Police Officer Board of Trustees of the Town of Palm Beach Retirement System
Meeting of November 7, 2006

I. CALL TO ORDER

Mr. Raymond Snow called a meeting of the Police Officer Board of Trustees for the Town of Palm Beach Retirement System to order at 9:02 A.M. on November 7, 2006, in the Town Council Chambers. Mr. Snow personally thanked the Board for entrusting the position of Chairman to him. Present at the meeting were:

TRUSTEES	OTHERS
Gerald Goldsmith,	Sean Higman, Prime Buchholz
Raymond Snow (Chairman)	
James McC. Wearn, Secretary	Scott Baur, Administrator
Michael Lynch	Denise C. Clougherty, Administrator
Chris Proscia	Stuart Kaufman, Klausner and Kaufman

II. APPROVAL OF AGENDA

The Trustees reviewed the Agenda for the meeting. A motion was made by Mr. Wearn to approve the Agenda. The motion was seconded and carried 4-0.

III. COMMENTS BY TRUSTEES

Mr. Snow addressed the Board with some comments regarding the special Town Council meeting. Mr. Snow remarked that eight (8) citizens appeared before the council seeking appointment to the police board or firefighters board. The Town Council took the opportunity during this meeting, which Mr. Snow was attending, to ask him a few questions about the plan, such as, inquiring as to the risk taken to achieve the levels of return the plan has experienced. Mr. Snow responded, on behalf of the Board, that the risk return ratio was actually that the plan has taken on less risk, and experienced greater return. The Board further discussed the expected actuarial return of 8% and its feasibility to attain such a return in this market environment, citing the return in 2004 at 10.2%, the return of 2005, 10.9% and the return for 2006 being 9.5%. Mr. Snow requested the Board's approval to return to the Town Council at their next regularly scheduled meeting to make a 3-minute presentation to provide them with the actual return percentages for these last few years. A motion was made by Mr. Wearn to authorize Mr. Snow to attend the November 14, 2006 Town Council Meeting on behalf of the Board to present earnings of the plan. The motion was seconded by Mr. Lynch and carried 4-0

IV. TRUSTEE ELECTIONS

A. Election of fifth Trustee

Mr. Snow explained that the position of the fifth Trustee is to be chosen by the four current Trustees. The term for this seat is to begin October 1, 2006 and ends September 30, 2008, a two-year term. Mr. Gerald Goldsmith currently holds the seat of the fifth Trustee, and Mr. Goldsmith was the only person in attendance in the audience at the meeting. A motion was made by Mr. Wearn to nominate Gerald Goldsmith for the seat of fifth Trustee. The motion was seconded, and there being no other nominees to the seat of fifth Trustee, the motion carried 4-0. Mr. Goldsmith has been re-elected to the seat of fifth Trustee. Mr. Goldsmith will need to be sworn in by the Town Clerk, but officially joined the meeting at 9:13 a.m.

B. Election of Chairman

A motion was made by Mr. Goldsmith to nominate Mr. Snow to retain his seat as Chairman. The motion was seconded by Mr. Lynch and hearing no other nominations, the motion carried 4-0 and Mr. Snow was re-elected as Chairman of the Board. Mr. Snow accepted his election as Chairman and his term will commence as of October 1, 2006 and will terminate on September 30, 2007, for a one- year term.

C. Election of Secretary

A motion was made by Mr. Goldsmith to nominate Mr. Wearn as Secretary. The motion was seconded by Mr. Proscia and hearing no other nominations, the motion carried 4-0 and Mr. Wearn was re-elected as Secretary of the Board. Mr. Wearn accepted his election as Secretary and his term will commence October 1, 2006 and will terminate on September 30, 2007, for a one- year term.

V. APPROVAL OF MINUTES

Mr. Wearn had sent in some changes to the minutes of the meeting of August 10, 2006 to the Administrator, and most of those changes have been made. The changes still pending are to the Approval of Agenda, where Mr. Wearn added items 6F and 7E to the Agenda. Those items will need to be identified in the minutes. A motion was made by Mr. Wearn to accept the Minutes for the meeting of August 10, 2006 as amended. The motion was seconded and carried 5-0.

VI. UMBRELLA INVESTMENT COMMITTEE UPDATE

Mr. Snow provided a general summary of the Umbrella Investment Committee concept and recapped the first meeting, which explored the concept of pooling the assets of the pension funds of the Police Officers, Firefighters, and General Employees, as well as the Health Fund Reserve. This concept was certainly worthy of study, so all the plans sent representatives to this meeting. The second meeting went over the opportunity for investments and it was concluded that it warrants further study. Further study had been done and the final report is that this concept, though a 'good idea' would not be a significant money savings and in fact, may add a layer of expense at the umbrella level. Each Board would still need to retain its own actuary, attorney, and other service providers to monitor investments. There could still be some savings with a collaborative custody agreement, however, each Board will continue business as usual.

