MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
THURSDAY, JANUARY 25, 2007
CENTRAL FIRE STATION, EMERGENCY OPERATIONS CENTER, 3RD FLOOR, 355 SOUTH COUNTY ROAD, PALM BEACH

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on January 25, 2007 at 9:30 a.m.

On roll call, the following committee members were present:

Investment Advisory Committee
Chair Michael F. Andrews
Vice Chair Edward L. Hennessy, Jr.
Stephen L. Brown
William J. Mikus
Bernard R. Panfel

Others in Attendance
Paul Shamoun, Florida League of Cities
Dustin Heintz, Florida League of Cities
Jeanne Valcik, Callan Associates
Jon Prime, Prime Buchholz & Associates
Sean Higman, Prime Buchholz & Associates
Dan Myer, Swett & Crawford
Pam Nelson, Acordia

Town Staff
Karen Temme, Risk Manager
Jane Struder, Finance Director
Betty Cotton, Recording Secretary

II. PLEDGE OF ALLEGIANCE

Chair Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

Vice Chair Hennessy made a motion for approval, Mr. Brown seconded, motion passed unanimously.

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended.

V. APPROVAL OF MINUTES FROM THE DECEMBER 4, 2006 MEETING

Vice Chair Hennessy made a motion for approval of the minutes, Mr. Mikus seconded, motion passed unanimously.

VI. BOARD AND COMMISSION LIABILITY AND FIDUCIARY INSURANCE

A. REVIEW OF LETTER FROM TOWN ATTORNEY

Ms. Struder reported the Town Attorney was unable to attend the meeting. She stated if the committee has any messages they would like her to relay to him regarding the letter, she will be happy to do so.

Mr. Brown said he was the one who raised this subject and he has some comments. He thinks there is some good news in Mr. Randolph's latest memo. It adds that the Florida Statute, 768.1355, authorized legislation that allows municipalities to indemnify their employees, agents, etc. That is good news because the question of authority always comes up in these issues. On the other hand, he thinks the view by Mr. Randolph is that the Town should not provide support in advance. If it is going to come at all, it will come at the end, and therefore, there shouldn't be any further action by the Town at this point.

Mr. Brown stated he does not feel comfortable with that. A lawsuit takes years, and for an unpaid volunteer on a committee like this, to have to do front end, their own attorney's fees, protection, etc., makes no sense whatsoever. He has started a process of asking the Civic Association for legal help on drafting an ordinance that could be brought to the Town Council that would provide for indemnification for these volunteers.

Chair Andrews asked it that would be for all boards or just this particular board?

Mr. Brown said he thinks it would be for everyone. He just started the process and was hoping not to have to do it, but he thinks it has to be done. It is too early for him to comment on exactly who would be covered but he thinks it would cover everybody who acts as an agent to the Town. Certainly, his intent would be that unpaid volunteers, who are giving of their time, should not be put in the position of having to front end legal fees to protect themselves.

Chair Andrews stated the letter was an overview that said a lot of things but he is not specifically sure that Mr. Randolph answered the question. Mr. Mikus had brought it to the committee's attention, that there was a phrase that said, "the Town **<u>may</u>** or **<u>can</u>** provide legal assistance.." This committee wants it to state "the Town **will** provide legal assistance.." The committee would be happy if that change could be made. Mr. Randolph's letter is a legal opinion that has good news and bad news in it, but it does not directly address the situation.

B. PRESENTATION OF FIDUCIARY LIABILITY INSURANCE BID (KAREN TEMME, RISK MANAGER)

Karen Temme, Risk Manager for the Town of Palm Beach, introduced Dan Myer, with Swett & Crawford, that performed the quotation for the fiduciary liability and Pam Nelson from Acordia, the insurance agent. In regard to the Health Insurance Trust Fund, this quotation is provided to the committee to put in place a fiduciary liability policy to protect the board from any actions the board may or may not take. If there is any action that is taken from an investment standpoint, for example, maybe the board does not diversify accordingly, and someone comes against the board, this policy is to protect those actions. Or for an action that was not taken, this policy will be in place to protect the board from any lawsuit.

Mr. Hennessy asked what are the exclusions?

Mr. Myer said exclusions typically are things that are not insurable, that insurance does not cover. Another area would be something that would be covered under another policy. Those are the two general areas that Palm Beach would fall under.

Chair Andrews asked if the Health Insurance Trust Fund is paying for this insurance?

Ms. Struder said yes.

Chair Andrews asked if it is a competitive bid?

Ms. Temme replied yes, the Town received two quotations. Based upon the information received back on the limits of liability, Swett & Crawford was able to come in with a $2,000,000 limit. Travelers Insurance was only able to come in with a $1,000,000 limit. They were not willing to increase because it would be a new policy.

Mr. Myer said the concern is with giving out high rates on a new plan. There isn't a really developed financial statement. Underwriters are really looking to see a history of the fund. This is a new plan, a new committee, and those are the reasons the limits are lower. If this is an issue, Swett & Crawford can build up to that. They may have to call more than one insurance company because an insurance company might not feel comfortable with a $2,000,000 or $3,000,000 on a risk.

Mr. Brown asked if this insurance policy relates only to the OPEB Trust? It does not relate to the reserves that the committee also advises on because the committee is not trustees for that advice. Is that correct? Is there any insurance at all that covers the committee in the Town for being sued with respect to the advisory function on the investment of the reserves in the Town?

Ms. Temme said the committee is only advising, not actually investing. The final decision is based upon the Mayor and Town Council and they have the coverage because they would be acting on the advice of the committee. It would come from their actions, not the committee's actions.

Mr. Brown said so if somebody did decide to sue the people sitting on this committee for acting in bad faith, the committee would say "you can't sue us, we are just advisors"?

Ms. Temme said, absolutely, the committee just gave advice.

Mr. Brown said people sue investment advisors all the time.

Ms. Temme said people sue for anything all the time but, in that case, the lawsuit is going to come to the decision makers for the Town of Palm Beach. If the council did take the committee's advice, there is coverage.

Mr. Brown said he does not understand how the Town Council is responsible?

Ms. Struder said they adopt the committee's investment policy.

Mr. Panfel asked is there any other committee that has insurance, and if so, is it a similar policy to this?

Ms. Temme said yes, the pension boards.

Chair Andrews asked if it is based upon assets?

Ms. Temme said yes, that's how the premium is rated.

Vice Chair Hennessy asked if the pension board committee members are considered advisors?

Ms. Temme replied they are trustees.

Vice Chair Hennessy asked as trustees, do they run the pension plans?

Ms. Temme replied yes.

Mr. Brown asked how the claims would actually work? Let's suppose somebody actually does sue, say the committee is acting in bad faith and lost money on the trust, etc., what happens next? Does the insurance company or the Town hire a lawyer on behalf of the committee or what happens?

Mr. Myer said the board is insured by Swett & Crawford and they would go to Town Council on behalf of the board. The committee is not responsible for claims management. The insurance company is responsible.

Ms. Temme said there is no deductible on the quoted policy. The other quotation received from Travelers had a $5,000 deductible that the fund would have to pay.

Mr. Brown said there is a $150,000 deductible on the policies for the pension boards, right?

Ms. Temme said that's correct. That was developed over the years by the trustees themselves. That was their election.

Mr. Brown stated he feels better about this.

Chair Andrews gave an overview. Ms. Temme and Mr. Myer have presented a policy for the board that will protect them on the assets for the Health Insurance Trust Fund. The board understands and accepts that and based on good faith, it is competitive and it is good for the trust.

Ms. Temme asked the board to give approval for the Town to go ahead and buy the coverage?

Vice Chair Hennessy made a motion that the board approve the coverage. Mr. Brown seconded. Motion passed unanimously.

Ms. Temme stated if the committee has any questions, please feel free to contact her.

Chair Andrews thanked Ms. Temme and Mr. Myer for the presentation.

Chair Andrews said the issues Mr. Brown brought up are still left open for the reserves that the committee advises on.

Mr. Panfel said in reading the letter from Mr. Randolph dated May 6, it seems that the two paragraphs quoting Section 768.1355 and Section 768.28 covers the board. Unless he is misreading it, it is his legal opinion that the board is not subject to any liability.

Mr. Brown said he thinks what Mr. Panfel said is true, but there is a series of things that are exceptions to that statement. Any good plaintiff would sue for those exceptions. The plaintiff would say that the board acted in bad faith, or exhibited willful disregard or something. He does go on in the same memo, third paragraph, page 2, to say that despite these defenses, anyone can file a lawsuit at any time. That is the problem. Mr. Brown said what he has heard here today is a little different than anything that has been said in Mr. Randolph's memos, mainly, that the board can't be sued because they are just advisors. He wants to check that with his legal sources to see if that is right. He does not know how to say, if served with a lawsuit, "no, I can't be sued, here, take it back". He is not sure how that works.

