MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM FIREFIGHTER BOARD OF TRUSTEES November 18, 2011

I. Call to Order

Chairman Ross called the meeting to order at 2:10 P.M. at Town Hall, 360 S. County Road, Palm Beach, Florida 33480.

II. Roll Call

In Attendance:

TRUSTEES:

Wilbur Ross, Chairman
Jayson French, Secretary
Sergio de Araujo, Trustee

ALSO PRESENT:

Bonni Jensen, Attorney
William Hanes, Administrator
Gerri Duvall, Staff
Walt Maxwell, Rampell &Rampell
Sean Higman, Prime Buchholz

Mr. Hanes noted that Ms. Simmons had recently discussed with him that she had made prior flight arrangements that would allow her to make the board meeting at 9:00 a.m., but had not known that the meeting was scheduled for 2:00 p.m. of this day. He stated that he had erred in not notifying the trustees at the prior meeting, and that a change had been made from 9:00 a.m. to 2:00 p.m. approximately one year ago in order to accommodate the Town. Mr. Hanes noted that Trustee Hays had indicated to him the prior day that a family matter had arisen that might cause his absence.

III. Election of Officers

Mr. Ross moved that the current officers be re-elected. Mr. de Araujo seconded the motion. The trustees unanimously approved the motion.

IV. Approval of Agenda

Mr. Hanes noted that an agenda item regarding the appeal of Fireman John Cuomo should be considered by the board for removal at the request of Mr. Cuomo. He explained that Mr. Cuomo had a conflict, and has requested that the board consider his appeal at the next regularly scheduled meeting in February.

The trustees approved without objection the agenda with amendment to eliminate the previously scheduled item regarding an appeal by Fireman Cuomo.

V. Comments by Trustees

Mr. French discussed items of concern that had been expressed to him by other Firefighters. Mr. French noted a matter of previous inquiry to the Town that he did not believe had been responded to by the Town. Mr. Ross asked that Mr. French obtain a copy of the inquiry and circulate it back to the trustees for consideration at the next meeting. Mr. French agreed.

Mr. French stated that there are questions regarding the buyback provisions, and that the Firefighters are wanting the opportunity to project their future benefits. He sought approval from the board to use the actuary, with each Firefighter paying their own bill in order to obtain the new buy back numbers. Mr. Hanes stated that he doubted the actuary has anything set up for calculation of benefits regarding a plan that is a proposal. He indicated he will review with the actuary.

Mr. French stated that Firefighters are wanting to opt out of the new benefits proposal. He wanted to ask the Town if Firefighters would be able to opt out. Mr. Hanes stated that there are a host of reasons why he thought the Town might deny the request, and stated that most local and state plan participants are required to contribute to their public retirement plans. Chairman Ross asked Mr. Hanes to ask for the Town's position on the matter.

Mr. French stated that the Firefighters helped pay a quarter of a percent for a benefit years ago. Ms. Jensen said that it is being used for the benefit provided, so in actuality the Town will be paying for the remaining cost related to the quarter percent benefit. Mr. French stated that the City of Hollywood had filed a suit to receive payment retroactively with similar circumstances. Chairman Ross asked Mr. French to keep the trustees informed of matters of the litigation in Hollywood.

VI. Approval of Minutes: August 19, 2011

Mr. French moved to accept the minutes for the August 19, 2011 board of trustee meeting. Mr. de Araujo seconded the motion. The trustees unanimously adopted the motion.

VII. Financial Report

Mr. Walt Maxwell presented the Financial Report to the trustees. Mr. Maxwell handed out a finalized copy of statements to be included with the report and explained that their firm had been waiting on information regarding membership from ICMA to be entered and before distributing a final copy to the trustees. He reviewed the report.

