MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM POLICE OFFICER BOARD OF TRUSTEES MEETING OF FEBRUARY 11, 2010

I Call to Order

Mr. Snow called the meeting to order at 9:17 a.m. at South Fire Station, 2185 S. Ocean Blvd., Palm Beach 33480. Chairman Snow and Mr. Hanes announced that Detective Lynch is out of town on emergency department duty business.

In Attendance:

TRUSTEES:
Ray Snow, Chairman
Chris Proscia, Secretary
Gerald Goldsmith
James McC. Wearn

ALSO PRESENT:
William P. Hanes, Pension Administrator
Adam Levinson, Klausner & Kaufman
Alexia Varga , Nowlen, Holt & Miner
Sean Higman and George Hauptfuhrer, Prime Buchholz
Clement Johns, GSK

II. Approval of Agenda

Mr. Goldsmith moved that the agenda be approved. Mr. Proscia seconded the motion. The trustees unanimously approved the agenda.

III. Comments by Trustees

Mr. Goldsmith and Mr. Wearn expressed their interest in having calculations run on retirement to assist the trustees in better understand the long term obligations of the Town of Palm Beach.

Chairman Snow discussed that Mr. Hanes had distributed a letter from Town resident Dr. Gundlach discussing investment performance of the boards. The trustees acknowledged that they had received and reviewed the letter, but no comments were made.

Chairman Snow stated that he, Mr. Hanes and Ms. Duvall attended the Town Council special called meeting of December 3, 2009, where the consultant, Jose Fernandez, provided a presentation from the Consultant's report on the Town's pension structure.

He stated that Mr. Elwell had been charged by the Town Council to draft proposals to the Mayor and Town Council for the February Town Council meeting. Mr. Hanes stated that he had recently been informed by Town Finance Director Ms. Jane Struder that a report should be issued in mid-March, and a special Town Council meeting has been scheduled for April 6, 2010 for further consideration by the Town Council.

Chairman Snow discussed that he and Mr. Hanes had attended the Town Council meeting on February 9, 2010, when the proposal was considered in first reading to provide for two year staggering terms and for quarterly board meetings. He also raised the issue that members of Town Council requested that the Police Officer Board of Trustees consider adding an alternate member to assume an appointed members position in the event of a vacancy at a meeting. Mr. Hanes researched the issue with outside legal counsel, and stated that a strict construction of the state law does not allow for an additional member to the board to include alternates.

Mr. Proscia discussed the status of the union negotiations with the Town of Palm Beach.

Mr. Goldsmith stated that it is very important that the Town Council understand the liabilities and be able to determine what the fund performance must be in order to pay the long-term liabilities of the plan.

Mr. Wearn mentioned that the Klausner client conference is coming up on March 21 to March 24, 2010, and that it is an excellent conference and provides an opportunity for the trustees to receive additional education on matters of public pensions.

Chairman Snow announced that Ms. Struder had provided information comparing investment performance between the four Town of Palm Beach plans, including comparison of the Town's medical insurance fund. He discussed the results.

IV. Approval of Minutes: November 12, 2009

Mr. Goldsmith moved to adopt the minutes of November 12, 2009. Mr. Proscia seconded the motion. The trustees unanimously adopted the motion.

V. Financial Report

Ms. Alexia Varga presented the December 31, 2009 quarterly unaudited financial report. She noted that the assets had been increasing, and stand at $52 million at the end of the quarter. The trustees discussed the administrative and investment fees with Ms. Varga.

VI. Auditor's Report

Mr. Clement Johns presented the annual Audit report to the trustees. He discussed that the audit report is considered a clean or unqualified opinion. He said that the fund has experienced an increase in assets over the prior year. He made note that the funding ratio was ninety percent. He stated that of all of his clients, ninety percent is one of the best funding ratios. He discussed the current contribution rates compared to the past year's Town and employee contributions. He stated that the Town has continued to make 100% of the required contributions. Mr. Hanes commended the Town for continued payment of the Town's contribution and stated that the Town can be very proud of that fact, and that many state and local government plans, including Kentucky where he formerly worked, have gone years without paying the required contributions, which has caused major funding issues where it has happened.

