MEETING OF THE TOWN OF
PALM BEACH FIREFIGHTERS' RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting of February 11, 2009
c/o WILLIAM P. HANES CONSULTING, INC.
P.O. BOX 2112
PALM BEACH, FL. 33480

I. Call to Order

Chairman Rathborne called the meeting to order at 9:10 A.M. at the Emergency Operations Center (EOC) in the Town of Palm Beach.

In Attendance:

TRUSTEES:
Carol Rathborne, Chairman
Mike Hays, Chairman Pro Tem
Jayson French, Secretary
Wilbur Ross (tel.)
Sergio de Araujo

ALSO PRESENT:
Bonni Jensen, Attorney
William Hanes, Pension Administrator
Sean Higman, Investment Consultant
John Prime, Investment Consultant

Ms. Rathborne made the motion that Mr. Ross be allowed to participate at the meeting by telephone under circumstances that Mr. Ross had not anticipated. Mr. Hays seconded and all trustees approved.

X. Investment Report

The Trustees decided, without motion, to move to item X while waiting for a trustee to attend the meeting.

Karen Calby and Joseph Mahony with Guggenheim presented to the trustees.

Ms. Rathborne asked about the likelihood of the door closing, and Mr. Mahony stated he believed it to be probably very low, and explained. Ms. Rathborne asked how diversification is served when 30 of the 72 properties under management held privately are in California, and Mr. Mahony responded California is where commercial markets are located, that the company owns many components of realty, and agreed to hold that high a percentage in stand-alone direct investments would be too high. Ms. Rathborne asked at what price could the properties be sold, and Mr. Mahony responded the value of the asset is not the value that a distressed seller would sell it for, and distressed sellers have sold at something greater than 20% - 25% discount.

Mr. Ross asked about the composition in the REIT portfolio, and Ms. Calby stated four of the managers have focused more on the capital structure of the REITs and were 2.5% above the benchmark over the 4th quarter, and have over-performed the benchmark for the last year.

Mr. Ross asked about the strategy for putting up the gate, how long, and are you taking in new capital? Ms. Calby answered they decided not to make redemptions in the 4th quarter, and that the timing for that was a result of trying to fund redemptions as long as they thought they could in a way not disadvantageous to the investors, and the requests for redemptions has been modest through the 4th quarter.

Mr. Ross stated that "if you think that your values are not accurate in terms of market, how can you decide not to let people out when you are letting people in." Ms. Calby answered they are not getting them in, and the market is accurate based to market conditions and the valuations must be accurate for the company because it is a trading price, and the value in a distressed sale is different.

Ms. Rathborne asked how much redemptions were made through September 30, 2008 for the year, and Ms. Calby stated approximately $150 to $160 million representing the entire strategy of $3 billion from the beginning of 2008, including foundations, endowments and pension plans, and she didn't believe that the trust investors had any because it has been more stable than the other strategies.

Ms. Rathborne asked why Guggenheim put up the gate, and when the decision was made, and Ms. Calby answered they finalized the decision the last day of the quarter based on what had happening with REITs, the lack of liquidity on the private side, and lack of transactions. She stated Guggenheim gave a heads up to all of the investors that had put in the redemption request.

Ms. Rathborne asked about the queue. Ms. Calby answered there is 60 million from the 4th quarter that rolls to the 1st quarter, and there has been a number of redemption and rebalancing request in the 1st quarter, or 15% of all strategies, but that their structure should help with the liquidity crisis.

Mr. Prime asked when they might anticipate the return to a 90 day notice quarterly liquidity, and Ms. Calby answered they will need to see the financial markets come back to some level of normalcy, probably 12 to 18 months. Mr. Mahony stated that over the longer term, they believe that REITs will outperform the private funds.

Ms. Calby discussed that there is no queue, but that requests are satisfied based on a pro rata formula from an investor's investment in the fund.

Ms. Rathborne inquired whether they notify investors when a gate goes up, and Ms. Calby answered yes and that they were notified by the fourth quarterly statement, and notified investors from 4th quarter redemption requests in the first week of December. Ms. Rathborne stated that no one on the Board received it, and Mr. Prime told Ms. Rathborne they will research with Guggenheim and inform the Board who on the Board would have received the notice.

Ms. Jensen asked whether the Tremont Realty Guggenheim had listed is a Madoff investment, and Ms. Calby responded it is not.

