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TOWN OF PALM BEACH
MINUTES OF RETIREMENT BOARD MEETING
November 20, 1998

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Harvey at 9:00 a.m. on Friday, November 20, 1998, in the Town Hall second Floor Conference Room. Attending were Chairman Robert Harvey, Vice-Chairman James Wearn, Council President Lesly Smith, Trustees Robert J. Doney, Karen Lane, Charles Boggs, George Frick, and John DeIorio. Also in attendance were Attorney John McCracken, Plan Administrator William Crouse, Personnel Analyst Carla Kneipp, Personnel Assistant Nancy Battistel, Finance Director James Demming, and Assistant Finance Director Cheryl Somers.

II APPROVAL OF AGENDA

Chairman Harvey asked if there were any changes to be made to the Agenda. There being no changes, Mr. Frick moved approval of the agenda. Mr. Boggs seconded the motion. The motion carried unanimously.

III APPROVAL OF MINUTES

Mr. Frick moved to accept the minutes of the regular meeting of August 21, 1998 and the minutes of the special meeting of September 15, 1998. Mr. Boggs seconded the motion and, all voting aye, the motion carried.

IV CONSIDERATION OF FIDUCIARY LIABILITY POLICY

Karen Temme, Risk Coordinator, appeared before the Board and introduced Jori Van Dervoort, Account Executive with Arthur J. Gallagher. Ms. Temme explained that the Fiduciary liability policy expired December 1, 1998. She explained that the proposal from Gallagher was to continue the coverage with National Union Fire Insurance Company and described the two options for renewal of the policy. She stated that the first option was to provide the same limit of $25 million and deductible of $75,000, with a reduction in premium of $4100, or 5%. Ms. Temme explained that the second option was to provide the same limits and premium as the expiring policy with a reduction in the deductible from $75,000 to $50,000. Ms. Temme explained that based upon the Town's experience, it was her recommendation to renew the policy with the first option, giving the Town the same limits and the same deductible and a reduction in premium of $4,100.

Mr. Wearn asked Ms. Temme to explain the deductible in the event of a claim. She explained the Town would be self insured for the $75,000. Mr. Wearn then asked if the Town would undertake that on behalf of each of the members of the Board. Ms. Temme replied yes. Mr. Doney stated that he would like to clarify that the Retirement System would be responsible for the first $75,000.

Mr. Boggs inquired as to why the insurance company was only offering a 5% reduction when the deductible was being cut by a third. Ms. Van Dervoort explained that the company couldn't do better with the rates. She stated that this was a very good quotation, and that the Town has had low premiums for quite a while.

Mr. Wear moved approval of the recommendation of the Risk Coordinator for option number one, renewal with no change in the limits or deductibles, and to seek the waiver of recourse as presented. Mr. Frick seconded the motion and, all voting aye, the motion carried.

V. CALLAN ASSOCIATES

Carl Deane of Callan Associates, appeared before the Board and distributed a handout relative to the performance of the fund by objectives of the plan. He explained that on a relative basis, the Town had done very well, which could have been expected because the markets had been down and the Town was positioned more conservatively than the rest of their peer group. He further explained that the managers had done fairly well. Mr. Deane explained that the best returns had been somewhere around an 8 ½ negative return for the quarter, and the worst had been down at less than 22%, or more than 22% negative. Mr. Deane explained that this was a normal occurrence, and that the markets were thought to be coming back and regressing to the mean like they were supposed to. He stated that they had been exorbitant for the last three or four years.

Mr. Harvey asked Mr. Deane if this was equity only. Mr. Deane stated yes, and explained that the S&P 500 showed that even though the markets were down, the S&P still outperformed about 80% of the active managers. He further explained that the bonds had outperformed the stocks in the quarter and had positive returns. Mr. Deane explained that the Lehman Brothers Aggregate had come in at about 4.2%. He further explained that the interesting thing about the bond market was that interest rates came down, so long bonds should have done better than short, which in essence they did, but the only things that really did well were treasuries. He explained that if a manager was heavy in corporates, they were going to underperform, and if a manager was not in treasuries, they did not have a chance of being above median, in all likelihood. Mr. Deane explained that the same scenario existed for the one year period ending September 30th. He explained that on the equity market based on the last quarter, half of the active equity managers had underperformed, with negative returns in the one year period due to the last quarter. Mr. Deane stated that even though it had been a terrible quarter, a lot of the losses had been recaptured in October and November. Mr. Deane explained that the Town had started at about $110 million and had ended the quarter at about $109 million, which was much less of a loss than many others had experienced, but was expected with the Town's asset mix.

Mr. Deane explained that at the end of the quarter, the plan had about 60% in fixed income and almost 40% in equities, which was in line with the policy. He explained that in comparison to other public plans, the Town had ranked in the 11th percentile for the last 12 months of all public funds. He explained that when this was adjusted for asset allocation, the Town would have ranked third. Mr. Deane stated that this meant that in the last twelve months, the managers had added value compared to their peers. Mr. Deane then explained that over the past 5 years, the Town had ranked in the 73rd percentile. He further explained that adjusting for asset mix lowered the rank, which meant that the managers had not been able to add value to the asset mix.