Mr. Johns discussed the SAS 112 letter. He stated that three of the four issues that were reported last year have been completed. He discussed the fourth, the need for adoption of a procedures manual, is being addressed by the administrator. He discussed that there were no material problems identified during the audit, and that his firm has received full cooperation from the administrator, the Town, and the plan's Actuary during the period of performing the audit.

Mr. Wearn asked for a two week period to have the chance to review the audit. The trustees discussed that they can approve pending any additional comments or concerns by the trustees over the next two weeks.

Chairman Snow proposed a motion that the current draft of the audit be approved, pending any concerns and comments from trustees during the next

two weeks, and that the auditor will continue to work with the administrator in order that the report to the state be filed by the March 15, 2010 deadline. The proposed motion was moved by Mr. Wearn and seconded by Mr. Goldsmith. The trustees unanimously adopted the motion.

VIII. Summary Plan Description

Mr. Levinson handed out a draft summary plan description and discussed it with the board. He stated that once approved, the administrator will make the document available to the members. He stated that the document is the work of his firm in coordination with the administrator.

Mr. Levinson stated that one of the primary benefits a member gets is a primer in this form so that the officer can understand the benefits of participating in the retirement plan. He emphasized that understanding the benefits is very important.

Mr. Hanes stated that he heard from numerous of the officers when he arrived that there was a void in information, and he has worked with legal counsel to get a draft prepared. He stated that he intends to provide copies for distribution to Police Officers at the Police Department.

Mr. Proscia stated that the general compilation of benefit information is going to be good, and agreed with Mr. Hanes that when Mr. Hanes arrived the officers did not as a general matter know much of their retirement benefits, and that we have come a long way since.

Mr. Wearn requested that Prime Buchholz provide at the next board meeting an investment summary update that can be included with the Summary Plan Description before the trustees adopt it.

Chairman Snow thanked Mr. Levinson and Mr. Hanes for the work on this issue, and the preparation of the document. He discussed that the draft will be before the trustees at the May 13, 2010 meeting for final adoption.

IX Fiduciary Liability and Fidelity Bond quotes

Mr. Hanes introduced Ms. Pam Nelson, who presented the matters of bidding on the Board of Trustees and administrator's renewal of a fiduciary policy. He stated that Ms. Nelson represents Wells Fargo, who is hired by the Town of Palm Beach as a broker for the purpose of seeking bids from insurance companies for the various insurance coverage provided to public officers employed or appointed by the Town. He stated that the current fiduciary liability policy will expire at the end of February, 2010, and so the recommendation will be to adopt a policy by March 1, 2010. He added that he asked Ms. Nelson to seek bids for a general liability policy that is required under the current lease between the board and the landlord for the administrator's office pursuant to the terms of the lease.

Ms. Nelson reviewed the companies contacted and bids received. Mr. Hanes discussed that there are state and local laws that indemnify officers of the Town for acts in the course of employment, including trustees and officers of Town boards and commissions. Mr. Hanes and Mr. Livinson discussed with the trustees the limitations with state and local indemnification provisions, and that a trustee could be out of pocket on defense of a case until final adjudication is entered in a case. The trustees felt it important that a fiduciary policy be obtained. Mr. Levinson stated that his firm recommends that boards obtain fiduciary insurance, and that the board should not rely totally on the Town or state indemnification laws.

Ms. Nelson stated there is a waiver of recourse clause included as a term of the policy.

Ms. Nelson stated the market is very difficult, and that very few companies issue policies of this type. Mr. Hanes stated he had sought bids from a different broker, and was told that the companies contacted would not underwrite the risk associated with these type of policies.

