TOWN OF PALM BEACH

Office of The Town Clerk

MEETING TO DISCUSS POTENTIAL COMMINGLING OF FOUR TOWN TRUST FUNDS FOR INVESTMENT PURPOSES ONLY OCTOBER 19, 2006, 3:00 P.M.

TOWN OF PALM BEACH EMERGENCY OPERATIONS CENTER
355 SOUTH COUNTY ROAD, 3RD FLOOR

I. CALL TO ORDER

The Umbrella Investment Committee meeting was called to order at 3:00 p.m. on Thursday, October 19, 2006. On roll call, the following attendees were found to be present:

Dr. Michael Andrews - Chairman, Investment Advisory Board
William Crouse - Human Resource Director and Administrator General Employees Board
Peter B. Elwell - Town Manager and Member of General Employees Retirement Board
Robert Garvy - Chairman, General Retirement Board of Trustees
Robert Klausner - Counsel for Police Retirement Board of Trustees
Richard Krock (via telephone) - Chairman, Firefighters Retirement Board of Trustees
John McCracken - Counsel for General Retirement Board of Trustees
Raymond Snow - Chairman, Police Retirement Board of Trustees
Jane Struder - Finance Director

Absent from the meeting were:
Scott Baur - Administrator for Police and Firefighter Retirement Boards
Bonni Jensen - Counsel for Firefighters Retirement Board of Trustees

II. APPROVAL OF MINUTES FROM THE MEETING ON SEPTEMBER 22, 2006

The minutes from the meeting of September 22, 2006 were approved.

III. REVIEW OF MR. KLAUSNER'S OUTLINE OF THE UMBRELLA INVESTMENT COMMITTEE CONCEPT

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IV. CONSIDERATION OF ANY OTHER MATTERS PRECEDENT TO REVIEWING THIS CONCEPT WITH THE INDIVIDUAL TRUST FUND BOARDS AND THE MAYOR AND TOWN COUNCIL

Mr. Elwell noted for the record that several days prior to the meeting today, written communication had been received from Attorney Bonnie Jensen, which had been included in the meeting back-up material. Shortly before today's meeting a communication had also been received from Police/Fire Pension Administrator Scott Baur. Town Manager Elwell requested that all attendees review the letter from Scott Baur, which had just been provided to them.

Mr. Klausner questioned whether the Umbrella Investment Committee would develop the investment policy or would each Board have its own investment policy that would then buy into the collective investment vehicle, with the idea that $200 million would buy better action in the marketplace than $50 million, and that each plan had its own actuarial needs. He explained that his discussions with Attorney Jensen had involved the fact that Florida law required every retirement plan to have a written investment policy that would take into account the risk, expected reward, cash flow needs, and consideration of actuarial requirements. If the umbrella program was the investment vehicle program, its own investment policy would be needed; if this was more of a marketplace, then each board could buy in.

Mr. Garvy commented that he presumed that the Umbrella Committee would have an investment policy, and would be charged with establishing professional investment managers, would exercise responsible, prudent fiduciary duty in selecting those managers and would adhere to its own investment policy in doing that. Each of the individual funds would then select, based on their investment policy, which items from Column A, which items from Column B, etc., that they would want for their own plan.

Attorney Klausner noted that would create a second level of administration, as the Umbrella Investment Committee would need a consultant, just as each fund currently had. Each fund would also continue to need a consultant to determine how it would structure its allocation among the asset classes available. He explained that the extra $60,000 or $70,000 costs for the extra consultant would be outweighed by the money made as a result of pooling the funds.

Mr. Elwell commented that it was his understanding that discussion would take place as to the structure that would be most advantageous for the collective interests, and then each board would decide whether they would want to participate in the style that was determined.

Attorney Klausner stated that the idea was to try to develop a model, which could then go back to the boards, and the real decision making discussion would then take place, with input from each of the boards.

