MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM POLICE OFFICER BOARD OF TRUSTEES MEETING OF MAY 13, 2010

I Call to Order

Chairman Snow called the meeting to order at 9:12 a.m. at Central Fire Station (EOC), 355 S. County Road, Palm Beach, Florida. Chairman Snow recognized Councilman Diamond and welcomed him to the meeting.

In Attendance:

TRUSTEES:
Ray Snow, Chairman
Michael Lynch, Chairman Pro Tem
Chris Proscia, Secretary
James McC. Wearn
Gerald Goldsmith

ALSO PRESENT:
William P. Hanes, Pension Administrator
Stuart Kaufman, Klausner & Kaufman
Alexia Varga , Nowlen, Holt & Miner
Sean Higman, Prime Buchholz
Brad Armstrong, GRS

II. Approval of Agenda

Mr. Wearn made the motion to approve the agenda. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

III. Comments by Trustees

Mr. Wearn commented that the fourth quarterly meeting is scheduled for Veteran's Day, and suggested that the Board consider changing the meeting date. Chairman Snow suggested that the Administrator consider the request, and noted that the trustees have formerly met on Veteran's Day even though the Town was officially closed; a moment of silence was observed in that instance.

Mr. Wearn stated that he wanted to compliment and to express his appreciation to the Administrator for the articles that have been provided to the trustees. He stated that the articles are very interesting and very educational.

Mr. Goldsmith stated that he had previously asked for information that will provide a basis for determining the long term obligations of the plan, and stated that the information he received for this meeting for the actuarial portion of the agenda was very well done.

Chairman Snow noted that he had attended a Town sponsored Memorial Service that was attended by Mayor McDonald, members of Town Council, and Chief of Police Blouin. He noted that Trustee James McC. Wearn's name is inscribed to the Wall of Honor for his military service during time of war.

Chairman Snow complimented Administrator William Hanes for providing very interesting information as to what is going on in the Pension world and around the country. He added that due to Mr. Hanes' connection with the National Association of the State Retirement Administrators, known as NASRA, Mr. Hanes and he were able to participate in a call with Mr. Keith Brainard, Research Director for NASRA, who provided additional updated information on issues of retirement funding. Chairman Snow stated that he believes that the Police Officer board is getting a real bonus with Mr. Hanes' service above and beyond the administrative services he provides for the plans.

Mr. Lynch noted that he will want to ask questions to Mr. Armstrong at the scheduled time in presentation on the Actuarial Report.

IV. Approval of Minutes: February 11, 2010

Mr. Lynch made the motion to adopt the minutes of the February 11, 2010 Board meeting. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

V. Financial Report

Ms. Alexia Varga presented the Financial Report to the trustees for the six month period ending March 31, 2010. She noted assets at $55 million. She reviewed the statement in change of plan assets from March 31, 2009, and noted an increase of $4.3 million over the year. She reviewed the detail of investment and administrative expenses.

Mr. Goldsmith requested information about the legal expenses, and Mr. Hanes discussed that much of the expenses were related to a response to the Town Manager proposal for benefit changes, work on a draft Summary Plan Description, and work related to an ordinance for two year staggering terms and quarterly meetings. Mr. Goldsmith asked Ms. Varga to change her characterization of Prime, Buchholz & Associates from Performance Monitor to Investment Advisor in future reports. Ms. Varga agreed to do so.

VI. Actuary Report

Mr. Brad Armstrong presented the 2009 Actuary Report. Mr. Armstrong reported the current funding level based on actuarial valuation was reduced from 90% in 2008 to 84.8% for the current actuarial report. Chairman Snow asked how the funding of our plan compares with others. Mr. Armstrong stated that anything above 80% is above average.

Mr. Armstrong stated that the contribution requirement from the Town will increase from 39.31% to 42.19% of payroll beginning October 1, 2010. He stated that 60% of the losses were attributed to a negative investment experience, and a significant additional amount was due to higher than expected salary experience. He stated that he reviewed payroll reports from the Town after the spiking effect of last year, and determined that the salary pay has returned to within range of the assumption at around 5.5%.

Mr. Armstrong discussed his experience expectations for the current year. He reminded the trustees that the plan has not yet realized much of the negative investment experiences of the last few years, and referred to page B-8. Chairman Snow discussed from page B-10 a net unamortized balance of $14,400,790 to underscore the significant hole that has been created, from which he stated the board will attempt to seek recovery through future investment experiences.

Mr. Armstrong stated that the base Town contribution will be increased to $2.83 million, compared to $2.3 million and $2.1 million from the last two preceding years respectively. He discussed that the fund carries significant unrecognized losses into the years 2010, 2011, and 2012 . He stated he is hopeful that this fiscal year will be positive and will offset some of the losses, but it is very doubtful that any gains produced will fully offset the losses the plan will realize in future years.

