Town of Palm Beach Police Officers' Retirement System

Meeting of November 8, 2007

I. CALL TO ORDER

Chairman Raymond Snow called a meeting of the Police Officers' Retirement System to order on behalf of the Board of Trustees at 9:02 AM on May 10, 2007, in the Town Council Chambers.

<u>TRUSTEES</u>
Raymond Snow, Chairman
James McC. Wearn, Secretary
Chris Proscia
Mike Lynch
Gerald Goldsmith

<u>OTHERS</u>
Sean Higman; Prime Buchholz
Scott Baur, Margie Adcock; PRC
Stu Kaufman; Klausner & Kaufman

I. AGENDA

The Trustees reviewed the Agenda presented. **A motion was made by Mr. Goldsmith to accept the Agenda as amended. The motion was seconded by Mr. Wearn and carried 5-0.**

II. COMMENTS BY TRUSTEES

Mr. Goldsmith stated that he wanted to let the Town know that there was no way the Fund could consistently return 8%. At some point the Fund will return below that as markets go up and down.

II. TRUSTEE ELECTIONS

A. ELECTION OF CHAIRMAN

Mr. Wearn accepted nominations for the Board position of Chairman. Mr. Goldsmith nominated Mr. Snow as Chairman. There being no further nominations, a **motion was made by Mr. Lynch to reappoint Mr. Snow as Chairman. The motion was seconded by Mr. Proscia and unanimously carried.**

B. ELECTION OF VICE-CHAIRMAN

Mr. Snow accepted nominations for the Board position of Vice-Chairman. Mr. Goldsmith nominated Mr. Wearn as Vice-Chairman. Mr. Wearn nominated Mr. Lynch as Vice-Chairman. Mr. Goldsmith withdrew his nomination. There being no further nominations, **a motion was made by Mr. Wearn to appoint Mr. Lynch as Vice-Chairman. The motion was seconded by Mr. Goldsmith and unanimously carried.**

C. ELECTION OF SECRETARY

Mr. Snow accepted nominations for the Board position of Secretary. Mr. Goldsmith nominated Mr. Proscia as Secretary. There being no further nominations, **a motion was made by Mr. Wearn to appoint Mr. Proscia as Secretary. The motion was seconded by Mr. Goldsmith and unanimously carried.**

III. APPROVAL OF MINUTES

Mr. Baur noted that minutes of the August 9, 2007 meeting would need to be deferred until the next meeting because not yet distributed. Mr. Snow noted that the minutes of the special meeting of October 1, 2007 that were being prepared by the Attorney would also be presented at the next meeting. Mr. Snow stated that he would like to post the approved minutes on the Town's website. He noted that the approved minutes are posted on the website of the Administrator but he would like to keep them updated on the Town's website as well.

IV. INVESTMENT CONSULTANT REPORT

Mr. Sean Higman of Prime Buchholz appeared before the Board to present the quarterly investment performance report and to discuss Investment Manager performance for the quarter ending September 30, 2007. Mr. Higman began by reviewing the current market environment, particularly the US equity market. He noted that gas was up to $95 a barrel. He noted that energy was up 8.5% and consumer discretionary was down 5.5%. He also discussed the sub prime issue. Mr. Higman stated that he is seeing a turnaround from value to growth in the 3rd Quarter. Large cap value is up 14.4% and large cap growth is up 19.5%. Mr. Higman discussed the international markets. The EAFE was up 2.2% for the quarter. Emerging markets were up 14.4%. He noted that China was up 42% in one quarter. He noted that the Fund does not have a separate emerging markets manager. Rather, the Fund uses two managers to tactically decide, on a valuation basis, if and when to have emerging markets. He would not expect them to fully participate in emerging markets right now. Mr. Higman discussed currency and global bonds. He stated that the US dollar is weak. He noted that the Fund's managers do not hedge. He believes over time currencies even out. Over a ten year time period the foreign currency return is only at 2.5%. There was discussion on the standard deviation of asset classes. Mr. Higman stated that every January Prime Buchholz updates their standard deviation of the capital markets.

