the minutes of the meeting of May 8, 2008 and June 18, 2008 be deferred for further review and be deleted from the agenda and postponed. Mr. Goldsmith seconded, and the Board unanimously approved.

III Comments by Trustees

Mr. Snow discussed that there has been progress made in the transition to a new process to pension administration, and the new administrator and attorneys have been doing a lot of work with a lot of progress being made toward the transition.

IV Approval of Minutes

Mr. Wearn moved for approval of the October 1, 2007 meeting minutes. Mr. Lynch seconded. The motion was unanimously approved.

V Financial Report

Ms. Alexia Varga provided the financial report. She stated that the execution of the contract with Nowlen, Holt and Miner was on July 15, 2008. She discussed the difficulty getting information from Pension Resource Center (PRC), and she does not feel comfortable presenting a report to the Board until she has the information and a clean slate to go forward. She said that she wants to receive all contracts with service providers. She said that she has reconciled the system ledger with the National City bank account.

Mr. Wearn offered that he may be of some help in securing contracts for Ms. Varga because when serving as Secretary for the Board, he kept copies. He asked that the Board attorney be involved in securing documents from PRC.

Mr. Wearn moved and Mr. Lynch seconded that the attorney for the Board assist in securing the information and documents from PRC and ICMA that is needed to complete the transition of plan administration. Mr. Goldsmith commented that we should keep a balance until all outstanding checks can be found and reconciled. The Board unanimously approved the motion.

Mr. Hanes discussed with the Board the new procedures for issuing checks to service providers that has been approved by the Board's accountants. He explained that all checks will require two signatures of the three authorized signers; Raymond Snow, Chris Proscia and William P. Hanes. He explained that there is an exception for Mr. Hanes, and that checks made out to him can only be signed by Raymond Snow or Chris Proscia, without a requirement for a second signature.

VI Quarterly Investment Report

Sean Higman gave the report. He briefly commented on the unusual markets and discussed manager performance before discussing matters of asset allocation.

Mr. Higman noted that the active managers have had a difficult time finding energies or financials at a cheap cost. He discussed that in these times it is important that you be well diversified and stay still.

Mr. Higman discussed the performance of the active managers. He discussed that for the quarter the active managers are above their benchmarks with the exception of the international managers. He discussed that Cooke and Bieler had been terminated over the quarter and monies have been redeemed.

Mr. HIgman discussed reasons for which the Internationals have not performed at the benchmark level, but he believes that Harris International is rebounding.

Mr. Higman discussed that Hedge funds had proven to be good diversifiers and were up by 2.5% for the quarter. He noted that Pine Grove and Meridian had been notified of termination.

Mr. Goldsmith asked about Western Asset Commodity Plus Fund, and Mr. Higman explained the leverage impact with asset backed mortgages (bonds) involved with the fund causing a pull down in performance.

Mr. Goldsmith stated to Mr. Higman that in the future when discussing with the Board an investment, that it should be clear what we are doing.

Mr. Higman discussed the fixed income portfolio and stated that it is holding up well through good diversification.

Mr. Higman discussed the real asset portfolio. He discussed the differences between holding a REIT versus holding private real estate and that over the last 10 years the private real estate has outperformed REIT's.

Mr. Higman recommended to the Board the termination of Western Assets.

Mr. Snow asked Mr. Kaufman if there is anything going on with the law that restricts international equities to 10% and discussed that he serves as trustee on a board for the Johns Hopkins endowment fund at Johns Hopkins University, and that the fund has a large allocation to international. Mr. Kaufman discussed that the state is in agreement that the law that creates the restriction should be changed. Mr. Kaufman also discussed that his firm believes that the state has been misinterpreting the law.

Mr. Higman discussed the model he recommends to the Board and the way it would change the asset allocation of the portfolio (attached). The trustees expressed opposition to private equity entry to the portfolio, and Mr. Higman stated that he is not recommending that particular model.

Mr. Higman discussed that certain vehicles include "foreign securities," and that is taken into consideration in setting up the right model that will satisfy the 10% restriction.