Mr. Armstrong discussed matters of the pension cash flow. He remarked from page C5 of the report that there is over $3 million coming in, while $1 million is distributed. He stated that the trustees should be aware of a negative cash flow, and the pension plan is over time expected to fall into a negative cash flow status. He stated the plan will generate assets through investment returns to pay for part of these liabilities. Mr. Hanes provided the trustees a chart providing a benefit payment projection to complete the calendar year. He discussed that it is necessary to drawn down investment funds from the custodian in order to satisfy the annual benefits and operational payments. He referred to a second chart that provided an annual ten year projection of benefits to be paid. He stated that the issue he was hoping to have addressed by the actuary and consultant is what implications, if any, the negative non-investment cash flow impact has on the asset allocation and the ultimate goal of satisfying a long term 8% investment return.

Mr. Higman stated that under the current plan, he does not see a problem. He stated that it would be different with other plans that are invested in illiquid asset classes. He indicated that many funds have four to five percent needed to pay benefits, and the only question is whether we have the appropriate liquidity today. He said the answer to that question is yes. Mr. Higman stated that the return assumption and the ability to be liquid are two different issues. He said that the only time that liquidity becomes an issue is when the allocation is such that the mix of assets are too illiquid.

Chairman Snow stated that the core issue is whether we are able to achieve an 8 percent investment return.

Mr. Armstrong summarized that the health of the retirement plan is not at stake because of a negative cash flow. He stated the experiences with retirement plans across the country are running a 4% to 5% negative cash flow, which is achievable with the current asset allocation of the plan. He added that if the cash flow is always drawn from the same asset class, it could alter the asset allocation. Mr. Higman stated that it becomes an issue of coordinating with Mr. Hanes in rebalance to stay within the parameters of the investment policy. Mr. Armstrong observed that the other lever for funding to make up any shortfall is the employer contributions.

Mr. Hanes stated that Florida Chapter 112 (9) provides that the board shall adopt the expected actual annual return for the current year, for each of the next several years, and for the long term. Mr. Kaufman stated that he felt it appropriate to adopt the 8% actuarial assumed rate as the expected rate of return. The trustees asked questions regarding the statutory requirement.

Mr. Armstrong stated his recommendation that the board remain at the 8% actuarial assumed rate of return. Mr. Goldsmith stated that he believes that 8% is too high, but that he will follow the advice of their expert.

Chairman Snow asked what would happen if the board adopted a 7.5% return. Mr. Armstrong stated that he would need to rerun the actuarial report and change the assumption, and that the trustees would have a right to do so until the end of the fiscal year.

Mr. Goldsmith requested that the trustees review matters of the assumption at the next quarterly meeting of the board.

Chairman Snow stated that he holds a minority opinion of the board based on numerous articles from professional journals and people with expertise that indicate the expectation of a lower than 8% return. He stated he supports Mr. Goldsmith's comments that we revisit the assumption at a future meeting. He stated that Mr. Higman has stated that he will be able to construct the portfolio that is intended to achieve the return that the board decides. He stated he believed the debate should be continued, notwithstanding the impact on the Town contributions.

Mr. Wearn stated his opinion that he believed there may be a better time in the future to consider a change, and that the change should be a stepped reduction over several years to minimize the effect.

Mr. Hanes stated that the inflation assumption used with this plan seems out of line with a recent survey of large systems performed by NASRA that indicates a much lower on average inflation assumption. Mr. Armstrong stated that the experience for a lower assumption has not emerged yet with the Police plan. He stated that the experience has been around the 5% inflation range.

Mr. Snow stated that the issue is whether the world has changed so much that we are not able to rely on a long term 8% investment return going forward. He stated that many smart people believe that it has, and that it is worth talking about.

Mr. Higman stated that to change the assumption could have an investment implication in that if you ask that there be a change in allocation then liquidity becomes more of an issue. He reiterated that they will not recommend an allocation that is illiquid. He stated that for whatever rate decided, the portfolio will remain liquid. Mr. Goldsmith stated that the lines will cross if we don't make the returns. Mr. Higman stated that then the cash flow will be provided from the Town. Mr. Goldsmith stated that Mr. Higman's point assumes that the Town will always increase contributions.

Mr. Wearn made the motion to adopt the assumed rate of 8% as the rate of return as required by Florida Chapter 112(9). Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Mr. Lynch asked Mr. Armstrong questions about matters of the Town Manager's pension recommendation report. Mr. Armstrong stated that he provided liability stream information to the consultant Cavanaugh & McDonald on matters requested from Cavanaugh & McDonald, and suggested that Mr. Lynch should ask Cavanaugh & McDonald to provide actuarial analysis regarding those matters.