Vice Chair Hennessy said Mr. Brown's point is very important because these legal expenses can be very expensive and these suits go on for a long time. He was sued on a clean up in NY and that suit went on for five years. The cost was horrendous. Thank God, the company attorneys took care of it but if he had been defending himself, he would have had to lay out a tremendous amount of money to bring it to a successful conclusion.

Chair Andrews stated Mr. Brown said the issue is the committee members would be protected but there is not anyone that is protecting the committee's interests up front. The committee could have to go through this entire legal battle and then at the end, the Town is going to reimburse. Maybe at the next meeting, Mr. Brown can address the committee on what he thinks the proper wording would be that he believes would be beneficial to the committee specifically, and possibly the other committees for the Town of Palm Beach.

Mr. Brown said he has already seen a proposed language, of course, it is coming from a lawyer so it is complicated. But he thinks it moves in the direction discussed in terms of an ordinance that would be presented to the Town Council. In fairness of what was said to the committee by Ms. Temme, that this committee is not subject to a lawsuit because they are just advisors, he does not feel comfortable with that but he would like to go back and check and see if that makes sense. He could think of lots of other places in Town where people could be sued. No matter how frivolous the lawsuits are, they still have to be defended.

Mr. Panfel said having been a purchaser of professional liability insurance for fifty years, a person can be sued for giving bad advice. Not that he has been sued, but he has defended those cases on behalf of other lawyers. He has never heard it in terms of stockbrokers or investment advisors unless there was some other problem.

Chair Andrews said that is what Mr. Brown said, they sue on the exceptions. He said the committee will wait for further information that will come at the next meeting. He asked Ms. Struder if Mr. Randolph could be at the next meeting and asked her to relay the committee's concerns to him so he can be prepared to address them. Perhaps he could address it in a letter so the committee can look at it before the meeting.

Mr. Brown said Mr. Randolph does not say in his letters that the committee members cannot be sued. So that is a new concept he had not heard before and he would like to see what he thinks about that.

VII. PRESENTATIONS ON OPTIONS FOR HEALTH INSURANCE TRUST INVESTMENT MANAGEMENT

A. FLORIDA LEAGUE OF CITIES – MR. PAUL SHAMOUN

Mr. Paul Shamoun introduced himself. He is the Retirement Services Manager for the Florida League of Cities and he is in charge of managing the Florida Municipal Pension Trust Fund for the League.

Mr. Shamoun said the Florida League has two OPEB Trust options. One is full service where the League would hold all employee data, do the actuarial calculations, etc. The other one is investment management only where the League manages the allocation, month by month, of the assets.

He said the new regulations under the GASB have changed. GASB used to be basically pay as you go for the retiree health care, and they changed the rules to say that this has to be prefunded. Basically, that was a promised benefit to retirees and the liability wasn't accurately being displayed within the financials of the cities. This is nationwide.

The interesting thing in Florida is, Florida has two unique laws that create an OPEB liability for every single city in the State. One is that all retirees in municipalities are required to be given access to the city's group health care policy. The other one is that retirees cannot be separately rated for the insurance premium cost. They have to be commingled within the active group as well which creates implicit liability because if the retirees were segregated, they would be at a higher cost. So there is a little bit of implicit liability that is generated because it is being spread over the active employees.

The Town would have two choices. One is to calculate the liability and put it on their books and use a pay as you go system. Many of the smaller cities with very small liabilities are going to do this. The Town's liability is $22,000,000, significantly more than some of the cities, so the Town would undertake a funding program identical to the way pension funds are funded. An actuary goes in, calculates the liability, and comes up with the contribution rate. Palm Beach has done something unique. They already have all the assets for the liability and they are going to pay off the entire liability up front which gives them some discount rates on the long term costs. That is pretty unique without having to do bond issues, etc.

About six months ago, the League decided they wanted to get together a program that would help municipalities deal with this OPEB liability. It is not just health care, it could be long term care insurance, there could be any number of other benefits that cities provide to retirees that would be funded with this trust. The pension trust fund is a pooled trust fund that was created in 1983, when seven cities came to the league and said they could not find anybody to administer the defined benefit pension programs at reasonable fees. They were smaller entities, and they were paying probably 200 basis points for investment expenses, etc., just because their assets sizes were so small. By taking the seven of them together, the League was able to get a little bit better pricing and started out with maybe $9,000,000 back then. That number now is actually about $175,000,000 to $180,000,000.

Mr. Brown said in the handout one bullet talks about a new OPEB Trust and the second bullet says it was established in 1983.

Mr. Shamoun explained the pension trust itself was started in 1983. The OPEB Trust is brand new. In the other post employment benefits section, the master trust document had to be amended to comply with all federal laws.

Mr. Brown said so the League is utilizing their fund that has been up and running since 1983 but the drafting of the language and all that is new.

Mr. Shamoun said that is correct. The League was the third or fourth entity in the country to put this OPEB Trust in back in June. Many have done that since. The League gets frequent calls from different leagues around the country asking for the League's documents on how to set this up. The League's bond program and the investment trust were one of the first in the State.

He reported the League has a bundled service which does investment management, performance monitoring, actuarial services, all custodial banking services, recordkeeping, and basically everything needed to run the trust. In order to meet GASB compliance, the assets have to be in an irrevocable trust. That is how the League's system is set up under the IRS code 115 so that it complies with that irrevocable trust and meets the benefit rules to benefit the employees.

The League now has six portfolios that they are investing the assets in. As the pension trust has grown over the years, the League has continued to diversify the assets by adding more and more asset classes to the mix.

Mr. Brown asked if there are still three asset allocations or has that changed?

Mr. Shamoun said there are still three asset allocations available and that is going to depend on what the actuarial assumption was when funded.

Ms. Struder said 8% was used.

Mr. Shamoun said typically to support an 8% assumption, a little bit higher in equities is needed than when using 7.5%.

He gave an overview of the professionals the League hires to manage the funds. For Investment Management, they use Atlanta Capital to manage their bond fund, their large cap and their small cap growth fund. State Street Bank manages their Russell 1000 Index, which is large cap equity.

Dustin Heintz, with the Florida League, gave a presentation on the December investment results on the Town's reserves. The Town has the excess reserves in short term and intermediate bond funds. The League has four fixed income portfolios that are in enhanced cash which is similar to the SBA. On the equity fund, the League just added a value fund and has three large cap funds, one is the Russell 1000 index that's actually State Street Bank, they do the indexing for the League. The new value fund is Hotchkis & Wiley and Atlanta Capital has the growth management.

Mr. Mikus asked if they manage the Russell 1000 Index, and are these assets all index or is that the index that they are benchmarked to?

Mr. Heintz said the Russell 1000 that the league has is an index portfolio that is managed through State Street Bank. The League has two that are basically an international blend portfolio which is Alliance/Bernstein. Alliance is the value side, Bernstein is the growth side. They run independent of each other, and at the end of the month, they bring their returns together to form the portfolio.

Mr. Mikus asked are they passive investors, not active managers?

Mr. Shamoun said all of them are active managers with the exception of the Russell 1000 which is a passive index fund. Years ago, the League had Atlanta Capital growth fund as two-thirds of the large cap realm and this index is one-third of the large cap realm. When the new consultant was hired two years ago, he said that was not the right way to do, that it should be the opposite, the index product in the large cap should be the core of it and satellites that are actively managed pick up alpha. But, in the large cap realm, it is very difficult for a manager to outperform the index. That switch was made about two years ago.

Mr. Mikus asked if it isn't cheaper to just buy the Barkley's iShares exchange traded funds on the public markets versus going through State Street to replicate what is available in $1,000,000,000 fund versus $160,000,000 seen on the other slide.

Mr. Shamoun said the fund that the League is investing in with State Street is a multi-billion dollar fund as well. The League is buying it through the trust. The assets in the $165,000,000 are commingled with the other assets in the investment trust which includes about $350,000,000 to $400,000,000 of the floating premiums from their insurance company as well as outside investments from municipalities. That's part of a $3,000,000 or $4,000,000 portfolio that Atlanta Capital is managing in the large cap realm, getting economies of scale as they go up.

Mr. Heintz said the League has been looking at the index and Ms. Struder sits on their advisory committee for the investment trust. They have been talking about doing an enhanced index or whether having indexes is the right way to go, etc. One of the things seen is that if a substantial alpha can be picked up, is it worth it to pay slightly higher fees? Obviously the committee is not going to want to double the fees. A lot of these fees with Atlanta Capital have great rates with them, things that the committee couldn't get on their own. Having them manage some of the equity portfolios given that they also manage about $500,000,000 in the fixed income side helps the fees on the equity side. Asset Consulting Group is based out of St. Louis. They are basically the League's guidance and monitor. They do quarterly compliance reporting on all portfolios. The League uses Southern Actuarial Services which is based in Atlanta to do all the actuarial calculations. It is perfectly fine to use another actuary. The League works with all the actuaries.

Mr. Brown asked if this can be unbundled to some extent?