Mr. Wearn moved that the trustees accept the recommendation made by Ms. Nelson to secure from RLI Insurance Company coverage for the trustees and administrator with liability limitation of $10 million dollars, nonrecourse, with

$150,000 deductable, at a cost of $19,373.00. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Ms. Nelson discussed that there is a term in the administrator's office lease that requires a general liability policy be provided. She stated that she requested bids. She recommended to the trustees to purchase a premises liability policy with Auto Owners for $180.62 per year. Mr. Hanes stated that he will take the same issue to the Firefighter Board of Trustees to pay one-half the premium.

Mr. Wearn made the motion to secure a general liability policy with Auto Owners Insurance Company with liability limitation at $1 million, subject to a $300,000 deductable, at an annual cost of $180.62 to be split between the Police Officer and Firefighter Board of Trustees. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

X. Quarterly Investment Report

Mr. Sean Higman and Mr. George Hauptfuhrer provided the quarterly report ending January 31, 2009 to the trustees. They briefly discussed highlights of the January report.

Mr. Hauptfuhrer made general comments about the market over the quarter. He stated that the rebound was strong with the S&P 500, up by 6% from the lows in March of 2009, and stated the mid-cap did well. He stated that International equities were up 2.2%, and the strongest area was the emerging markets. He discussed that the fixed income was slightly positive. He discussed that the 10 year comparison between the US stocks and bonds, using the Barclay Aggregate Index as the bond comparison, and that there was a 7.2% difference per year between stocks and bonds over the last decade, with bonds outperforming stocks during that cycle. He stated that going forward stocks should outperform the fixed asset class.

Mr. Hauptfuhrer discussed the performance of hedge funds. He stated the different strategies were positive with our funds. He discussed the three different fund of funds, strategic, diversified and conservative, and that all were positive. He stated that

Forester represents the strategic, Archstone represents the diversified, and Private Advisers represents the conservative.

Mr. Hauptfuhrer discussed that real assets, commodities, and TIPS all experienced positive returns. He discussed the current stock P/E and bond yields in the current markets and concluded that Prime Buchholz remains comfortable with the US and International stock environment. Mr. Higman stated that they continue to be very cautious going forward and expressed concerns about the sustainability of the current market.

Mr. Higman discussed matters of future interest rates and risks associated with a market that experiences deflation or inflation. He stated that he does not see an inflation event until after the end of the calendar year. He stated that Prime Buchholz believes that there are too many deflationary factors to cause inflation over the next year. Mr. Hauptfuhrer expressed that hedge fund managers are able to take advantage of things that happen in the market, and are able to react to events that might lead to higher inflation. In response to a question by Mr. Wearn regarding inflation, Mr. Higman stated that Prime Buchholz does not see an inflation event before this calendar year ends, and probably beyond the year end. Mr. Hauptfuhrer stated that there remains a lot of debt, especially in the real estate market, representing a heavy cloud hanging over the market. He stated that he believes it is a good idea that the fund has the protection that it has in real estate. Mr. Higman stated that he believes there are too many deflationary area pressures that will keep inflation from kicking in until after the end of the calendar year, and stated his belief that interest rates will not go up until those pressure issues have been addressed. Mr. Higman stated he believed there was sufficient hedge to inflation and deflation. Mr. Hauptfuhrer discussed how the hedge funds, with the various strategies, are well positioned to make the necessary fund changes to address these issues.

Chairman Snow noted that one of the strengths of this board has been that we have gritted our teeth and kept with the asset allocation, and it has paid off in spades in a number of ways over the past year. Mr. Higman agreed and noted the matter of quality versus non-quality selections, and stated that it explains some of the shorter term under-performance of some of our managers, but the decision has proven to be very protective by sticking with quality names that helped over the longer period in this kind of a rally.

Mr. Higman stated that the quarter was very strong with a 3.5% return, and the calendar year a 17.6% return, which was significantly above the benchmark. Over the year, the domestic equities outperformed the Russell 3000 by 29.1 % versus 28.3% with the benchmark. He noted the under-performance by Stralem of 20.6% versus 26.5% with the benchmark. Likewise, CRM was up 28.7% versus the benchmark of 34.2%. He stated Geneva had a similar story in the year. Mr. Higman made note that the three funds stuck with quality stocks in the portfolios, adding more long term protection with evidence of better performance to the indexes over the longer periods.

