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Document Name	NovMinutesGE172000	Subject	November 2000 General Employee Retirement Board Meeting	Date	Fri 11/17/2000
Directory	Retirement	Type	Minutes	Category	Retirement

GENERAL EMPLOYEES RETIREMENT BOARD MEETING
FRIDAY, NOVEMBER 17, 2000, 9:00 A.M.

General Retirement Board Meeting 11/17/00

I CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James Wearn, at 9:00 a.m., November 17, 2000 in the Town Council Chambers Conference Room. Attending were Trustees James Wearn, Robert Garvy, Vernon Richards, Charlie Boggs, and Acting Town Manager Thomas Bradford. Also attending were Attorney John McCracken, Finance Director Jane Skittone, Human Resources Director William Crouse, and Assistant Human Resources Director Carla Kneipp. (Due to the length of the meeting, the remainder of the minutes will be verbatim.)

II REPORT ON REAPPOINTMENTS TO RETIREMENT BOARD OF TRUSTEES

Mr. Wearn: The first item after the call to order on the agenda, is the report on reappointments to the retirement board.

Mr. Crouse: Mr. Chair, I just want to report to the board that at the meeting of November 14th, the Town Council approved the reappointment of Mr. Garvy to a two year term and Mr. Boggs, through an election, was elected as the representative of the General Employees by count, the final count of 63 to 43. Which puts him as their representative for the next two years.

Mr. Wearn: Congratulations to both of you. Welcome back again

III APPROVAL OF AGENDA

Mr. Wearn: The next item we have is the approval of the agenda. I note that the agenda we were previously furnished has had an addition to it, apparently a new number 5, discussion of renewal of fiduciary liability insurance.
Are there any other additions that the administrator has made to the agenda.

Mr. Crouse: Yes we have, #12, the, this time each year we discuss the credited contributions, or credited interest to the contributions of the members and we wanted to put that on so we could get the board's approval for the interest to be credited, that's #12. And also at this time of the year we approve the actuary fees for the year and we placed that on and we do have that information for you. Under any other matters we did put, which came in a little later, was the discussion under #14B, as a request for consideration by Mr. Boggs for supplemental pension distribution. He will explain that, there is a memorandum attached. And also under #14A is an issue that Mr. Wearn would like to bring up concerning continuing education issues. Those were the additions. Oh I'm sorry one other addition, there were a lot. We had a requirement by changes to state law, that we needed to revise our statement of investment policy. This law is very specific. The attorney, John McCracken, reviewed the law and has rewritten the investment policy and we have submitted that to you as a red-line copy which shows you the actual additions and deletions. Those are the changes.

Mr. Wearn: Are there any other revisions that anyone has to the final agenda as presented by Mr. Crouse. Hearing none is there a motion to approve the agenda.

Mr. Boggs: So moved.

Mr. Bradford: Second.

Mr. Wearn: Any discussion? All those in favor, please say aye, and all said aye; opposed like sign (silence).Motion carries unanimously.

IV APPROVAL OF MINUTES - REGULAR MEETING OF AUGUST 11, 2000

Mr. Wearn: I have a number of items I'd like to touch base with you on and to raise. First of all under Item I, while I did call the meeting to order I was not included in those attending so I would request amendment to include me as those attending. The second item that I have to raise is a question really for the administrator and for the attorney. If you look at Item II, at the end of Item II on the first page , it is the verbatim set of minutes and I'm quoted as stating any discussion, all in favor please say aye, opposed like sign, there's not indication of the vote. There needs to be some kind of an indication that the members of the vote, voted favorably. If you look at page 37, at the top, there's an identification of board, it makes sense, all said at once. That language might be bracketed, because that's really editorial language. If we're going to have a verbatim on these, it would be best somehow or other to indicate how the vote is made, what the specific vote is and then if there's an editorial addition to it, that might be made in brackets or such other means as will be consistent throughout the minutes, as decided by the administrator and Mr. McCracken. Do you all have any comments on the minutes, how that should be handled at this point?

Mr. McCracken: Mr. Wearn, we're not sure if there was a motion or a vote on the motion shown in the minutes?

Mr. Wearn: It's not shown in the minutes, there was in fact a vote just like we had for the just like we had for the approval agenda, where there were 5 yeas, all stated simultaneously, and silence on the nays and with then an announcement that it passed unanimously. I think our minutes need to reflect the vote.

Mr. McCracken: I agree and I think the idea of using brackets to show that it's not part of spoken word in the meeting would be the appropriate way to do it.

Mr. Wearn: Those are revisions that I would have to the minutes, are there any other additions, corrections or revisions that anyone has to the minutes? Hearing none, Mr. McCracken, would it be in order at this time for us to approve the minutes, subject to those revisions?

Mr. McCracken: I believe it would sir.

Mr. Wearn: Motion would then be in order.

Mr. Boggs: So moved.

Mr. Wearn: I have a motion, is there a second?

Mr. Garvy: Second.

Mr. Wearn: There is a second, is there any discussion? All those in favor please say aye?
(All answer aye) Opposed like sign. Motion carries unanimously.

V DISCUSSION OF RENEWAL OF FIDUCIARY LIABILITY INSURANCE (Karen Temme, Risk Coordinator)

Ms. Temme: Before you, you should have a memo dated November 14th, to Mr. Crouse from myself. Please refer to that memo. In there I am recommending that the board allow the Town's broker, Arthur J. Gallagher, to continue receiving proposals on our insurance, because it does not expire until January 1st, 2001. We have received some proposals, right now it's looking at an increase of about 9%, I don't think that's acceptable. So I want them to continue looking into some different options to insure we get the best coverage and premium. I'm looking at renewing the coverage, same as expiring, which is limits of $25 million with a deductible of $75 thousand, unless the Board indicates otherwise. I'm also recommending that you grant Mr. Crouse authority to renew the fiduciary liability coverage, not to exceed $41,250 on January 1st. Do you have any questions?