II Election of the 5th Trustee

Mr. Hays assumed the position of chair. Ms. Rathborne was nominated for a second term for the 5th position as trustee. Mr. Ross seconded the nomination. Mr. Hays and Mr. French stated their opposition to the nomination. There was lengthy discussion by the trustees. No vote was taken on the nomination. Ms. Jensen stated that until there is an election of an officer by the Board, the current trustee remains on the Board. She stated that the Board could advertise for candidates if the Board desired to do so. Without objection or motion, the trustees agreed there be an advertisement and there be an opportunity for the trustees to interview the candidates prior to holding an election by the trustees.

IV. Future meetings of the Board of Trustees

Ms. Rathborne stated that the Board needs to schedule additional meetings to satisfy the law requiring 6 meetings (bi-monthly) per year. The trustees agreed to additional meetings for March 25, 2009 and April 14, 2009.

Mr. Hanes discussed a problem with the way financial information becomes available before quarterly Board meetings, and that the Investment Consultant must wait on the per manager valuation numbers from the custodian; the accounting firm waits on similar information from the consultant; and, it doesn't provide enough time to send out material to board members in a timely manner. He recommended that future quarterly meetings be scheduled for the third Wednesday of the month The trustees agreed without motion. The next quarterly meeting was agreed to be scheduled for Friday, May 22, 2009.

V. Approval of Agenda

Mr. Hays made the motion to approve the agenda. Mr. French seconded the motion. All trustees unanimously approved the agenda.

VI. Approval of minutes

The motion was made by Mr. Ross and seconded by Mr. Hays to approve the minutes for November 12, 2008 and November 21, 2009. Mr. Hays seconded the motion. The trustees unanimously approved the motion.

VII. Auditor Report

Mr. Vincent Carrodeguas, Clement Johns and Elisabeth Capota presented the reports for Goldstein Schechter and Koch. Mr. Carrodeguas presented three reports on behalf of the Auditor. The first being the standard audited financial statement, the second was a SAS 112 report (management letter), the third was a new required report under SAS 114 from the Auditor directly to the Governing body (Pension Board).

While discussing the management letter, Mr. Carrodeguas discussed four observations that the auditor classified as significant deficiencies, and stated the auditor is required to look for progress next year. He stated the first observation is that the Board needs to develop a procedures manual. The observations are as follows: an operation or systems manual is not currently available, and should develop a procedures manual; the Board should automate the calculation of benefits; there isn't sufficient privacy, confidentiality and security at Mr. Hanes's office; and, a retention schedule for files should be developed.

Mr. Hays moved for the adoption of the Audit Report. Mr. de Araujo seconded the motion. The trustees adopted the motion unanimously.

IX. Accounting Report

Mr. Walt Maxwell presented the unaudited financial statement for the quarter ending December 31, 2009. Ms. Diaz discussed the operational policies, and a proposed investment policy. Ms. Rathborne asked that language be included that states the Board is under contract with a professional investment consultant who advises the Board on investment policy, the allocation of assets, and the selection of management firms.

Ms. Diaz discussed the policy on payment of invoices. Ms. Jensen offered that the proposed policy include language that the payment of invoices is presented to the Board for ratification at the quarterly meetings. Ms. Diaz discussed a proposed policy regarding the credit of DROP and Share accounts held by members of the system. She finished her presentation with a discussion about a policy proposal for DROP and Share accounts.

Mr. Hay asked Mr. Hanes to discuss the matter of a member who had intended to go into DROP. Mr. Hanes discussed that there had been an error that occurred with the member, and it appeared the former administrator of the plan had taken application from the member to go into DROP status in January, 2008, but neither had pension contributions been deducted as it should have been once the member goes into DROP status. The trustees decided, without motion, that the member be provided an option to correct the error by allowing a reentry to DROP status in January of 2008, with adjustment to his account, or to allow him the choice of beginning DROP status going forward. Ms. Rathborne asked Mr. Hanes to report back to the Board.

Ms. Rathborne discussed a letter that she received from a former Firefighter who was vested in service, but not entitled to receive a retirement benefit; and the member had requested that she be able to receive a distribution from her Share account. It was determined that she is not eligible by law to receive the Share benefit. Ms. Rathborne asked that Ms. Jensen respond to the former Fighter making the request.

Mr. Ross made the motion to adopt all the proposed policy changes. Mr. Hays seconded the motion. The trustees unanimously approved the motion.