Chairman Ross asked Mr. Maxwell to explain what substantive impact there is regarding the way the state now requires contributions to be calculated. Mr. Maxwell responded that the board will be utilizing the investments more going forward, and that his firm has prepared a cash flow projection for Mr. Hanes in order that we have sufficient funds to meet retiree payroll and expenses going forward. He stated that since the Town contribution is probably running 60% of what it was annually in the past based on the then actuarial determination, it now is a much smaller amount. Chairman Ross asked Mr. Maxwell how it impacts the funding status of the plan. Mr. Maxwell stated he had no answer. Mr. Hanes commented that the change itself would be bringing in less contributions so he would guess that the change would result in less funding than before the change. He commented that the plan's investment benchmark is 8% and the plan experienced a flat return. He observed that last year the investment return was right at 8% and because of the compensation experience coming in well below the assumption, that the plan netted a positive experience relative to the salary increase for the year, netting a very small overall experience loss after adding the investment experience losses. He stated that for the 2011 fiscal year he believed there to be somewhere between $2.5 and $3.0 million in recognized losses coming due from prior year's losses. He stated that he anticipates more significant losses for the 2011 fiscal year. Mr. Higman agreed.

Mr. Maxwell reviewed the expenses of the plan and a comparison over the last three years between plan investment and administrative expenses.

Mr. Maxwell discussed matters of working with the auditors, and stated that it is his understanding that the auditor intends to present the financial statements at the February meeting of the boards.

Chairman Ross made note that Councilman William Diamond was present at the meeting.

VIII. Investment Report

Mr. Sean Higman provided the investment report to the trustees. He passed out the October report and noted that the quarter ended down by about 10%, which he stated was typical of pension plans across the country. He noted the plan was down for the trailing one year about 1%. He referred to Mr. Hanes's prior statement that it will generate significant losses on an actuarial basis. He stated that October was a very good rebound and noted that based on calendar year to date through October 31, the fund is off about 80 basis points, and significantly above the indexes.

Mr. Higman discussed the manager highlights. He discussed that Stralem was up about 6.2%; Geneva has been positive; and CRM has been struggling. He noted that the mid-cap space has been particularly tough and that sector selection has made much difference.

Mr. Higman stated the international managers as a group are showing diversification and that Harris is going through a period of time in which its value stocks are becoming of more value to performance, and some of the recent underperformance is related to European banks held with exposure to Greece. He stated he finds no reason for change with the managers.

Chairman Ross asked which funds are the laggards through this stressful period. Mr. Higman responded Harris, CRM and the T Rowe Price New Era fund. Mr. Higman stated that he would like to bring to the next meeting potentially a new manager to replace the T Rowe Price fund, and recommends VanEck Global Hard Assets Fund. He stated he would like to bring a manager with less focus on energy and more focus on a broader basket of hard assets. Mr. Higman discussed that he will plan to bring VanEck in for the February, 2012 meeting.

Mr. Higman reminded the trustees that Income Research had previously approached the firm for changes, and specifically regarding investment grade convertibles. He stated that Income Research has discussed that they are finding less and less investment grade inventory to buy. He discussed that Income Research asked for three changes, two of which Mr. Higman stated could be appropriate for the plan, but that the biggest concern was they had asked permission to invest up to 20% of the account in below investment grade. Mr. Higman stated that PB likes Income Research, but do not believe the firm has the skill set and depth to invest in below investment grade. He stated that PB does not recommend it. Mr. Higman recommended that the board authorize closure of the account and invest the proceeds in the Vanguard Total Bond Index for now. He stated that the fundamental issue is we don't want them to invest in junk bonds and we do not believe they have the skill set to do so.

Mr. Ross asked why the board should transfer the proceeds to Vanguard. Mr. Higman responded that it is relatively simple to set up; that Vanguard represents an index to the bond market; and it is a cheap (11 bps). Mr. Higman suggested that the trustees can decide later whether it wants to have active bond management instead of indexing. He added that the only problem with actively managed components is that they must be invested in funds, and not separate accounts. He stated that it makes it more difficult to get the risk characteristics for the space.

Mr. Higman stated that last quarter the fund had liquidated from the TIPs portfolio, and left the fund at the end of October with about a 12% cash position. He discussed that it is PB's preference to place to the 10% target allocation for fixed income with the current index. Mr. Ross asked what are the yields, and Mr. Higman stated that it hovers around 3%.

Mr. Higman stated that he will rebalance to bring the allocation back to 10% and come back to the board at the February meeting with something interesting regarding the space. Mr. Higman clarified that PB prefers a total bond index.