Mr. Boggs: Is this the same amount of coverage we had when we were a combined board?

Ms. Temme: Yes. The same, so now you have the same as an individual board, $25 million in coverage.

Mr. Boggs: Do we need that much?

Ms. Temme: That's up to the board, I would not recommend lowering limits from an insurance standpoint, but, if the Board would like to do that I can get premiums based upon a lower limit, $15 million, $10 million. Changes in deductible. The savings compared to the coverage is not really worth it, but, as a Board it would be your decision.

Mr. Wearn: I have a question. The $41,250 premium that you're recommending, where does that come from?

Ms. Temme: That comes from a quote that we have received to date from National Union, which is the current carrier. They are indicating that they were going to give us an increase. I did relay to the broker that, that was not acceptable, I want them to go back to National Union. I also want them to go to other markets and see what's out there.

Mr. Wearn: Is this the amount of premium that was quoted by National Premium initially?

Ms. Temme: Yes.

Mr. Wearn: So the not to exceed, does that top them out?

Ms. Temme: Right, if we cannot get anything better, worse case is that we would renew again with National Union and that would be the highest premium. And that is a 9% increase over last year.

Mr. Wearn: Do you have any current expectation when you may have all the information and documentation quotes you may need for a decision to be finalized?

Ms. Temme: I don't, it would be in a couple weeks. The reason, the time frame, what happens when you go to underwriter's, our coverage is, does not renew until January 1st, so they look at us and they say, well it's only November, you're a January 1 renewal. So they try and push as close to the renewal date as possible. If you'd like me to relay some information when I receive it, I'll be happy to do that.

Mr. Wearn: So, effectively we'd be negotiating up to the end of this calendar year?

Ms. Temme: We could.

Mr. Wearn: We'd probably get a better quote by the end of this calendar year.

Ms. Temme: Right, given more time, definitely.

Mr. Wearn: Does anyone else have any questions or comments at this point?

Mr. Boggs: I think Karen should be commended for doing this, rather than just accepting their increase, that's great.

Ms. Temme: Thank you.

Mr. Wearn: The recommendation is that the Board grant authority to the Plan Administrator, William C. Crouse, to approve the fiduciary liability coverage with a premium not to exceed $41,250. What's the pleasure of the board? Would you wish to move?

Mr. Boggs: I'd like to move approval.

Mr. Wearn: There is a motion for approval of the recommendation, is there a second?

Mr. Garvy: Second.

Mr. Wearn: There is a second, is there any discussion? Hearing none I'll call the question, all those in favor please say aye, and all say aye; opposed like sign, (silence). Motion carries unanimously.
One other item, we have normally gone to the Town Council to request a waiver of the recourse in the amount of $250 and I believe we've done that by motion also. So as not to have any question about that, I'd like to entertain a motion that we request the Town Council on the waiver of recourse, as we have in the past in the amount of $250.

Mr. Garvy: So moved.

Mr. Boggs: Second.

Mr. Wearn: Any discussion? All those in favor please say aye, and all say aye; opposed like sign, (silence). Motion carries unanimously. So as I understand it, that waiver of recourse requests, regardless of what happens with the insurance will go forward for the calendar year.

VI CALLAN & ASSOCIATES (Jeanne Valcik)

Ms. Valcik: We also have Loomis-Sayles here this morning and I don't see them on the agenda and as you know, we've had discussions with Loomis and our concern with their performance. Dave was at the last meeting and made a request for the Board to give him through the end of this calendar year, so since we do have them here, would you all be, like to listen to them talk about their performance first or what's your pleasure?

Mr. Wearn: What is the Board's pleasure? We were not scheduled for a report, if you would like to hear a report I have no objection to doing so, especially since the policy that we'll be looking at later concerning a watch, in fact suggests that we have watch managers placed on the agenda on a regular basis. If it's your pleasure to go ahead and hear Loomis-Sayles at this point please signify. (several answer affirmatively) There's a consensus of the Board of Trustees so let's go ahead and do that.

Mr. Sowerby: I'll update you on the equity portfolio, Mike Harris will update you on the bond portfolio. I'll give you the highlights first and then build on the highlights if that's appropriate for the board. When we were here in August, we talked about the portfolio that in a significant turn, significant inflection point towards investment managers who like to buy good companies at the right price for the right believable earnings. Your portfolio has responded very significantly and meaningfully participated in a major turn towards value investors and the message I gave you was that those value managers who were faithful to their discipline responded very well. Since that meeting in August, that has continued significantly and your portfolio at the same time has out performed our value peers and has out performed the value benchmarks and out performed the over all stock market. What I believe to be the case in Dolphin terms or football terms, this is the end of the first quarter, there's still much more room to go for this turn in the marketplace where we've seen stocks that have no earnings with huge evaluations suffer thirty, forty, fifty percent declines and companies with good prices and good earnings respond very appropriately.

If you'll turn to page 3, I'll hit the highlights. In the marketplace we'll talk about performance and very importantly we'll talk about the portfolio. What has helped it and how it's positioned for continued solid performance going forward. Market has remained incredibly volatile, these are arguably the most volatile markets we'll see in our lifetime. Average move in the market everyday is 1%, up or down. In the NASDAQ it's 2%. They're volatile markets and when they are volatile markets it pays to be disciplined. At the same time I would point to you that March 10th, early March was a major inflection point in the market. Significant inflection point where the NASDAQ was over 5,000. People were being rewarded for buying very expensive stocks without sound earnings, just on a premise that they were going to go up and up and up. There was no road sign that said that the NASDAQ is due for a 30% decline. That two miles down the road the NASDAQ's going to correct, but, it did. The important thing is that since there was no road sign you had to be there, you had to be as a value manager, you had to be very faithful to discipline in terms of the types of stocks you were buying.