Mr. Deane then reported on the S&P index fund, explaining that this was approximately 25% of the portfolio, and that it was performing as he expected. He stated that over long periods of time, it was expected that the Town would underperform because of the fee involved. Mr. Harvey asked Mr. Deane what the fee was. Mr. Deane stated that he did not know, but that it should be approximately 15 basis points.

Mr. Deane then reported on Loomis Sayles, and explained that they were compared against large cap value managers. He stated that these managers had been out of favor in this time period, so the concern was with how they were doing compared to their peer group.
He explained that they had ranked 40% in the quarter, and going out over the last 3 ½ years, they were in the 35th percentile, so compared to other value managers, they had performed very well on the equity side. Mr. Deane explained that the fact that they ranked above average in the quarter was another reason that the total fund performance was above the average in the quarter. Mr. Deane reported that Loomis Sayles's bond portfolio was the majority of their assets, and that about 60% of their assets were in the bond portfolio. He explained that their bond portfolio ranked in the 12th percentile for the quarter, with an almost 5.2% rate of return, which was well above the Lehman Brothers Aggregate. Mr. Deane stated that since inception, they had ranked in the top quartile of core bond managers and above the Lehman Brothers Aggregate.

Mr. Deane then reported on Roanoke Asset Management. He explained that Roanoke was positioned at almost 60-40, with 60 % in fixed income and 40% in equities, which was just about right on target. He explained that their performance was measured against midcap managers, and their capitalization rate of the portfolio was much much smaller than a manager's like Loomis, so they were being compared against portfolios that were smaller capitalization. Mr. Deane explained that Roanoke ranked in the 10th percentile in the quarter, so they had a pretty good quarter with their equity portfolio. He explained that this had not been as good as the S&P, but the S&P had outperformed all the midcap portfolios. Mr. Deane reported that over the one year period, Roanoke had been almost at median, but cumulatively, they were in the 81st percentile, which is something that had been discussed at length in regards to their equity portfolio. Mr. Deane explained that smaller capitalizations were going to be more volatile, and compared to their peer group, they had underperformed over the longer period of time and had a rough previous two out of three years. Mr. Deane stated that it looked like this was a good improvement in performance for the last quarter. Mr. Deane further explained that regarding their probationary status, the goal was peer group improvement.

Mr. Deane then reported that as in the case of Loomis, Roanoke had a very strong bond performance. He explained that they were very heavy in the treasury market, which was the only place that money could be made in the quarter, and that they ranked in the 4th percentile. Mr. Deane explained that outperforming almost 95% of the other core bond managers in their universe was the goal, and going out over five years they were slightly above average, but were adding value over the Lehman Brothers Aggregate Index. Mr. Deane explained that over seven to ten years, there was an almost 80 basis point premium over the index, so there had been good bond performance in this portfolio.

Mr. Deane then reported on the T-bond account, explaining that this was not an actively managed portfolio, and while long term it had been a drain on the performance, it had a particular function that it provided. Mr. Deane explained that this function was outdated at this point, but in this environment it had done very well. He explained that it was not an active portfolio, and that looking at the past seven to ten years, it was underperforming the aggregate index.

Mr. Harvey opened the floor for discussion.

Mr. Doney stated that he thought it would be extremely helpful if Mr. Deane were present for the entire presentation of the investment managers so the trustees could then direct questions to him. Mr. Deane responded that he would remain throughout the presentation.

Mr. Harvey asked Mr Deane if the handout the trustees had received dealt with the information Mr. Deane had just presented. Mr. Deane explained that the handout dealt with information regarding performance by objectives in the investment policy, and that he prepared this type of information for the trustees every quarter . Mr. Doney stated that he found this information to be very helpful, but that it would be equally helpful to have the information noted as to the date it was prepared and that it had been prepared by Mr. Deane. Mr. Deane indicated that he could provide this information in the future.

A. Consideration of Investment Managers' Proposed Fees

1. First Union Bank

Douglas Byrne appeared before the Board explaining that he was the new Regional Investment Manager for First Union Bank in Palm Beach. He explained that it concerned him when he learned that an account of the Town's sensitivity and magnitude was considering changing their status with First

Union. He explained that the relationship spanned more than 10 years and there had not been any service or performance issues or performance issues of any nature. He explained that he was remarkably concerned that the Town was considering changing the relationship.

Mr. Byrne explained that if the Board wished to change the relationship to embrace a more active style of fixed income management, they could be assured that the bank had the facility in their First Capital Group to accommodate that change. Mr. Byrne then introduced John Pavela from the First Capital Group.

John Pavela, Vice President with the First Capital Group, appeared before the Board and explained that First Capital Group was the institution asset management division within First Union. Mr. Pavela explained that First Capital Group was the institutional management arm of the organization, with roughly $58 billion in assets under management. He explained that the professional staff in the fixed income area consisted of roughly 30 fixed income portfolio managers. He explained that First Capital Group was set up to accommodate the changes that were being made to the investment policy. Mr. Pavela explained that he wanted to make the Board aware of First Capital Group's qualifications as an active bond manager within the universe of institutional portfolio management, and to ask that they be considered for maintaining the piece of business they currently had.

