MINUTES OF THE TOWN OF
PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES

Meeting of August 13, 2009

I. Call to order

Mr. Raymond Snow, Chairman, called the meeting to order at 9:08 a.m. at the Emergency Operation Center at 355 South County Road, Palm Beach, Florida.

In Attendance:

TRUSTEES:
Ray Snow, Chairman
Detective Michael Lynch, Chair Pro Tem
Sergeant Chris Proscia, Secretary
Gerald Goldsmith

ALSO PRESENT:
William P. Hanes, Pension Administrator
Robert Klausner, Klausner & Kaufman
Sean Higman, Prime Buchholz

(Mr. James Wearn had not arrived at roll call.)

II. Approval of Agenda

Chairman Snow noted that he would like to take out of order and include three matters at item III: He stated he would like to make comments about his attendance at the Town Council meeting in June; he would like to yield to Mr. Hanes to discuss information he learned from a recent conference by the National Association of State Retirement Administrators; and that he wanted to make a few comments about a recent letter that was sent out from one of the members of Town Council.

(Mr. James Wearn arrived at the meeting at 9:10 a.m.)

Mr. Wearn asked that item VII be amended to include a discussion regarding the special meeting on August 18, 2009. He also asked that Item VI be amended to include a matter of the watch list of managers.

Mr. Wearn made a motion to amend Item III, Item VI and Item VII to provide the changes discussed. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

III. Comments by Trustees

Mr. Snow discussed matters of the Town Council meeting that he attended on June 9, 2009. He recognized Councilman Bill Diamond who addressed the matter of the work of the consultant. Mr. Diamond discussed that a consultant has been engaged to address pension issues and the Town Council is interested in reviewing the cost of all employee benefits. Mr. Snow stated that a summary of the trustees discussions regarding matters of pension benefits had been prepared and submitted to Town Council prior to the June 9, 2009 meeting. He discussed a letter that was circulated to Town residents by President David Rosow, and that he had been asked to raise the matter at the meeting. Several trustees discussed their thoughts about the matter of the letter. Mr. Snow discussed that the problems facing the Town of Palm Beach are not unique, and are problems across state and local governments around the United States.

Mr. Snow introduced Mr. Hanes, Administrator, as a former President of the National Association of State Retirement Administrators (NASRA), and Mr. Hanes was asked to share information he received at a recent conference he attended sponsored by that organization.

Mr. Hanes discussed that the trends identified with the state and large local systems of the NASRA organization are very relevant to the Town of Palm Beach and other local governments. Mr. Hanes presented information regarding pension funding and provided charts and other handouts that illustrated the difficulty government and public pension plan trustees are experiencing in addressing the sustainability of benefits. Mr. Hanes emphasized that the funding problem is really a problem of increasing liability. He discussed how the smoothing of assets creates a distorted view of funding of benefits, and defers the true cost of benefits. He discussed how the investment losses of the year will be amortized over a 5 year period in unrealized amounts that must be blended as realized with future experiences (gain or losses). He reminded the trustees that gains and losses are measured against an 8% return. Mr. Hanes noted that the Police and Fire plans seemed to have experienced better investment returns than that of the median return for the state plans. Mr. Klausner stated that based on clients he serves, the Palm Beach Police fund performed very well relatively. Mr. Hanes discussed the trend toward changes in retirement benefits. Mr. Klausner and Mr.

Higman discussed that they are observing with their clients a move toward a new tier plan. Mr. Diamond spoke and discussed his interest in reducing the retirement COLA in order to reduce Town costs.

IV. Approval of Minutes: May 14, 2009

Mr. Goldsmith moved that the minutes of May 14, 2009 be approved. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

V. Financial Report

Ms. Alexia Varga provided the second quarter unaudited report ending June 30, 2009. Mr. Snow discussed that Mr. Hanes continues to raise a concern that the plan has less employees and contributing members to the number of retirees who are not contributing, and the impact of a negative cash flow. Ms. Varga and Mr. Hanes concurred that the several auditing processes adopted by the trustees over the past year is running smoothly. The trustees discussed the policy on payment of invoices. Mr. Hanes stated that it is working well.

VI. Quarterly Investment Report

Mr. Sean Higman provided the July, 2009 monthly review. He stated it was a good performance for the month, and since the markets' bottom on March 9, 2009. He discussed that the trustees' patience has paid off. He provided the performance numbers for each asset class and noted a strong performance for most classes.

