MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM POLICE OFFICER BOARD OF TRUSTEES MEETING OF FEBRUARY 12, 2009

I CALL TO ORDER:

Mr. Snow called the meeting to order at 9:05 A.M. at the Town Council Chambers. He asked Ms. Joanna Cunningham, Town Clerk, to swear in Mr. Michael Lynch for a two year term as Trustee.

In Attendance:

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

ALSO PRESENT:
William P. Hanes, Pension Administrator
Robert Klausner, Klausner & Kaufman
Alexia Varga and Ed Holt, Nowlen, Holt & Miner
Sean Higman and George Hauptfuhrer, Prime Buchholz
Vincent Carrodeguas, Clement Johns and Elisabeth Capota, Goldstein Schechter Koch
Brian Oliff, Wells Fargo

II Oath of Office

Ms. Cunningham administered the oath of office to Mr. Michael Lynch.

III Approval of Agenda

Mr. Wearn moved that item nine be moved to item four, and that item four would be relocated and all other items are to be reported in order. Mr. Lynch seconded the motion, and the trustees unanimously approved the motion.

IX Investment Report

Mr. Higman introduced George Hauptfuhrer, a principal of the firm, who will be assigned to the Board with Mr. Higman. Mr. Hauptfuhrer discussed his experience. Mr. Wearn asked that a Curricula Vitae for the new principal be provided.

Mr. Higman reported that at the overall year end, December 31, 2008, the portfolio was off close to 24 percent for the calendar year, which was a little behind the target index. He reported that the fund was off 13.7% for the quarter, which was in line with the target index. He reported that in the equity strategies the fund was in line with the index. He stated that the hedge funds did well on a relative basis.

Mr. Goldsmith asked Mr. Higman to discuss how the target indexes are determined. Mr. Higman explained that target index is related to the neutral position on the strategic long term allocation, and they take the neutral point based on the policy and multiply by the index.

Mr. Higman stated that the Board might want to consider indexing for the international space within the allocation unless the Florida legislature amends the statute that restricts investment in foreign securities at ten percent. He discussed that for the year the alternative strategies did very well, a little better than their peers as a group, and that Hedges represent thirty-two percent of the strategy. He noted the positive return of the fixed income class over the past quarter. He discussed that Guggenheim has thirty percent of investments in REITs, and stated REITs had dropped in value by forty percent. He discussed Guggenheim put up a gate after the Board had placed a redemption request. Mr. Higman stated that they do not recommend termination of Guggenheim. He discussed that the price of oil experienced a dramatic reduction, which resulted in underperformance at Wellington. Mr. Higman stated he does not recommend termination of Wellington. Mr. Higman discussed that Richmond Capital is an active Fixed Income manager who is well positioned, and they do not recommend termination at this time but should discuss at the next quarter meeting whether to attempt to index and reduce fees in the bond space. He similarly wants to have a conversation about international as an asset class, and possibly indexing. Mr. Higman discussed that the portfolio has experienced positive investment performance with equities and fixed income over the month of January.

Mr. Higman discussed assumptions regarding long term allocation of the portfolio, and stated that the result of the review is that not a lot has changed. He said that he has changed the standard deviation number substantially in the absolute return strategy. However, it does not change the conclusion on the model chosen, which represents an appropriate long term investment strategy for the plan

(Mr. Goldsmith departed the meeting and Mr. Proscia entered the meeting during a break (10:15)).

A marked up draft of the Investment Policy was provided to trustees by Mr. Higman. Mr. Higman discussed the changes.

Mr. Wearn made the motion to approve the revised statement of the Investment Policy retroactive to the August 14, 2008 meeting of the Board of Trustees, and Mr. Lynch seconded. The trustees unanimously approved the motion.

IV. Comments by Trustees

Mr. Wearn requested that all written material be received at his home in Palm Beach.

Mr. Wearn announced that he will attend and make comments at Chief Reiter's retirement reception of February 27, 2009, and offered to coordinate any remarks that might be considered by other trustees.

Mr. Wearn noted the earlier attendance of Council Members Coniglio and Diamand, and remarked that he wanted to encourage the Town Council members to attend meetings of the Police Officer Board as well as the other Boards of the Town of Palm Beach Retirement System.

Mr. Snow noted the several events since the last Board meeting, and recognized the continuity and hard work of the trustees and Administrator. He discussed the ambitious goals of the new Council Members. He stated that the trustees have a strong fiduciary obligation, and that he trusts that future decisions will be guided by the trustee's fiduciary obligations.