Mr. HIgman noted that the gate continues to be up with Guggenheim. He discussed with the trustees. He stated that Guggenheim has paid down their debt and have accumulated $100 million in cash. He stated the gate is likely to remain up while they pay for the refinancing debt on the buildings that are coming up over the next 12 to 18 months because the financing market is still closed. He stated that Guggenheim as an investment is healthier today than they were.

Mr. Higman discussed the International managers. He made special note that Harris was up by 56%, and a good example where you get the alpha out of active managers. Mr. Snow made note that this is an example of how it has really paid off to stay with an active manager through a trailing market. He made the same observation with Wellington. Mr. Hanes noted that the board had recently increased the allocation to the space.

Mr. Higman discussed the alternatives portfolio and noted the portfolio for the past year is up 13.9%, trailing the S&P index that was at 25%, but ahead of the index over the 3 and 5 year period. He stated the space is doing exactly as they want it to do.

Mr. Higman discussed the fixed income portfolio. He stated it lagged the composite index driven entirely by the higher quality in the Income Research convertibles portfolio. He noted the fixed income Income Research Convertibles returned 18.6% for the year versus the benchmark at 28.6%. He made the observation that high yield bonds were up in excess of the quality fixed income held in the portfolio. He noted the portfolio holds convertibles, which creates a little more volatility, but satisfies the space of fixed income based on state law restrictions, and allows for better returns in the current environment.

Mr. Higman discussed that TIPS can fit as either real assets or fixed income. The consultants discussed matters of TIPS held within the fund. He stated that TIPS are very appropriate within the well diversified Police Officer investment fund. Mr. Higman explained that the fund gets the benefit of TIPS in both the Vanguard portfolio, and less in the Wellington portfolio. He stated that the fund gets its real estate exposure almost exclusively in the Guggenheim portfolio. He stated the commodities and natural resource exposure can be found in the Wellington fund. Mr. Goldsmith and Chairman Snow expressed concern about how the fund achieves an 8% return holding the TIPS as it is. Mr. Higman stated that when you consider the return within the whole basket of assets, they believe the board will achieve an 8% return. Mr. Hanes asked Mr. Higman if it is correct that Prime Buchholz will bring an allocation change recommendation to the board if and when there is evidence of inflation. Mr. Higman stated that if there appears to be a permanent inflation change, then they would suggest a change.

Mr. Higman stated that the cost of the benefits assumes an 8% return, and Prime Buchholz believes they have built the portfolio for the plan that has proven as measured by an ERISA framework and with others that it is the right number. He stated that you could build a portfolio with less volatility with a 6% assumption, but the tradeoff is the taxpayer pays for the change.

Mr. Hanes asked if the managers are market timing, or investing opportunistically, and Mr. Higman stated that if the active managers see a permanent change in inflation, that they can make the change in the portfolio. He stated that the Hedge fund space is where the fund can take the best advantage of the opportunity to make short term changes in the economic environment. Mr. Higman stated that rebalancing takes care of the matter of staying with the allocation model and getting back to target.

Mr. Higman stated that staying with Richmond Capital has paid off. He stated that the issue for the board is whether in this asset class the board may choose to index. He stated the same issue should be discussed with regard to the way the board may want to hold the large cap domestic equities. Chairman Snow said he would like to revisit the discussion in May.

Mr. Higman discussed matters of performance at Guggenheim and Wellington Diversified Fund. He discussed that September of 2008 was a bad time to select Wellington, but the fund has rebounded. Chairman Snow commented that we had faith in the manager to stay the course, and made the observation that it has paid off. Mr. Higman stated that other clients of theirs did not buy it and missed on the 70% rally.

