MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 13, 2008

I Call to Order:

Mr. Ray Snow, Chairman, called the meeting to order at 9:15 A. M. at Town Council Chambers. Mr. Snow introduced Ms. Joanna Cunningham as the new Town Clerk for the Town of Palm Beach. He announced without motion and by agreement with the trustees that he will take the Wellington Management presentation out of order in order to allow the presenters to speak after the item for election of officers. Mr. Wearn asked that the election of the 5th Trustee to the Board be placed in order. The Trustees agreed without motion.

In Attendance:

TRUSTEES:
Ray Snow, Chairman
Mike Lynch, Vice Chair
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, Prime Buchholz & Assoc.

II Oath of Office

The oath of office was administered by Ms. Joanna Cunningham, Palm Beach Clerk, to Mr. Snow and Mr. Wearn.

III Election of Officers

Mr. Klausner noted there has been no election for the office held by Mr. Lynch, and Mr. Lynch continues to serve as a matter of law until an election is held by the Police Officers and a member is properly elected by the group.

Mr. Wearn nominated Mr. Gerald Goldsmith to serve as the 5th member of the Board of Trustees. Mr. Klausner noted a second is not necessary when there is only one nomination.

Mr. Wearn made the motion to elect Gerald Goldsmith as the 5th trustee. Mr. Lynch seconded the motion. The Board unanimously elected Mr. Goldsmith.

Ms. Cunningham administered the oath of office to Mr. Goldsmith.

Mr. Wearn nominated and moved by acclimation without other nominations that Mr. Raymond Snow serve as Chairman, Mr. Lynch serve as Chairman Pro Tem, and Mr. Proscia serve as Secretary. Mr. Goldsmith seconded the motion. The Board unanimously approved the motion.

IX Investment Report

The Wellington Management presentation was taken out of order.

Mr. Higman discussed that the Board had invested in Wellington Diversified Inflation Hedges to participate in the three components (energy, TIPs and Commodities) making up 90% of the mix of the class of Natural Resources, and would be managing on an active basis. Mr. David Settles presented to the Board with Mr. Robert Rodriguez participating for Wellington by conference call.

Mr. Rodriguez introduced himself as Vice President and Portfolio advisor. He stated his firm has not changed their opinion about the role of this fund, even in an unusual time like we are experiencing today when many focus on the short term. He stated institutions should continue to look long term to diversify; that the core asset classes and liabilities do have a link to inflation, and a long term allocation to a basket of natural resource related equities and commodities makes a lot of sense. He pointed out October was an unusual month for all asset classes, and the Wellington portfolio was not immune to the problems. He discussed the industrial metals were down over 40%, and that pulled down the performance numbers.

Mr. Rodriguez provided a market analysis and the firm's strategy with regard to future performance in rebounding future markets.

Mr. Snow asked Mr. Rodriguez if he could provide the historical standard deviation. Mr. Rodriguez stated between 14 and 17%, but with the current period of violent sell off, the standard deviation projection has increased to 22%.

Mr. Goldsmith asked about the real estate holdings. Mr. Rodriguez answered the holdings are in REIT's. He explained that the manager of that portfolio as being value biased looking globally with higher quality REIT's.

IV Comments by Trustees

Mr. Wearn requested he be able to reserve comments until the Administrator's report in order that Mr. Holt be able to provide his report sooner to the Board. He commented that the Board should consider some rotation with the officers of the Board; that it places a large burden on the chairman for board meetings and the chairman is expected to make presentations to the Town Council from time to time as well. He stated he thought it to be good practice that other members be able to participate with the Town Council.

Mr. Snow noted Mr. Wearn, among other residents of the Town serving in foreign wars, was honored on Veteran's Day and that his name was added with an attractive plaque on the Town Wall as a Captain serving in Viet Nam.

Mr. Snow stated he would like to defer comments he will make at the Administrator's report to discuss the issues before the upcoming Finance and Taxation Committee meeting, including comments about the return assumption used by the systems. He stated the Town Council has asked to receive information regarding these matters of actuarial assumptions used by the Boards and of matters of the plan. He stated the Council members want to be educated. He added the Council is interested in learning more about hybrids and the defined benefit and defined contribution plans; and they feel a need to be better informed on these issues. Mr. Snow suggested the Boards should develop a position that can be communicated back to the committee and Town Council. He stated his belief that the purpose of the call of the meeting of the committee is to allow Council members to come up to speed on these issues. He stated the two-member committee wants to delve into these issues further, and the committee meeting has been scheduled for December 16, 2008.

Mr. Lynch stated he is strongly against converting to a defined contribution plan.

V Approval of Agenda

Without motion the trustees approved the agenda as amended.