Mr. Lynch discussed that a process should be established that when there are actuarial gains experienced, that no reduction be made in the actuarial required contribution (ARC). He stated that would stabilize the rates and reduce the impact of spikes after an unfavorable experience.

Mr. Lynch asked about losses of state monies if the Town Council decides to withdraw from Florida Chapter 185. Mr. Wearn stated that the question regarding loss of State of Florida Chapter 185 monies is not reflected in the September 30, 2009 actuarial report. Mr. Wearn stated that losing the state funds will have a very significant impact, and discussed the state funds come with strings, and the Town Council can do other things

regarding the benefits provided and costs associated with the administration of the plan if the decision is made to withdraw.
Mr. Lynch asked whether the board would wish to ask Mr. Armstrong to do a study of increasing employee contributions to keep benefits at the current level. Mr. Wearn replied that it would be like cherry picking as the Town Council is currently looking at the total deferred compensation package for public employees. He stated he does not believe that it is within the purview of the board to do so at this stage, and felt it to be inappropriate. Mr. Kaufman added that it is not a determination to be made by the board, but would be one to be made by the Town and within the collective bargaining negotiations process, and that the board should not serve as an agent for the employees. He added that it is not the duty of the board to determine the appropriate level of benefits or the level of employee contributions, but that it is the board's duty to take the benefit structure in place and make sure that the laws are being followed and implemented, and that proper payment of benefits are being paid to retirees and beneficiaries.

Mr. Goldsmith made the motion to accept the actuarial report. Mr. Proscia seconded the motion. The trustees unanimously accepted the motion.

VII. Investment Report

Mr. Higman provided the report to the board. He reviewed the April 30, 2010 summary report to the trustees. He stated that the fund is up over the fiscal year to date period by 7.5% net of fees, 3.5% net of fees on calendar year to date, and 21.4% on the one year basis net of fees. He discussed that in all cases the performance exceeded the benchmarks.

Mr. Higman discussed that the equity portfolio performance was good primarily because the domestic equity has stayed close to its benchmark, but noted that the active mid-cap managers have underperformed their respective benchmarks. He noted that the active managers are commonly out of timing with the market.

Mr. Higman noted that as a team, the international managers have done quite well.

Mr. Higman stated that the fixed income team has responded well, noting that patience with Richmond has paid off. He stated that he has a similar comment regarding Income Research Convertibles, and that the junk bonds have more recently rallied over the higher grade bonds.

Mr. Higman stated that the real asset portion of the portfolio is doing well, but the Guggenheim portfolio remains locked up. He reminded the board that it is his position that the underlining characteristics of that manager's portfolio has improved. He noted that patience with Wellington Diversified Inflation Hedge has paid off. He stated that the firm continues to believe that placement of the gate was the right thing for Guggenheim to do for them and us. Chairman Snow noted that the timing for investment with Wellington could not have been worse, but that they now are almost even. He stated that he continues to believe that the board did the right thing.

Chairman Snow stated that he is taking an issue out of order, but wanted to discuss with the trustees that the Town has decided to change the normal date for the boards to report to Town Council on matters of their plans. The Town Council has asked the boards to report to Town Council at the September, 2010 Town Council meeting instead of the normal Town Council meeting for the month of June.

Chairman Snow provided a short analysis of the most recent May 6, 2010 fall in the stock market, and indicated that there will be efforts to make regulatory changes to address matters of trading mechanisms that will benefit liquidity.

Chairman Snow stated that Mr. Higman has made the point that liquidity in the current portfolio is appropriate, and suggested that cash flow may be something the trustees will want to revisit in August, when the board may want to review the portfolio capital with respect to liquidity, and determine what asset class the capital is being drawn, and monitor the rebalance to the asset class targets.

Mr. Higman presented a two page summary of what the board is doing from an investment standpoint, updated through March 31, 2010. He discussed that it may be good for circulating with the members and others in the community. Mr. Wearn suggested it be subject to the trustee's review prior to the August meeting. He stated he would like to have the presentation finalized in advance of the August board meeting so that it can be prepared for handout at that meeting. The trustees agreed.