Mr. Higman provided a review of the performance of the Fund. The total Fund was up 1.8% for the quarter versus 1.8% for the benchmark. The market value of the Fund as of September 30, 2007 was $61,657,789. Domestic equities were up 1.5% for the quarter while the Russell 3000 was up 1.6%. International was up .8% while the EAFE was up 2.2%. The alternative strategy was up .9% while the benchmark was up .3%. Fixed income was up 2.8% while the benchmark was up 2.9%. Real estate was up 2.8% while the benchmark was up 1.2%. There was a lengthy discussion on leverage as a strategy. Mr. Higman reviewed all three managers in the alternative strategy and their leverage position. He stated that on a gross basis they are all very reasonably positioned. He noted that Pine Grove by return would have a higher leveraged position. He is very comfortable with where the Fund is from a leverage position. Mr. Higman discussed the equity component of the portfolio. He stated that there was no manager that needed to be replaced or reviewed further.

Mr. Higman reviewed the performance of each manager. For equities, all managers were ahead of their benchmarks with the exception of Cooke & Bieler Mid Cap Value and Harris International Value. He stated that Cooke & Bieler had a tough quarter but have good long term numbers. It was a very difficult index to beat. He noted that Harris buys companies and not stocks. He will continue to watch them. At this time he is affirming his recommendation to keep them. Mr. Higman reviewed the hedge strategies. He stated that Pine Grove made some changes to their business plan. On the surface the changes appear to be positive. They had an annual liquidity that they changed to quarter liquidity. They eliminated the lock up fee and lowered the minimum investment from $1 million to $500,000. He views these as not good changes. They are trying to raise money from retail investors or high net worth investors. He stated that those types of investors tend to be more reactionary and in and out of funds. He is monitoring them and will provide the Board with an update each quarter. Mr. Higman reviewed the fixed income managers. He noted that all were slightly below their benchmarks for the quarter.

V. ATTORNEY'S REPORT

Mr. Kaufman provided the Board with a draft Ordinance changing Trustee terms and the Board's meeting schedule. He also referred to a memorandum provided by Mr. Baur regarding the recommendation. Mr. Kaufman stated that Mr. Wearn suggested the technical changes. One change is to Section 82-110 to change from bi-monthly meetings to quarterly meetings. The other change is to Section 82-111 to provide for staggered terms. Mr. Kaufman noted that the proposed Ordinance making these changes would need an impact statement and then would be forwarded to the Town Attorney to go to Town Council. **A motion was made by Mr. Wearn to go forward with both changes and secure the necessary impact statement. The motion was seconded by Mr. Goldsmith and carried 5-0.**

Mr. Kaufman noted that their Klausner & Kaufman Conference would be held from March 9 –12, 2008.

VI. ADMINISTRATOR'S REPORT

Mr. Baur provided an Amendment to the Agreement between the Board and the Administrator because Mr. Wearn suggested an amendment to the agreement regarding the disposition of records and retention of records upon termination. Mr. Baur stated that he had no problem with the language suggested by Mr. Wearn. Mr. Baur provided the Board with an Amendment to the Agreement that would incorporate those changes. **A motion was made by Mr. Wearn to approve the Amendment to the Agreement with the Administrator, provided the Attorney finds it acceptable. The motion was seconded by Mr. Goldsmith and carried 5-0.** Mr. Kaufman stated that he reviewed the Amendment and it was acceptable.

Mr. Baur provided a Board Calendar for 2008, based on the suggestion from Mr. Wearn.