X Attorney Report

Mr. Snow asked that Mr. Klausner provide his report in order for Mr. Klausner to be able to leave as he had requested. Mr. Klausner stated he has finished an update of the report on the issue of conversion to defined contribution from defined benefit, and has sent the report to the administrator, Mr. Hanes.

Mr. Klausner has indicated the plans that he serves as clients are generally not doing anything different in these bad times. He stated there are a couple of things that Boards may want to review and may choose to change. He has seen a few clients change the actuarial methodology. Another change he has witnessed has been to adopt a longer smoothing period. He stated it is not urgent to do anything now since the contribution rates that are established from the 2008 year report do not go into effect until fiscal year beginning in October 2009.

Mr. Klausner discussed a few Congressional proposals. There is a proposal to require better disclosure for collateralized asset ratings. Another bill is proposed to allow public pension funds to start their own mutual funds to park cash themselves, and the FDIC will be authorized to insure it. He stated it will allow pension funds to become more like credit unions.

Mr. Goldsmith stated we need to keep the Town's AAA bond rating; the principal thing in the Town that keeps the tax bond rating up is public safety, and public safety is the most important issue for the Town.

Mr. Klausner prepared at the request of Chairman Snow an outline for a resolution from the Board recognizing Ms. Ramelle Hieronymus, recently deceased, for her skill and leadership, and the resolution contains an expression to her family and friends the trustees' sympathy for their

loss. Ms. Hieronymus served as a Prime Buchholz client representative to the Town of Palm Beach Police Officers' Retirement System.

Mr. Klausner left the meeting.

Mr. Wearn made the motion to adopt the resolution. Mr. Goldsmith seconded and all members adopted the motion.

Mr. Wearn asked about the ordinance proposed by the Board to stagger terms of appointed members. He noticed too the requirement that meetings be bi-monthly when he was under the impression that the ordinance had been changed. Mr. Klausner stated that he would check with the City Attorney and report back to the Board.

Mr. Klausner reported that he participated in a series of workshops sponsored by the Congressional House Ways and Means committee. He stated the subject was public retirement systems, and the particular issue was the IRS's request to have all public plans to submit for plan determination letters by January of 2009. He stated the date for compliance has been pushed back until a period beginning in 2011 and ending in 2017. He stated there is a survey that will be sent out to plans by the Government. Mr. Klausner recommended the Board not consider submitting anything until at least 2011.

Mr. Wearn requested that Mr. Klausner's comments be recorded verbatim as follows:

"As we pointed out in the DB/DC memorandum, the short answer for the Town is if they try to change now, it'll cost them more money for the next 24 years than if they just stay the course. That is the one thing that everyone seems to lose sight of; you can't get rid of the obligation you have; you already own the house, and you have the mortgage. It's like the same obligation that the Town has to the bond holders. You borrow the money and build the sewer, and you can't say that I don't want to pay the obligation." Mr. Goldsmith stated that he is opposed to making any of these changes because it could affect the bond rating for the town. Mr. Klausner continued, "when the finance folks make their annual pilgrimage to New York, which every city, county, state or taxing district does, to meet with the bond raters; and if they see an artificial change in bookkeeping, it sends the wrong signal. Like a mortgage, all the money is not due today. Anyone that has a mortgage on their house has an unfunded actuarial accrued liability. If you pay your payment on time, it goes away."

VII Report of Accountant

The Board agreed without motion to allow Mr. Holt to present his report. Mr. Holt presented the details contained in the accountant report.

Mr. Holt discussed the audit recommended procedure for processing vendor payments (procedure attached).

Mr. Holt discussed his firm has worked up half the work needed by the auditor.

Mr. Holt discussed the firm has helped the administrator with securing of a fidelity bond and Trustee E&O policy.

Mr. Holt discussed the firm still needs to find out why certain people have not yet cashed their checks. Mr. Lynch stated that if he is given the names of people that he will run them down.

Mr. Hanes stated there continues to be a very small amount left in National City Bank to cover any of the checks still outstanding.

Mr. Wearn said he has a concern about the vendor payment procedure. He said he believed the original invoice should be delivered with time for review before there is delivery of checks for payment. He recommended it become a two step process so that Mr. Hanes deliver the original invoices before receiving the checks for payment. Mr. Holt agreed that going forward there would be delivery of the invoices with an opportunity to match up the original invoice prior to the issuance of checks to the administrator. Mr. Wearn asked Mr. Holt to amend the policy to require the inclusion of two signatures, and asked that the amended policy be sent to the Board members.

Mr. Holt and Ms. Varga left the meeting.