Mr. Higman discussed two managers on the watch list, Guggenheim and Richmond Capital. He discussed that Richmond Capital is no longer on the watch list. He said he will want to discuss at the next board meeting whether to keep Richmond Capital or index the class. He suggested that the board revisit the issue then. He stated Guggenheim is on the watch list because of liquidity. He stated the gate is up and no redemption requests are being honored. He discussed that the benchmark marks are trailing by 6 to 9 months for the commercial real estate sector, which he stated explains the Guggenheim weak performance. He stated he does not believe the benchmark is accurate because of its reliance on a number of appraisals.

Mr. Snow noted that the international funds are knocking the lights out with good performance as of calendar year to date. He stated the performance proves that you should stay the course. He stated that he had previously discussed at a meeting on June 9, 2009 of the Town Council that we are in this for the long run, and we need to stay with our discipline.

Mr. Wearn asked about the market forecast, and shared his concern regarding major inflation, which would seriously impact fixed income and seriously impact the value of equities. Mr. Higman reminded the trustees that the board has a 10% allocation to real assets as an inflation hedge. He stated that he believed inflation will be driven by commodities, which we should benefit from with the Wellington portfolio. He stated that if inflation becomes a long term issue, we will modify our allocation and increase real assets.

Mr. Wearn wondered if the 10% inflation hedge is sufficient. He stated he did not feel comfortable that it is enough. Mr. Snow shared his concern and suggested that we may want to create a TIPS portfolio. Mr. Higman stated that we are at 33% in Alternatives, and the target is 30%, and we could take away from Archstone Offshore to rebalance to target. Mr. Wearn asked that we see this as an agenda item at the November quarterly meeting.

Mr. Higman discussed new state laws. He discussed that foreign securities has previously been limited to 10% at cost and the new change in the law takes the foreign securities to 25% at market. Mr. Higman discussed a second change in the state law that adopts the Sudan and Iran divestiture program. Mr. Higman recommended that the non-US portion be moved from the current 5% to 15% to get the allocation closer to the world markets representation of the capital markets. He stated that funds will come from the US long only equity, impacting a reduction from 30% to 20% to those funds. The 15% large cap would go to 10%, and the 15% small/mid would go to 10%. Mr. Higman stated that Prime Buchholz could go back to the original weights in proportion to the original allocation to sector. Mr. Snow asked Mr. Higman whether it is a good time to make the change considering the recent good performance with internationals. Mr. Higman stated that if there is a concern they could dollar cost average by investing half now and half later.

Mr. Wearn expressed concern about voting on this matter at this time, before he is able to see the reallocation and rebalance, and said he would like to have more time to consider. Mr. Snow suggested that the Board meet in special session to act on these issues in a short meeting after the joint Police Officer and General Employee Board of

Trustees meet on August 18, 2009. Mr. Wearn discussed that he would like to see an allocation change in order to create a place for TIPS.

Mr. Snow stated he supports an active TIPS manager. Mr. Higman stated he would recommend Vanguard, BlackRock or PIMCO. He indicated that BlackRock and PIMCO present credit risks since they hold inflation securities that are not Treasuries. He stated that Vanguard is on the A list.

Mr. Higman discussed the change in state law regarding divestiture, and made recommendations to comply with the state statute. He recommended that a quarterly report of the Protecting Florida's Investment Act (PFIA) accompany letters that will be sent to the fund's separate account mangers with a request that it identify the scrutinized companies currently held, and to request such companies to divest in an expedient and prudent timeframe, but no later than 9/10/2010. A second set of letters would be sent to the plan's co-mingled managers along with the most recent quarterly PFIA report requesting that they consider removing such companies from the fund or create a similar actively managed fund having indirect holdings devoid of such companies. Finally, Mr. Higman recommended that the Investment Policy Statement (IPS) be modified to reflect the requirement of the statute and that it be re-circulated to all managers requesting acknowledgement.

Mr. Wearn moved to accept the recommendation from Prime Buchholz that the Investment Policy Statement (IPS) be modified to reflect the requirement of the statute and that it be re-circulated to all managers requesting acknowledgement, and asked that they implement promptly. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

Mr. Snow asked Mr. Hanes to write a letter to Town Council indicating the action taken by the Board of Trustees on this topic.

Mr. Higman suggested that drafting of the letters should be done by Counsel to the Board of Trustees. Mr. Klausner agreed to do so.