Mr. Wearn made the motion that we approve, adopt and implement model 3A (exhibit A). Mr. Goldsmith seconded. The Board unanimously approved.

Mr. Wearn moved that Mr. HIgman provide a written explanation for the selection of model 3A that could be provided members of the Town Council. Other members discussed the importance of keeping the Town Council informed about these changes. Mr. Goldsmith seconded the motion. Mr. Snow added that he thought a letter of this type of explanation would be very important. The Board unanimously approved.

Mr. Higman discussed the restructuring of the portfolio, and reminded the trustees that the work has already begun from last meetings directives. Mr. Higman asked the trustees to go to page 8, which illustrates the recommendation for building out the structure and he discussed the specific changes. He stated that Western Asset should be replaced by either a single or component product. There are two other replacements that will need to be decided. Mr. Higman discussed the need for the Board to take action to establish new signatories.

The motion was made by Mr. Goldsmith to take item VII out of order, and to approve the Administrator, the Chairman and Secretary to take all actions necessary on behalf of the

pension fund as signatories. Mr. Proscia seconded the motion. The Board unanimously approved the motion.

Mr. Higman discussed the various alternative managers. Mr. Higman recommended the hiring of Cramer Rosenthal McGlynn (CRM) as mid-cap value to replace Cooke and Bieler.

The next recommendation is found at tab 7, and is for the replacement of Pine Grove, and Mr. Higman recommended Archstone Market Neutral. Mr. Wearn expressed a concern of having 20% with Archstone, including Archstone Partners and Archstone Neutral, and questioned the wisdom of having 20% with one firm. Mr. Higman discussed that there is an overlap. He discussed his belief that the quality with Archstone Neutral is exceptional and that he looks through the fund and underlining holdings. Mr. Higman stated his second choice would be Private Advisers and provided information about the firm.

Mr. Higman discussed from tab 8 and recommended that Forester take the space that Meridian formerly held.

Mr. Higman explained that there is a two year lock up option with Forester receiving a 3% profit sharing, or an alternative to sign up for 3 years with a flat 1% fee and no profit sharing. Mr. Higman recommended a 3 year lock up with 1% fee.

Mr. Higman referred to tab 9 to discuss the class of Real Assets. He discussed that in conjunction with the recommendation of firing Western Assets that there will be a need to fund that category and to find TIPS and Natural Resource as components. He stated that Wellington is his strong recommendation to achieve that need.

Mr. Snow asked if the Firefighters fund might go together with the Police fund on this investment to get a break on the fees, and Mr. Higman said that he would ask.

Mr. Higman discussed alternatives in the select component funds. He discussed Income Research to provide a TIP and discussed other options for finding commodities.

Mr. Wearn asked about entering a fund like a partnership, or like other inter-local agreements that achieve economies of scale. He suggested that we explore the possibility. Mr. Lynch stated his belief that there are too many variables to do it.

Mr. Higman stated that the Town previously did the study and that there didn't seem to be much in administrative savings.

Mr. Higman discussed with the trustees the neutral zone space where Wellington would have discretion to invest, and that the variance of 20%. Mr. Snow stated that he likes the discretion.

Mr. Higman set out the recommendations as a combined motion. The motion would be to appoint as mid cap value, CRM as manager; Private Advisers for the replacement of Pine Grove; Forester to replace Meridian; in the space covering TIPS and Natural Resource space it would be Wellington Diversified Hedge Fund. In Forester, we would be picking the three year class. The other new fund is the SSgA mid cap, and the Board is adopting 3A, and terminating Western.

Mr. Wearn made the motion as agreed upon. Mr. Goldsmith seconded. Mr. Higman said he will review and provide changes of asset classes and will bring to the November meeting. The motion was amended to be subject to legal review and ratification of the new allocation to the investment policy, but to be implemented right away.

Mr. Higman explained that the implementation is spread out over several quarters.

The Board adopted the motion as amended.

VII Approval of Signatories

The Trustees discussed this matter and took action at item VI.