In 1999, if you were a value manager, and you tilted your portfolio to the expensive parts of the market, whether it was the expensive parts of the value space or even moving in and copying off of your growth managers portfolios, you were well rewarded and we got more conservative in 1999 and relative too our long term numbers that really has deluded some good solid long term performance. But, importantly, if you look since this inflection point, the NASDAQ, which I think has continued room to go for the types of companies that will be rewarded in this marketplace, your portfolio has meaningfully responded.

If you look at page 4, here's what I've done breaking down your performance, you'll see your long term numbers on an annual basis. You'll see your long term numbers on a compounded annual basis, but, there's two columns that I think are particularly important to look at. Those are the first two columns on page 4. The first one literally since the meeting we had in February of this year, which is about the time that the NASDAQ peaked, and I believe is an major inflection point, how has your portfolio responded. Total portfolio up 17.94 %, the S&P 500 up 3%, and the value benchmarks, either the Barra value or the Russell value up 15.7 or 16.9, respectively. Since our last meeting when we came to you and we said, we've seen this turn, your portfolio's responded, your Boards discipline and your seasoning said we're going, you know, the show isn't over, we're going to wait this one out and see what happens. We're, in terms of Loomis-Sayles, since that meeting your portfolio has continued to respond well. Since the end of July, the meeting was August 11th, your portfolio is up 9%, the S&P 500 is down almost 2%, and the value benchmarks are up 7.38 and 8.04 respectively. It's very appropriate to look at performance results in the traditional calendar basis. Most recent quarter, trailing one year, three years, five years. That's very appropriate, I would contend strongly that it's also very appropriate to look at performance when there area structural or major inflection points in the market and sometimes they don't decide that the inflection point is going to come on December 31st. I wish it had come a little sooner, I'm glad it came still never the less on March 10th, but, in that time period your value portfolio has responded quite well within it's value space and exceptionally well within it's space and context of the entire market and I think in compliment to Roanoke Asset Management, is I would describe a little bit more of a high octane growth manager, this is a very good compliment to it in terms of overall portfolio structure.

Annual numbers are below. Again solid long term numbers no question about it 1999 is going to be a year that will stay with us, it's done, in six weeks we're going to be in 2001.
But, it's going to be there for long term performance results. Since this market has turned, your portfolio has responded exceptionally well.

Let's talk a little bit if I could about the market themselves and this portfolio in particular. A couple of exhibits that I think are critical or important. If you look at page 5 and what I've done is I've broken up stocks into four separate categories and I'll describe the rationale behind it. Top left quadrant where it says good earnings overpriced. These were companies that at the start of this year, good companies, good earnings, but, PE ratios over 100.
A seasoned investor would say, Cisco Systems, JDS Uniphase are good companies, but, at over a hundred times earnings, expensive, paying a $100 in price for a dollar in earnings. You can see in the period since this NASDAQ peak, through the end of October, significant declines. Story Stocks below that, the infamous internet companies that really had no PE ratio because there were no earnings for the companies just being valued on a price to sales basis at abnormally high valuations. We can see what's happened in that space. Stocks that were pretty common names, down anywhere from 50% to 94%. You remember Pet.com, another selling pet products over the internet, it's out of business as of two weeks ago. The other two spaces are important to look at in terms of your value portfolio. What I would describe as under appreciated stocks, companies that we owned, we own this year and they've done well, we owned last year and they had good solid earnings, but, the market was not rewarding

companies with good valuations and solid earnings last year. Everyone of these stocks that we had conviction in that we kept or in a couple of cases added to the portfolio have meaningfully helped out in terms of performance. PNC Financial, Baxter, which is a healthcare products company, El Paso Energy, why would you ever buy a utility stock, why would you ever buy a financial stock, well, those have been two very good sectors in the market this year. Emerson Electric, Fannie Mae, Tenet Healthcare another stock in your portfolio that's doubled this year, that's done quite well. Those are stocks we had conviction in, those are stocks that we kept, those are stocks that had sound fundamentals, those are stocks that rewarded the portfolio.

The key, I think, to better performance to this year in particular has been to avoid the last quadrant, what I call value traps. Stocks that look attractive because of the price, but, there isn't really the right price for earnings. In stocks where early this year or late last year where we saw there was no catalyst for good earnings, good profitability despite an attractive price. We sold them from the portfolio. Compuware, BMC Software, Armstrong Holdings, Owens, Xerox, stocks that looked attractive, but, there was no earnings catalyst. Stocks that we sold out of the portfolio before these kind of declines that have certainly helped out the portfolio and speak well to being more adept at selling stocks then we ever have been in the past. I'll ask you to just briefly look at page 6, I showed this to you last time as an exhibit, and all that does is it says that in 1999 and the first couple months of this year, the kinds of stocks that were winning in the value indexes, which we're measured against, those were the stocks that I would contend were very expensive and had little profitability. If you look at the price to earnings, price to sales, relative to the return on equity, these were the kinds of stocks that were working last year and early this year in the value spaces. We chose not to participate in these kinds of companies. They were the stocks that were winning, it's no excuse, we all had to decide whether we wanted to own these stocks, we said we're not going to.

Mr. Boggs: I thought value stocks traditionally had low PE's, I mean this seventy-two and a half, it's not really a value stock.