Mr. Snow further advised the Board that the findings of the committee would be formulated and communicated to the Boards by Mr. Elwell. The Board commented that we should allow the Town Council to review the report prior to making any decisions and to see if it has any requests of the Board.

The Board thanked Mr. Snow for his time and effort in attending the committee meetings on behalf of the Board and the members.

VII. INVESTMENT CONSULTANT REPORT: Prime Buccholz, Sean Higman

Mr. Sean Higman appeared before the Board to present the quarterly report for the plan's assets. Mr. Higman advised the Board that, in response to the request of the Board at the last meeting, he did remove the Town of Palm Beach Police Officers Pension from all of the marketing materials, and provided the Board with a copy of the request of all the Investment Managers to do the same.

Mr. Higman reported on the market environment stating a slowdown in U.S. growth: the Federal Reserve decided to hold interest rates steady at 5.25% and while they remained cautious about inflation, they suggested that moderating economic growth should help ease inflation pressures over time; both equity and fixed income markets responded favorably to that decision; after reaching an all-time high of nearly $77/barrel early in the quarter, oil prices in the latter half of the quarter, provided relief to consumers and ended the quarter at $62.91/barrel; price declines were experienced across the energy sector; core consumer prices, excluding energy and food, continued to rise during the third quarter; through the first eight months of 2006, core consumer prices have advanced at a 3% seasonally adjusted annualized rate, compared to 2.2% for the full year 2005; second quarter GDP growth was 2.6%, lower than the first quarter of 3.6%, due to several factors; a cooling housing market, high energy prices and the impact of the Fed's tightening cycle.

Mr. Higman further reported that the total fund experienced a 3.3% return with the actual index at 3.5%, and the total assets are $53,925,803. Mr. Higman stated that performance was slightly behind the target and actual indices; domestic equity was the top performing sector during the quarter, gaining 4.6% and matching the return of the broad market; commodities had the most difficult time this quarter, as energy markets plummeted and the DJ-AIG Commodity Index fell more than 6%; at the manager level, Cooke & Bieler was the star, gaining 6.4% during the quarter and adding almost 300 basis points of alpha to the benchmark. Mr. Higman added this was a strong quarter for the fund.

Mr. Higman added that Western US Commodity Plus was funded in early July and by the end of the quarter the investment structure was in line with policy targets.

Mr. Higman reviewed performance by individual managers of the fund: all were ahead of the benchmark in equities; Geneva had a difficult quarter and Cooke & Bieler, who had been under performing because they had avoided energy, did well this quarter. Mr. Higman recommends still monitoring the performance of Pine Grove. Mr. Higman said that Meridian's performance has been soft and Prime Buchholz believes there are other alternative fund of funds options available to the fund. Mr. Higman provided the Board with profiles of Barlow Partners Offshore Ltd., Berens Capital Fund, Ltd., Archipelago Partners, Ltd., Winston Global Fund, Ltd. and Forester Partners, Ltd., as well as Meridian Performance Partners, LP and Archstone Equity Strategies Fund, Ltd., already having relationships with the fund. The Board reviewed the profiles and Mr. Higman recommended the Board consider Archstone, Berens Capital and then Forester, for replacement candidates. He recommends interviewing them at the next meeting, or scheduling a special meeting or workshop. The Board agreed to set up interviews to ask questions regarding overlap, conflicts, law suits, etc. The Board agreed on February 8, 2007, at the next regularly scheduled meeting to interview replacements.

Mr. Baur agreed to set up a meeting with Meridian to address issues of its performance and will coordinate with the Board.

The Board of Trustees took a break at 10:25 a.m. and reconvened at 10:42 a.m.

IIX. **D.R.O.P. ACCOUNT PROVIDER**

Mr. Baur addressed the Board regarding several administrative issues with the current D.R.O.P. account provider, ICMA. He added that the firefighters have requested their Board look in to alternatives to ICMA, as they are experiencing the very same issues, such as lack of customer service, education, and, most importantly, they now have no trust in ICMA holding their money. He said that the administrative issues are account postings, returning checks before they are credited, lack of continuity and process, and several others. Mr. Baur provided the Board with a list of possible alternatives, including putting the assets back into the fund and allowing the individual to experience the same investment return as the fund. He said that this alternative would have no cost or impact to the plan at all, with no significant administrative costs. It would, however, require an ordinance change, which the firefighters will be seeking. He commented that this direction limits the members' access to self-direction, however, provides the member the collective wisdom of the Board and service providers regarding investment strategies and return. Mr. Lynch and Mr. Proscia agree that there is a definite problem with ICMA and they advise they have nothing but negative comments from the members about ICMA and believe the members would choose to put their assets back into the plan. Mr. Lynch stated that ICMA is simply not doing the job they were hired to do.

Mr. Baur provided a breakdown of potential alternatives to ICMA and advised the Board that he may have a potential conflict, as his company has provided a proposal for this service along with ING, Nationwide, and Omega (an affiliate of the Pension Resource Center).