Mr. Boggs asked Mr. Pavela if they were aware that the Towns' bonds were limited regarding bonds rated "B"or lower. Mr Pavela replied yes. He explained that the style utilized by First Capital was for a broad client list and they did perform according to customization. He further explained that First Capital was very well aware of the State Statutes and the Town's requirements.

Mr. Deane stated that he was familiar with the capabilities of First Capital and that their approach was a very common approach in enhanced index where it was being tightly controlled. He explained that at the previous meeting, the Board had discussed the fact that the two investment managers had been doing quite well in the bond portfolio over the last four or five years and the Board did not want to disrupt this. He stated that it was is nice to know that in the case one or both of them would falling short of their goals there was something close by that could be considered. Mr. Deane further explained that there were many organizations that could do this, and if the Board was interested in pursuing that, it might be feasible to go through the whole process of a search. Mr. Deane explained that the Board had indicated that it was very expensive to liquidate a portfolio and start up a new one, so they had chosen not to do that. He explained that while there was nothing wrong with a laddered portfolio, it just wasn't an active product.

Mr. Boggs inquired as to how the Town chose First Union to handle the laddered portfolio. Mr. Harvey explained that it was an outgrowth of their role as the custodial agent, and because the laddered portfolio was more of a mechanical account, the Town had added it to their duties as a residual type portfolio, visa-vie the other outside mangers.

Mr. Doney added that the Town itself, through their Finance Department, had established a banking relationship with First Union years ago. He further explained that the Town also had their daily accounts there, so it was advantageous to do it this way.

Mr Deane explained that at the last meeting they had discussed the asset allocation simulations of what returns could be expected vis-a-vie the actuarial assumption, which could be a tough assumption to reach. He explained that the Board had recommended changes in order to obtain a little more premium that they would obtain from a pure enhanced index product. Mr. Deane explained that there would be times when the enhanced index product would outperform the active managers, but the fund would need every bit of return it could get, particularly when the markets went back to normal. He explained that this was why the Board had chosen to go to more active managers.

Mr Harvey stated that the other issue on the table was the various fee structures. He explained that what the Board had decided at the last meeting was to first, restructure the current portfolios in terms of dedicated equity and dedicated bond portfolios. He explained that the next step had been to increase the equity allocation, and the third step had been to review each manager and decide whether they should be handling equities or bonds or both. Mr. Harvey explained that this process led to the evaluation of different fee structures.

Mr. Harvey then asked First Union to report on their proposed fees.

Ken Schrader of First Union Bank appeared before the Board and explained that he was the Account Administrator for the retirement accounts. He explained that at the present time, they utilized a two prong fee structure. He explained that on the laddered treasury portfolio, they charged a flat fee of 15 basis points, and on the custody accounts they had for Loomis and Roanoke, they charged a $500.00 annual maintenance fee plus a $35.00 annual charge per security and a security transaction fee of $30.00 for each transaction, whether it was a sale or a purchase. He explained that their current fee structure of the laddered treasury portfolio was more or less supplementing the fee on the custody side of the business, as that fee schedule was actually over ten years old and they no longer used that. Mr. Schrader explained that if First Union was not to continue to have the laddered treasury portfolio to supplement the custody business, they would have to increase their fees slightly to an annual maintenance charge of $2,000 per account and an annual charge per security of $40.00 per issue and a security transaction fee of $40.00 per transaction. Mr. Schrader explained that if the Board would like a firmer handle on what the fees would be, they could propose a fixed fee of seven basis points on the market value of the custody business.

Mr Deane suggested that the Trustees might be interested in seeing if the proposed fee schedule could be applied to the actual figures of the past year so they could see what the difference would be between the proposals. Mr. Schrader responded that this could be done.

Mr. Harvey stated that First Union currently had a sweep charge, and asked if that would continue to be charged if the seven basis points were used. Mr. Schrader responded that they would be willing to waive the sweep charge. Mr. Deane asked what the current sweep charge was, to which Mr. Schrader stated that it was 30 basis points.

Mr. Wearn asked Mr. Schrader if the fees that were on an annual basis were charged monthly or quarterly. Mr. Schrader answered that the charge per security was annual and the transaction charge was semiannual. Mr. Wearn asked if those were accrued for a six month period of time. Mr. Schrader replied yes. Mr. Wearn asked Mr. Schrader if First National would be willing to accept either of the alternatives that had been proposed. Mr. Schrader replied yes and mentioned a third alternative, explaining that if they were to continue to manage the existing money that is now in the treasury account in a managed type basis, they would be willing to stay with their current fee schedule on the custody side, and also the 15 basis points on the managed side, so their fees would not change.

Mr. Wearn asked Mr. Pavela if it was possible for to calculate into the future the fees on both methods during any accounting period. Mr. Pavela responded that they could. Mr. Wearn then asked if they would be willing to accept the lower of the fees. Mr. Schrader stated that he believed they would, and they would do their best to come up with as accurate a figure as possible.