Mr. Sowerby: You're right. They were in the value indexes so arguably they're fair game that we should be looking at. Give you an example, Qual Com was in the value index for the first half of 1999. Stocks that had PE ratios of 70, 100 even higher, they were there, whether you wanted to own them or not, no excuses, we just chose not to buy these kinds of stocks, but, this was I think indicative of 1999. You were paid to either cheat and buy growth stocks or to buy the most expensive Cartier type prices in the value space. We didn't do it, we weren't as good a stock pickers too, I mean I don't want to say it was just the markets, we weren't as good a stock picker as we had been over the long term in 1999. What's happened since then, since the NASDAQ turned, there's been more sense and sensibility in the market. PE ratios that are more tolerable have been working at the same time companies that have better profitability as measured by return on equity.

I think is not even the end of the first quarter on this rotation to value and if I ask you to remember one exhibit I think page 7 is very important. And that's this, why I think it's still early in it's rotation is just simply that I look back thirty years to look at past periods where we had excesses in the marketplace and I define this last excess as that Internet/NASDAQ type excess. And then you look at the fallout after, what we've seen for the last eight or nine months and you remember the "Nifty 50" in the early 70's and the fallout after the Nifty-fifty. In this case I've looked at three periods of market excesses, when the market got expensive, when the dust settles, what happens after that. The rule of thumb is it pays to be a low PE or a value investor. I think it pays over the long term, but, it pays double going forward. There are really three periods I think that might be similar with what we just saw with the Internet and NASDAQ. The first one is probably the most common and that's the "Nifty 50", just buy fifty's stocks and early seventies, don't pay attention to the valuation, don't go up and up and up. Well when they corrected it was pretty tough and what rose from the ashes was sound sensibility in terms of the stocks you buy. If you look at value vs. growth in the three year period after the "Nifty 50" it's a compelling story to value. Similar episode occurred in the early 80's when oil prices were $40 a barrel and you were paid to buy very expensive oil stocks with the belief that oil, remember in '81, it was oil 85 and 85. Oil would be $85 a barrel by 1985. Well by April fool's day, 1986 it was less than $10 a barrel and investors that loaded up on this expensive part of the market were disappointed. Another period I think is analogist to this Internet sell off, the last period would have been '91 with the bio-techs,. In '91 it was just buy bio-techs, they're going to go up no matter what, in the fall out that happened after, it was again a very good environment for low PE value investors. That's why I think it's early in the game for this rotation back and the value investor who's been faithful to their calling as we've been, is going to continue to reward you going forward. That's why we get excited about what the market has to offer, people say don't you hate these markets, because they're so crazy, well they're there, they're volatile, but, for how we look at buying stocks, I think this is a pretty good market, ironically. And I think it will be an even better market going forward. Just to sum it up in terms of what's been critical to our performance since this inflection point and since you had the good wherewithal to see us through, security selection has been better, unquestionably. Holding stocks that we had conviction in, like an Emerson Electric, a Tenet Healthcare, has rewarded the portfolio where they certainly challenged us in '99, although they were just as good a company then as they are today. Tightening up the sell discipline like selling a Compuware or an Armstrong Holdings, has also helped and all of that has combined, helped out performance. More work to do unquestionably, but, in this significant turn we have been there and then some.

The portfolio today on the last couple of pages, 9 and 10, is squarely positioned in the value space, PE ratio on 2001 earnings a couple of numbers to draw your attention is about 17 times, average PE in the portfolio is not market cap weighting it, probably closer to about 15 times, so good valuation, with believable earnings. Thirteen percent, at least ten percent going forward, you know earnings estimates are being cut, in the case of our portfolio, you're not seeing the earnings estimate reductions like you are in some of the expensive parts of the marketplace. On page 10, you see the portfolio as it stands as of 9-30. Since the last time that we met with you, three of our stocks have been either asked to be acquired or acquired. I can't remember if I talked about Associates First Capital a stock we owned is being bought by Citigroup, of Willamette, which is an end product paper company, Wherehouser's buying them. Texaco is being acquired by Chevron. Recent additions to the portfolio, Dow Chemical, you might not get all juiced up when I tell you we're buying chemical stock, but, this is the best chemical company on this planet. We think oil prices are stabilizing and are going to come down. The dollar's going to get a little bit weaker going forward and a company like Dow chemical that has good earnings and benefit from those two aspects as well as greater pricing power in their components. It's going to do well going forward and that's what is indicative of this portfolio as it stands today. That in this marketplace that has a lot more room to run to sense and sensibility, you have prospered and you will continue to prosper.

I'd like to thank the Board for in August when you had a tough choice, you said with what I believe good sense, that you'd continue to watch, the movie wasn't over yet and we have been there. In markets that some people don't like, but, I sure like, because they reward the long term investor who buys companies at the right price and the right earnings.

Mr. Wearn: Any questions on this part?

Ms. Valcik: I have one question Dave, one of the things that we discussed at that August 11th meeting was the organizational issues, where the head of the group had left, could you tell us how that has come together now, how your company has come to be structured since the head of the equity team left and are there any changes in the way you're managing the portfolio?

Mr. Sowerby: That's a good question. One of my colleagues, Dave Cook, who was our associate managing partner who we felt was very instrumental in the turn we were seeing in this portfolio, we asked him to be the managing partner. I used to work with Dave Cook in the 1980's at Manufacturers Comerica Bank, up in Detroit, and that has been, I think a positive catalyst in terms of the enthusiasm he brings to the process in allowing investors to be good investors. That has been a very good catalyst and has really tightened up our team approach for the sake of our portfolios. In particular for your portfolio. Since that time we have had no changes at Loomis-Sayles and that has been a critical element. We know there are changes in this profession, turnover, but, the people I work with are the people who have been there for years and they're all enthusiastic about, not just the markets, but, about our process for putting good stocks in your portfolio.

Mr. Wearn: Are there any other questions or comments? Thank you.

