Town of Palm Beach Firefighters' Retirement System

MINUTES OF MEETING HELD
March 16, 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 9:06 AM on March 16, 2006, in the Town Council Chambers. Those persons present included:

<u>TRUSTEES</u>	<u>OTHERS</u>
Richard Krock, Town Appointed Trustee	Bonni Jensen, Attorney
Peter Geisler, Town Appointed Trustee	Scott Baur, Administrator
Robert Jaffe, Board Elected Trustee	Jennifer Vaughn, Administrator
	Jon Prime, Prime Buchholz
	Sean Higman, Prime Buchholz

John Cuomo, Elected Trustee entered the room at 10:53 AM.

II. APPROVAL OF AGENDA

The Trustees accepted the Agenda without modification.

Mr. Jaffe made a motion to accept the agenda. Mr. Geisler seconded the motion, approved by the Trustees 3-0.

III. PRIME BUCHHOLZ: JON PRIME AND SEAN HIGMAN

Mr. Krock asked Jon Prime and Sean Higman to discuss performance and the manager of managers approach.

Jon Prime does not believe the plan had bad results and based on the investment policy, the Plan has met policy objectives: (1) Expectation that net return will be preserved compared to inflation; (2) 8% nominal return to meet actuarial assumption; and (3) Managers get evaluated over rolling 5 year periods, so managers are evaluated over market cycles. Performance concerns really focus on 2 managers. Prime Buchholz wants good long-term performance with a consistent process.

Mr. Prime reminded the Board that many managers in the late 90's under performed when technology did well, similar to the current situation with energy. Energy has 30% annualized returns for 3 years with 10% weighting in the S&P, so energy is responsible for 3% of overall index return.

The two problem managers are Torray and Cooke & Bieler, but the 5-year performance for both managers is still above average and above the index.

The Policy has 3 quarters for the managers to under perform to put the manager on a "watch list", and only 2 more before the manager is terminated, but not always. Managers rarely get terminated for performance as opposed to other issues or changes with firms.

Finally, the issue of getting manager agreements finalized has never been such a problem for Prime Buchholz. The Plan should be making the best decision on behalf of the beneficiaries.

Asset allocation, not manager selection, ultimately drives performance (likely 90%) as opposed to contributions by individual managers. The target allocation for equities is 55%, 10% alternative, and 35% fixed income. Using this allocation, the has met it's objectives. Asset allocation added 200 basis points to performance during the time Prime Buchholz was hired.

Prime Buchholz wants to plan to do well, so the advice is designed to help plan to meet goals. The Board must have confidence in its advisors or else the Trustees should replace Prime Buchholz. 3 years is too short of a period to fully evaluate performance. While Trustees want the Plan to do well in the short-term, the overriding focus should be on the long-term.

Jon Prime does not know of any public fund using a fund of funds approach. He posed the question that if this approach is so strong, how come more funds are not using this approach? Many clients represented by Northern Trust do not trust all their assets to this approach. Mr. Prime cited Eastman Kodak which only allocates a small portion of their overall assets this way.

Mr. Prime stated the Trustees must have comfort with the asset allocation though the Plan is limited to 10% in International. Prime Buchholz even had to make a special presentation to Town Council to include alternative strategies. Mr. Krock noted that domestic managers are beating the benchmark and have done so by increasing allocation of assets to international.

Mr. Krock asked if 90% of performance is based on asset allocation, then Prime Buchholz is 90% responsible for performance.

Mr. Prime responded that overall performance under the benchmark is due to manager selection. Mr. Krock then asked why they would hang on to a manager like Torray, regardless of historical performance, while the plan performance continued to suffer? Mr. Jaffe noted 5 quarters is a long time before a manager gets removed and that they should not wait to remove a manager. Mr. Krock stated that perhaps the policy needed to be changed.

Mr. Prime stated that the Board needed to keep the long-term in perspective, as opposed to short-term, that the Board should not make any long-term decisions based on short-term data.

Mr. Krock replied that this was all obvious – that Jon Prime was the one that brought the gentleman from Torray who didn't look like he cared. Mr. Jaffe stated that Mr. Prime had defended him.

Mr. Prime stated that it is in the policy to bring a manager in after under performance, that Prime Buchholz does not recommend terminating Torray.

Mr. Jaffe then asked Mr. Prime to explain his retirement and how that would affect Prime Buchholz. Mr. Prime replied that he would cut back on travel. He is turning 65 this year but will still be involved in the firm for the foreseeable future. Bill McCaren will exceed Mr. Prime though he has been president for the last 5 years. Mr. Prime stated that he won't be coming to the meetings but if the need exists, he will be there.

