Town of Palm Beach Firefighters' Retirement System

MINUTES OF MEETING HELD
May 11th, 2006

I. CALL TO ORDER

Chairman Richard Krock called a meeting of the Firefighters' Retirement System to order on behalf of the Board of Trustees at 9:05 AM on May 11th, 2006, in the Town Council Chambers. Those persons present included:

TRUSTEES	OTHERS
Richard Krock, Town Appointed Trustee	Bonni Jensen, Attorney
Peter Geisler, Town Appointed Trustee	Scott Baur, Administrator
Robert Jaffe, Board Elected Trustee	Jennifer Vaughn, Administrator
Mike Hays, Elected Trustee	Jon Prime, Prime Buchholz
	Sean Higman, Prime Buchholz
	Brad Armstrong, Gabriel Roeder Smith
	Mark Veil, Caler Donten Levine
	Peter Elwell, City Manager

II. APPROVAL OF AGENDA

The Trustees deferred approval of agenda.

III. COMMENTS BY PETER ELWELL

Mr. Elwell stated the Town would like to maintain open communication with the two public safety pension boards. Mr. Elwell reported Town Council had approved the second reading of the multiplier increase to 3.5%. The Town had a meeting regarding the role of the Boards, their operation and manner in which the Town appoints Trustees. The Town had created a reserve against future healthcare costs and it was suggested this fund be consolidated with the assets of both pension boards for investment purposes. The Town would like to do this with the cooperation of both the Boards to possibly go further in the direction already taken by the Boards with representation on a new Board to oversee investments, reduce fees and create further opportunities for investment. The plans and the Boards would remain separate for the administration of the benefits.

Mr. Krock supported the idea for economies of scale for leverage with investment types and managers. The accounting would have to be made clear and transparent. Mr. Krock also added the Board would be able to focus more on benefits and not the investments.

Mr. Jaffe asked if the Boards could make the decision or if the members would have to vote. The investment portion may not require approval of the members. Mr. Jaffe commented on a similar approach taken in other places.

Peter Elwell will also propose a new benefit to allow the Firefighter members to convert sick and vacation time banks to income, without income becoming pensionable since these amounts paid now at separation are not pensionable. The Board does not need to take any action however if the Board has a position, Mr. Elwell will convey such to the Commission. Mr. Elwell explained the Town has a pre-tax Health Savings Account *(HSA)*. Members can already convert leave time to the HSA as a non-taxable event. Mr. Krock asked if a motion to endorse the concept would help.

Finally, Mr. Elwell addressed further benefit improvements including the 2% after 25 years and reduction to vesting. The funding does not support further changes unless to remain competitive from an employment stand point. The

Town increased the multiplier only to remain competitive, with no further changes contemplated. The Board agreed there would be no further changes .

Peter Geisler noted the funding ratio continued to decrease. Mr. Elwell made it clear he would not be recommending any more changes to Council. Mr. Krock asked what the point of proceeding would be if it was known it would be rejected.

Mr. Geisler observed that over-time can inflate pension benefit in a 2 year final average salary, allowing members to abuse the system. Peter Elwell responded the Town had considered not trying to add limits during the recent process. The Town used over-time to limit the increase to staffing, since over-time has a lower cost than the overall personnel cost. Finally, the Town manages over-time abuse. Mike Hays added the recent hurricanes caused a temporary spike in pay. FEMA covered the direct cost of the over-time.

IV. ASSET ALLOCATION (PRIME BUCCHOLZ)

Jon Prime suggested reviewing the investment policy resulting from the discussion last year and finalized in April. The legislature failed to provide relief on asset allocation in the recent session. Prime Buchholz created about 21 unconstrained models, and then imposed the regulatory constraints.

Peter Elwell needed to leave but stated the Town strongly agrees with the recent direction taken by this Board with the assets.

Mr. Higman explained to Mr. Krock that the 10% limit on international investments is absolute. The state allows no flexibility whatsoever. Mr. Krock asked about the current allocation. Jon Prime reviewed the allocation of assets on March 31st. The allocation shifted on May 1st with the investment of the funds and the rebalancing. Alternative strategies were noted to include some international component. Mr. Higman explained the investment report will identify the cost for compliance within the investment policy. Mr. Prime explained the cost on investment basis versus the cost on an accounting basis since the portfolio has turnover. The changes to the investment policy implemented the changes authorized by the Board in April. The policy also included a list of all proxy voting annually for the last 12 months by each manager as well as a statement of annual compliance with the investment policy.

Mr. Higman recommended the Board adopt the changes. Prime Buchholz will recommend further adjustments as changes to the Florida statute permit.

Mr. Jaffe motioned to accept the revised Investment Policy Statement. Mr. Geisler seconded the motion, approved by the Trustees 4 – 0.

Prime Buchholz requested to add discussion regarding Pine Grove to the next agenda in August. The issue is not investment related however Pine Grove will not agree to comply with the investment policy. This does not bother Prime Buchholz.