Mr. Harris: I'll take a quick minute to talk about the fixed income portfolio. I am a teammate of David's. I concentrate on the bond portfolio. Let's go to page 1.2 and get right at the performance of the portfolio. Once every decade the fixed income guys have their day in the sun and the year 2000 certainly has been an absolute basis and a relative basis, compared to the stock market, a rewarding place to be. And we certainly have participated in the improved performance. In the bond market as you recall, 1999 was a tough year for bonds. Interest rates rose dramatically and the portfolio actually had a negative return in 1999. This year the absolute return is much better and we certainly have participated in that. You can see the 3rd quarter, up about3.2%, year to date 7.4 and then you can see the longer term numbers, in line or slightly ahead, depending on the time period as compared to your market benchmark the Lehman Aggregate less BBB rated bonds. A very rewarding period for bond investors and I think your bond portfolio participated well in that.

It has been a little of a challenge as David alluded to the value equity style. Our style of bond management is somewhat similar to that where we concentrate on corporate bonds as our primary means of adding extra return to the portfolio. That area of the fixed income market has been under severe challenge, really since 1997, and the Asian crisis. It's kind of been rolling events over that three plus year time period now, that have caused headwinds for the corporate market. Our performance being in line with the market is very good in the time when our style of bond management has been challenged pretty severely. If you take a look at your portfolio, section 2-1, you can see that we have a very significant commitment to corporate bonds in your portfolio. That's our primary means of adding excess returns, it's through corporate security selection, extra yield in the portfolio. We really don't take a lot of interest rate risk. Your portfolio's average maturity or duration, it's exposure to interest rate risk is pretty similar to that of the market benchmark and you can see that. We have a nice yield advantage over and above the benchmark, about 30 basis points, high quality portfolio and about half the portfolio is in corporate bonds and that's a pretty significant commitment as compared to the market benchmark there where Corporates represent about a quarter of the index.

We've been able to hold in, keep up with the market in a period of time where it's not been very profitable to be in the corporate arena. Page 3.6, I want to show you how difficult it has been for corporate bonds as compared to Treasuries. Over the last three years, Corporates as a sector have under performed Treasuries by over a hundred basis points. One hundred and twenty basis points. And over that three year time period we've had a pretty consistent 50% weighting of Corporates in your portfolio in the corporate arena. Our performance holding up very well against the market benchmark. I'm very pleased with where we are today. I think the market environment is shaping up very well. As Dave alluded to, value stocks, we think corporate bonds as well are going to prosper in coming months as we move ahead. Why are we optimistic?
Economic growth is slowing down, we think the odds are, while slowing still be good. Monetary policy has been a very challenging back drop for Corporates with higher short term interest rates, the Federal Reserve tightening monetary policy, we think that process has come to a close. I think the most likely next step would be that the Federal Reserve in 2001 begins slowly lowering short term interest rates. Economic growth slows, we don't think inflation is an issue, we think the back drop for easing of monetary policy is setting up quite nicely. And that's going to provide liquidity for the corporate bond market, that's been one of the major impediments for this sector of the market to do well, a lack of liquidity from Asia blowing up or long term capital going out of business or monetary policy tightening, all of these factors of the last few years have really been a drag on the corporate sector. We think the market for corporate bonds is shaping up nicely. And the final reason is you're getting paid today to take credit risks. Credit risk today is being paid very handsomely. I can buy very solid Single A rated companies at about 2 percentage points over a similar earning Treasury. That kind of yield advantage hasn't been seen since the 1990 recession.

Mr. Boggs: A little later on in the meeting we're going to be talking about our investment policy. If we were to allow you to use Triple B's, would that significantly increase our return, would it also increase our risk?

Mr. Harris: Yes, it would, but, I think the risk trade off versus the return advantage is worth the consideration. In fact I was at the board several years ago suggesting that very thing. I think now is a great time to be considering it. I think you're getting rewarded for taking on credit risk and there are many, many fine companies that I can buy today at very, very attractive prices.

Mr. Boggs: Do you have some estimate of how it could impact our return?

Mr. Harris: Yes, assuming that we had discretion in terms of weighting in Triple B's, most of our clients that allow us to use those have about 25% of the portfolio in that rating category today. That gives us probably another, your portfolio has about a 7.1% yield, we're probably closer to 7.5% yield. In terms of yield in income return, we're probably going to be about 40 basis points. I think that you could realistically expect from being, taking advantage of that rating category. So I think it's meaningful, I think the risks are manageable our expertise is in corporate bond management and I think we're perfectly positioned to manage it. In fact I brought a little chart, 3.7, sticking to household names doesn't necessarily assure a good performance from bonds. If you look at this page, many of the companies you've come to know, I'll draw your attention to one J. C. Penney, single A rated bond, at the beginning of the year. Today their bonds are trading at sixty cents on the dollar. So sticking to a rating category as a way of controlling credit risk is not necessarily going to avoid problems. In fact there's a study that Lehman Brothers has done the last two years, a period where interest rates have been fairly stable, we went up a little bit in '99, back down again a little bit in 2000. Over 380 issues in the Single A rating category have declined in price by more than 10%. So it's been a pretty treacherous corporate credit market in avoiding these land mines, I think David mentioned, their so disciplined on the equity side and how tightening that down and avoiding the disappointing stocks is the same thing that has helped us stay very close to the market in a period of time when corporate bonds really haven't provided
that extra return you normally think. We stayed close because we've avoided some of the disappointments, the disasters, the J.C Penney's of the world that have really blown up and I think that is a key going forward. We are in a perfect position to do the credit work, we have the resources, we have the expertise, if the Board is considering that I would be very much in favor of it and I think that it would pay nicely, especially now to take on the extra risk.

Mr. Wearn: Anything further on the subject of where you are currently that's really discussing a matter that's not in our agenda, a change of policy.