Chairman Snow pointed out on page 20 the different asset allocation shifts the board has made over recent history, and suggested that it should be shown to Town Council in June to illustrate that the board is tactically involved. Mr. Higman noted that the changes in allocation were more about reducing volatility. Mr. Hanes stated that while he found the large allocation in alternatives to be different than most state funds he had reviewed from national survey information, he has learned that the allocation has been very good to reduce volatility, and has caused the Town of Palm Beach funds to outperform on average the much larger state funds. Mr. Hauptfuhrer added that in spite of the large allocation to alternatives, including hedge funds, the portfolio remains very liquid.

Mr. Hanes and Mr. Higman discussed with the trustees that the request had been made to Guggenheim to liquidate the fund shares held by the plan when it can, and to request that fees be waived while the gate remains up. Mr. Higman discussed the Guggenheim response, noting that the fees will not be waived as Guggenheim continues to actively manage the fund.

Chairman Snow asked about getting peer comparisons. Mr. Higman stated that the universe used is usually the larger state plans, but that Prime Buchholz will seek for local peers to make appropriate comparisons. Chairman Snow stated he would like to see whatever we can find, even if the comparison is made with the Florida Retirement System. Mr. Hanes suggested that there may be information available from the state Division of Retirement.

XI. Administrator's Report

Mr. Hanes discussed that he has been working with the Auditor in preparation for the Audit report. He stated that his office will be providing demographic material to the actuary that will be used in the 2009 Actuarial Report, and Mr. Armstrong will be present at the May 13, 2010 board meeting presenting the report. He stated that the state Chapter 185 report has been submitted.

XII. Attorney's Report

Mr. Levinson discussed the legislative mandate of divestiture. Mr. Higman discussed that the law had already been implemented for the fund. Mr. Levinson elaborated on the requirements. He emphasized that the fund has the obligation to disclose indirect holdings. He suggested that the consultant identify all such funds on a quarterly basis.

Mr. Levinson discussed matters of interest with public funds with the Internal Revenue Service, and that a questionnaire is being sent out to selected funds.

Mr. Levinson has stated that the national trend of plans is to lower assumptions from the 8% level, but Florida plans continue at 8%. Chairman Snow mentioned that the question was asked of Jose Fernandez, the Town Retirement Consultant, what the Town contribution would become if the board were to change the assumption from 8% to 7%. The answer provided by the consultant was that the Town's contribution requirement would increase from $2.1 million to almost $3.0 million. Mr. Levinson suggested that the board engage in the conversation, and that other municipalities have looked at phasing downward the investment return assumption incrementally.

Chairman Snow discussed a letter he had received from Mr. Robert Klausner regarding monitoring of security class action suits regarding companies within the fund's portfolio. Mr. Higman stated that this would only include direct funds. Mr. Wearn said he has serious concern about engaging in this matter. He asked if he could review the letter. Chairman Snow asked Mr. Hanes to provide a copy of the letter to Mr. Wearn.

Mr. Levinson discussed the matter of telephonic and videoconferencing at a board meeting, and a recent Florida Attorney General Advisory Opinion. He stated that if allowed, you still must have a majority present, and this dilutes the impact. Mr. Wearn stated that he has a different opinion than does the advisory legal opinion from the Attorney General. The trustees took no action.

XIII Retirement/Benefit Payments

Mr. Hanes stated there is only one DROP employee, Mr. Daniel Szarszewski, January 1, 2010, that the Board will need to consider for ratification.

Mr. Goldsmith moved to adopt the ratification of the benefit being paid. Mr. Proscia seconded the motion. The trustees unanimously adopted the motion.

XIV Disbursements

Mr. Hanes presented the disbursement report.

Mr. Wearn made the motion to approve and file for audit the disbursement report as submitted. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

XV Other Business

There was no other business to discuss.

XVI Adjournment

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

NEXT MEETING: May 13, 2010 at Central Fire Station (EOC)
355 S. County Road
Palm Beach, FL. 33480

Attested by: William L. Hanes **Date** 5/13/2010

Secretary: ______________________ **Date** 5/13/10