Mrs. Smith explained to Mr. Schrader that the increases appeared high compared to the other institutions that were out there available to invest the funds. She asked if this increase of more than 20% in their fees would be applied to all of their customers across the board, or just to the Town of Palm Beach. Mr. Schrader responded that what was being proposed was much less than what would be charged the average customer because of the dollar size involved and also because of the long term relationship that they had with the Town, which they would like to keep.

Mr. Deane explained that he had an opportunity to see a lot of different custodians. He explained that what was being referred to as First Union was really the local operation, which was primarily personal trust accounts, and that while it was operating as a custodian, it is not the institutional group of First Union. Mr. Deane explained that when he first saw this, his reaction had been that the fee was going from $30.00 a transaction to $40.00, and he typically saw an average of between $10.00 and $15.00 a transaction from the institutional custodial operations. Mr. Deane explained that he was currently doing a search for a client in Florida that was considerably smaller in size and that the quotes he was receiving indicated that nobody was above $12.00 per transaction. Mr. Deane explained that the reason for First Union's fees was that they did not have the economies of scale that the State Street and the First Union institutions had in dealing with large institutions and specializing in custody work. He stated that he was sure that the fees that were being quoted were probably as good as First Union could get locally, but that it would benefit the trustees to be better aware of what was available in the marketplace. Mr. Deane explained that he knew the association with the local bank was wonderful and it had been a great relationship, but as fiduciaries, the trustees were charged with the responsibility for overseeing the fund and that one of those considerations was the custodial services.

Mr. Pavela explained that the local presence of First Union had definitely been a factor and that Mr. Deane was correct in that the fund had been handled out of the personal trust area. Mr. Pavela explained that First Union did have institutional trust capabilities and custody capabilities, and that they were serviced out of Jacksonville, Tampa, and Miami. He explained that should the Board agree to having a contract outside of Palm Beach, First Union had that capability. Mr. Pavela further explained that he was representative of the institutional side, and was housed in Palm Beach with Ken Schrader.

Mr. Pavela explained that they had not been aware that the Town had been looking at going out to bid for custodial services. He explained that there had been a change in the structure with the bank as investment manager and the proposed fee schedule. Mr. Pavela stated that if the Board would like to see a proposal from the institutional custody capabilities of First Union, they would be more than glad to provide one. He explained that there were different capabilities within the personal trust area as well as the institutional area, and that it was just a matter of preference for the Town of Palm Bach. Mr. Pavela explained that it had been his understanding that the local presence was one that the Town valued, and that is why the fund had operated out of Palm Beach. Mr. Pavela stated that if the Board was willing, a representative from the Miami office could serve as institutional custodian, and they would be more than happy to have them come to the next Board meeting to present a full custody bid on the institutional side of the business.

Mr. Harvey asked Mr. Pavela if there was any way within the local entity that they could provide these services. Mr. Pavela replied that Mr. Schrader would remain as local contact, and he would then act as a liaison with the administrator responsible for moving money, and would cover the transactions from the Miami office. Mr. Harvey stated that that would be the best of both worlds in that the Town has had good service from First Union, and there weren't any issues with them in terms of how they performed. He explained that this change came about due to other reasons, such as the asset allocation reason and the treasury portfolio. Mr. Harvey explained that because of the rearranging, the good situation that had existed regarding the fee structure may become less of a good situation in terms of fees. Mr. Harvey pointed out that the issue had never been the performance or the attention that the Town received. Mr. Harvey stated that as a Town Board, they should look at the fee structures, and given the fact that they were going through this process, he thought that it would behoove them to open up all of the different possibilities within First Union to try to make it work.

Mr Doney indicated that he would like to have the input of Mr. Demming and Mr. Crouse regarding this issue, stating that it was important to take into consideration how the changes would interface with the Finance and Personnel Departments.

Mr. Demming appeared before the Retirement Board and explained that the Town was not getting a lot of pension-type reporting through the trust department. He stated that he would like to add items to the custodian agreement that would ensure that the Town received the accounting that was needed to do proper reporting. Mr. Demming further stated that another issue was in reference to the administration of the retirement benefit payments, explaining that the Finance Department currently handled the payroll and the 1099 reporting and all the tax issues related to retirement. Mr. Demming explained that there were areas within custodians that allowed those kinds of services for a fee. Mr. Demming stated that he had asked Mr. Doney that, if the opportunity ever presented itself, these options be explored. He explained that he was aware that Mr. Crouse also had some issues regarding administration of retiree benefits, but as far as the actual benefit payments and the tracking of the tax issues, it would definitely be a benefit to the Finance Department to have this additional expertise.

Mr. Crouse explained that there were two sides to this issue. He explained that the manner in which the benefits presently were administered worked because of the procedures set up between the

Finance and Personnel Departments. He explained that he was hesitant to commit to major changes because it could drastically alter how the Personnel Department would administer their end of the benefits. Mr. Crouse explained that he understood Mr. Demming's concerns, but there was a cost element as well as an interfacing element.

Mr. Pavela explained that benefits administration would be handled by First Union's institutional custody side. He explained that they presently perform pension payment checks, 1099 reporting, and all the associated employee benefits administration issues with the pension plan, so this was a benefit that he could include in the analysis. He explained that he would work with the Finance Director regarding the number of pensioners and the number of checks cut, and would provide a full analysis on the custodial services. Mr. Harvey stated that maybe the Board could have the best of both worlds. Mrs. Smith agreed, and stated that she would like to have this information because the fees seemed expensive.