Mr. Shamoun said if the route that the committee is going to go is just the investment management, he believes, because they are using an outside actuary to do the calculations and to hold the data already, the League would act as the investment manager managing the allocations, performance monitoring, etc. The trust is governed by a five member board of trustees made up of members of the trust and they are replaced as their terms come up.

Chair Andrews asked how to get assets into the new international fund just mentioned?

Mr. Shamoun said through this, the League does it automatically, they manage that allocation of the trust.

Chair Andrews said so the League makes the allocations, the League has a new fund, and the League can take some of the existing money and the committee can move it?

Mr. Shamoun said that is handled at a trust level. Based on the consultant's recommendations on asset classes, as they make sense given the growth of the trust itself, the League would get recommendations that go to the committee that Ms. Struder sits on, the League's investment advisory committee. They actually do the interviews of all of the potential managers for that portfolio and make a recommendation to the board of trustees as to who to hire. So the elected officials that are on the board do make the final decision, but they are doing it based on the recommendation of the advisory committee.

Mr. Mikus asked what is the entire management fee for the administration of the plan and managing the assets? He feels that this committee has control over nothing in the investment process except for cost. They cannot determine where future returns are going to come from, they can't predict them. That is the critical element.

Mr. Shamoun said the overall investment expenses for the trust, and it is obviously based on allocation, is somewhere between 42 and 45 basis points in total investment expense with the equities and all. It would depend on whether it is the full service or the other. On the chart of fee schedules, it is $1,000 annual fee, assets over $15,000,000 is 10 basis points for administrative fees, and assets over that are 5 basis points

Mr. Mikus said he does not know if that is clear because the cheapest index fund is going to charge 25 basis points for under $1,000,000,000. He doesn't see how the League can be charging 5 basis points.

Mr. Shamoun said that is just administrative fees. The investment charges are on top of this. So that 42 to 45 basis points is in addition to the administrative fees.

Mr. Brown said one of the slides said 40 to 45 basis points for investment management. That includes all the custodial.

Mr. Shamoun said that includes all the custodial and all the investment related fees.

Mr. Brown said there is a performance monitor cost which is $6,000 to $12,000 a year.

Mr. Shamoun said that is a typical fee that is included within the administrative fees.

Mr. Brown said so actuarial services are negotiated.

Mr. Mikus asked if the committee could be unbundled, and the administrative fees for actuarial services are plus 5 basis points?

Mr. Shamoun said 45 to 50 basis points total for all of it.

Mr. Mikus said so if it could be unbundled, the committee could make the asset allocation decisions, select the managers, and essentially index most of it, and that would save.

Mr. Shamoun said that cannot be done through the League's program.

Mr. Mikus said it could be done separately. The Town doesn't have to go through the program.

Mr. Shamoun said yes. An addition to that is, an irrevocable trust document would need to be drawn up to hold the assets.

Chair Andrews said the committee is looking at different alternatives in making the investment decisions. The committee makes the investment decisions on the other part of Town monies that they manage. He asked Ms. Struder if the committee is required to have any kind of outside financial assistance for trust money or could they do it themselves?

Ms. Struder said she does not know if there is a requirement but it is probably helpful to cut down on the amount of work. The League is one option for the funds. Callan and Jon Prime will be giving presentations that are more an active management role for this board.

Mr. Mikus asked what is the committee's input to this that makes it active?

Mr. Shamoun said on the part of the committee, this would be passive.

Mr. Mikus said so the committee does not make any decisions, the League makes the allocations, asset selection, and everything.

Mr. Shamoun said the committee would choose which allocation.

Mr. Brown said that would almost be the maximum equity because of our 8%.

Mr. Shamoun said it could be in the 60/40 allocation if the committee did not want to take that much risk. But for the year October 1 through September 30, 2006, the 60/40 returned about 7.5% net and the 70/30 returned 8%. So it is basically 50 basis point differential.

Mr. Mikus asked if there is going to be a discussion at some point about whether the committee itself is going to make the allocations, asset selection, etc?

Chair Andrews said yes, that is after all the presentations are heard.

Mr. Shamoun said one of the things he wants to stress is the oversight. One of the things that the League puts together and brings to the table is a lot of oversight of not only the managers of the fund but the staff looks at this daily and makes allocation changes based on cash coming in. The League's advisory committee and the board of trustees oversees everything. So, there are a lot of levels of oversight. If any one manager or thing would start to go the wrong way, it would be caught very quickly and remedied.

Mr. Mikus said since the bulk of all the assets that the League will manage potentially would be the Town's assets, he saw $165,000,000 and then the Town's $180,000,000…..

Ms. Struder said the League would only manage the $16,000,000 in that trust initially.

Mr. Shamoun said there are a lot of cities that are starting to get into this. The Town is a little bit ahead of the game by the fact that they have already put money aside. There are lots of cities that are well over $200,000,000 liabilities for OPEB. Many of them have not even calculated it yet because they are afraid of what might come back. So the OPEB is expected to grow tremendously in the next year as the cities start to actually look at this and set the funds aside.

Ms. Struder advised the committee that Dustin Heintz is new with the Florida League of Cities. He replaced Darlene Malaney. Mr. Shamoun and Mr. Heintz will stay until after the other presentations so Mr. Heintz will be able to answer questions on the investment report .

Chair Andrews thanked Mr. Shamoun and Mr. Heintz for their presentations.

B. CALLAN ASSOCIATES, INC. – MS. JEANNE VALCIK

Jeanne Valcik introduced herself. She is a CFA, Senior Vice President of Callan Associates and is also the Manager of the Atlanta office. She thanked the committee for the opportunity to do a presentation.

She said Callan Associates has been honored to be associated with the Town of Palm Beach for nineteen years in March. She is the Lead Consultant for the General Employees Retirement Board and has been for eight years.

She gave a brief history of Callan Associates and their consultants. John Krimmel, CFA, and Senior Vice Presdient of Callan Associates has done a medical retirement trust so he is ahead of the game for a large fund. He did the unionization and piggy backing off of the other managers. That is what she is proposing here, to use the relationships that are already in place to get lower fees. Brian Zeller, CFA, Vice President of Callan, has helped Callan extensively with research work that was done for the Town in the last year, and Greg Baur, CFA, is the Associate Consultant.

She stated Callan is a very large consulting firm. The Town will be serviced out of the Atlanta office by a team of ten people. So it is like having a small consulting firm with access to the resources of a very large firm. They do have multiple lines of business that allow them to leverage their resources. Essentially, they are selling some of their products more than once. That is what consulting firms like to do. They sell their performance measurement system to managers, sell their research, and also sell their consulting services to smaller consulting services.

Callan has been around since 1973, is based in San Francisco and has 164 employees. They have offices around the country. They want to be able to be at their clients service basically in a two hour plane ride. They are totally employee owned, are known for having a lot of public funds, and their client tenure is an average of nine years. Callan does asset allocation, manager structure, helps negotiate fees, and writes investment policies. The level of education services that Callan provides is unique. They put out a number of papers during the year, they also have newsletters on various topics, performance, private equity, hedge funds, and real estate. That is what the resources of a large firm brings to their clients.

The handout shows how Callan is structured across the organization. Notice the Town of Palm Beach Investment Advisory Committee is at the top. They are the boss. The team that would be working with the Town is listed below. They have three committees: Client Policy Review Committee, Alternatives Review Committee, and Manager Search Committee. The commitees are very important because they review everything that Callan does. All of the senior consultants at Callan serve on these committees so all client work is reviewed by one of the committees.

They also have four specialty groups that they work with:

Quantitative Consulting Group - One thing that is not totally unique in the industry but that can be beneficial to the Town is they have two actuaries. They are not going to calculate what the actuarial evaluation is for the plan but they will understand. They speak actuary. They are actuaries and CFA’s.

Global Manager Research Group is located in San Francisco. This is a group of 20 people and the only thing they do is manage research work. There is an army of CFA's within this group.

Monitoring & Evaluation Group – All the performance reports and databases are proprietary to Callan calculated in San Francisco and sent to clients.

Education & Research Group – One thing within the educational group is they have conferences each year and regional breakfasts in Atlanta. Three members of the general employees retirement fund came for a regional breakfast last year because they were interested in the topics. As a result, a number of changes were made after they attended that education session.

In doing asset liability work, typically a rate of return is targeted. She has made the assumption that this committee is targeting an 8% return for the plan. The medical trusts that they have worked with so far are typically targeting an 8% return. 8% may not be achievable over a short run but since these medical trusts are basically for life, it is believed that if you take enough investment risk, that is an achievable target. On this page are the expected returns that Callan would put in their asset allocation model, and also the correlations and standard deviations. They have their own propriety models that would build the portfolio that would do that. She does have a sample model and she can show the expected return. Callan does these every year. Their crystal ball is pretty good in terms of getting a client in the right asset classes. Over a five year period, they will get the client into the right place to target the 8% return.

Mr. Mikus asked how Callan's expected rates of return compare to other firms, like GMA, who also are blue chip economic indicators.