Mr. Wearn made the motion that the amendments as discussed be made to the Vendor Payment Procedure that Mr. Holt presented, and then sent to the trustees. Mr. Lynch seconded the motion, and all trustees approved the motion.

Mr. Wearn inquired about the location of the E&O policy covering the Board members, and Mr. Hanes confirmed that the policy was found and the amount of coverage is $10 million dollars. The trustees discussed at length with Mr. Holt matters of securing a policy for the following year. Mr. Holt stated that he would think that the Board should consider raising the limits in relationship to the asset size. He suggested that there be contact with the Town to determine what they are doing. Mr. Higman stated the Town has an indemnification for members who act in their capacity as Board members.

Mr. Lynch made the motion that Chairman Snow and Mr. Wearn oversee the selection of the renewal of an insurance policy, and to receive between two to three bids for coverage, and

the price not to exceed $50,000 with coverage not less than $10 million or more than $20 million. The motion was amended to include the authority to secure a Fiduciary bond. Mr. Goldsmith seconded the motion and the trustees unanimously approved the motion.

Mr. Snow expressed his pleasure of how the selection of the accounting firm has been good for the transition of pension administration.

VIII Report by Actuary

The Board agreed without motion to go out of order to hear the presentation of Mr. Brad Armstrong to hear the report of the Board Actuary.

Mr. Armstrong reiterated from a statement previously made by Mr. Klausner that the next financial report ending September 30, 2008 will not impact the Town until October, 2009, and the contribution impact of the partial recognition of the downturn through that date should cause the rate to go up 1.25% of payroll for the Town. This represents approximately a $75,000 increase.

He stated if the Town were to close the current plan to new entrants that the contributions would go up, and then the mortgage would have to be paid off sooner and would cause no less than 4% increase in Town contributions. He emphasized that it is no less than 4% and the events of the last 6 weeks have probably made it worse. Mr. Armstrong stated that the use of 8% as the assumed investment return is simply a budget tool. The cost of the plan is determined by the member activity, and cash outflow is what ultimately determines the cost of the plan. He discussed that the Town's contributions represent about 10% of the Town budget and it is important to maintain intergenerational contributions. He discussed how dramatic changes are very costly, and changes in retirement are usually done in transition and not drastic. Mr. Armstrong explained that drastic changes of a plan are usually costly. He discussed further if you change the plan so that you create incentive for turnover for long term employment, the decisions could end up with many unwanted consequences.

Mr. Armstrong stated because the cost of the plan is the payment of the benefit. He stated the experience will continually be recognized and the assumed rate of return will move to keep everything in balance. He stated that the objective is to keep the contributions level.

Mr. Higman stated the issue to the consultant to be what level of risk is appropriate to obtain the assumed return. He discussed we must be careful with the current environment. He stated the liability has little to do with the assumption. He stated you craft a portfolio with increasing or decreasing probability of achieving the goal.

Mr. Goldsmith stated it is important to communicate to the Council that when the change is made in return assumption that the contributions also changes either up or down but to not make a change when needed may in the long run make the contributions higher.

Mr. Wearn stated that he believed it desirable that a member of the Town Council attend Board meetings. He stated that such a person could take back to the council on a first hand basis to discuss with the council the issues from the Board meetings.

Mr. Snow initiated a discussion with the actuary and trustees and stated the process of smoothing as a valuation method serves as an actuarial tool to take out the market swings.

Mr. Snow discussed that Mr. Armstrong will be presenting to the December 16, 2008 meeting of the Finance and Taxation Committee along with Mr. Klausner.

IX Investment Report

Mr Higman was asked to provide the remainder of his report.

Mr. Higman discussed as a side issue that Treasury bills are actually yielding at a negative number. He emphasized that so many people are buying T-bills for safety and that they are doing so at no or negative yield. He discussed that it was a very difficult period. He pointed out that one year ago, September 30, 2007, that we had achieved our benchmark for that year and the trailing 5 year period.

Mr. Snow pointed out that because of the current year end returns, we did not meet the 8% actuarial assumption over the one year, three or five year periods.

Mr. Higman discussed that growth orientated managers suffered as did Artisan.

Mr. Higman discussed that the alternatives were down but better than its' peers. He stated that none of the portfolio managers with the system's alternatives have issues about redemption matters.

Mr. Higman stated that Forester's numbers are doing well as they make superior fund selections.

Mr. Higman discussed within the fixed income that Richmond Capital is down significantly or minus 4.8 against the index of minus 1.7. A lengthy discussion followed with the Trustees. He discussed that it was entirely about the month of September, 2008. Mr. Higman asked the Board members where it is that the Board wants to take credit risk. He stated that his recommendation is to move Richmond proceeds to a Treasury allocation for now. He stated that his recommendation is not based on the one month performance of September, 2008, and pointed out that Richmond Capital had better much better performance in October.