Mr. Harvey reiterated that what the Board was discussing was setting in motion a mechanism that would allow First Union to reevaluate their fee structure while accommodating some of the issues addressed by Mr. Demming. He asked the Board who they would like to have in charge of meeting with First Union to address these issues.

Mr. Doney suggested that Mr. Demming, Ms. Kneipp, and Mr. Crouse meet with First Union to discuss different options that were available.

Mr. Doney then stated that he would like to ask the investment managers, when providing information to the board members and staff, to indicate on the front page of the report the names of the recipients of the report. Those present indicated agreement.

There was general discussion regarding whether or not a motion was needed, the contract expiration of First Union, and the Evergreen provision on the contract which allowed it to roll over unless canceled. Mr. Harvey stated that he thought if the Town could get a competitive fee structure, the Board's preference would be to deal with First Union, the local institution. He asked the First Union Bank representatives to work with the appropriate individuals and bring a proposed fee structure back to the February meeting.

A short break was taken.

At 10:45 a.m., the Retirement Board Meeting was called back to order by Chairman Harvey.

2. Loomis Sayles & Co.

Peter Van Beuren appeared before the Board stating that he felt that it might be appropriate to propose a separate fee schedule for each portion of the accounts that he hoped to be managing. He explained that due to the size of the firm, they had been managing both the fixed income and equity portfolios separately. Mr. Van Beuren explained that in 1994, when the Town had first employed his firm, they had then and still had a 40 basis point fee schedule for the entire portfolio, and he would like to propose keeping the 40 basis points on the equity portfolio and to propose a 30 basis points on the fixed income portfolio. He explained that because of the relative size of the portfolio, it worked out to approximately a 34 basis points fee overall for the entire portfolio.

Mr. Van Beuren stated that Loomis was particularly pleased with the performance of their portfolio as well as with the fundamental basis of the portfolio. He explained that it was obviously performing much better and beginning to reflect those fundamentals. Mr. Van Beuren then explained that he continued to look forward to working with the Town, and he hoped they would do even better with the fund and looked forward to having that opportunity.

Mr. Deane explained that Callan Associates performed a study every year on the styles of managers and the fees and that the median fee for a large cap value manager was about 55 basis points on a portfolio of about $50 million. He explained that this portfolio was approximately $22 million, and he thought that this was a very competitive fee. Mr. Deane explained that the 30 basis point fee was also within the competitive range of typical portfolios of that size.

Mr. Wearn moved to accept the fee proposal submitted by Loomis, Sayles and Company, and that it be incorporated into the contract as soon as possible. Mr. Frick seconded the motion. Mr. Harvey asked if the Board would like to wait to make a motion until all of the proposed fees had been discussed. The motion was withdrawn.

3. Roanoke Asset Management

Ed Vroom of Roanoke Asset Management appeared before the Board to discuss the status and return profile for the quarter, and to present the proposed fee schedule. He explained that there was a slightly different equity fee schedule reflecting a small cap, which was a slightly higher fee schedule. He further explained that this was a tiered schedule of .625% on the first $5 million and would then drop back to .4%. He explained that with an $11 million equity portfolio, the total fee would be $55,000. Mr. Vroom further explained that the fee for bonds was .3%, for a fee of $137,000.00, which worked out to about 35 basis points. Mr. Vroom stated that for the $11 million that Roanoke would be managing, this meant a total of about 25 basis points.

Mr. Deane explained that in reference to small cap managers, the median small cap manager at a $10 million dollar portfolio was typically around 75 or 80 basis points, so Roanoke's proposal was very competitive. He further stated that the fixed income portion was the same as proposed by Loomis, so he was very pleased with both bids.

Mr. Harvey reiterated to the Board members that the issues they were considering were breaking up the current portfolios, allocating the bond portfolios, and approving the various fee structures, with the exception of First Union, who would come back at the next meeting with their custodial rate. Mr. Wearn asked if the break up Mr. Harvey was referring to was included in the

Investment Policy, which was next on the agenda for consideration. Mr. Harvey replied yes, and asked if the Board members wanted to proceed to this item before acting on the changes to the portfolio. Mr. Wearn suggested that the Investment Policy should be considered as a predicate to establishing the fee schedule.

B. Approval of Revised Statement of Investment Policy

Mr. Crouse reported on the revised Statement of Investment Policy, and explained that at the special Board meeting in September, the trustees had discussed the changes to the policy regarding the portfolio and how it would be split between the managers. He explained that the Board members had asked Mr. Deane to make the necessary amendments to the policy, and that Mr. Deane's staff had made the revisions and provided an updated copy to the Personnel Department. Mr. Crouse then explained that as soon as it had been received, it was faxed to the Board's attorney, Mr. McCracken, who had also reviewed the policy. Mr. Crouse explained that the revised investment policy had then been forwarded to the investment managers so they would know their new roles under the proposed changes.