VIII Administrator's Report

Mr. Hanes discussed that the Wachovia transition is complete and that the rates are better than what is was previously.

Mr. Hanes discussed an issue regarding a fidelity bond that was issued on behalf of the Police Officers' fund, but that payment was not made to the issuing company. There had been a demand for payment. Mr. Hanes discussed the terms with the trustees and Mr. Kaufman discussed the options.

Mr. Kaufman said that he wanted to discuss an issue regarding the issuance of a fidelity bond, and he wanted to state for the record that the bond should include Mr. Hanes, notwithstanding his status as a contractor.

Mr. Goldsmith moved and Mr. Lynch seconded that the Administrator will get three bids for a fidelity bond for next calendar year and will execute on one after discussing with the Chairman and Mr. Wearn.

Mr. Hanes was to pay the amount currently owed before doing so.

All Board members approved the motion.

There was a discussion that the current D&O policy had not been located. Mr. Wearn recalled that it was renewed by the Administrator from 1/08 to 1/09. Mr. Wearn was to provide information to Mr. Hanes.

Mr. Hanes handed out a sample estimate of benefit form from Kentucky and discussed. He discussed that he is continuing to get training on the new EDEN system. He suggested the document would be very helpful for members to plan for receipt of their benefits. Mr. Hanes discussed that the Town and he have worked together to seek a bid from a firm that could provide the appropriate software on retirement, but the cost came in very expensive. He suggested that for now he be able to work with the system, and then seek a monthly maintenance with a service provider.

Mr. Hanes discussed the status of the Florida Statutes Chapter 185 report, and that the State has provided a letter of approval. Mr. Kaufman stated that the check for the Florida Statutes Chapter 185 funds should be in soon and it is a reduced amount from last year.

Mr. Hanes provided the Board the Actuary's analysis of benefit changes as requested previously by the Board at Mr. Lynch's request.

Mr. Wearn asked Mr. Hanes to discuss the proportion of time spent between the two public safety boards, Police and Firefighters. Mr. Hanes explained that it is more time with Firefighters because of the nature of the SHARE and DROP accounts, and as a result of being housed at the Fire Station in close proximity to Firefighters. Mr. Wearn asked that once the transition has been completed for Mr. Hanes to begin providing to the Board a comparison of his time spent on work for each fund.

Mr. Snow expressed concern about Mr. Hanes' place of business in a Fire Station, and wants to be able to get to a point where the Town is able to provide a more appropriate place to work. He also said he hopes that Mr. Hanes will come to the Board for help when he needs the help. He stated that it is a more monumental task than anyone anticipated, and thanked Mr. Hanes for the hard work. Mr. Lynch stated that the Town should make something available for him and provide an office with adequate space.

IX Attorney's Report

Mr. Kaufman checked to see if all Trustees had filed their financial disclosure requirements, and Mr. Hanes stated that he had already checked and said everyone is in compliance.

Mr. Kaufman discussed the increasing reporting proposed by the State with overzealous rules. He stated that the state is proposing that these very difficult rules be codified Into the Florida statutes. He discussed a future workshop where these issues are being discussed, and that the plan actuaries, administrators, attorneys and other interested parties, who are mostly opposed, will be in attendance. Mr. Kaufman stated that he too would be in attendance at the workshop.

Mr. Wearn complimented Mr. Adam Levinson for his new partnership with the Klausner firm, and for an excellent presentation at the March client conference held by the firm.

X Records Conversion

Mr. Hanes requested that boxes he has received from PRC be converted to a disc. He has been working with the Town Clerk, Ms. Sue Eichhorn, to receive an estimate of the cost. Mr. Wearn stated that he believes it is money well spent. **Mr. Wearn made the motion to allow for expenditures for this purpose, but not to exceed $7500. Mr. Lynch seconded the motion. All trustees approved the motion as amended.**

XI Disbursements

Mr. Hanes explained the new processes for payment of invoices. **Mr. Wearn moved and Mr. Goldsmith seconded that the payments be approved and filed for audit. The motion was unanimously approved.**

XII Other Business

Mr. Snow discussed that the Town Council will meet on October 14, 2008 to appoint members of this Board.

