MEETING OF THE TOWN OF
PALM BEACH FIREFIGHTERS' RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting of November 21, 2008
c/o WILLIAM P. HANES CONSULTING, INC.
P.O. BOX 2112
PALM BEACH, FL. 33480

I. Call to Order

Chairman Rathborne called the meeting to order at 9:10 A.M. at the Emergency Operations Center (EOC) in the Town of Palm Beach.

In Attendance:

TRUSTEES:
Carol Rathborne, Chairman
Mike Hays, Chairman Pro Tem
Jayson French, Secretary
Wilbur Ross
Sergio de Araujo

ALSO PRESENT:
Bonni Jensen, Attorney
William Hanes, Pension Administrator
Brad Armstrong, Actuary
Sean Higman, Investment Consultant
John Prime, Investment Consultant
Jerri Zanko, citizen

II. Approval of Agenda

Mr. Ross made the motion and Mr. Hays seconded the motion to approve the agenda. The Board unanimously adopted the agenda.

III. Comments by Trustees

There were no comments made by the Trustees.

IV. Investment Report

Mr. Sean Higman introduced Mr. Mark Walker, President, and Paul Wonmark, Portfolio Manager, of Richmond Capital who made the presentation for Richmond Capital Management.

Mr. Wonmark stated the month of September was a horrible month. He explained the financial interest holdings that caused the portfolio effect on the portfolio. He explained the month had a big impact on year to date as well as longer term performance of the portfolio. He explained there is no sub-prime represented in the portfolio.

Mr. Walker discussed Richmond had been over-weighting financial institutions primarily because they like to buy higher quality assets and financial institutions tend to carry higher ratings. He stated one of the reasons for the underperformance is because of the two times weighting of corporate bonds in the allocation that has been consistent with the Richmond Capital management philosophy. He stated at current spreads today that he feels that corporates have very good returns. He stated a lot of the new deals today are coming at 4.5 to 5% over Treasuries, so they believe there is a lot of value in these corporates. Mr. Ross asked why it is that Richmond keeps some of the crummy financial names so long?

Mr. Walker stated they believe that in the financials they have an incentive to keep up a good investment grade ratings, and that the funds have been compensated. He stated they believe they will hold their ratings. He stated they believe that the companies are viable.

Mr. de Araujo asked about the weightings of Merrill Lynch and Morgan Stanley. Mr. Walker stated as far as the investment guidelines they are under the 5% guideline. He stated once the Merrill Lynch purchase by Bank America has been completed they will look at it again. There were further questions for the Richmond representatives followed by a discussion about the manager's financial holdings. Ms. Rathborne asked about CIT. Mr. Walker stated the company has enough money to get through their redemptions and maturities and they are looking for the markets for financials to come back. Ms. Rathborne commented that the portfolio is so over-weighted to financials. The discussion continued regarding other financial holdings within the Richmond portfolio.

The Board members continued the discussion with the consultant about Richmond's performance and the alternative if the trustees were to replace Richmond.

Mr. Higman and Mr. Prime recommended the termination of Richmond and SSgA index fund. The recommendation is to terminate Richmond Capital and the SSgA Passive Bond Fund and place the proceeds with SSgA 3-10 Year Passive Treasury.

Mr. Ross moved that the Board dismiss Richmond Capital. The motion was seconded by Mr. de Arauja and the trustees unanimously adopted the motion.

Mr. Prime recommended that the Board terminate SSgA passive bond fund, and combine the two proceeds from Richmond Capital and the SSgA passive bond fund and put into the passive Treasury SSgA.

Mr. Prime discussed with the Board some of the allocation decisions that were made in May, 2008 by the prior Board. The target is 35% of long only equities; he discussed that we have 30% split equally between long short (or hedge equities) and 15% in absolute return with a lot of credit exposure. There is 15% in real assets and 20% in bond allocation, half of which is divided as 10% divided between SSgA passive and the Richmond portfolio and the other half is a convertible bond portfolio which is all corporates.

Mr. Prime recommended that 10% be placed in Treasuries as a long term allocation decision. He argued the 10% allocation to Treasuries is in order to manage and control risk.

Ms. Rathborne asked why it is we cannot come up with a better corporate names, and stay away from the financials. Trustees discussed more with the consultants. The consultants argued the other industries are represented at other places in the portfolio.

The Consultants went through the prepared report and discussed reasons for the allocation decisions.

Ms. Rathborne asked why it is that in a deflation environment we need TIPS in the portfolio. Mr. Prime answered when you look at the massive amount of liquidity, it will have an inflationary impact on the portfolio. He discussed the problem associated with the timing of moving from one strategy to another during an inflationary environment.