Mr. Wearn asked Mr. Deane and Mr. McCracken if they had reviewed the revised Statement of Investment Policy, and if they recommended approval. Mr. Deane and Mr. McCracken affirmed. Mr. Wearn then asked for input from the investment managers.

Mr. Schrader stated that in the last few months, First Union had been sending supporting pieces of data, which was a baseline report instead of the S&P value line. He explained that it was a service that they used, and he did not know whether or not page 5 of the investment policy regarding the Communication section meant that the board would consider an equivalent report. Mr. Schrader explained that if the Board preferred the S&P value line report, they would certainly comply with that.

Mr. Doney stated that he would like to take this opportunity to directly inform all individuals involved with the retirement system the manner in which he would like to see the reporting done. He explained that he would like each report to indicate, by title, the recipients of each report, so that everyone would know who all of the other recipients were of the document. He further stated that, because the Statement of Investment Policy was a stand-alone document, he wanted to be sure that a signature page be included, and that it reflect that it had been reviewed for legal form and sufficiency, indicated that approval was recommended, and include authorized signatures. Mr. Doney further stated that the Investment Policy should include the date the changes were approved.

Mr. Vroom stated that he was concerned with the S&P value line report requirement, explaining that there were some holdings who did not have this. Mr. Harvey asked if Mr. Vroom could supply the board with a research report. Mr. Vroom responded that he could do this.

Mr. Wearn stated that this would require a revision to the Investment Policy at page 5, under Reporting. He also asked that the last sentence be changed to read "For each stock or corporate bond purchased or sold, the note shall be written on or attached to the most recent Standard & Poor's

Corporation Investment Summary Report or Value Line Report for that company, if available, but if not, then an investment report".

Mr. Wearn then asked Mr. Demming if he'd had a chance to review the policy, and did he have any comments. Mr. Demming responded that he had no comments.

Mr. Wearn then asked Denise Jones of Gabriel, Roeder, Smith and Company if she'd had an opportunity to review the policy, and asked if she had any comments.

Ms. Jones stated that she had reviewed the policy, and that she would like to add some comments with respect to the minutes from the previous meeting. She explained that she was always somewhat discouraged when the actuarial assumption was set as a target, because that was not the target. Ms. Jones explained that setting that as the target was like the tail wagging the dog. She explained that when the board reviewed their investment managers' performance, the benchmark, the measurement, should always be the universe. She explained that GRS set the actuarial assumption after they reviewed the history of the fund's return over a period of years, and then, with information from the performance monitor with respect to what they expect the performance would be in the future, use that to show the actuarial assumption. Ms. Jones stated that it was set in retrospect in terms of the historical returns of the fund and what GRS expected the allocation to return to in the future. Ms. Jones explained that she had been a little disturbed when she had read some of the comments, because the Town did not want to set the actuarial assumption as their target. She stated that if their managers were performing below their universe, then the Board should have some concern, but if the entire universe was performing below the actuarial assumption, that was expected. She explained that this was why the actuarial assumption was where it was, and that it was for the long term. Ms. Jones explained that while this was more Mr. Deane's area, historically, funds that were invested more in equities had better performance. She explained that if it was his recommendation that the Board increase their equity exposure, then they should by all means do so, as long as they were comfortable with the additional risk. Ms. Jones explained that in terms of the risk, she also wanted them to be aware that, within the actuarial valuation process itself, some cushion was built in. She explained that with the smooth value of assets that took place each year, neither the full amount of investment gains nor the full amount of investment losses were realized if they were to occur within a given year. Ms. Jones explained that based on the Town's funding value rate of return, which was cushioned against the market rate, they could have a return of 6% over the next three years and still average 8% over the five year period. She explained that the 6% on the funding value would probably translate to an even lower value on a market to market basis because of that smoothing that was taking place. Ms. Jones stated that with respect to the actuarial assumptions, she thought they were right on target. She stated that she did not think the Board wanted to set the actuarial assumption as a target, but would want to continue to review and monitor the performance of the fund, and of the asset allocation, if the Board was recommending a change to that.

Ms. Jones then stated that she would like to make one minor modification regarding the method in which GRS was smoothing the assets. She explained that, currently, they were recognizing 100% of the realized gains and losses and only 25% of the unrealized gains and losses. She explained that she would like to propose that they recognize 25% of both realized and unrealized gains and losses, stating that many of their funds were moving towards that, as it was a lot cleaner. Ms. Jones further explained that with recognizing the assumed rate of return as 8%, anything over and above that would be smoothed in over a four year period. She explained that instead of taking 100% of the realized, they would take 25% of all of the realized and unrealized appreciation, and that this would be the one change she would recommend in terms of what they were assuming for the actuarial valuation.

Mr. Wearn asked Ms. Jones what changes would need to be made in the Statement of Investment Policy to incorporate her recommendation. Ms. Jones suggested changing the first two sentences under Investment Objectives on page one to read "The investment return objective for the Total Fund will be measured against a target of 47% Standard & Poor's 55 Stock Index and 53% Lehman Brothers Aggregate Index minus the bonds below BBB. The plan assets are expected to add value above the target return net of fees over a five year moving period."