Ms. Valcik said GMA tends to be more tactical so they are recommending that the client shift to add asset classes and GMA's belief, right now, likes large cap growth very much. They do not like small cap. Their outlook is, over the short term, what is that going to be? Their small cap outlook over the short term is lower than Callan. In general their equity across the board is lower. Callan is a low inflation, low return buyer. In terms of other consulting firms, she believes Callan's fixed income would be on target because consulting firms tend to do their asset allocations for fixed income in a similar way. They look at the current yield on bonds, an incredibly tight forecast. So Callan's fixed income was 5% last year, it has to be at least 5.75%.

Callan's manager search process conducts all their searches from scratch and they have the resources to do it. They have found that every client does have different unique needs. For example, some clients are very fee sensitive. Callan has very large performance measurement capabilities. They have many meetings with money managers. It is fair to say that with five offices around the country, managers are visiting Callan all the time and want to come in and see them. It is Callan's belief that meeting with managers is a good thing to do to get to know each other.

Ms. Valcik showed a proposed work plan of what Callan would do for the post retirement medical trust and laid out a timeline of when they could work on some of those things. The most important pieces would be asset allocation review under strategic planning, targeting the Town's 8% return, creating an investment manager structure, negotiating the fees and writing an investment policy. If there is not sufficient information there, based upon questions asked before, the committee could go forward with the negotiation that she has done so far. The Town has $16,000,000 funded.

Chair Andrews asked Ms. Struder if she mentioned $22,000,000 earlier?

Ms. Struder said that is the liability that the Town has. They are funding $16,000,000 of that.

Ms. Valcik said so the Town does have a shortfall. What is going to happen in many places is they will simply shut off the benefits.

Mr. Brown said the bullet in the handout that says "The progam will consist of stocks and bonds only.." is that a reflection of how new or how small the Town is or both?

Ms. Valcik replied it is both. Coming out of the shoe, Callan couldn't see the point with a $16,000,000 fund, although it is doable, of going to alternatives. Liquid assets classes made more sense to them. They worked with another fund that has $70,000,000 and used alternatives.

Mr. Brown said that is helpful.

Mr. Mikus said that was a very good question. $16,000,000 is a significant amount to have a broadly diversified portfolio that doesn't include alternative investments. Even coming out of the shoe, there are expectations that the committee wants to be invested in asset classes that either have value or certain trends whether they are international emerging markets, commodities, or natural resource orientation. There are plenty of mutual funds out there that will give a diversified exposure in those asset classes. He is not clear why Callan would think it might be a good idea to exclude them. There may be a good reason.

Ms. Valcik said the exclusion is primarily just for the initial asset allocation, getting the Town invested now. The committee may want to consider other items at a later date. The funds Callan has suggested are very liquid and easy to get out of. The plan that they worked with does invest in hedge funds. They do have 130/30 managers and invest in long and short portfolios.

Mr. Brown said the history of the Town of Palm Beach pension fund shows that Callan started with this kind of approach and then expanded into the kinds of things that Mr. Mikus is referring to. It doesn't have to be done that way but that is what the history has been.

Chair Andrews asked how often the investment policy is reviewed with Callan?

Ms. Valcik said typically it is once a year unless the committee wants to do it more often.

Mr. Mikus asked if there is any reason to review an investment policy more than once every fifty years? There isn't really much to say other than "we have liabilities, we have assets that we want to match to those liabilities in the most efficient and effective manner". Where would the change come in?

Ms. Valcik said typically it would be in asset allocation if the committee decides on a new asset class. Then some guidelines would have to be written.

Chair Andrews asked if Callan starts on relatively conservative stocks and bonds, would it stay that way for the next year?

Ms. Valcik said it could but it doesn't have to go a year initially if the committee wanted to leverage off relationships that are existing and go forward with alternatives. This is a simple plan to start out and get the Town invested.

Page 15 in the handout shows the existing relationships that Callan considered and contacted to make sure they take the assets. First is the custodian. Typically, there is a minimum fee with custodians. Callan calls the custodians and lets them know they have relationships and have no intention of paying the minimum fee.

On US Equities, Callan considered New York Life Investment Management Enhanced Large Cap Fund. Enhanced indexing is one area where Callan has shown some consistency in beating the benchmarks. The committee might want to consider an SSgA S&P 500 Index Fund if they want to do small cap within this space also. The small cap managers really were too small to separate accounts and they were not who the committee would be interested in. The committee would probably want to look at something else or the Russell 3000 Index. That buys the entire index, large and small. In the non U.S. Equities, State Street's International Alpha Fund, which is closed to new investors. If the committee is specifically looking at lowering costs, there is the SSgA EAFE Index fund. However, international investing is an area where the alpha managers have been able to add value.

Mr. Brown asked if the alpha fund is an active fund?

Ms. Valcik said yes.

Ms. Valcik said international managers and small cap managers both have a consistency in outperforming in prior years but did not outperform in 2006.

Mr. Mikus asked if they have an exposure to emerging markets in this fund?

Ms. Valcik said the international alpha fund does not. On the fixed income side, Callan has access to Goldman Sachs Core Plus Bond Fund at a great rate. They could also invest, if the committee is only interested in core bonds, in the SSgA Lehman Aggregate Bond Index fund. Unfortunately, fixed income managers' net of fees also had a very difficult time meeting the benchmark.

Mr. Brown said one thing he was not able to understand was what she said about small caps. What was the bottom line? Callan does not have small cap managers?

Ms. Valcik said for the small cap managers that they have for the amount of money at the Town of Palm Beach, it would be an awfully small amount to run as a separate account. Frankly, they would probably do it, she just did not ask them.

Mr. Mikus asked if the Callan program could invest it in a mutual fund?

Ms. Valcik said absolutely.

Mr. Brown said there would be ways to get small cap. The Russell 3000 Index Fund would be one way.

Ms. Valcik said right. Historically, small cap managers have been able to add value but it did not happen last year. Accessing small cap exposure through the Russell 3000 is really cheap.

On page 16, Callan looked at the alternatives and said what if all the active alternatives were chosen, what would the fee be? Then going across the spectrum, the first column is if all the active options that are out there were taken, what would the fee be? The NYLIM large cap, large equity fee, is 40 basis points. She called and verified that. The non US equity, State Street Global International Alpha Fund is at 75 basis points, and the bonds, Goldman Sachs fund, is at 24 basis points, and active management comes out to about 24 basis points. Based on the information that Liz Simnick at State Street gave her, it looks like the custody would come in at 3 basis points which is incredibly low.

The next column says what if the committee did active US equities large cap, active international, and the fixed income passive that has it all in cost, including custody of 44. The next column says what if the committee did active international, active fixed, passive US , that's a cost of 56, a big jump there because of the amount of US equities. What's the asset allocation? Asset allocation is 60% US, 20% non US, and 40% bonds. Based on those numbers shown earlier on capital market expectations, that would have an expected return of about 8.2%. That's based on the index net of fees because it is based on income. Callan does not forecast any alpha, they just forecast the asset funds. In terms of meeting an asset allocation of 8%, the maximum amount of bonds that can be put in is 45. Now that the asset allocation is known, the final is what if the committee just did all internationals since that's one area where there is potential to add value if going with core bonds. If the committee doesn't go with the core plus approach, then the index funds probably will do just as well.

Mr. Mikus asked if the asset allocation is typically fixed because Callan is looking at historic returns? He asked if she said 20% maximum bonds is needed to achieve an 8% rate of return?

Ms. Valcik said the fix is selected for the Town to say here is an array of asset allocations that Callan gives on these asset classes …..

Mr. Mikus asked if we had 1981 rates, and the coupon on the 30 year bond was 12%, would you put 100% in bonds?

Ms. Valcik said with hindsight, she would. She would not right now given the expected return on fixed income.

Mr. Mikus said but that expected return is 12% at par. He asked if she would put 100% now that the expected rate of return for 30 years is known? He would and match a liability plus 4%.

Ms. Valcik said she is embarrassed to say she turned down 13%. When she started at Callan, she thinks their fixed income expectation was quite high, maybe 8% and so the asset allocations that came out of the optimizer looked dramatically different than what they are like today. The optimizer hates bonds. It's only redeeming quality is diversification. A lot of people are substituting their bond allocation with absolute return hedge fund stretches. It is a point in history but Callan does not use historical returns in their assumptions. They actually make a forecast of what is going to happen in the next five years. So the bond moves around a lot. US equity and international equity does not move quite as much. Real estate and private equity move quite a bit also.

These fees have been negotiated with State Street. They are the custodian. The Town has an existing relationship with State Street. The fees themselves are achievable based upon the standard fee schedule. What is different is that the Town is getting an institutional fee. The minimum account size for this fee is $10,000,000 to get access to these fees, about 5 basis points for US equity, 8 for non US, 6 for bonds.

Chair Andrews asked her to tell the committee how these line up with the fees that Callan is doing with the other Town of Palm Beach fund?