V. Minutes of meeting November 8, 2008

Mr. Wearn moved for the approval of the minutes of the November 8, 2008 Board meeting. Mr. Lynch seconded the motion. All trustees approved the motion.

VI. Report on Fiduciary Liability and Fidelity Bond quotes

Mr. Hanes provided background information regarding an indemnification ordinance recently passed by the Town Council that covers public officers. Mr. Wearn expressed his opinion that the clause covers after the fact indemnification but not coverage for other active legal expenses that a fiduciary liability policy will provide. He expressed that there is a need for obtaining the policy coverage.

Mr. Hanes introduced Mr. Brian Oliff, who presented the memorandum and recommendation for fiduciary insurance policy coverage at $10,000,000. He presented a separate recommendation for coverage of a Fidelity policy to insure against theft. There were inquiries of Mr. Oliff by Trustees about the financial status and service of AIG as an insurer.

Mr. Kaufman discussed that from a legal perspective, he would advise that a waiver of recourse clause be included. Mr. Oliff stated it has been included.

Mr. Wearn made the motion to continue with coverage at $10,000,000 and deductible at $150,000, with AIG as the insured, with the premium at $21,843.00 to commence on March 1, 2009 for one year. Mr. Lynch seconded the motion. The members unanimously approved the motion.

Mr. Wearn moved that the trustees accept the bid from Zurich for fidelity bond coverage of $500,000 at a premium of $709.00 for coverage period beginning on March 1, 2009 for one year. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

VII. Auditor Report

Mr. Vincent Carrodeguas, Clement Johns and Elisabeth Capota were present for Goldstein Schechter and Koch. Mr. Carrodeguas presented three reports on behalf of the Auditor. He reported on the standard audited financial statement, the SAS 112 report (management letter), and a newly required report under SAS 114 that must be made from the Auditor directly to the Governing body (Pension Board).

Mr. Carrodeguas made four observations that the auditor classified as significant deficiencies, and stated the auditor is required to look for progress next year. The observations and recommendations are as follows: there is no procedures manual; all the documents the auditor has sought have not been found as a result of the transition in the administration of benefits; there is no automation for calculation of benefits; and there isn't sufficient privacy, confidentiality and security at Mr. Hanes's office to appropriately secure the records and discuss benefits with members. Mr. Carrodeguas discussed that the work of creating a procedures manual is often a combination of work between an outside consultant and the administrator.

Mr. Wearn recommended that the Chairman or designee should make inquiries of the Town about any accommodations to the administrator to address the serious concern raised by the Auditor.

Mr. Lynch stated that he believed the Administrator has too much to do for one person, and would like to consider with the Trustees at some point providing additional help for the Administrator.

Mr. Snow stated that response to the management letter should be drafted and sent to the Town Council on behalf of the trustees. Mr. Wearn asked to be involved with the drafting of the response. Mr. Hanes asked that legal counsel be involved, and all agreed without motion.

Mr. Snow stated that he wanted to complement the Auditor for the thoroughness of the report, and the Administrator for the cooperative manner of working with the Auditor.

Mr. Wearn asked that legal counsel provide a review of the report. Mr. Klausner stated that he will do so within the next two weeks.

Mr. Wearn moved approval of the financial statements pending review by counsel and other comments by trustees and pending a response to the management letter. Mr. Proscia seconded the motion. All trustees adopted the motion.

VIII Accountant Report

Ms. Varga presented the quarterly unaudited financial report. She discussed a mistake made by the custodian in the process of transferring of monies to the local bank that resulted in a need to reconcile the funds in the following month. She stated the monies have subsequently been appropriately credited back with credit of lost interest.

Ms. Varga discussed problems with receiving files and information that should have been received in transition of administration.

Mr. Wearn stated that he is very concerned about the transitional issues continuing to exist. He asked that legal counsel investigate and ensure that we receive everything we need. He stated that he wants legal counsel to take any and all appropriate action necessary to obtain the records. Mr. Wearn stated that the Board has previously made this request, and he would like for legal counsel to take what action is necessary to do so. He asked that he be informed of the action taken.

Mr. Hanes discussed that documents are being converted, and Mr. Wearn asked Mr. Hanes to make a report on the progress at future meetings. Mr. Hanes stated he would.