Mr. Elwell advised that it was his opinion that in order for this to be advantageous for everyone collectively and to be worth the effort of creating it, the determination of "all in" or not, would need to be made. He noted that he had a very strong feeling, on behalf of the Town, that it would not be worthwhile to create an additional layer if additional potential in the marketplace was not achieved.

Mr. Garvy commented that there were two questions to consider in going to a collective investment policy: would the boards really save substantial amounts of money, and would better investment managers, and better investments opportunities and results be obtained. He noted that he was skeptical that any substantial money would be saved in the costs to manage a collective fund, nor would access be given to the elite array of alternative investment providers. In addition, the response of the membership of the boards to having the Umbrella Committee would need to be considered.

Mr. Krock commented that, in order to make the collective investment policy work, each individual Board would need to subscribe to the asset allocation in the investment manager choices that would be determined by the Umbrella Committee. Basically, it would be a transference of the responsibility of selecting the asset allocations and the selecting of the managers, from the individual Boards to the Umbrella Committee. Then each sub-committee would be provided with monthly reports on progress, and if they were unhappy at some point, they could opt out totally. Presumably, the advisors to the individual Boards would be eliminated, and there would just be advisors to the Umbrella Committee, which was a big leap forward.

Mr. Elwell commented that he did not disagree with anything said today in regard to the best chance of success of a collective fund, and that the best chance of success might not be acceptable to the existing Boards. He explained that in order to get some guidance from the existing Boards, some investment policy would need to be put in front of them, with the pros and cons defined.

Mr. Klausner explained that in order to qualify for the fairly substantial sum of money that comes in from the insurance premium tax rebate, there would still need to be some measure of control within the Police and Fire Retirement Boards.

Mr. Snow observed that currently the investment consultant came to every meeting, and brought at least two active managers to every meeting, which helped the entire Board understand the asset allocation and risk parameters. He suggested that the dynamic of the role of the trustees would change dramatically with the creation of an umbrella committee.

Mr. Krock observed that he believed it was very important to fully explore the request of the Town Council to consider a collective fund, however, the concept seemed to create a lot of operational problems, a lot of delegation of authority, and he did not see the advantage to it.

Mr. Snow noted that he was also sensitive to the request of the Town Council, however, he was willing to develop a model that could be taken to the individual Boards, if that was the consensus.

Mr. Elwell requested that the collective fund concept be an item for each of the three November Board meetings of the Police, Fire, and General Retirement Boards, and that the members of the Umbrella Committee report on the discussion that had taken place today in order to receive an official action from the individual Boards. He noted that he anticipated that the reaction from the individual Boards would not be enthusiastic, however, it was important in good faith to the Town Council that the issues were explored. If it was found that the economies of scale were not there, and that the market performance would not outweigh that, there may be negative reactions from the Boards.

Mr. Krock suggested that if the Boards were to stay as they currently were, perhaps there was a mechanism where the custody could somehow be combined in order to save money.

Mr. Klausner commented that having a single custodian would not require consulting activity. Custodialship was really a ministerial function, and if everyone used the same custodian, that should save money, and it would also give a better pool to do securities lending from, which would generate income to the fund. Each Board could simply do a resolution authorizing a joint custodian.

Ms. Struder commented that she would invite Liz Simnick, from State Street, to the November Board meetings, since she had offered to appear to specifically address the custodial questions.

In response to Mr. Krock, Mr. Elwell advised that staff would review the malpractice insurance fees, in order to determine if there could be savings in that regard.

V. DATE, TIME, AND LOCATION FOR THE NEXT MEETING (IF NECESSARY)

Mr. Elwell thanked everyone for their input, and advised that a report would be made at each of the November Board meetings. He requested that the chairmen of the Police and Fire Retirement Boards communicate the outcome of their meetings to him officially. From there, communication would continue.

VI. ADJOURNMENT

There being no further business, the Umbrella Investment Committee meeting adjourned at 4:00 p.m.

SUBMITTED BY:

Peter B. Elwell
Town Manager