Ms. Valcik said the fees are not passive that they are paying at the other Town of Palm Beach fund. If they had passive, those passive fees would be identical unless they started to hit a farther fee break because of the size given them in the assets.

Chair Andrews said he was just trying to think if there was some type of complex pricing that Callan would give.

Ms. Valcik said, "we are there."

Chair Andrews asked if she is saying that Callan's fees already encompass the relationships that are in there?

She replied yes, and as does the NYLIM fee.

She said one of the questions that was raised earlier, on how do these compare to ETF's, iShares, etc., you can buy the S&P for 9 basis points, the non US equities for 35, the bonds at 15, so it could be blended together just for the index portion of it. Also, there will not be a custody fee.

Mr. Brown said these are still pretty good numbers even with the custody.

Vice Chair Hennessy agreed.

Mr. Brown said he liked particularly the fact that she has already an account of relationships in negotiating the fees and one case access as well.

Ms. Valcik said Callan wants to work with the Town because they have such a long term relationship with the Town of Palm Beach. If the committee says they are going to set this asset allocation, she has given the information, go right ahead and do it, she is fine with that.

Chair Andrews asked her to tell him what that last column is for again?

Ms. Valcik said the last column to the right is if it is all put in index funds. She thinks an attractive alternative is the one with the active international.

Chair Andrews said the committee has a responsibility right now to decide whether they want to actively manage or to go to a manager such as Callan. Once that decision is made, the next step is to actually go into the investment strategy. He said he just wants to make sure the committee stays on track of where they are today.

Ms. Valcik said they would like to work with the Town but they understand there is a lot of expertise on this committee.

Chair Andrews thanked Ms. Valcik for her presentation.

C. PRIME BUCHHOLZ & ASSOCIATES, INC. – MR. JON PRIME

Jon Prime introduced himself and his associate, Sean Higman. He said they appreciate the opportunity to be here today. He will start the presentation and then Mr. Higman will finish the presentation.

Mr. Prime said Prime Buchholz & Associates is an independent firm and is based in Portsmouth, New Hampshire. They did not want to be in the larger Boston area but did want to take advantage of some of the educational institutions particularly for interns and for a source of people. The only business they do is provide advisory services to institutions. They have a small family foundation but more than 90% of the practice is related to institutions. They do not provide services to the money managers, do not pay for services to research services, and do not get any referral fees. So 100% of their business and revenues comes from their consulting services. They are registered under the SEC.

He said investment strategy is very important because the decisions made about the way the fund is structured is going to be the most important decision made but long term results of this fund are going to be determined basically by the way the fund is structured. So the discussion is going to focus on that. They are going to show some models, the attributes and characteristics of models that the committee may consider.

The first three pages of the handout represent their client list broken down by some of the key segments. They do a lot of endowment foundation work, private foundations, public pensions, public and corporate pensions, and public nuclear decommissioning trusts. The Town fits in public and union pensions. They do the Town of Palm Beach Fire and Police Pension Funds. They have a number of clients in the Palm Beach area.

Core and additional services are listed under consulting services on page 6. It is a full range of services so a retainer relationship is not important to distinguish one service from another because they provide any service needed whether it is asset, liability, asset allocation, manager search, etc. They do all of that. They also provide topical papers on various investments and related subjects during the year.

He referred to their organizational chart. They are a mid size firm with about eighty employees. The chart is broken down between their research group advising nine employees, client services, and business operations, etc. There are fourteen principals in the firm. One thing that differentiates them from other firms is all of the consulting work they do for clients is done by the principals of the firm. The reason they have two at the meeting today is because they have two principals assigned to every relationship. Frequently they would both be at the meetings but not necessarily all the time. They would both be knowledgeable about "your fund" and "your policies, etc".

Independent research shows the work that they do in terms of understanding capital markets, the impact of new asset classes and issues in terms of asset allocation, best in class managers, fiduciary standards, government and regulatory issues. They do focus on expectations not only in the asset allocations that they do but broad expectations from the investment management community, not that they are necessarily reliable, but they give broad expectations in terms of what the returns are going forward, and then peer group comparisons so that the Town and committee understands the returns related to other types of similar institutions.

Mr. Prime turned the meeting over to Mr. Higman.

Mr. Higman introduced himself and gave some of his background. He has been with the firm about four years. Prior to that, he spent most of his life as plan sponsor. He was corporate treasurer and managed an employee benefits trust of over $1,000,000,000 including the setting up of the funding of the first post retirement benefit for Rochester Gas & Electric several years ago so he understands the challenges of the start up. He has heard today that the Town has a good jump start. One of the things he thinks would help is discussion of asset allocation and the liability side as well. Because he heard the question earlier "if we had a 12% bond, what would our position be?" That's tough from an investment standpoint. There is some probability of it going in either direction. But from an asset liability matching principle, it sounds like the Town could take some of the risk off of the table at that point. Maybe don't do all of the assets but lock up a good portion of the assets. It is not necessary to do all of it at once. In the corporate pension world, there is a lot of conversation about asset liability matching for that same reason, the volatility. Once some of the assets are matching to that liability, see if there is the possibility that one of the goals is to limit the volatility of future contributions. That is possible because future contributions are related in some sense to the discounting maybe of the liability rather than the liability itself.

Page 9 shows their pyramid. They have leaned it to the right. This is the way Prime Buchholz thinks about their partnership with the Town of Palm Beach. They do this for the Fire and Police. Really the strong base of any program is to spend some time on this cash flow, looking at the Town's liability, understanding that the Town is unique from every other Florida town, from every other entity. So they want to look at the unique characteristics. Then, as a group, look at the return objectives. Is 8% the right number? If it is 8% and the Town wants a high probability of succeeding at 8%, the expected return is going to be somewhat more than that and then work on reducing the volatility. Once an expected return is known, that gives a fairly high probability of success. Then the risk tolerances will work down the chances of the volatility taking us out of the game.

Prime Buchholz goes through this risk assessment with the Town. They do asset allocation as a committee because this is the Town's portfolio. It is a joint effort. They get to manager selection and then use enormous resources picking managers. They have heard conversations today about the cost trade offs between indexing, between using active managers, and various categories, and different slices of that. Prime Buchholz does all of that in the implementation. They can manage the cost of the portfolio depending on the preferences of the committee. They will have a strong opinion, for instance, they have heard today that there is a lot of academic research out there that says that international managers, non US managers, active management consistently beats the benchmark. So they are not likely ever to come in here and say the committee should index the international. But as also was heard today, there is an opportunity to reduce costs by using indexing selectively. The result is a portfolio that should be positioned to succeed. That is Prime Buchholz's definition of success. It is not return. It is positioned to succeed on a long term basis.

Page 10 is the framework for setting expectations for building this. Most government entities plan to try to adopt the principles of ERISA. The primary principle of ERISA is that this is done for the sole benefit of the beneficiary. So, always thinking about it from a participant standpoint, the employees are thinking about the safety of their benefits, and it is necessary to have liquidity from the taxpayer, from the Town, is it a cost effective plan? Prime Buchholz takes that and spends time talking about the committee's risk tolerances. Their primary way of defining risk is, it is the probability of meeting the objective. But volatilities, returns and contributions, other plan costs, then the plan is going to have the Florida law overlying it, and they are very familiar with those constraints, as well, in managing the other two pools in the Town. So what they do is take those cash flows, all those assumptions, asset class expected returns, standard deviation correlations, and put them into an optimization model with the committee's series of models to look at compared to their peers. Then they walk through a risk analysis and look at risk a lot of different ways to make sure that everyone is comfortable with the result. There is not a one size fits all.

He gave some examples of model portfolios from the new general employees asset allocation, the FLC allocation, and then the Police/Fire. The important thing here is that across the bottom of the chart the expected return varies, the standard deviation varies. Prime Buchholz gets them comparable by using the Sharpe ratio. Simply stated this is just return per unit of risk. One thing is Prime Buchholz would say $16,000,000 isn't too little right away to consider alternatives and multi-strategy real assets. That and the multi-strategy real assets, for instance, is hedging an inflation scenario. Notice it doesn't say real estate, it says real assets. That's a combination of different types of asset classes which have a low correlation to inflation or benefit when there is inflation. Fixed income is shown at a relatively low number. They view fixed income as a hedge to deflationary position. These are solely examples. What Prime Buchholz wants to have is that conversation that connects back to the liability and what the committee goals are. So they would do that continuously.

The model portfolios are examples of some of the metrics they might use to get comfortable. Given these different models, the best 1 year, the worst 1 year, the best 5 year, worst 5 year, where is the minimum expected return within one standard deviation? This is an interesting one, they set a threshold and what is the probability of succeeding in meeting that threshold? The last one is, they always want to keep an eye on liquidity because as alternatives are introduced into the pool, how does that impact liquidity?