The Board agreed that the Police Officer Trustees will go back to poll the members to see what the individual officers want and report back to the Board at the next meeting.

IX. **ATTORNEY'S REPORT: Stuart Kaufman reported as follows:**

A. Harris Pending Litigation – regarding the litigation over fund fees being charged. Allegedly, the fees being charged were disproportionate. This litigation is still in the discovery phases. Mr. Kaufman advised he would monitor and provide updates as needed.

B. Pension Protection Act 2006 – regarding health insurance deductions taken for premium payments for retirees, the deductions can be made either pre-tax or post-tax and will be credited up to $3,000 for tax purposes. The Plan will need to develop forms for the retiree to make an election. Forms will be available at the next meeting for approval by the Board. The payments must be made for premiums only, and must be made directly to the insurance provider. Mr. Kaufman will investigate whether payment to the Town constitutes payment to the provider.

C. Insurance Premium Tax Discussion – the plan received its allocation of State Chapter 185 money and matched last year's allocation of $226,181.00. Mr. Kaufman advised that this amount is guaranteed to the Plan for the next two years.

D. Board Rules and Procedures – Mr. Kaufman advised the Board that the Rules and Procedures have been drafted and provided for review. Mr. Wearn will work along with counsel to make it as short and concise as possible.

E. <u>Pending Ordinances –</u>

a. Changing the language that requires the Board to meet bi-monthly to read as quarterly Board meetings.

b. Staggering terms of Trustees so that all Trustee Terms do not expire at the same time.

c. Coordination of benefits.

The Ordinance is drafted. The Board would need an Actuarial Impact Statement and then it would be ready to be placed on the Town Council Agenda. Would like to have all of these things on hand prior to making a recommendation to the Town Council.

The Board authorized the Administrator to request an Impact Statement from the Actuary. Mr. Kaufman will provide a draft to the administrator.

Mr. Wearn questioned Mr. Kaufman whether there was any action required of the Board of Trustees in responses to the letter received by the Division of Retirement dated October 30, 2006. Mr. Kaufman responded that he will work with the Administrator and handle responding to the division and they will send a follow-up letter to Patricia Shoemaker. Mr. Wearn requested the Board be copied on this response, as well as the State's response, if there is any.

The Board discussed the letter of October 2, 2006 regarding the acceptance of gifts. Mr. Kaufman will review this letter from the Town and comment back to the Trustees prior to the next meeting via memorandum.

X. ADMINISTRATOR'S REPORT

Mr. Baur reported that the operating checking account is with Fidelity Federal Bank and it was recently acquired by Citi Bank of Ohio. He said that the terms of agreement with Fidelity Federal Bank are still in effect and has been re-affirmed. Mr. Baur expects that for the time being, until we hear otherwise, these terms will remain in effect.

XI. REPORTING OF PLAN FINANCIALS

Mr. Baur provided the Trustees with a copy of the unaudited financial statements for the Plan for review. Mr. Baur advised that the audit for year ended September 30, 2006 is proceeding and he should have a completed draft by December 15, 2006.

The Board reviewed the Disbursements provided for their review and a motion was made by Mr. Wearn to approve the disbursement list provided and authorized both the Chairman and Secretary to sign off on disbursements from check number 2135 written on July 31, 2006 to check number 2148 written on August 8, 2006. The Board then authorized payment of the disbursements from check number 2149 written on October 31, 2006 through check number 2173 written on 11-02-06. The individual payments are included in the attachments of the Minutes of this meeting. The motion was seconded by Mr. Goldsmith and carried 5-0.

XII. RETIREMENT APPLICATIONS

There were no retirement applications to present to the Board.

XIII. OTHER BUSINESS

The Administrator will get information on the pension conference being held in Sarasota and bring the information back to the Trustees.

The Administrator provided an updated list of Trustees with contact information. The Trustees will review the list for accuracy and report changes to the Administrator.

The Chairman revisited the Umbrella Investment Committee's findings, reporting that the Ad Hoc Committee examined the savings of an umbrella pool of investments and concluded there were possible savings, but the group asked him and others, as Chairmen, to report back to their respective Boards, assuming the Board accepts the report and in fact, agrees with the committee, that the funds should not be commingled.

A motion was made by Mr. Goldsmith to request the committee report back to the Board and provide a letter summarizing the findings of the committee in a letter. The motion was seconded by Mr. Wearn, who added that the Board has no basis to take a position as it was the Town that initiated this consideration and if the Town Council would like further consideration to be made, we would encourage the committee to remain in existence and not close the door to this responsibility; in other words, if the Town Council wants to revisit this issue, it is the Town's call.

Mr. Kaufman advised he would draft a letter to send to the Town and/or committee. A copy will be furnished for the Trustees, as well.

The motion carried 5-0.

A motion was made by Mr. Goldsmith to adjourn. The motion was seconded and carried 5-0 to adjourn. The meeting adjourned at 11:49 a.m.

James McC. Wearn, Secretary