Mr. Harvey then addressed the subject of the bond policy on page 4, item 5, Restrictions, and opened up the discussion for CMOs. He suggested that CMOs be excluded as an investment class. Mr. Deane suggested that this section be revised to read "No collateralized mortgage obligations (CMOs) shall be held in the portfolio".

Mr. Doney suggested that some form changes be made to the Statement of Investment Policy, including numbering the pages as page 1 of 6, along with the revision date. He further suggested that on page 5, under Reporting, the first sentence be changed to read "At the end of each month, each manager shall forward to the Board of Trustees, the Plan Administrator, and the Finance Director the following information . . .". He reiterated his request to include verbiage regarding "approved as to legal form and sufficiency" for Mr. McCracken's signature, as well as his name typed in; recommended approval by the Performance Monitor, who was Mr. Deane; and a signature line for the Board Chairman along with "the amended Statement of Investment Policy was approved and revised by the Town of Palm Beach Retirement Board of Trustees on", and include the date. Mr. Crouse explained that this information had been incorporated into the Statement of Investment Policy that presently was on file. Mr. Doney further asked that a copy of the policy be provided to all Board members so they would copies for reference at each of the board meetings.

Mr. Frick asked that a typographical error on page 1, the first sentence under General Objectives, be corrected, explaining that the word "be" was missing its first letter. Mr. Wearn asked that a typographical error on page 4, the first sentence under "Restrictions" be corrected, and that the equal sign be removed from the phrase "short-selling".

Mr. Wearn then stated that to accommodate and make the motion, he would like to reiterate that the motion would encompass approval of the Statement of Investment Policy as stated with those revisions that had been discussed, but he would still note for the record that he had significant reservations or concerns about increasing the percentage of equity from 40% to 50%. He explained that this issue has been laid to rest, and he did not intend to raise it again, nor did he intend to express approval of the change.

Mr. Wearn then moved adoption of the Statement of Investment Policy, which in its captain reflected that it had been revised September 22, 1998, and should reflect its revised date as November 20, 1998; as the first amendment was now a second amendment correcting a typographical error, General Objective line two, the word “ be”; and as a third amendment in the Investment Objective, to revise the first two sentences as stated by Ms. Jones; at the bottom of the first page and each page thereafter to indicate after the page number that it is of however many pages the document consists of; on page four, in Restrictions, number one, correct the short selling to remove the equal sign; on Restrictions item five, revise it as recommended by Chairman Harvey; on page five under Reporting, to add at the end of reporting the language that recommended by Chairman Harvey; and to add a page 6 to include the distribution concept as expressed by the Town Manager, and also the standard signed approvals and acceptances. Mr. Frick seconded the motion and, all voting aye, the motion carried.

A. Consideration of Proposed Managers Fees (Continued)

Mr. Harvey explained that First Union would present their new fee schedule at the next Retirement Board meeting, and asked if the Board would like to now approve the fees as proposed by Loomis Sayles and Roanoke.

Mr. Frick moved to accept both the Loomis, Sayles and Company and Roanoke Asset Management fee structures as presented by the investment managers and as recommended by Mr. Deane. Ms. Lane seconded the motion. The motion carried unanimously.

C. Consideration of Probationary Status For Roanoke Asset Management, Inc.

Mr. Crouse explained that at the September special meeting, Mr. Deane had been requested to draft a proposed letter, with said letter to be reviewed by the attorney for the Board. He explained that this had been done and had been placed with the information provided to the Board members.

Mr. Wearn moved approval and authorization of the Chairman of the Retirement Board to sign and send the letter prepared by Mr. Deane to Roanoke Asset Management. Mr. Frick seconded the motion and, all voting aye, the motion carried.

VI DISCUSSION OF LEGISLATIVE CHANGES AFFECTING CHAPTERS 175 AND 185, FLORIDA STATUTES.

B. Update on Legislative Session

Mr. Crouse reported on a legislative update on Senate Bill 3075, explaining that this bill had been previously vetoed by Governor Chiles. He explained that there had been a move in the legislature to override the veto; however, due to the number of calls and concerns that had been voiced by many municipalities and counties throughout the state, the legislature had decided to postpone any action on the override of the veto until January. Mr. Crouse further stated that while this bill would not have as much impact on the Town of Palm Beach as it would on other municipalities, it would affect the structure of the Retirement Board. He explained that the bill could create separate boards for the Fire and Police employees, and there was a significant cost factor associated with this.

Mr. Wearn stated that the cost would be significant not only for the Town but also for the long term operations of the Town's pension system. He further stated that it was an unfunded mandate from the State, which raised constitutional questions and implications. Mr. Wearn stated that this was a significant injection of the State into the internal operations of the Town of Palm Beach which were not necessary and significantly affected the Town's ability to govern themselves.

Mr. Wearn moved recommendation for the Town Council to adopt a resolution opposing the override of the veto of House Bill 3075, and that the resolution be forwarded to the Palm Beach County Municipal League, the Florida League of Cities, and the legislative delegation. Mr. Boggs seconded the motion. Mr. Harvey, Mr. Wearn, Mrs. Smith, Mr. Doney, Ms. Lane, and Mr. Boggs voted aye. Mr. Frick and Capt. DeIorio voted nay. The motion carried.