Mr. Prime said keep in mind when looking at these statistics, these are all based on index rates of return so there is no contribution from active management. The further an investor gets away from large caps, domestic US securities, the higher the probability that he is going to have, not necessarily in every period, but over time, a positive contribution from managers. So when looking at international stocks, most international managers, over long periods of time, outperform the benchmark. In looking at real assets, hedge funds, directional, absolute return funds, there's a lot of manager contribution in those strategies. These are very conservative because there is no contribution from the manager results.

Chair Andrews asked if Prime Buchholz expects an alpha from their managers?

Mr. Prime said yes, they would go to active management only when they expect an alpha.

Chair Andrews asked if those numbers on probability are straight numbers with no alpha?

Mr. Prime said correct.

Chair Andrews asked so historically what did Prime Buchholz receive in alpha, for example, with the Police and Fire?

Mr. Higman said it varies by asset class. In the largest asset classes, the alpha is always difficult to achieve, but going to an international manager, the expected alpha should be 1.5, 150 basis points. A small cap might be 150 to 200 basis points. Prime Buchholz doesn't do a lot of small cap. One of the biases is away from small cap and toward mid cap. They think the risk reward tradeoff is better with mid caps even when considering the correlation benefit in the small cap.

Mr. Mikus asked if they have a value bias?

Mr. Prime answered not really. They try to aggregate the portfolio structure so that they pretty much look like the market with maybe small biases but they try to maintain balance. Florida law limits the non US, but if they were not restricted, they would have 50%.

Mr. Higman said in the unconstrained column, notice some of the themes that they would be working through the portfolio today which would be the international and domestic in roughly equal weights, and would be a healthy allocation to alternatives. They probably would not have private equity, certainly in a pool of $16,000,000. They would have real assets. Most institutional portfolios today are chronically underweight to an inflationary scenario. Why? Because behavioral finance tells that they have not experienced it lately, and therefore, it is dismissed.

Chair Andrews asked him to give an example of a real asset.

Mr. Higman said, real assets is a bundle of perhaps commodities and tips. There is an index product out there that is very efficient or a series of active management tools could be used.

Mr. Prime said in a fixed income, they have a very low exposure, only 10% in core bonds and the balance of the fixed income in convertibles so they get more active participation in terms of the convertible bond portfolio. They run those currently in the police and fire structures so those work very well. The long term return for fixed income going back to the late 1800's is really 5.2%, so the 20 year period was an uncommon period really in the whole history of the bond market. Given an 8% rate return, bonds are not going to be very helpful.

Mr. Higman said this is a way to be a little unconventional in that they buy convertible bonds which have an equity component to them but legally they are bonds until they are not.

Mr. Brown asked if the highest expected return he sees on the chart is the Town of Palm Beach Employees new allocation with a 9% expectancy? Yet, when in the probability of returns, exceeding 8%, even in 15 years, there is only a 52% probability?

Mr. Higman said that's right because of that expected return. Assume that it is normal and distributed, half of the returns are on either side of that so even at 9%, remember the standard deviation is 13%. 66% of the returns are going to be between plus 22% and minus 4%. It is still a pretty wide swing.

Chair Andrew asked if they are just taking statistical deviations, and are not testing with real numbers to come up with those probability of returns exceeding 8%?

Mr. Higman said these are all historically real numbers, looking forward based on probability, based on returns, standard deviation, and no alpha on that portfolio. Selectively, they pick those places to try to get alpha on some of those places where there is some chance of succeeding.

Mr. Higman said he wanted to simplify why Prime Buchholz? One is the independence, as Mr. Prime mentioned. They have never taken revenue from anyone else. They think that is the right way to run the business. They have both been on the other side of that and regardless of what is said about conflicts, they just think a company should be above it. So they do not take any money from anyone else. Their experienced two principles that are assigned to each account are not just experienced consultants and principles of the firm but they have sat in the chair on the other side. Mr. Prime was a CFO of a couple of large organizations as the Treasurer of two publicly held companies. They understand the challenges. Innovation is what the Town would get with Prime. Feel free to talk to the trustees at the fire and police about the innovation from Prime taking over their assets. Lastly, Prime offers a customized approach. Notice, they have not said which managers, precisely what asset allocation they are offering, because it is entirely about a collaborative process.

Last, because he should talk about it, is their fee schedule. They are assuming a full retainer relationship. In that relationship, they hope that the Town and committee views them as an extension of the staff, of the committees, where they never hesitate to call because there is never a bill attached to that. This is their standard fee schedule, a $75,000 minimum fee. They are pleased to propose a minimum cash fee of $60,000 based on their relationship with the other two trust funds with the Town of Palm Beach.

Chair Andrews asked from an institutional standpoint, how much money would Prime be managing in the Town of Palm Beach if the Health Insurance Trust Fund's $16,000,000 is added?

Mr. Higman said the Town of Palm Beach assets will bring us to about $120,000,000. The other two are a little over $50,000,000 in each.

Mr. Brown asked to what extent would Prime Buchholz expect to utilize the manager relationships that the Town already has in developing our relationships?

Mr. Higman said to the extent that they are appropriate. They are not jumping ahead and deciding which managers they want. They would be able to do the same kind of discussion as they discussed before. Talk to the managers, generally speaking, get breaks based on, not just their relationship elsewhere in the Town of Palm Beach, but their overall relationship with managers that know them and like the kind of clients that they bring to them. Again, if the Town is fee sensitive in areas, they manage around it. One nice thing is to the extent they can use the managers that they already know. Here in the Town of Palm Beach, they already know all the legal hurdles because they have two separate councils. The councils have already looked at documents, and all of that is leverage. So that is the path of least resistance. Until they get in and decide what the portfolio looks like, they can't really say.

Chair Andrews asked hypothetically at the end of the day, if the committee decides they want to go with Prime Buchholz, how much time after that decision is made before Prime has control of the $16,000,000?

Mr. Prime said the committee has control. Prime advises the committee. They do not like the Florida League of Cities' model where the money is handed over to them. They will set up a trust fund. It is relatively quick because they don't have to take money away from other managers.

Chair Andrews said he understands that. He is looking at the administrative time to decide what managers Prime is going to have, what is the allocation going to be, and that type of thing?

Mr. Prime said depending on the availability of the committee. It could be done literally in weeks if the committee was available to review the asset allocation material and go through that conversation

Chair Andrews asked Ms. Struder if that was coordinated in the past through the Finance Office? The committee makes a decision to use one of the individual groups that has made a presentation today, what happens next?

Ms. Struder said there would be another meeting with the group the committee picked to develop an investment policy, and decide the asset allocation.

Mr. Higman said Prime Buchholz would already have an investment policy that the Town would just adopt. They would go out and bring to the committee their recommended asset allocation. Prime would make that decision and then the next decision is, what managers? In order to execute that, they would approve the appointment of each one of those. They would go away behind the scenes with Ms. Struder and the custodian, write all the letters, do all of the coordinating, make sure all the wires went out, do all of that behind the scenes.

Chair Andrews asked if these are meetings that they would have in addition to their normal meetings?

Ms. Struder said the requirement is four per year. It can be part of the regular meeting or there can be more.

Mr. Higman said they can do a lot of the work by phone subject to the Sunshine Laws. They are a presence in Palm Beach County and are here quite a bit.

Chair Andrews said for the sunshine law, he would prefer that everything go through Ms. Struder.

Chair Andrews thanked them for the informative presentation.

Mr. Brown asked if they got the same fee schedule from Callan?

Ms. Valcik said she would work from the same, all in fee of $60,000.

Mr. Brown asked so they did not get this until now?

Ms. Valcik said right. She had one. $60,000 is what they charge.

VIII. MONTHLY INVESTMENT REPORT

Ms. Struder asked if the committee would like to move to the monthly investment report while the Mr. Shamoun and Mr. Heintz with the Florida League are available? She said the November report was mailed in their packet. The December report was handed out this morning. She reported December was not a very good month. She said maybe Mr. Heintz can give a brief update and talk about the change from November to December and if the committee has any questions, he can answer them.

The committee agreed.

Mr. Heintz said he will give some ideas on what the bond market is. The Federal Reserve has not raised rates since last June, so it has been staying at 5.25. Within that, the market kind of prices up and down where they believe it is going to be more than net. So the actual interest rate in the market was higher and lower and somewhere in between. In September and October, the fixed incomes had pretty good returns. The reason was because people started thinking, maybe, they did too good of a job, the economy is slowing down too much, they are going to be lowering the rates in December. Then, in November, they saw little signs of inflation, and they thought, maybe it is not going to happen in December. Obviously, it did not happen in December. Now the market is starting to price itself back to where it is believed that they are not going to do much in January or February. So if the belief that they are going to lower rates at some point in 2007 is correct, then they are probably pricing just about where the interest rate is going to be flat for a little while but eventually if they do lower the rates, the returns similar to September and October will start happening again as they get closer to actually lowering the rates.