XII. Fiduciary Liability and Fidelity Bond quotes

Mr. Bryan Oliff discussed matters of the bids provided for coverage to the trustees for Fiduciary Liability Insurance, and to cover the Board and Administrator with a Fidelity Bond. There was discussion about a recently enacted indemnity ordinance covering officers of the Town (including trustees). The trustees discussed the policy coverage amount, deductable and pricing from the bids. Subsequently, the trustees discussed a proposal for obtaining a Fidelity Bond to protect the Board from theft or embezzlement.

Mr. Ross moved that the Board and administrator be covered per the memo with a $10 million policy and $150,000 deductible through Travelers Insurance. Mr. Hays seconded the motion and the Board members unanimously adopted the motion.

Mr. Ross made the motion and Mr. Hays seconded that the Board secure a $500,000 fidelity bond with Travelers Insurance as set out in the memo. The Board unanimously approved the motion. The Board agreed that the policies begin on March 1, 2009, after the policy extension has expired.

X. Investment Report

Mr. Prime discussed the quarterly report. He discussed the total and segment returns. He stated the total fund performance for the year was down 24.2% relative to the target index which was also down 24.2%.

Mr. Prime stated that the domestic equity was down 37.5% for the year, which is slightly above the benchmarks, with the three year numbers slightly below the benchmarks; the international equity was down 44.1% versus the index at 43.4%; the alternative strategy, or hedge and absolute strategies, were down 17.1% versus the index down 21.7%; total fixed income was down 6.6%, and the revised benchmark is down 5.3%; and, real assets were down 28.7% versus the index at 18.7%.

Mr. Prime discussed asset allocation of the portfolio, and that Richmond Capital has been replaced with a Treasury component. He stated that the plan took monies out of equities and some monies out of Guggenheim in terms of the rebalancing, and noted from December 31, 2008 the allocation shows the actual large cap equities at 14% while the target is 20%; the mid-cap is at 7% actual allocation versus a target of 5%; mid-cap growth is at 6.5% while the target is 5%; international is under 1.8% versus the target of 2.5%, and stated that we do need to make a shift from the mid-cap to the large cap, which has been driven by the differential performance. He stated the alternative is at 19.4% actual versus the target of 14.3%; the domestic fixed and convertibles are right on target. He stated that because of the 4th quarter performance, real assets are at 13.9% versus 15.0%. He indicated they need to re-balance based on the new targets.

Ms. Rathborne asked about the lockup at Archstone Neutral, and Mr. Higman answered that we can take monies out of the Archstone Offshore fund, where there is no lockup, to rebalance the portfolio. Mr. Prime observed that neither is there a lockup at Forrester.

Mr. Prime discussed the watch list and stated that Guggenheim is the only major concern on the watch list.

Mr. Prime stated he would like to look at restricting the number of managers later. Mr. Hanes asked if that meant indexing, and Mr. Higman stated that it probably does, but that they'll need to watch the state law restriction on International investments based on cost.

Mr. Ross asked when Prime Buchholz was going to look at the allocation issues regarding assumptions used as they had promised. Mr. Higman stated that they had done so in January, and there were no dramatic changes. Mr. Ross disputed the position when we are starting at a much lower place when the assumptions were set at a much higher place. Mr. Ross stated he doesn't understand how it remains an 8% assumption. Mr. Prime stated that the long term averages and taking into consideration the volatility. Mr. Ross noted that if the modeling doesn't change at all, it defies logic. He asked that for the next meeting Prime Buchholz run a calculation showing where we have to be 10 years from now at 8% from the high starting point, and where we have to be 10 years from now to make 8% from the lower; and a third calculation should show what rate of return from here it will take to get us back to where we would be to make the original 8% that Prime Buchholz would have forecasted from the higher level. Mr. Prime agreed to provide the calculations.

Ms. Jensen asked about the due diligence regarding Archstone, and Mr. Prime discussed that he will provide to the Board the due diligence process used by Archstone to determine that it is not holding Madoff investments.

Mr. Higman presented the revision to the investment policy statement that changes the asset allocation table from decisions made from previous allocation change made by the Board in May 2008.