Two principals are assigned to each account. Mr. Krock stated there was no question in his ability, but the Board is concerned they won't see Mr. Prime. Mr. Prime noted that Mr. Higman will be attending the meetings and asked the Board to respect his ability.

Mr. Krock asked if Bill McCaren would be available. He then asked why would Prime Buchholz have this allocation to bonds if it has been eating away at our 8%? He asked Mr. Prime what he would recommend.

Mr. Prime stated that they would like to have more alternatives for better diversification. He stated they should get real assets in the Plan.

Mr. Krock stated that if the Board advocated a great change, the Town would approve. He then asked Mr. Prime to share his ideas. Mr. Prime replied the last time they had presented to the previous Board it was really hard to get them comfortable. Mr. Krock asked if Prime Buchholz was not providing their best advise because they think the Board would not approve. Mr. Krock stated for the last 10 years Prime Buchholz has been saying asset allocation equals 90% of the performance, then why wouldn't they make a recommendation? Mr. Prime replied that the transition was difficult and Mr. Krock stated he 100% agreed.

Mr. Prime stated that now is the time to present to the Board a better allocation. Mr. Higman added that a fund of funds approach ends up performing like an index.

Mr. Jaffe stated that if Prime Buchholz brings the managers to the Board, that they should also direct the Board what to do. He stated there is no leadership and he requested Bill McCarren to be on this team.

Mr. Prime stated he would just plan to come to the meetings himself and asked to defer the decision until after they get the asset allocation out of the way. Mr. Jaffe stated he had an additional problem that the asset allocation would take another 2 months and a special meeting should be held before the next 2 months so that when the quarter meeting is here they are ready to run with it.

Mr. Jaffe asked Ms. Jensen to email the Board what the state allows and what is pending. Mr. Krock asked why they are having these problems and no one else is. He stated it doesn't make sense to have a manager present if the Board cannot work with them.

Ms. Jensen stated that she would provide Prime Buchholz with a contract. Mr. Jaffe asked what would happen if the manager didn't accept fiduciary liability, what would happen? Mr. Prime stated that Archstone is one of the best but they won't accept fiduciary responsibility.

Mr. Krock asked Ms. Jensen why fiduciary responsibility is necessary to which she replied if the manager does not accept, then the Board must sign off on a ton of documents. She stated that it is her job to protect the Board, that she asks for fiduciary responsibility but it is ultimately the Board's decision.

Mr. Prime stated there are two issues, (1) a mistake is made, then Ms. Jensen takes action; and (2) fraud. Ms. Jensen stated it was easier to recover damages if manager accepts her contract. Mr. Krock stated that is why the Board hired Prime Buchholz and he requested the requirement for fiduciary responsibility to be waived.

Mr. Jaffe stated that if their consultant brought someone then they should do business. Mr. Jaffe then asked Ms. Jensen to provide a 5-line punch list of what she requires.

Mr. Cuomo asked what would happen to the firefighters if something were to happen, what would be the recourse? Ms. Jensen replied that in a lawsuit, the Board's advisor wound be co-equally responsible with the Board. Mr. Jaffe responded that Prime Buchholz's track record speaks for itself.

Mr. Cuomo stated that he is worried when in 5 – 10 years this Board won't be here and the future Board could be a detriment.

Ms. Jensen said that the Board always has the option to waive the requirement for fiduciary responsibility, that she does not have a say in the Board's business practices. Ms. Jensen added that the Board has given her direction, that each manager should be handled on a case by case basis. Mr. Prime added that Prime Buchholz will address the issue for every manager beforehand.

Mr. Cuomo apologized for coming late and asked Mr. Prime to recap. Mr. Prime stated that Prime Buchholz was there to look at alternative ways to structure the Fund. The Investment Policy Statement has two criteria: (1) preserve purchasing power against inflation, and (2) achieve an 8% nominal return. Mr. Prime stated the Fund has met its objectives and the policy states to evaluate managers on a moving 5-year period. Prime Buchholz helped create this process because they wanted to avoid making decisions on a short-term basis.

Mr. Krock requested Prime Buchholz to send materials to the Trustees as soon as possible.

IV. REQUEST FOR PROPOSAL: MANAGER OF MANAGERS

Mr. Geisler suggested the Board should wait on this issue until they hear back from Prime Buchholz on the asset allocation. Ms. Jensen notified the Board the ad for the proposal has already gone out.

V. SHARE & DROP ACCOUNT INVESTMENT OPTIONS

Mr. Baur stated the Board had asked to review alternative providers than ICMA. Mr. Cuomo added that many firefighters are unhappy with ICMA. Only 4 – 5 funds are offered and the members want diversification. Mr. Cuomo then stated that the firefighters do not want ICMA anymore.

