Town of Palm Beach Firefighters' Retirement System

MINUTES OF MEETING HELD
April 6th, 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 9:00 AM on April 6, 2006, in the Fire Station Emergency Operations Conference Center. 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

II. APPROVAL OF AGENDA

The Trustees accepted the Agenda without modification. Minutes will get reviewed at the May meeting.

III. PRIME BUCHHOLZ: ASSET ALLOCATION STUDY

Mr. Prime reminded the Board the investments are long-term and 90% of the performance is determined by asset allocation. Mr. Higman commented there should be a balance between the Town as the plan sponsor, the cost of benefits and the Board as a fiduciary with responsibility to participants and beneficiaries. Funding progress is a function of investment return and risk (volatility), as well as interest rates. Low interest rates drive up present value of liability.

Mr. Higman reviewed the historical asset allocation changes by the plan. Mr. Prime added that target equities remained essentially unchanged (reduced only 5% in 2005) while allocation to fixed income reduced considerably in favor of alternative investments, convertibles, alternative strategies, and real assets. Mr. Prime addressed limitations and constraints imposed by statute and ordinance on asset allocation.

The Board discussed periodic rebalancing of portfolio to maintain asset allocation. Mr. Higman added that diversification becomes critical in an expected low return environment. The number of available asset classes has increased considerably in recent years. Mr. Higman then reviewed the limitations by statute on asset allocation as well as changes proposed in current legislation.

Mr. Prime explained the objectives are considered in an asset allocation model in the context of the limitations of statute. Mr. Prime reminded the Board the goal is to maximize performance by increasing returns and reducing risk. Mr. Prime then reviewed performance of asset classes against the efficient frontier. Prime Buchholz looked at models generated by simulation to minimize risk of volatility with current return, then to maximize return with some standard deviation as the current allocation adopted by the Board. Unconstrained models allocate assets to real assets and alternative strategies.

In an unconstrained Palm Beach portfolio, Prime Buchholz generated an allocation that reduces volatility with a slight increase to the expected return. Then Prime Buchholz looked at a transitional allocation pending clarification by current legislation. Mr. Jaffe noted that models only marginally improve performance, but Mr. Higman explained that the model pushed the allocation to its limits permitted by statute.

Mr. Prime explained the models show no impact by contributions from the managers. As the plan moves increasingly out of the mainstream asset classes, then managers tend to add more value. Mr. Krock questioned why Prime Buchholz would not propose an allocation that more closely matches optimal models. He stated that it is better to succeed conventionally than fail unconventionally.

Mr. Prime explained that the problem is that the Board is subject to question and criticism by becoming too unconventional based on short-term results. Even the "unconstrained model" pushes the conventional envelope with a 35% allocation to alternative strategies and real assets. To respond to Mr. Jaffe, Prime Buchholz proposed no allocation to private equity due to too much money chasing too few opportunities, as well as the lack of liquidity.

Mr. Krock noted that alternative strategies have good liquidity and the objectives are to pay benefits then preserve capital. Mr. Krock asked why should not the allocation to alternative strategies be increased since these strategies reduce volatility. Mr. Prime and Mr. Higman both responded that the plan exists in the public pension environment and is defined in relation to what others do in like situations. Mr. Higman added that the current move to international investments is reacting to the market, while Prime Buchholz recommendations are proactive.

Mr. Higman summarized the recommendations to restructure the allocation to large cap equity and fund real assets with Guggenheim Commodity fund at $1 million. The US Commodity Plus fund has monthly liquidity.

The next step is to complete the allocation to hedge by funding $2.5 million to Archstone Partners and possibly increase allocation to international equities and hedge depending on outcome of current legislation.

Finally, the Board should revisit the Pine Grove issue. Pine Grove, however, only has liquidity at the end of the year with 95 days notice.

The Board discussed the prior position of the Town to the alternative strategies. Ms. Jensen will review the position of the Town, although the Board controls the asset allocation. Mike Hayes asked about possible funding vehicles to implement the proposed allocation. The Board discussed the possible impact of improved performance to funding. Ultimately, gains would reduce the contributions by the Town.

Mr. Jaffe made a motion to accept and implement Phase 1 of Prime Buchholz's recommendation. The motions was seconded by Mr. Giesler and passed by the Trustees 4 – 0.

Ms. Jensen suggested the Board should follow through on their decision on the manager of managers.

Mr. Giesler made a motion to maintain the course with Prime Buchholz. The motion was seconded by Mr. Jaffe, passed by the Trustees 4 – 0.

Mr. Higman added that Prime Buchholz would provide a rebalancing schedule to fund Guggenheim and Western Asset. Mr. Krock asked if Prime Buchholz could show a hypothetical index to mirror the ideal model.

IV. ADJOURNMENT

There being no further business, a motion was made, seconded, and passed 4-0 to adjourn the meeting at 10:40 AM.

Approved: ________________________________