Mr. Baur discussed the interest rate that is credited on member contributions. He advised that the Ordinance requires the Board to set a rate each year. He noted that the historical rate has been 5.5%. **A motion was made by Mr. Wearn to continue the interest rate that is credited on member contributions at 5.5%. The motion was seconded by Mr. Lynch and carried 5-0.**

The Board was provided with a letter from the Actuary requesting an increase in their fee by $100 per quarter. **A motion was made by Mr. Wearn to approve the increase in the fee of the Actuary by $100 per quarter. The motion was seconded by Mr. Goldsmith and carried 5-0.**

The Board was presented with an engagement letter from Koch Reiss to perform the audit for the fiscal year ending September 30, 2007. Mr. Kaufman stated that they had reviewed the engagement letter. It was noted that the Chairman was faxed the engagement letter after the October 1, 2007 special meeting and executed the letter on October 1, 2007. **A motion was made by Mr. Wearn to ratify the execution by the Chairman of the engagement letter from Koch Reiss to perform the audit for the fiscal year ending September 30, 2007. The motion was seconded by Mr. Goldsmith and carried 5-0.**

Mr. Baur discussed issues involving Plan administration. He introduced Margie Adcock from his company and advised that she would be working with him on this Plan. He advised that they usually have two people involved with each plan, although there is dispersion in the office of other administration tasks. Mr. Baur discussed the firm and the growth of the firm. He provided an overview of The Pension Resource Center. He provided an outline of the services that they are providing to the Board that is in line with the Agreement. He provided an organizational chart of his company and discussed organizational changes. He stated that they are addressing the concerns identified in the Management Letter from the Fund's prior auditor. He noted that the issues the auditor raised in the Management Letter have only been issues involving the Town of Palm Beach and have not been raised by any other auditor of the other plans that they administer. Mr. Wearn requested that a pending matters list be generated after each meeting and provided to the Board members within a week after the meeting.

VII. REPORTING OF PLAN FINANCIALS

The Board reviewed the financial statement as of September 30, 2007. Mr. Baur noted that the statement classifies the securities by asset type and breaks down items in the requested formats. Mr. Baur stated that in the Management Letter there were two issues raised and the prior auditor was supposed to change the comments in the audit. There was language that portrayed certain funds that the prior auditor was not able to verify by CUSIP number or ticker so the auditor called them alternative funds when they were actually index funds. Mr. Kaufman stated that since the auditor is no longer with the Fund, he suggested a letter be put in the file. Mr. Wearn asked Mr. Baur to prepare a memorandum together that sets forth the issues and provide that memorandum to Mr. Kaufman and Mr. Higman for review. He asked that it be presented to the Board at the next meeting for approval to append to the financial statements. The Board directed Mr. Baur to prepare the requested memorandum.

VIII. APPROVAL OF DISBURSEMENTS

Mr. Baur presented the list of disbursements. It was noted that there was no unusual disbursement or any unusual matters that generated a disbursement. **A motion was made by Mr. Wearn to approve the disbursements presented beginning with check number 2252 dated August 31, 2007 and ending with check number 2272 dated November 5, 2007. The motion was seconded by Mr. Goldsmith and carried 5-0.**

IX. RETIREMENT APPLICATIONS/BENEFIT APPROVALS

Mr. Baur advised that there were no benefit approvals.

X. OTHER BUSINESS

Mr. Wearn requested the Chairman to instruct the Administrator establish, maintain and distribute a pending matters list as was proposed earlier in the meeting. He requested that it be sent to the Board, Attorney, and Investment Monitor within one week after the meeting. He would like it to then be amended after each meeting to add on new items that occurred sine the last meeting, with items being dropped off as they have been concluded. **A motion was made by Mr. Wearn to have the Administrator establish, maintain and distribute a pending matters list. The motion was seconded by Mr. Goldsmith and carried 5-0.**

Mr. Wearn stated that Prime Buchholz had prepared an investment summary as of June 30, 2007. Mr. Wearn stated that he would like this to be distributed to the Participants. The Board approved the distribution of the investment summary to the Participants.

There was no other business of the Board.

A motion was made by Mr. Goldsmith to adjourn. The motion was seconded by Mr. Wearn and carried 5-0.

The meeting was adjourned at 11:25 a.m.

Town of Palm Beach Police Officers' Retirement System

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Chris Proscia, Secretary