Mr. Ross asked if we are to accept Prime Buchholz number for TIPs at 4.5%, where do we get the excess return to satisfy an 8% return? Mr. Prime referred to the model (3A) and the expected return from the equities based on the Prime, Buchholz assumptions from the model. He stated that we go through periods, but reminded the trustees that if you go back to prior year, we had a much different picture.

Mr. Ross debated with the consultants his thought that the beginning point is important in determining the return expectations and decisions for allocation. Mr. Prime and Mr. Higman debated for staying with the current allocation and rebalance when the target ranges are violated. Mr. Ross stated he disagrees with the idea of forgetting about the timing. He stated there has been such a shock in the markets that he would not have expected that the consultants would stay with the same model that was created when the markets were so different. He stated the world is so much different.

Mr. Prime stated in times of stress, like today, you must go back to the structure you have in place and rely on it. Mr. Ross responded if nobody really knows, why hire money managers. He stated he does not believe the simple fact that there may have been a policy adopted in a totally different environment should necessarily be the deal today. He stated that if it is right, then it is because someone has thought it through. Mr. Ross stated in simple terms, if you start with the assumption at 8% and the Dow is at 10,000, and now the Dow is at 7,600, then how can you possibly have the same return expectation either arithmetically or logically? Mr. Hays discussed his concern about becoming more conservative at a time when we are well below the 8% return assumption.

There were further discussions regarding TIPs as part of the portfolio through Income Research Management. Mr. Prime stated the firm actively manages the purchase of TIPs.

Mr. Ross complained that they have not provided the analysis to make decisions, and he argued with the consultants stating you make the recommendation to terminate Richmond, but the trustees should be provided several recommendations for a replacement, and not just one.

Mr. Ross lamented that he had made the request that the consultants provide information about PIMCO and Blackrock for domestic corporate bond management and the information was not made available at the meeting. The trustees asked whether they would be better off with bonds over Treasuries for a long term investment. The trustees discussed.

Mr. Ross stated that since he needed to leave the meeting that he wanted to state that he is not in agreement to switch from the current defined benefit plan.

Ms. Jerri Zanko, citizen, spoke to the trustees regarding her concern about the current costs associated with the public employees' retirement plan. She stated we have a crisis coming to the Town of Palm Beach in the next two or three years, and read an article regarding a proposal to switch to an annuity for public employees. Mr. Ross pointed out there is a cost above their normal cost today, but if the times are good and overfunded, then the annuity may be a good thing to consider.

Mr. Ross moved that the Board accept the four recommendations of Prime, Buchholz from the report. The 4 recommendations were as follows:

Terminate SSgA Passive Bond and the Richmond Capital Bond Account. Retain SSgA 3-10 year Treasury Passive Bond fund with proceeds from SSgA Passive Bond and Richmond Capital. Increase allocation to TIPS from 2.5 percent to 5 percent of Fund. The funding is to come from cash. Postpone investment in Commodities component of Real Assets. Re-evaluate during 2009.

Mr. de Araujo seconded the motion and the trustees adopted the motion unanimously.

V. Actuary's Report

Mr. Brad Armstrong provided a power point presentation and discussed matters of the current Town of Palm Beach Firefighters Retirement System Defined Benefit Plan, and contrasted with other plans, including annuities, hybrid and defined contribution plans. He discussed the consequences of change with the current defined benefit plan. He discussed various public policy and legal issues regarding change. He further discussed actuarial funding methods, assumptions used and funding levels compared with other retirement systems.

Mr. Armstrong discussed if the plan were to be closed you would actually have your cost go up, but the cost would converge in about 12 years and the cost would become smaller and eventually goes to 0 over time. He stated the increased costs would be approximately 1.2 million in the first year with a reduction of around

$100,000 per year afterward, and over a 12 year period the cost would accrue to about $7.5 million additional cost to the system. Mr. Armstrong discussed that any new plan that would be established for new employees after the closure of the defined benefit plan would need to be set up with a different payment schedule for that plan. Various arguments were made by Mr. Hays and Mr. French regarding a change from a defined benefit to a defined contribution plan, and they expressed their belief that it would promote turnover and insecurity in retirement by Firefighters to the detriment of the Town in the delivery of public service. The trustees continued with a very lengthy discussion regarding the reasons for sustaining or not sustaining the current defined benefit plan.

Ms. Jensen discussed if the Town were to close the Defined Benefit plan it would no longer receive the Section 175 monies from the state to defer the Town's costs.

Ms. Rathborne stated she will take the position of the Board to the Town Council's committee on Finance and Taxation at the meeting of December 16. She stated that the message she will deliver is that we are happy with the plan as it is today; that we looked at the consequences of $7.5 million over the next 12 years, with the first year being the highest and we break even after 12 years. The trustees agreed without motion.

VI. Other Business

The trustees had no other business to discuss.

VII. Adjournment

The Board adjourned without motion.

Attested by: _____
Jayson French, Secretary