Mr. Baur responded that Nationwide and ING both responded to the proposal. Merrill Lynch declined. ING handles the West Palm Beach fund and has local representatives. Mr. Jaffe asked to defer this issue until the May 10th meeting.

VI. ATTORNEY REPORT

A. REVISIONS TO INVESTMENT POLICY

Ms. Hieronymus of Prime Buchholz will be speaking on this issue at the next meeting.

B. PERMISSIBLE INVESTMENTS (BONNI JENSEN MEMO)

Mr. Krock requested to defer this item until the next meeting.

C. POLICIES FOR TRUSTEE TRAVEL & EDUCATION

Mr. Cuomo had asked the Board to sponsor his Certified Financial Planner (CFP) education, costing approximately $4,000 - $5,000 over 2 years. Mr. Geisler stated the Town should have their own policy on this subject and Mr. Jaffe added that the firefighters should make this decision. Ms. Jensen added that there is no policy for these types of educational programs. Mr. Cuomo stated he is not comfortable making investment related decisions without being properly educated. Mr. Jaffe asked Mr. Cuomo to make a motion.

Mr. Cuomo motioned to have the Board pay $4,000 - $5,000 toward his Certified Financial Planner college courses over the next 2 years. Mr. Cuomo did not get a second to the motion.

D. COORDINATION OF BENEFIT PROVISIONS

Ms. Jensen explained the provisions address members with transfer of service. The Ordinance addresses some of these necessary changes as well:

1. Buyback of firefighter time only – definition of credited service, 175 money only to the firefighters;
2. Annual allocations to share accounts set forth policy that money gets allocated on receipt – State provision for self-directed must be vested for 175 monies;
3. Duty disability benefits – eliminates recalculation at normal retirement;
4. Transfer of service between Plans – member is entitled to a benefit from the Plan for which service is rendered.

Mr. Cuomo asked if the Firefighter Board was owed money from the General Plan for benefits already paid from the Fire Plan.

Mr. Jaffe motioned to have Ms. Jensen's recommendations forwarded to Town Council for review. Mr. Geisler seconded the motion, passed by the Trustees 4 – 0.

E. ORDINANCE PROPOSAL (GENERAL EMPLOYEES) PERMISSIBLE INVESTMENTS

Ms. Jensen stated the General Employees had withdrawn the proposal.

F. PROPOSED ORDINANCE (IRS COMPLIANCE SUBMITTED BY J. MCCRACKEN)

Ms. Jensen notified the Board the Town had proposed an Ordinance change for IRS compliance.

G. BOARD RULES AND PROCEDURES

Ms. Jensen reported there is no statement for trustee expenses. Mr. Krock asked to move this item to the next meeting's agenda.

VII. ADMINISTRATOR REPORT

A. STATE STREET FEE ADDENDUM

Mr. Baur reported State Street's fees structure is the same as the current one.

Mr. Geisler moved to accept the State Street addendum to the agreement, seconded by Mr. Jaffe. The Trustees passed the motion 4 – 0.

Mr. Krock and Mr. Jaffe then executed the agreement.

Mr. Geisler added he would like to have the benefit increase analysis included in this year's valuation. He will speak with Jane Struder before the next meeting.

Mr. Cuomo stated the firefighters now do not get the accrual of 2% after 25 years, they had never asked to remove the 2% accrual after 25 years. Mr. Cuomo reminded the Board this provision was changed when the Police and Fire Plans had separated and the firefighters want it back. Ms. Jensen responded that a motion would be needed to do a cost study for the change.

Mr. Cuomo asked Ms. Jensen if it were a pro or con to have a maximum benefit. Ms. Jensen responded the most common maximum is 100%.

Mr. Cuomo motioned to obtain a cost estimate from the actuary, seconded by Mr. Jaffe. The Trustees passed the motion 4 – 0.

Mr. Cuomo stated that the Police Fund is 90% funded while the Firefighter Fund is only 85% funded. He asked how the two plans could have a difference in the funding. Mr. Cuomo suggested having the actuary or an independent auditor review this matter.

Mr. Cuomo asked the Board if they wanted to shorten the vesting requirement due to the fact that the department is very young and the Town is considering extending service. Mr. Krock asked if this would increase turnover to which Mr. Cuomo replied he only knows of one member who has left vested deferred. Ms. Jensen added the Florida Retirement System has a 6-year vesting period. Mr. Jaffe asked to find out from the Chief if this would indeed attract personnel. The Board agreed to have the Chief at the next meeting to discuss the matter.

Mr. Jaffe commented that the Board likes Mr. Higman and Mr. Prime and that they are pleased with their report today.

VIII. ADJOURNMENT

There being no further business, a motion was made, seconded, and passed 4-0 to adjourn the meeting at 11:40 AM.

Approved: ________________________________