XI. Merger of Retirement Systems

Ms. Rathborne said that a memorandum from Mr. David Rosow, President of the Palm Beach Town Council, indicated merger of the systems is a high priority and he believed the Town could realize immediate savings. Mr. Hanes discussed that he had worked with Mr. Walt Maxwell to develop a spreadsheet indicating the savings that could be realized. Ms. Rathborne stated there are a few funds which Prime Buchholz had not contacted, but it looks as though $150,000 savings could be achieved.

Mr. Hays wondered about how it would impact the funding ratio. Ms. Jensen stated that she believed that it would be required to account for the liabilities separately. Ms. Rathborne stated there are no allowances for transition expenses.

Mr. Hanes stated that he believed there is case law that would not allow you to merge systems in a way that reduces the funding level of one fund to the benefit of another. He stated he believed there might be constitutional issues. Mr. Prime suggested that the Custodian has not currently priced in separate accounting, and Ms. Rathborne stated that she believed that one accounting firm could do that task. Ms. Jensen and Mr. Hanes agreed.

Mr. Hays stated that he has polled the Firefighters, and they are in support of the merger. Ms. Rathborne stated that the Firefighter's Board will need to report this to the Town Council.

A vote was taken by roll call, and each trustee voted in favor of merger in some fashion of the Police Officers and Firefighters Retirement Systems.

Mr. Hanes discussed the Town Council has asked that the Boards look at the demographic assumptions used by the actuary, and that he had asked Mr. Armstrong if he could provide his cost, and Mr. Armstrong indicated it would take an experience study at a cost between $5,000 and $6,000. The trustees did not approve the study to be performed.

XV. Retirement Software program

Ms. Rathborne recommended that the trustees approve a software program for calculation of benefits at a cost of $9,600. Mr. Hays made the motion and Mr. French seconded the motion. All trustees unanimously approved the motion.

XIII. Attorney Report

Ms. Jensen discussed that she has finalized a summary plan description that will be provided to all members of the system; provided an amendment for allowing members to keep their Share account monies invested with the fund after termination from employment; and, presented an addendum to the custodian agreement for approval.

Mr. de Araujo made the motion to adopt the addendum to the custodian agreement. Mr. Hays seconded the motion, and the trustees unanimously approved the motion.

Ms. Jensen asked that the trustees approve the Investment Policy amendment that was prepared by Prime Buchholz. Mr. Ross asked that the trustees should discuss at a future meeting before approval. The trustees agreed.

Ms. Jensen discussed that there was a question at a previous meeting from a financial report regarding 175 monies that stated less money had been collected from the state in calendar year 2008 than in the preceding year. She explained that some monies the Firefighters receive goes into a supplemental trust fund used to reimburse municipalities, and those monies that are returned to the Town from the state from that trust fund was less. Mr. Ross stated that he now understands that the report was not in error.

XIV Administrator's Report

Mr. Hanes asked that the Board approve the administrator to make expenditures to provide a newsletter at a cost of $500 per quarter.
Mr. Ross moved that it be approved that the administrator be authorized to pay an amount not to exceed $500 for the services of a newsletter to be provided quarterly. Mr. French seconded the motion. The trustees unanimously approved the motion.

XVI. Benefit/Retirement Report

Mr. Ross moved and Mr. French seconded the motion to approve payment of benefits as provided in the report. The trustees unanimously approved the motion.

XVII. Disbursement Report

Mr. Ross made the motion to approve the payment of disbursements as provided in the report. Mr. French seconded the motion. The motion was unanimously approved by the trustees.

XVIII. Other Business

Mr. Hays discussed the matter of creating an option for a self directed plan for the Share and DROP participants, with an open enrollment to change twice a year.

Mr. Ross moved and Mr. Hays seconded the motion. All trustees unanimously approved the motion.

Mr. Hays presented a proposal for plan changes. His proposal includes a 7 year DROP, a 4.0% multiplier, and a vesting change from 10 years to 6 years. He asked that the proposal provide that members reach maximize benefit level after 27 years.

Mr. Hays requested that an actuarial impact statement be performed by the actuary. He stated the proposals would benefit members, but may create a cost savings for the Town, and if it doesn't save money, then the Firefighters are not interested in the changes. Mr. Hanes was asked to find out what the cost of the analysis is from the actuary. All agreed without motion.

XIX. Adjournment

Mr. Ross made the motion to adjourn. Mr. Hays seconded the motion. All trustees adopted the motion to adjourn.

William Hayes

Attested by:

Jayson E. French

Jayson French, Secretary