Mr. Higman advised the board that Gresham, the commodities manager, has announced that it has entered into an agreement with Luveen to sell 60% of the firm. He stated it is not surprising since the primary owner of Gresham is in his late 70's. Mr. Higman stated he is not retiring as he understands, but the firm has requested a consent signed by the investors by December 14, 2011. He stated that the PB team is meeting with Gresham and will have a recommendation well in advance so the board will know how PB feels about it. He stated that if PB feels it is not in the long term interest of the plan, he could let the trustees know. Chairman Ross asked how performance has been compared to the competition. Mr. Higman answered that performance has been very good relative to the benchmark. Mr. Hanes raised the matter that while the decision regarding Gresham must be signed by December 14, 2011, the board is not scheduled to meet again until sometime in February. Chairman Ross suggested that the motion should be for the board to empower him to sign the letter based on discussions he will have with the consultant.

Chairman Ross made the motion that the board provide Chairman Ross the authority to sign the appropriate authorization for Gresham's request upon recommendation by Prime Buchholz and after discussion PB will have with Chairman Ross. Mr. French seconded the motion. The trustees unanimously adopted the motion.

Mr. Higman advised regarding the scrutinized companies letters sent by Mr. Hanes's office that the responses have mostly been received, but there are a few managers that PB will need to be in contact with to seek compliance. He discussed that some have indicated that they did not believe it applied to them after received the letters. He stated that PB is following up with phone calls and e-mails. He stated that there is no direct exposure to any of the names on the state's list of scrutinized companies, and indirect exposure with three securities identified with comingled funds. Ms. Jensen advised that the indirect fund investments are under a disclosure requirement, and it has been done.

IX. Administrator Report

Mr. Hanes provided the administrator report. He discussed that he had heard from Ms. Simmons that morning and she asked that Mr. Hanes express for her a commendation to the trustees who were on the board when the exit strategy decision was made regarding management firm Legg Mason. Mr. Hanes read from articles posted in the November 18, 2011 Wall Street Journal regarding the issue.

Mr. Hanes referred to a quarterly report from Finance Director, Jane Struder, regarding investment performance between the Town of Palm Beach plans.

Mr. Hanes discussed the status of the Town of Palm Beach in matters of the collective bargaining process. He stated that he anticipates that the Firefighter Board of Trustees will meet again in February, and that the proposed changes to the Town's retirement plan and board will probably not be made until sometime afterward. Ms. Jensen stated that she and Mr. Hanes believe that the current board will need to continue for a period longer than after the new plan and board are enacted for purpose of operational transition and asset transfers from one board to another. Mr. Hanes suggested that Ms. Jensen discuss with the trustees at the February meeting matters of transition that will need to be considered by the trustees.

Councilman William Diamond spoke to the trustees and expressed his personal opinion that it is extremely important that the Town take their time to do what they need to do to make sure it is done right. He commended the trustees for doing an excellent job and that the Town Council is very interested in hearing what they may have to say.

Mr. Hanes noted for the record that Fireman French was required to leave on official business.

Ms. Jensen noted that Fireman French's departure left the board without a quorum, and no further action can be taken by the board.

Mr. Hanes stated that formal action regarding ratification of disbursements will need to be taken at the next meeting of the board. He provided a report on all DROP participants.

XI. Attorney Report

Ms. Bonni Jensen provided the attorney report. She discussed several matters pending before the Ethics Commission. She stated that she anticipated an opinion from the county ethics commission that would say that if the trustee is required to file a gift report under state law, the trustee will not be required to file with the County Ethics Commission.

Ms. Jensen discussed that the annual filing under the state law on Qualified Public Depository law was completed by the administrator, and she discussed the significance of doing so.

Ms. Jensen noted that there has been a bill filed in the Florida legislature regarding matters of public pensions that would impose restrictions on disability presumptions. She discussed a second part of the legislation that if enacted would require budget filing

by boards. She discussed that the legislation directs who becomes the recipient of the Chapter 175 monies post closure of a pension plan. She indicated the intention is to have the monies sent to the municipalities instead of being used for extra benefits.

XV. Adjournment

The board took no action on adjournment and was without a quorum.

Next Meeting: February 17, 2012

Secretary

2-17-12
Date