Archstone would diversify alternative strategies, not replace Pine Grove. Archstone has both a long-short and neutral strategy. Prime Buchholz recommends a 5% allocation to Archstone Partners Offshore. Ms. Jensen stated the agreement is governed by Cayman law. Mr. Prime stated the firm is SEC registered although the product is not. Mr. Prime noted that as a fund of funds, Archstone does not manage the assets. The offshore avoids tax issues which are common for tax-exempt funds.

Mr. Geisler motioned to fund Archstone according to the Prime Buchholz recommendation. Mr. Hays seconded the motion, approved by the Trustees 3 – 0.

Mr. Jaffe stated he must abstain from the motion.

Mr. Prime discussed the pooling of assets with Denis Coleman and Peter Elwell. Pooling assets opens up additional options for investment. Mr. Prime suggested that pools get established for investment so that individual plans can comply with their respective limitations. The larger assets may reduce investment expenses.

V. QUARTERLY INVESTMENT REPORT

Jon Prime discussed the market environment. International equities still showed strong performance as well as small and mid-caps. Large-cap value out performed growth, while small growth outperformed small value. Currency continues to weaken. Alternative strategies also performed well recently. Bonds continue to suffer as the FED raises interest rates. Inflation seems to be increasing though the FED states it has not yet emerged as a problem.

For the quarter the fund returned 4.8% versus 4.4% for the benchmark, 1 year, 12% versus 12.4% for the benchmark. Active managers will not perform as strongly against the benchmark in a strictly bull market.

Cooke & Bieler had a fantastic quarter. All managers performed strong. Prime Buchholz then reviewed performance individually by equities and alternative strategies. Meridian has a more conservative approach, returning lower than the benchmark but also at lower volatility. Prime Buchholz will spend more time to review Meridian at the August meeting. Fixed income boosted by convertible allocation.

Mr. Jaffe motioned to approve the investment report. The motion was seconded by Mr. Geisler, approved by the Trustees 4 – 0.

Mr. Geisler motioned to approve the agenda. The motion was seconded by Mr. Hays, approved by the Trustees 4 – 0.

VI. APPROVAL OF MINUTES

The Trustees deferred approval of the minutes until the next meeting.

VII. ATTORNEY REPORT

Ms. Jensen stated the 3.5% multiplier passed this week. The buyback and share account allocation & investments are scheduled with Peter Elwell for review. Ms. Jensen reviewed the agreements with Guggenheim and Western Asset. Guggenheim has quarterly liquidity after a 6 quarter initial lockup. Both firms have a limited history, possible layering of fees.

Western Asset has liquidity with 5 days notice. Ms. Jensen wanted to clarify the date of distribution as the Board wants to have the money allocated on the date received rather than wait for valuation.

VIII. ANNUAL REPORTS

A. AUDITED FINANCIAL STATEMENT (MARK VEIL, CALER DONTEN LEVINE)

Statement of plan assets is $47,795,572, net assets of $47,333,535. $2,156,741 in contributions, $2,841,056 in deductions for a net increase of $3,942,225.

Mr. Jaffe motioned to approve the annual audit. The motion was seconded by Mr. Geisler, approved by the Trustees 4 – 0.

B. ACTUARIAL VALUATION (BRAD ARMSTRONG, GABRIEL ROEDER SMITH)

The report was completed prior to the 3.5% multiplier increase, so Mr. Armstrong will review the contribution requirements for benefit increases separately. The plan finally completed recognition of investment experience, so now gains will begin increasing contributions plus improvement of investment performance going forward will continue to improve. Increases to pension payroll contributed most significantly to performance for the prior year. The funding requirement by the Town increased to 37.48% of payroll or $2,159,067 compared to $1,445,687.

The retirement reserve fund is $32,816,959. Next fiscal year, $2.4 million including additional for benefit increase. In response to the hurricanes, the Town created new positions and increased pay to remain competitive.

Mr. Armstrong discussed competitiveness. The 6 year vesting schedule has a marginal increase in cost, so not likely to get considered by the Town for now. The change could increase the turnover of employees. The department has had low turnover up until this point.

The 2% multiplier after 25 years – benefits can be increased to individuals without increasing the cost to the retirement system. The 2% multiplier would likely be cost neutral, so the Town and the Department would weigh personnel policies and other considerations in the matter. The Town may have other payroll costs.

Finally, Mr. Armstrong discussed medical inflation.

Mr. Hays motioned to approve the actuarial valuation. The motion was seconded by Mr. Jaffe, approved by the Trustees 4 – 0.

IX. REPORTING OF PLAN FINANCIALS

Mr. Hays motioned to approve the disbursements. The motion was seconded by Mr. Geisler, approved by the Trustees 4 – 0.

X. OTHER BUSINESS

The June 13th, 2006 meeting of Town Council is very important for the Trustees to attend along with Prime Buchholz.

XI. ADJOURNMENT

There being no further business, a motion was made, seconded, and passed 4-0 to adjourn the meeting at 12:02 PM.

Approved: ________________________________