Then when they do lower the rates and the interest rates keep going down, there will be good returns in bonds. September and October was kind of a sneak peek of what might be coming if the interest rates are going to be lowered at some point in 2007. A lot of high end fixed income managers are targeting 4.25% for fed funds rate as of December 2007. They think it is going to come down to 400 basis points. Money managers in Atlanta Capital are thinking somewhere around 4.50%. A lot of them believe the housing market is going to knock the 4% off the GDP. The League has a low risk of inflation, a little bit lower growth, so that's what is going to ultimately derive a little bit of return for fixed income.

Mr. Mikus asked if the committee is mandated to keep the entire portfolio in fixed income securities?

Ms. Struder said yes for the most part.

Mr. Mikus said so really there is not an awful lot of discretion.

Vice Chair Hennessy said no, there isn't.

Chair Andrews said the discretion is SBA or the Florida League of Cities. He said it would be helpful next time if the presentation was page numbered. It looks like there is a standard fund, and then there is an enhanced fund?

Mr. Heintz said they have an enhanced cash fund which is similar to the SBA. The primary difference is the SBA is a daily liquidity, and the League's is twice a month.

Chair Andrews said so there are no other changes or suggestions as to places to put the Town's assets?

Mr. Heintz said the SBA and the League's enhanced cash are very similar. They are both money market accounts, very short term cash. The League has the 1 – 3 fund, intermediate, and a broad market fund. Most investment policies set up with a limitation on duration.

Chair Andrews said five years max is all they can do.

Mr. Heintz said their broad market is around four and a half years. It is quite defensive because of the interest rate being defensive the last couple of years.

Chair Andrews said he knows what the League's performance is but from a political standpoint, it gets very hard for the committee to defend losing money for the Town. He asked Ms. Struder if the Town is losing real money.

Ms. Struder said no the Town is not losing money but they are losing money versus having it all in the SBA.

Chair Andrews said that is a good point. The Town is losing the opportunity. And, as a committee, is the committee doing a good job for the Town? He thinks they are fairly well placed right now. He asked the committee for some feedback on what their thoughts are.

Mr. Mikus said the committee has a responsibility and is somewhat accountable for these returns but he is not sure they can do anything. He would like to see a schedule of what choices the committee has, if any. And also get a sense on what the committee's input would be. First on the shape of the yield curve, for example, where the committee should be in terms of duration decision. Whether they see credit spreads compressing or expanding? Do they have any input in that?

Chair Andrews said he thinks the committee is limited to about six or eight decisions, SBA, Florida League of Cities and some alternatives within the League. The committee can take money out and can make individual investments. At one time, they had a treasury, right?

Ms. Struder said yes, the treasury matured in mid December.

Chair Andrews said there are some other things the committee can do. Obviously their information should be where they think the yield curve is going, employment, etc.

Mr. Brown said if invested in fixed income, there has been a period of time for several years now where it's very, very hard to beat money market accounts. They have done the best of anything, but in the long run, they've done the worst of everything. If the committee starts second guessing themselves, and, if the money markets have done best, the committee might want to put all the money in there. At some point, that will be wrong. The best the committee can do is to have some kind of diversification program. He thinks the reason that the returns have not done as well is because this has been an unusual period.

Mr. Mikus said Mr. Brown defined it perfectly. He is just concerned about the future. Let's just say three years from now, credit spreads have widened dramatically and it may be appropriate to put the money in a short term high yield fund.

Mr. Brown said he does not think the committee can take credit risks beyond a certain level. He thinks it has to be investment grade. He asked Ms. Struder if she remembers on the Florida law?

Ms. Struder said she will check.

Mr. Mikus asked if it was BBB?

Chair Andrews said he thinks they can only do A rated. So they are limited to what they can actually invest in. The fun part is, now all of a sudden, they have $16,000,000 to invest.

Vice Chair Hennessy said the committee can make that interesting.

Chair Andrews said they can do that a little differently. He asked how much money that the Town has in the Florida League?

Mr. Heintz said $22,000,000, $16,000,000 in the 1 – 3, and just a little shy of $6,000,000 in the intermediate.

Chair Andrews said the Town has a member on the League's board.

Mr. Heintz said the discussion has been on the different opportunities and areas to invest in. The most power isn't the different vehicles, it is how the funds are allocated, and if the duration is shortened or lengthened as the overall portfolio not in any specific products.

Mr. Mikus said if somebody could prepare a schedule of decisions that the committee needs to make, those can be addressed in the meetings instead of having to redefine what it is at every meeting.

Mr. Heintz said he has some slides that show the long term bonds being discussed when the funds lose money. It is hard to justify that or the opportunity cost of money. Look in December, the short term fund barely squeaked out above positive.

Meanwhile, the SBA money market is bringing in 45 basis points. Long term over a three year period is a really long period to look at. The lowest return that a thirty year bond has had in the last thirty years is 1%. The lowest return the money market has had is about 1.6%. There is not really a low downside but on the upside, there is a much higher return on the thirty year bond than on the money market. In looking at a longer period of time, obviously, the longer durations are going to perform a little better. It's hard to look at the monthly and pull yourself out quarterly or annually. Over a two year period of time, the entire picture appears.

Mr. Mikus said he is just concerned that in the future somebody brings up a why wasn't the decision made, and then there's the question of the committee didn't know they had the ability to make the decision.

Chair Andrews said that is not where the committee wants to be.

Vice Chair Hennessy said definitely not.

Chair Andrews said he thinks the committee knows what decisions can be made. He feels comfortable with that. He said Mr. Mikus, as a new member, might not feel comfortable. He asked Ms. Struder for guidance.

Ms. Struder said she has given Mr. Mikus the investment policy and the state statute that outlines the limitations.

Mr. Mikus said that is very broad. He would like to know on a meeting level so he is prepared to address what needs to be done.

Chair Andrews asked Mr. Mikus if he is talking about the duration the committee can have? Committee recommendations are made going forth.

Mr. Mikus said and whether the committee should change it or not.

Mr. Brown said they have the investment policy that was approved by the Town Council. They can go back at some future meeting and take a look at that, and that would have the answers that Mr. Mikus is looking for. That can certainly be reviewed.

Chair Andrews said maybe at the next meeting, the investment policy can be reviewed.

Mr. Heintz said as far as the funds that the League has, they can always provide as much information as needed. This is the information on their fund sheets that show where they are. Ms. Struder knows that Mr. Coleman has been great about coming any time he is needed. He will be here to help the committee understand why they are positioning defensively or why they are starting to lengthen the duration. All that information is definitely available from the League.

Chair Andrews thanked the gentlemen from the Florida League.

IX. CONSIDERATION OF INVESTMENT OPTIONS

Chair Andrews said the committee has two decisions to make. Is the committee going to manage the investments as a committee and make individual investment decisions similar to what they do for the Town's cash or consider some alternatives, such as the three presentations given today? He asked for thoughts on that.

Mr. Panfel said if the committee is looking to escape the liability of making that decision, they seem to be on that road by buying the insurance policy. They can manage it and the committee has no responsibility.

Chair Andrews said that's a good point but he is really talking about from a committee investment standpoint. Does the committee want to make the investment decisions, as a committee, or consider having a third party take control of the investment decisions and this committee would monitor it? They will be very different from the ones being done on the other Town investments.

Vice Chair Hennessy said the committee only meets four times a year. A lot could happen between one meeting and the next meeting. Forgetting the liability or whatever else is involved, he would rather have someone monitor it on a day to day basis and that is what these people are supposedly doing.

Mr. Mikus said that is a very valid point. His concern is that cost is so critical, especially over long periods of time, and the difference between virtually no cost if the committee makes the decisions. His inclination would be to make a lot of the decisions as a committee. A hierarchy of policies is in place in terms of preferring indexing over active managers, especially on the domestic side, to come up with an asset allocation schedule, and the committee could adjust that. He does not know of many people that adjust their asset allocation more than once or twice a year. His inclination is let the rebalancing process take care of it and do it quarterly, maybe with the help of one of these groups.

Mr. Brown said he can see that if the committee was going to do all indexing. But if they are going to do anything as active managers, he is not sure how they are going to do that. These folks have a rolodex with hundreds of active managers and all kinds of evaluation processes, etc. He does not understand how the committee is going to do that unless they hire a staff to do it. This is the same thing as hiring one of the three that presented today. It would have to be all indexing if the committee is going to do it, right?

Mr. Mikus said indexing would be a good part of it.

Chair Andrews said everything could be indexed because of the funds. The options and the diversification are there now.

Mr. Mikus said he would be happy to suggest a few emerging markets funds on the equity side.

Chair Andrews said he agrees, they could find the investments if they wanted to go that way.

Mr. Panfel said he would prefer to have someone watch it on a day to day basis and pay them to do that.

Mr. Brown said the cost is 37.5 basis points.

Mr. Panfel asked if that is an excessive amount?

Mr. Brown said it is not an excessive amount for the services provided.

Chair Andrews said but the committee is also going to buy equity. If that was 37.5 basis points on top of the debt, it would really be tough going, but on the equity, there is some flexibility. The committee can decide which way they want to go. He thinks the cost can be absorbed. He thinks it is an expense that they will have to put into the equation.