C. Definition of "Foreign Security"

Mr. McCracken stated that, during the August 1998 meeting, the Board had reviewed the State statute that had been amended to introduce the term foreign security. He explained that no definitions had been provided for this term, and it had raised some issues. Mr. McCracken explained that he had written to the State Retirement Division and asked for a definition of foreign security, and that their response had indicated that everything which was not otherwise defined was a foreign security.

VII DISCUSSION OF THE AGE DISCRIMINATION IN EMPLOYMENT ACT (ADEA) AND DISABILITY RETIREMENT

Mr. McCracken explained that under the Age Discrimination in Employment Act, it had been asserted during the 1980s that if an employee receiving disability retirement benefits had those benefits reduced upon reaching retirement age, then the employee had been discriminated against by virtue of age. Mr. McCracken explained that in 1989, the U.S. Supreme Court had determined that this was not age discrimination; however, the United States Congress had subsequently amended the Act to provide that this was age discrimination. Mr. McCracken explained that the Town's retirement system provided that when an employee satisfied retirement conditions, the disability retirement benefits were reduced, which conflicted with the statute as amended by the U. S. Congress. Mr. McCracken further explained that this had been brought to the Town's attention by the State Division of Retirement, who had indicated that since the Town's Ordinance was not in compliance, they would not find the plan to be state approved. Mr. McCracken explained that after consultation with the Town's actuary, who advised the State that notwithstanding the fact that the Town's ordinance had not been modified to be consistent with the new Statute, the actuary was making the determinations as though it was consistent. Mr. McCracken explained that, in other words, the determinations the actuary was making were based on the fact that such a disabled employee would not have benefits diminished when that employee reached retirement age. Mr. McCracken stated that the State then determined that with that background, they would approve the Town's plan, but he suggested that the Retirement Board amend the ordinance to be consistent with the law and with the way the actuary interpreted the plan. Mr. McCracken recommended that the Board authorize him to prepare an amendment to the ordinance, which would then be forwarded to the Town Council for their approval.

Mr. Wearn moved authorization for Mr. McCracken to prepare an amendment to the ordinance consistent with the State statute regarding disability pension benefits, and that the ordinance be sent to the Town Council for approval. Mr. Boggs seconded the motion and, all voting aye, the motion carried.

VIII APPROVAL OF ANNUAL RATE OF INTEREST TO BE CREDITED MEMBER CONTRIBUTIONS

Mr. Crouse stated that the interest rate credited to member contributions was currently at 5.5%. He explained that the 5.5% rate had been effect since 1980, and had been discussed at some length in 1996 . Mr. Crouse stated that the actuary recommended that the Town continue to credit member contributions with an annual interest rate of 5.5%. .

Mr. Wearn moved to accept the recommendation and continue with the annual rate of interest of 5.5%. Mr. Frick seconded the motion and, all voting aye, the motion carried.

IX REPORT ON QUARTERLY EXPENDITURES

Mr. Demming reported on cash flow projections based on the contributions and benefits being paid, and explained that there was sufficient money in the account, and no transfers to the investments would be required at this time.

Mr. Boggs moved to accept the quarterly expenditure report as prepared by Mr. Demming. Mr. Frick seconded the motion. The motion carried unanimously.

X DISCUSSION OF RESCHEDULING FUTURE RETIREMENT BOARD MEETINGS.

Mr. Crouse reported on the need to reschedule the quarterly meetings of the Retirement Board of Trustees. He explained that due to a scheduling conflict, the Council Chambers would no longer be available for the November meeting. He recommended that the quarterly meetings be rescheduled to the second Friday of February, May, August, and November, rather than the third Friday, and explained that it had been verified that there were no conflicts with utilizing the Council Chambers on those dates.

Mr. Boggs moved to reschedule the quarterly Retirement Board meetings to the second Friday of the months of February, May, August, and November, per Mr. Crouse's recommendation. Ms. Lane seconded the motion. The motion carried unanimously.

XI DISCUSSION OF RETIREE HEALTH INSURANCE COSTS

Capt. DeIorio explained that this could be a very lengthy discussion and due to the lateness, he would like to address these issues in the future and perhaps have this item moved up on the agenda.

XII OTHER MATTERS

Mr. Crouse reported on the retirement application of James Sorrentino, Fire-Rescue Lieutenant, with 17 years of service, and explained that Lt. Sorrentino would be utilizing the DROP option. Mr. Crouse stated that Lt. Sorrentino met all of the requirements for retirement and for participation in the DROP, and that he recommended approval of his application.

Mr. Frick moved, and Capt. DeIorio seconded, approval of the retirement and DROP applications of James Sorrentino. All voted in favor, and the motion passed.

XIII ADJOURNMENT

There being no further business, Mr. Frick moved adjournment. Mr. Boggs seconded the motion. All voting aye, the meeting adjourned at 12:20 p.m.

APPROVED: ____

John DeIorio, Secretary

FUTURE RETIREMENT BOARD MEETINGS:

Friday, February 12, 1999
Friday, May 14, 1999
Friday, August 13, 1999
Friday, August 12, 1999