Mr. Snow stated to Mr. Higman that he believed it was the consensus of the Board to stay the course with Richmond Capital.

Mr. Wearn asked Mr. Higman if he would discuss the issue of asset allocation and an aspect of planning for certain events that happen rarely over certain time periods. There was a discussion of same. Mr. Higman stated the investment community agrees the expense to pay regarding this type of allocation is too high relative to the risk. The trustees spent much time talking about the advantages of strict adherence to allocation of assets and due diligence.

Mr. Lynch expressed his thought about how the issues of allocation of assets in a disciplined way is the very reason why it is that the employees of the Town of Palm Beach are so much better off with a defined benefit plan than a defined contribution. Mr. Proscia stated his thought that it is not good that a Police Officer gets to an age of 52 and needs to wonder if you will have the financial security for you and your family to last you for the remainder of your life.

Mr. Wearn stated that he agrees with Mr. Lynch and that the reason he decided to work on the Board is because the staff of the Town of Palm Beach are the very best. He stated that it is his view that he wants the employees to do the very best on the street, and that means the benefits provided for the employees create the least amount of concern about their future. Mr. Goldsmith stated his agreement that the most important value in the Town of Palm Beach is public safety.

The Board Trustees all agreed that the defined benefit plan provides the best benefit for serving very important Town goals. A very lengthy discussion followed as each Trustee spoke to the importance of retaining the defined benefit plan for public employees. The trustees were in unanimous support to recommend for continuation of a defined benefit plan before the Finance and Taxation Committee meeting on December 16, 2008.

VI Approval of Minutes

Mr. Wearn moved for approval of the May 8, 2008 meeting minutes. Mr. Lynch seconded and the Board unanimously approved.

Mr. Wearn moved for the approval of the June 18, 2008 meeting minutes. Mr. Proscia seconded and the Board unanimously approved the motion.

Mr. Wearn moved for the approval of the August 14, 2008 meeting minutes. Mr. Lynch seconded and the Board unanimously approved.

XI Administrators Report

Mr. Hanes provided his report to the trustees. He discussed that he intended to do more work with the auditor in coming days.

Mr. Hanes discussed that several Police Officers have kept him busy with the town incentive plan on retirement.

Mr. Hanes discussed a matter of securing the services of Ms. Ellen Schaffer, including the ability to calculate benefits; provide an estimate of benefits, and the ability to provide information for reports and other material for the benefit of the Police Officers, as well as establishment of a

web based estimate of benefit calculation. He shared with the trustees the bid by Ms. Ellen Schaffer that offered to provide those services for the three Town retirement systems.

Mr. Wearn made the motion to grant the administrator the authority to accept the proposal by Ms. Ellen Schaffer for the Police Officers' setup and annual maintenance, and also for the on-line calculation at a cost not to exceed $2500 and the annual maintenance to be paid at the start of the contract. The cost of the service proposal by Ms. Schaffer is expected to be reduced appropriately for the deletion of associated cost for share accounts since Police Officers are not entitled to share accounts. The contract shall be brought back to the Board for the November, 2009 meeting for the purpose of assessment of performance and continuation. The motion was seconded by Mr. Goldsmith. All trustees approved. Mr.

Goldsmith stated he would like to ask the trustee officers their opinion of the service at future meetings of the Board.

Mr. Wearn expressed matters of interest regarding the preparation of the agenda. He expressed that it is recommended that the Secretary and Chairman get with the Administrator no later than a week or 10 days in advance of the meeting in order that the meeting agenda be determined, and so that trustees can be fully advised when in receipt of the packet. He stated that he would like to be able to finalize the agenda in advance to accommodate the schedules for those who have been invited to speak.

Mr. Wearn asked that the administrator provide an annual calendar of Board meetings including matters to anticipate at each Board meeting.

Mr. Wearn made the motion to set the annual employee contribution interest credit at 5%. Mr. Proscia seconded the motion. The Board adopted the motion unanimously.

XII Disbursements

Mr. Lynch moved and Mr. Proscia seconded the motion to approve payment of disbursement as set out in the Administrator's report. All trustees approved the motion.

XIII Benefit Payments

Mr. Lynch made the motion to approve payment of benefits from the Administrator's report. Mr. Proscia seconded the motion and all members unanimously adopted the motion.

XIV Adjournment

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

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM

POLICE OFFICER BOARD OF TRUSTEES

Meeting of November 13, 2008

Attested by: William P. Plane

Chris Proscia, Secretary