Mr. Higman discussed that Wellington came up with a different product called Strategic Real Assets (SRA), a funds of funds. He discussed some differences with Wellington's Diversified Investment Hedge (DIH). Mr. Snow asked if Mr. Higman had lost confidence in management or the people at DIH. Mr. Snow stated he likes the active management over the passive management. Mr. Higman stated Prime Buchholz has not lost confidence in DIH. He stated he is not leaving DIH, but that if the board wants exposure, SRA may be the preferred product. The trustees agreed that there is a preference for active management.

Mr. Higman stated that he is going to bring matters of due diligence to the next meeting. Mr. Wearn requested that Mr. Higman place on the agenda a discussion regarding the selection and monitoring of managers. Mr. Wearn asked Mr. Klausner if the Police board trustees are following through with Mr. Klausner's recommendation made at his past conference on the issue of trustee as fiduciary. Mr. Klausner stated that the trustees are acting correctly in addressing its fiduciary responsibilities in regard to reviewing the appropriate processes.

VII. Town contract with Cavanaugh & McDonald

Mr. Hanes discussed that the Town had contracted with the firm of Cavanaugh & McDonald to provide a review of the Town retirement plans, and are charged with completing a survey and making recommendations to the Town Council. He discussed the RFP process, and his participation with a committee that selected the firm. He stated that he is familiar with the work of the firm. He discussed that there is a joint meeting of the Police and General boards scheduled for August 18, 2009 with the intent that the trustees meet with Mr. Jose Fernandez, principal at Cavanaugh & McDonald. Mr. Hanes discussed the scope of the contract between the consultant and the Town.

Mr. Diamond asked if it was clear that the consultant will be working to save the Town money. Mr. Hanes stated that the reduction of town costs is included in the contract with the consultant. Mr. Hanes stated that a big part of the work of the consultant will be to educate everyone on the liability. He discussed that he believed the consultant would provide a range of ways to go, and a range of consequences with analysis. He stated he did not believe there will be a specific recommendation by the consultant. He stated that he believed that a survey would be done, but that the consultant would not recommend a particular change in benefits based on any survey result from other jurisdictions.

Mr. Wearn commented that the former Chief for the Town of Palm Beach, Mr. Michael Reiter, came from Pennsylvania and did research about the Town of Palm Beach before making application. He pointed out that there are people that come from far away to work for the Town of Palm Beach and so there should be consideration of where the

Town of Palm Beach receives its applicants for public employment in conducting the survey.

Mr. Lynch asked what role trustees will have in the project. Mr. Hanes responded that he understood that there will be two meetings for which the consultant will appear before the boards, and ultimately with the Town Council. Mr. Wearn asked that trustees be informed in advance of any meetings the trustees will schedule with the consultant.

VIII. Attorney Report

Mr. Klausner discussed a matter of the SEC scrutiny of public pensions, and how in one case the SEC argued that an actuarial report misled the bond markets. He stated that there will be increased federal review of public plans. He discussed that he is aware that the IRS has been involved with audits of employers of the public plans, and are looking at the benefits. He discussed that he anticipates increases in federal activities. Mr. Hanes mentioned that the SEC has also been reviewing the role of private placement agents. Mr. Klausner discussed, but concluded that third party placement agents, as marketing agents, are not involved with our investment consultants and it should not be an issue for the plan.

Mr. Wearn asked about the ordinance that was to be presented to the Town regarding staggering terms and quarterly meetings. Mr. Klausner stated that he would check with the Town Clerk.

Mr. Wearn asked about the inter-local agreements, and wanted to know the status. Mr. Klausner stated that he would check with the Town and get back to Mr. Hanes.

IX. Administrators Report

Mr. Hanes stated that Mr. Armstrong has no contract with the Board of Trustees and has asked for an increase of $15 per quarter, from $3,360 to $3,375.

Mr. Wearn moved that the trustees authorized the quarterly payment of $3,375 as requested by Mr. Armstrong beginning after September 30, 2009. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

X. Records Conversion

Mr. Hanes discussed matters of progress in the conversion of hard copy files to electronic imaging.

XI. Disbursements

Mr. Wearn moved for the approval of disbursements as reported. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

XII. Other Business

Mr. Snow discussed a report by Wilshire regarding performance of various international investors, and noted that the relative performance of the Police fund is very good.

XIII. *Adjournment*

Mr. Goldsmith moved for the adjournment of the meeting. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

Attested by: ______________________

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Chris Proscia, Secretary