X Merger of Retirement Systems

Mr. Hanes raised for consideration the possible merger of retirement systems as requested by Town Manager Peter Elwell of the Police and Fire Boards, and said he was asked to provide a spreadsheet, identifying by service provider, savings that might be realized if the systems were to be merged. Mr. Hanes discussed that the spreadsheet is based on assumptions that may or may not be appropriate, but that the result of the review shows a possible savings of some $100,000 or better per year. Mr. Hanes also discussed that Mr. Elwell had asked that the Boards review the demographic assumptions with the actuary to determine whether the assumptions used are appropriate. Mr. Hanes stated that he had discussed that request with the actuary, and Mr. Armstrong ultimately stated that it would require an actuarial study at a cost to the Board of from $5,000 to $6,000. Mr. Wearn stated that he did not see any reason to go forward with an actuarial study.

Mr. Snow asked Mr. Kaufman to provide guidance regarding the issue of merger. Mr. Kaufman reminded the board that such decisions must be made in a deliberative process and the trustees must make decisions based on all the information. He discussed the need for an ordinance to be drafted, an actuarial impact statement, and a determination how to account for the assets of the two plans. He discussed that the funding ratio is different between the plans, and it raises the issue of one plan taking on the liabilities of another, and that there is a constitutional issue regarding impairment of benefits. He discussed there are cases in other jurisdictions and a specific case in Alaska where the matter was litigated with a finding of constitutional impairment of contract held in that court. Mr. Kaufman stated there would need to be consideration of the composition of the Board. He stated that there is a provision in the State of Florida statutes at Chapter 185 that if a plan is in existence after 1986, then the Town can not diminish the number of police officers sitting on the board. He discussed there would be requirements from the State Division of Retirement that would need to be satisfied in order for the Town to continue to receive Chapter 185 monies. He stated that it is the Trustee's fiduciary responsibility to get the answers to all of these questions before they making decisions regarding merger.

Mr. Wearn stated that the spreadsheet results on savings seemed very questionable.

Mr. Higman stated that he was asked by Ms. Rathborne, Chair of the Firefighter Board, to go back to each manager and request/demand more savings. He stated that they have already made every effort to reduce costs of managers for the system, and already had some concessions. He stated the new offers from the managers and increase in savings are contingent upon combining the Police and Fire funds.

Mr. Wearn raised and discussed his proposal to consider inter-local agreements for specific services, instead of overall merger. He stated it could be done when you are able to identify where savings can be achieved, and in the case of investments you pool the assets in order to achieve savings. He said under the concept of inter-local agreement for a particular service, each Board would retain its authority and the service provider would have no discretion. He stated the legal counsel service is a different issue, and since the Boards may go in a different direction, there may need to be a different legal direction by separate counsel.

Mr. Lynch discussed that the investment performance is better or worse as a result of different Board decisions, and noted that the performance at the Police board has been better than that of the Firefighter's board, and noted that an investment savings should save the Town much more than the idea of a merger. Mr. Higman stated that much of the difference between the boards in the past year had to do with timing within the asset allocation process.

Mr. Wearn moved that the administrator prepare a verbatim transcript of this agenda item and it be forwarded under a cover letter by the chairman with expression that consideration of the merger concept had been discussed by trustees, and that a spread sheet representing potential savings had been drafted and considered by the board, and the results of that consideration are the verbatim transcript that is being provided. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

XI. Attorney Report

Mr. Kaufman provided the attorney report. He discussed the details of the upcoming Klausner conference and registration deadline. Mr. Snow discussed that he thought it would be good for the Administrator to attend the conference.

Mr. Kaufman discussed that Mr. Klausner has been working with U.S. Congressmen in the drafting of a proposal for public pension systems to loan monies to banks with government underwritten guarantee of 8.5% interest.

XII Administrator's Report

Mr. Hanes discussed the difficulty of securing board material for quarter end financial information in a timely manner in order to have it available for board material sent out in advance of a meeting, and asked if the trustees might consider moving the regular board meetings to the 3rd week of the month rather than the 2nd week, as it is now. Mr. Wearn expressed his concern of the timeliness of the after the quarter information and about future dates that might conflict with holidays, with which concern several trustees concurred. Mr. Wearn also expressed concern that the Firefighter Board made the change without consulting or coordinating with the Police Board, resulting in added Retirement System costs of the same service providers now having to attend those Boards' meetings on two times instead of one.

XIII Disbursements

Mr. Wearn made the motion to approve the schedule of disbursements and refer for audit. Mr. Lynch seconded the motion, and the trustees unanimously approved the motion.

XIV Retirements/Benefits

Mr. Wearn asked if all identified retirements were before the Board only for ratification. Mr. Hanes answered in the affirmative.

Mr. Wearn moved for the approval of benefit payments as presented. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

XV. Other Business

There were no additional comments by trustees.

XVI Adjournment

Mr. Wearn moved that the Board adjourn. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

Attested by: William P. Hanes

Chris Proscia, Secretary