Vice Chair Hennessy said the committee meets four times a year. They don't have access to a lot of analyst's reports, etc. He suggested hiring a money manager.

Chair Andrews said he would like to have someone else manage that particular part of the money. The committee can watch it but he does not think the committee or the Town staff is set up administratively. He does not think Ms. Struder wants to be in a trading position. The committee actually does not monitor it closely enough and he thinks with the background that Mr. Mikus has, they can come up with some information and will basically do the same thing in hiring the managers in working on the spread. So, he thinks, as an individual member, that they should go out and get a third party to help manage the trust.

Chair Andrews said he would like to take a poll on an outside manager or managing it inside.

All members voted for outside managers except for Mr. Mikus.

Chair Andrews said there are really two choices to make, to go with someone like the Florida League of Cities that has a slightly different perspective than the others, or go with Callan & Associates or Prime Buchholz.

Mr. Brown said he thinks Prime Buchholz or Callan Associates are far more sophisticated and flexible than the Florida League. He said the Florida League is a package deal with some flexibility but not a lot. There is hugh flexibility with the others. He thinks they are both outstanding consultants.

Vice Chair Hennessy agreed.

Mr. Panfel said he was very impressed by the presentation of Ms. Valcik. He thought she was in command of every facet of her presentation.

Mr. Mikus agreed it should be a choice between Callan Associates or Prime Buchholz. He liked Prime Buchholz.

Chair Andrews asked if the Florida League of Cities is eliminated?

The committee agreed.

Chair Andrews said he would feel comfortable with either one of the others.

Mr. Brown agreed. He said can give some input that other people do not have. When he was trying to get the assets put together into one pool, which by the way would save about a quarter of a percent a year in fees, he spent a lot of time going over the reports of both Prime Buchholz for the Fire and Police and Callan for the General Employees. He thought they were both very good. Both have all the resources the committee could possibly want. He thought Prime was perhaps a little more broad in terms of trying to get more asset diversification, and understanding not only the return but the risk parameters a little better than Callan. But he thought they were both outstanding. He thought Ms. Valcik made a better presentation but Mr. Prime is one of the best known consultants.

Chair Andrews said his firm is well known and he does a lot of good work.

Ms. Struder commented about the diversification of the two different managers. The General Employee Board has typically been very conservative. It is more the choice of the Board. They have, in the last few months, made a lot of changes. They have changed to some 130/30 funds and some other funds. That was dictated more by the board than by the consultant.

Mr. Brown said he is comfortable with either one. He is very impressed with the fact that Ms. Valcik had laid out a timetable for what needs to be done, when they were going to do it, etc. Prime Buchholz was more generic in their presentation. They weren’t quite ready to do that. On the other hand, they have other attributes that he thought were outstanding. He would go with either one.

Mr. Mikus said Prime Buchholz brought up the fact that they have no conflicts of interest and that is significant. He knows in his business as an investment advisor that Callan has significant conflicts of interest. There have been issues of pay to play with different managers and so that might be problematic. There have been a lot of conversations with people about that and Prime Buchholz touched on that, that there is absolutely no conflict of interest. He also sensed in the different presentations that organizationally it would be easier to introduce the committee's input to Prime Buchholz than a large, large firm like Callan Associates because they are literally a huge global firm. Small players and smaller firms tend to be more responsive to a smaller size pool of assets.

Mr. Brown said those are all very good points.

Chair Andrews asked Ms. Struder from her standpoint of being the Town's Finance Director, if she has any thoughts on either firm?

Ms. Struder said since the Police and Fire boards have gone off on their own, she does not do any administering or accounting for any of their assets. So she does not have a relationship with Mr. Prime.

Vice Chair Hennessy asked if she gets their reports?

She replied she does get their reports but that's it. She does not sit in on their meetings, she does not watch their assets, and she does not deal with Mr. Prime to do any asset allocations. So she cannot really speak to that end of it. But on the Callan side, in the most recent change in managers that they have made with the General Employees, basically all the Town had to do was to get papers signed by the Chairman of the Board. Ms. Valcik and the custodian at State Street did the whole change, it was nice. She thinks Callan does a very good job for the Town and for the general employees but she is kind of biased because she is the one she works with. But she is sure Mr. Prime does a very good job for the Police and Fire boards as well.

Mr. Brown said he is trying to remember if Prime does the custodial work also.

Ms. Struder said no, State Street does the custodial work for Prime. She would like to stay with State Street.

Mr. Brown said the committee has the luxury of the choice between two firms that have both performed very well for the Town and both have very good reputations. He is impressed by the point that Mr. Mikus brought up about the conflict of interest. He had not realized that there was an issue and maybe that is enough to shift it in the other direction.

Vice Chair Hennessy asked how long has this been going on? Is there an investigation on it?

Mr. Mikus said no. The point is that the only people that compensate Prime Buchholz would be the Town and Callan is a consultant to managers in addition, to both sides of the street which is their business model. There is nothing wrong with that. Callan is a very decent, honorable firm. It is not a bad thing. It is just a different model.

Mr. Brown said he was also impressed that Jon Prime would be the Town's contact. He is maybe the best known consultant.

Mr. Mikus said also from looking at the local institutions that they deal with, many of them are very similar to the Town in terms of the size of assets. Mr.Prime would have some kind of sense on what the Town would be about.

Chair Andrews asked how much of the Town's money does Prime have?

Ms. Struder said Police and Fire each have around $54,000,000.

Chair Andrews said with the Health Insurance Trust Fund, his business with the Town would increase by 10%. Does anybody have any other thoughts on the two firms?

Vice Chair Hennessy said inasmuch as Prime does the pension funds for the Police and Fire, if Callan was doing the Health Insurance Trust Fund, at the end, performance and cost could be measured.

Mr. Panfel asked if the decision is made to go with one of the firms and the Town and committee is not happy, what happens?

Vice Chair Hennessy said the option to terminate is there.

Chair Andrews agreed.

Mr. Brown said the good news is that all three pension funds, police, fire, and general employees have been very happy with the service they have received for a number of years. The probability is that this committee would be also. He said another thing that he liked about Prime is they spelled out the fees. Callan was silent on that, then they matched Prime. He said another thing in favor of Callan, even though he does not put them ahead of Prime, is that Ms. Struder is the associate that helps the committee and she works with Callan on the general employees' pension fund. She does not work with Prime. So there is some advantage to that.

Chair Andrews said he thinks Ms. Valcik is a good politician. From what he understands, she works well with the other fund. He assumes that Prime would do that also.

Chair Andrews said he is going to ask each committee member to vote either Prime or Callan.

Chair Andrews, Mr. Brown and Mr. Mikus voted for Prime. Vice Chair Hennessy and Mr. Panfel voted for Callan.

Chair Andrews said it is an investment decision that was very close, it could have gone either way, and the committee has chosen Prime.

Chair Andrews entertained a motion to hire Prime Buchholz as an advisor. Mr. Brown made the motion. Vice Chair Hennessy seconded. Motion passed unanimously.

X. UPDATE ON TREASURY MANAGEMENT

Chair Andrews asked Ms. Struder for an update on treasury management.

Ms. Struder said the treasury bond of $2,000,000 matured in December. The rates at that time were at 5.15 for a six month treasury and 5.07 for one year. The SBA is at 5.33. Before she made a decision and committed to anything, she wanted to come back to the board to see if they wanted to leave it in the SBA or if they wanted to put it in a treasury and lock in those rates, assuming that the rates in the SBA may decline in the next six months. Currently, the money is back in the SBA.

Chair Andrews asked for thoughts from the committee.

Vice Chair Hennessy said he would like to put it in treasuries again. He said six months is not a long time.

Mr. Brown said he would like to stay in the treasury market, and when they review the policy, see if they want to do more of that. He suggested that they do that in connection with reviewing the investment policy next time because they still have a big discussion ahead today.

Ms. Struder asked so put $2,000,000 back into the six months treasury?

The committee agreed and decided they can look at adding to it the next time.

XI. NEXT MEETING DATE

Ms. Struder said both Callan and Prime will be here the week of February 5 – 9 for the pension boards meetings.

Chair Andrews asked if they could come prepared since they are going to do all the work so the committee can make a decision?

Ms. Struder said the first decision is going to the asset allocation, correct? Then, they would go out and find managers for that mix.

Chair Andrews asked if they proposed an asset mix?

Ms. Struder said they would probably show various options, what your standard deviation is, etc.

Mr. Brown said he thinks they are also going to talk to the committee about an investment policy.

Chair Andrews asked Ms. Struder to send an email indicating the dates or maybe some alternative dates. He is sure another meeting will be needed soon after that to go over the regular investment.

XII. ANY OTHER MATTERS

There were no other matters for discussion.

XIII. ADJOURNMENT

Chair Andrews called for adjournment. Vice Chair Hennessy made a motion to adjourn. Mr. Brown seconded. Motion passed unanimously.