XIII Adjournment

The motion was made by Mr. Lynch and seconded by Mr. Goldsmith for adjournment. The motion was unanimously approved.

Attested by: ______________________

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Chris Proscia, Secretary

Model Portfolios

- **Six model portfolios are analyzed in the following pages:**

1. **Current**: Police Officers' System current policy.
2. **Model 1**: Increases allocation to Real Assets (10% to 15%) from Domestic Equities; the result is a significant decrease in volatility (due to correlation benefits) and modest decrease to expected return; increases hedge to inflation. Subsequent model builds upon prior.
3. **Model 2**: Increases allocation to Hedge and Absolute Return strategies (15% to 20%) from Equities and Fixed Income; Non-US reduced to maintain 10% limit (combined with Non-US component of Alternatives); the result is a modest decrease in volatility with a modest increase in expected return.
4. **Model 3A:** Increases allocation to Hedge and Absolute Return strategies (20% to 30%) from Equities and Fixed Income; Non-US reduced to maintain 10% limit (combined with Non-US component of Alternatives); the result is a modest decrease in volatility with a modest increase in expected return.
5. **Model 3B**: Adds allocation to Private Equity (5%) from Domestic Equities; the result is comparable expected volatility with a modest increase in expected return.
6. **PBA Model:** represents the asset allocation that PB&A might recommend if not constrained by Florida statutes; typical of large endowment and foundation clients; in comparison to Models 1-3, the model illustrates the value of increased globalization, increased allocation to real assets, and private equity; the result is comparable expected volatility with a significant increase in expected return.

Note: Non-US Equities is reduced in order to compensate for Non-US content within Hedge and Absolute Return strategies.

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Model Portfolios

	Asset Class		Current Policy	Model 1	Model 2	Model 3A	Model 3B	PB&A Model
Return Enhancement	Domestic Equity	U.S. All Cap	40.0	35.0	34.0	30.0	25.0	15.0
	Non U.S. Equity	Non-US Developed/EM	10.0	10.0	8.5	5.0	5.0	15.0
	Alternative Strategies	Long/Short Hedge	7.5	7.5	10.0	15.0	15.0	15.0
		Private Equity	0.0	0.0	0.0	0.0	5.0	10.0
	Total:		57.5	52.5	52.5	50.0	50.0	55.0

	Asset Class		Current Policy	Model 1	Model 2	Model 3A	Model 3B	PB&A Model
Risk Reduction	Alternative Strategies	Absolute Return	7.5	7.5	10.0	15.0	15.0	20.0
	Fixed Income	Multi-Strategy	15.0	15.0	12.5	10.0	10.0	0.0
		Convertibles	10.0	10.0	10.0	10.0	10.0	0.0
		World Gov.	0.0	0.0	0.0	0.0	0.0	5.0
	Real Assets / Inflation Hedge	TIPS	0.0	2.5	2.5	2.5	2.5	4.8
		Natural Resources	0.0	2.5	2.5	2.5	2.5	4.8
		Commodities	2.5	2.5	2.5	2.5	2.5	3.8
		Private Real Estate	7.5	7.5	7.5	7.5	7.5	6.6
	Cash & Equivalents	Money Markets	0.0	0.0	0.0	0.0	0.0	0.0
	Total:		42.5	47.5	47.5	50.0	50.0	45.0

		Current Policy	Model 1	Model 2	Model 3A	Model 3B	PB&A Model
Expected Results	***Expected Return (Arithmetic)***	8.2	8.1	8.1	8.2	8.4	8.9
	Expected Return (Geometric)	7.7	7.6	7.7	7.8	8.0	8.5
	Expected Standard Deviation	10.7	9.8	9.7	9.1	9.1	9.2
	Sharpe Ratio	0.48	0.52	0.53	0.57	0.59	0.64

Notes: Expected return/risk using 10-year Prime Buchholz asset class assumptions
Aritmetic return is the average return over a period of time
Geometric return is the compounded return over a period of time

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