Mr. Harris: No, I'm going to end my formal comments right there, I've brought you up to date, I know we weren't on the agenda, you've got a big agenda to go, but, did you have a question?
Mr. Garvy: I think I'll hold it for later.

A. Quarterly Report (Jeanne Valcik)

Ms. Valcik: Well Mike and Dave did a great job of telling us how the market's done in the last quarter and also in the last year, so clearly that's something we're not going to have to spend a lot of time on here this morning.

Why don't we begin the performance report on page 2. This is an overview of what the market did on the top chart for the quarter, on the bottom for the one year period. The S&P was actually which is in a tiny box was actually down about 1% for the quarter. The reason why was technology and communications. Those two sectors were hit again, they were also hit last quarter. Tech and communications stocks were down about 10% for the quarter. Examples that Dave gave in his book, would have showed us some of the big names that had the fall offs. I think he had Priceline down about 70% and he noted it for the year and I think it's about down 90. The big names that had really had a good run have fallen off. Microsoft was off by 25, Intel was off 38. You'll note that the value for the one quarter, the median manager was up 5.29%, that's why we invest in value, that's why we've hung in value for all this time. We are very pleased to see the value managers do well. The other sector that is important to look at is the mid-cap broad sector and that style returned 7.3% for the quarter, mid-cap has continued to do very, very well, even in the downturn of the technology stocks, mid-cap growth stocks have still continued to do well. It's definitely been the place to be. If you'll look at the chart at the bottom of the page you'll see that growth companies one year ended, were up 28.82%. A lot of that very strong return had to do with the 4th quarter of 1999. Value stocks now for the one year up 9.23, I don't know what the number was the last quarter, it was just slightly positive, so a continued come back for value. Mid-cap broad up 45% for the median manager, great return.

On page 3 is domestic fixed income. Mike has told us that the place to be for the quarter was high quality corporates. The other place to be was mortgages. You'll note there that high yield for the one quarter was up 74 basis points. The high yield segment has really taken it on the chin, the spreads to high yield relative to high quality corporates are as high as they've been in quite some time, and in fact they're being priced as if we're in a recession right now. For the one year we can see that we now have bond returns that are back to normal, up to two quarters ago we had a 175 basis point increase in interest rates, that's now moved through the market and we're now getting returns in the 7% range.

Let's go to page 5. The pie chart at the top is this funds actual asset allocation. The fund was rebalanced in the last quarter. Jane did a great job getting all those pieces into place. You can see that the domestic equity is now 46% vs. the target of 47, so we're definitely right in line. What looks different between your actual asset allocation or target either one and the Callan Public Plan you'll see the domestic equity, exposure is about the same, it's the international equity that you all don't have in the fund that plans of your size tend to have. If you look at page 6, you can see that our cumulative returns vs. our target, that line is still above the target. As you all know it's been very hard to beat benchmarks, in the equity side and the fixed income side. We're very pleased to be above the target.

Page 8, and look at the asset distribution across the investment managers, between the June 30 quarter and the September 30 quarter. There's been a dramatic change and that didn't have anything to do with the market, it had to do with was the rebalancing. The portfolio at the end of June had gotten up to about 57% equities, but, that was rebalanced back to about 47% target. We also have a target of 40% to the S&P 500, 40% to Value and 20% to mid cap growth, because we want to, we want the portfolio to generally be positioned regardless of the type of market we're in. We are very please with the returns that Roanoke had given us, but, their portfolio had grown so much because of their strong returns that we balanced that back to what our investment policy says it should be.

Page 10,

Mr. Garvy: You skipped page 7.

Ms. Valcik: Would you like to talk about it?

Mr. Garvy: Well..

Ms. Valcik: The reason I did is because that same chart shows up 2 more times. In fact, it's on page 10. This is the performance of the bond vs. the Callan Public Plan database, this is not just Callan plan's in the database, we get as many public pension plans as will give us their rates of return to be in this database. You can see that for the last quarter and we should definitely stop and enjoy that number. Great return. You can see that the portfolio did well every place where we're invested. Clearly the lowest number that we have in there is the 25th percentile. That is just fantastic.

Page 11 shows us how the fund looks in that exact same database, but, what it does here is look at a year by year look. You can see that the very strong performance that we've had in the last 2 years has definitely pulled up the performance. Performance has been generally good year by year with the exception of '96 and '97. The risk adjusted performance, those are outstanding numbers.

Mr. Garvy: To what do you attribute primarily these results?

Ms. Valcik: The results are primarily because we stuck with the Roanoke management style, after it had done very poorly in '96 and '97. Their growth style as you know, didn't look very good and when they came out and when it came to the sorts of stocks that did very, very well in that time period, may have just shot the lights out of them. I believe their return for the one year is 80%, those sorts of results will go a long way. The other very good thing is that technology and communication took it on the chin the last two quarters. Their portfolio held up during that time period.

Mr. Garvy: They've been rebalanced as well.

Ms. Valcik: They've been rebalance, we took a lot of money out. We put them back to the 20% mark. Roanoke had been at 20% of the portfolio and now it's back to 10, that's of the total portfolio, they represent 20% of the total equity portfolio. However, we would not be comfortable with keeping Roanoke at that high level of the portfolio, that we would have too much money exposed to a mid cap growth style and we want to be style neutral relative to the market. Mid cap growth will not always be the best performing sector.

Page 14, this is an index fund. Not surprisingly it has a return that looks like the S&P 500 index. One of the reasons we have it here is to have a balance. We've got this mid cap growth, we've got this very traditional value style and so we want the S&P that sort of balances between the two. At the last meeting we brought in some style maps to show how when we put these three portfolios together we look very much like the whole market. It's also very inexpensive, 5 basis points. Let's look at Loomis.