Mr. Higman presented a report on peer performance. He noted that comparable peer performance is very scarce. He added that the Florida statutes require the plan to be different from most other state and local plans. He stated that the board's philosophy causes this board to be different. He stated that he believes the philosophy of the Police Officer and Firefighter boards to be much more thoughtful and of contemporary thought than other municipal pension plans. He stated that most the municipal plans continue to follow the conventional 60/40 allocation between equities and fixed income balance of funds. He stated his belief that a broader, more diversified portfolio, reduces the risks. He used as the best illustration of these points comparisons between the funds within the Town of Palm Beach, with different consultants between the General and Public Safety funds. He noted that in the one year performance review, the General Employee fund outperformed the Police Officer and Firefighter funds, primarily due to a higher concentration with equities. However, he noted that the performance comparison changes over the three and five years, the Police Officer and Firefighter funds outperforming the General Employee plan over those periods. He stated that the difference is more about a more diversified allocation with the Police Officer and Firefighter funds than it is about the active managers selected. Mr. Higman stated that his firm has not reviewed the investment implication to the portfolio if the Town chooses to withdraw from Florida Chapter 175 and 185 and therefore removing applicable investment restrictions under those statutes. He noted that there probably would be some changes in allocation.

VIII. Administrator Report

Mr. Hanes discussed a client conference he attended from March 21- 24 sponsored by the board's Counsel, Klausner & Kaufman. He discussed his belief that it is an excellent conference for trustees to attend, and provided excellent education and fiduciary training.

Mr. Hanes discussed matters of the special Town Council meeting of April 6, 2010. He discussed that Mr. Jose Fernandez, Cavanaugh & McDonald, discussed the Town

Manager's recommendation. He stated there were comments by public employees and other Town citizens related to the proposed plan changes.

Mr. Hanes stated that Town Council has enacted the ordinance requiring quarterly board meetings and for the appointment and election of two year staggering terms of office for trustees. He discussed that he and Mr. Wearn have discussed the drafting of a board election policy, and asked to defer the matter to the August board meeting to provide time for he and Mr. Wearn to work on a draft. The trustees agreed without motion.

Mr. Higman requested to go out of order to discuss matters of a request for a proxy election with Forester. He stated that the election for the board will be due in approximately 15 months.

IX. Legal Report

Mr. Kaufman discussed the need for trustees to complete the required financial disclosure form.

Mr. Kaufman discussed a draft actuarial agreement between the firm of Gabriel, Roeder and Smith and the Police Officer Board of Trustees. He stated that it is legally acceptable for the board to execute, and that Mr. Armstrong has stated that it is acceptable by Gabriel, Roeder and Smith.

Mr. Goldsmith made the motion to authorize Chairman Snow to execute the agreement. Mr. Wearn seconded if Mr. Goldsmith will amend the motion to allow for a one month review for comment to legal counsel before execution. Mr. Goldsmith agreed to amend his motion as requested. The trustees unanimously adopted the motion.

Mr. Kaufman discussed the status of divestiture of identified scrutinized companies as required by recent legislation. He stated that the board has satisfied its obligation under the statute.

Mr. Kaufman discussed matters of a restatement of several plan provisions that are required under state law. He stated that in consideration of matters being considered by the Town Council regarding benefit changes and withdrawal of Chapter 185, he recommended that action on plan changes be deferred until a later meeting of the board. Mr. Wearn asked Mr. Kaufman whether the board will need to provide any notice to any arm of state government regarding these matters. Mr. Kaufman replied that it is not necessary.

Mr. Kaufman presented a draft of a summary plan description. He suggested that the trustees may want additional opportunity to review and make comments to him, and that he will provide a final draft to the trustees for final approval at the August board meeting.

Mr Lynch asked Mr. Kaufman to discuss the legality of the state subsidy monies that have been distributed to the Town in the past as payment for future Police Officer retirement benefits. Mr. Kaufman stated that the Town will be required to pay the benefits. Mr. Lynch stated that one benefit that has been paid for from the state subsidies is the cost for the increase in multiplier from 3.25% to 3.50%. Mr. Kaufman stated that he did not believe that Ms. Shoemaker, Director over the Division of Retirement, has yet opined on that issue. Mr. Lynch stated that he would like to see an opinion from Mr. Kaufman on the legality of withdrawing from Section 185, and stated he wishes that the Town will wait on the opinion before proceeding on the proposed benefit changes.

Mr. Lynch asked Mr. Kaufman about the matter of the Town combining the plans within one system, and specifically whether it would be legal if it causes a reduction in funding for one of the plans. Mr. Hanes stated that he would think the plans would continue to have separate plans and separate accounting associated with the plans.

X. Disbursements

Mr. Goldsmith moved that the Disbursement report be approved as submitted. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

XI. Other Business

No other matters of business were presented.

XII. Adjournment

Mr. Goldsmith made the motion to adjourn. Mr. Lynch seconded the motion. The trustees unanimously adopted the motion.

Secretary: ______________________ **Date** 8/24/10

Attested by: ______________________ **Date** 8/24/2010