Dave has told us how they did for the quarter. The return there 4.96. A very good return, a strong return, however, it did lag the value peer group. It ranked in the 57th percentile. We do want to point out it trounced the S&P 500, value managers for so many quarters been compared to the S&P 500 and when they beat it so strongly we definitely want to point that out. As you know the concern that Callan has is over the long term period for Loomis that the results rank in the 80th to 90th percentile. The Board at the last meeting decided to give them until the end of the year and that is exactly, so I don't think we need to dwell on the subject, we're very, very pleased the portfolio's turned around.

On page 15, you'll see that 1999 would really hurt this portfolio, they came in at '98, 66th clearly we'd like to see them do better, but, in 1999 that 91st percentile really hurt the portfolio. I'm going to remind you however that this is against large cap value peers. So we're not comparing them against growth managers, these are against large cap value managers. We have had some concern that the value managers are not sticking to their value knitting, I'll say some of them probably have drifted away, however, in the fourth quarter of '99, I looked at the value peer group. I actually looked at portfolio manager's names to find out who was in the top quarter in such an awful period and it's value names that you would know, Sanford Bernstein was one of the names that are in the peer group. Loomis themselves are in the peer group so the group we are comparing them against is the purest group of large cap value managers that we at Callan can find.

On page 16, the sector allocation on the bottom left side of the page, as Dave said, they had a high exposure to financial stocks during the quarter and financial stocks were definitely the place to be for this quarter, so that helped very handsomely. Energy stocks another a very, very good place to be during the quarter.
On page 17, is the Loomis-Sayles core bond fixed income, you can see that they had an excellent quarter, with the exposure to the high quality corporates. They ranked in the 29th percentile and the 14th percentile for the last year. One of the things that Loomis-Sayles is known for is their corporate credit analysis.

On page 18 it shows what the year by year returns have been for Loomis. On page 19 it shows the sector allocation and you can see the chart that's on the lefthand side, the pie, that's the way the Loomis portfolio is allocated and on the right is the way the benchmark is allocated. You can see that the credit exposure for your portfolio they have 50% to the portfolio in credit vs. the benchmark allocation of 24%. Little bit under weighted in mortgages and of course they'd be under weighted in Treasuries. As Mike said, their duration is about benchmark, they were extended just a little bit longer. Very good quarter.

Page 21, let's look at Roanoke, the extra page 30 was sent down. We have always compared Roanoke against the mid cap equity style and Bob said, "well what would they look like against the growth", and that's what that page is. If we want to move and compare them against the growth we obviously want to talk to Ed Vroom about it and make sure he's in agreement. The other thing is that we added the Russell 2500 Index as a comparison. We had been comparing Roanoke against the S&P mid cap, now I did talk to Ed, and I said "What is the benchmark to best compare you with?" He said it was this Russell 2500 Growth. Which is the Russell 3000 minus the S&P 500. I wouldn't just want to change the style group that we're comparing Roanoke to without discussing it with him first, that's why we published the book this way and sent out the extra page. They look great in both groups, but, clearly when you compare them against the mid cap equity style they look much better because that style hasn't had those big high caps. Incredible returns.

One thing that I will point out is that we had a bad market for technology, Roanoke is well over exposed in technology, yet managed a positive return for the quarter, a 9.86% return. If you look at page 22 you'll see the year by year returns for Roanoke. We know that Roanoke will be a manager that can be in the first quartile and on times be in the last quartile, and we all know that and accept that. The reason we do it is they have very good risk adjusted returns. Those risk adjusted returns are taking into account the fact that they can either be very, very, good, or at times not so good and they still look good on the risk adjusted basis.

On page 23 look at their technology. Which is the return that they produced this quarter with that technology weight and the way technology stocks got whacked so badly is really incredible. I talked to Ed several times during the quarter because we had the rebalancing going on and he'd be like "I gotta get off the phone this market's wild!" As Dave said this has been the most volatile market he can remember, they had days where the swings would be 10% from morning to night.
It's clearly why we have the S&P 500 and Loomis on the other side.

On page 24 is Roanoke's core bond fixed income style. They did not have a very good quarter, they had a return of 2.82%, which ranked in the 87th percentile. However, note how close the returns are of fixed income managers. The median managers is at 3.04, the 25th percentile is 3.16, there's twelve basis points that separates being a median manager to a top quartile manager. If you look on page 27, on the sector allocation, the thing that stands out the most is the fact that they have no mortgages. The benchmark has 24% mortgages and this portfolio has no mortgages. Mortgages were definitely the place to be for the quarter. They have an over weight in Treasuries at 44%.

Mr. Garvy: Why do they have so much cash?

Ms. Valcik: Probably have a barbell strategy going. Typically when you have a portfolio that has that much in Treasuries and that much in cash, you have a barbell strategy, however, I don't see that they have anything out in the long bonds. If you have a barbell strategy what you do is you buy very long bonds out here, you have cash here and it meets in the middle. That doesn't look like a barbell strategy. Let's see duration 3.47 obviously you want to be very short relative to the benchmark, of 4.83. High quality portfolio, very different style than Loomis and a good balance between the two. A tremendous quarter.

Mr. Wearn: When you say a good balance between the two, you're talking about the fixed income aspects?

Ms. Valcik: Correct. Also on the equity side though, very, very different managers. Oftentimes we will establish a stable of managers and you believe when you've spoke to them and done your due diligence process that you have very different managers. Then you open the portfolios and low and behold what do you find, the same names. That's not going to happen here.

Mr. Garvy: What concerns do you have about the risk adjusted measures on page 25?

Ms. Valcik: In the case of Roanoke I don't see that they're adding a lot of value over a bond index fund unfortunately. They were hired as a balance manager and then the portfolio's were split so we would look at them separately as an equity manager and a fixed income manager. And that hasn't been that long ago, probably about a year and a half since that occurred. I think when we look at them as a fixed income manager only the value added over an indexes is not good at all.

Mr. Wearn: That's not really their style. They had some success however, I think it goes back three or four years that led us to lead them into fixed income equity, fixed stock vs. the equity.

Mr. Garvy: They had some good years, yeah, but, the risks associated with them seemed to be substantial.

Mr. Wearn: So that may be something we wish to talk about in the future.
Mr. Garvy: Are we going to talk about investment policy at all today?

Mr. Wearn: The investment policy is down for your consideration, a statement of investment policy revisions that are mandated by the State Division of Retirement, we will be discussing the mandated revisions, I'm not sure, there's no reason we can't discuss everything. Does anyone have any other questions for Callan or comments?

Mr. Boggs: Is she recommending that we change the benchmark for Roanoke to the Russell 2500 Growth Index or leave it at the S&P mid cap?

Ms. Valcik: Yes, I believe that's a much more reflective benchmark for Roanoke. In fact there will be times when the plain vanilla broad benchmark may be very bad against, because they're out buying very growth names. So Ed is very comfortable with that benchmark, that was the one he recommended.

Mr. Garvy: He's seen page 30?

Ms. Valcik: He has not seen page 30. I would not want to change, he saw the first page, in fact I did e-mail both, I just haven't heard back from him, so he's had an opportunity to see them. I just returned from being on vacation. Last night 12:30.

Mr. Wearn: And he's scheduled to appear in February, my thought is that we ought to be sure that he does have this and be prepared to comment on the benchmark. Any other questions or comment for Callan on the report? We also received an October 25 letter from Callan Associates on your Bacon and

Woodrow association. I think I'll just identify it for the record that we did receive it and I assume the purpose of it's inclusion in our correspondence is to let us know of a change in association.

B. Discussion of Management Retention Policy

Mr. Wearn: We had asked at the last meeting for suggestions along this line, to also incorporate watch policy, a fairly unique concept, I believe. If you'd be kind enough to take us through it.

Ms. Valcik: Certainly. If you remember we actually brought this policy to the last meeting and as we discussed it one of the things that came up was "what's an extraordinary event, what is an organizational issue" and so we were asked to give examples of organizational issues and also to do that in conjunction with John. We, Callan, sat down and wrote down some of the items that would be very much a concern to us and we can go through those. The other thing that we added was, we'll give examples of these organizational issues, but, we will come and say, this is an organizational issue and that is in the policy. Your consultant is responsible for identifying that, that is an organizational issue. But, in the even of an extraordinary ownership change, what would that be to us? Well if a prominent owner left and didn't have a plan of succession. An owner can leave and will eventually want to leave, but, what do they do, are they passing ownership shares to their employees, making a plan for that. I can think of a firm right now, (Beryl Handley) in Dallas. They have recently in the last two years, they've had three of the founding partners step down, but, what did they do? Six years ago they were bringing in young people, giving them shares and preparing for the day that this was going to happen. Ownership changes can happen, has the firm planned for them? Do key employees receive large sums of money. We see this often in the investment management business lately. Every time you turn around an investment management company is being bought by a very large foreign bank. UBS,(Olliance) bought Pemco. The people at Pemco, an awful lot of them would never have to work again, so, what's important, what are the golden handcuffs that they have to stay there, what are their incentives to stay there, how long do those incentives last? In the case of Brenson they had five year incentives when they were purchased. Well guess what, at the end, as those five years were rolling off it was pretty apparent a lot of those folks were going to leave, so they re-upped those incentives, because consultants were saying, we know that you have a whole group of people that are getting a hundred thousand dollars a year extra and they're probably going to go somewhere else. And so we watch those sorts of things at Callan.

We watch whether key investment decision makers stay. Oftentimes a firm will have an investment policy committee. If it's made up of three people and two of them leave, well, that's very much a concern. If they had an investment policy committee of three people and they knew that two were going to retire then they better expand it and get ready for that. So there can be a plan for succession that we would find perfectly acceptable. Manager variance from the strategy, clearly if we looked over in Dave's portfolio and we found that he had the same names as Ed, that would be a variance from the strategy that we would be looking for. Material litigation and fraud. It does happen, we have had occasions where a management has been investigated by the SEC. Now, it's not something to say if the SEC does an investigation they're immediately thrown out, that's, this is a manager retention policy, we would put them on a watch list for that. Finally, material client servicing problems.

Mr. Wearn: Let me interrupt and pose a question and I would ask the Board to pose any questions as we're going through this. In 1D, where the SEC is making an investigation, how would we learn of that?

Ms. Valcik: We, Callan, monitor all of the trade organization publications, and so we are looking all of the time for any of these events. I get e-mails everyday about something going on at some management company. The other thing that we, Callan, are going to do is we've decided why should we just roll this out to consultants, we're also going to, we've developed a process where we would e-mail you and e-mail your staff so you would immediately know if anything happened with your managers. So we would put down Loomis, we would put down Roanoke, if anything happened you would immediately get an e-mail and know it the same day that I know it.

Mr. Garvy: Does your investment management agreements require the firms to notify us of material events such as this?

Ms. Valcik: I know for a fact the policy does.

Mr. Wearn: I'm not sure, however, that the extraordinary events that are identified here are tied into those in the policy? I'd ask Mr. McCracken if he can report on that, if not maybe to take a look at it to be sure that there's consistency, that they are tied together.

Ms. Valcik: Well, I had actually thought that we should formally adopt these guidelines.

Mr. Wearn: But, we do need to have them consistent with our policy so that there are not any issues out there about it.

Mr. Garvy: If we do adopt them or we modify them and adopt, then we can amend the investment management agreement to reflect this as well, so we can be consistent, is that what you meant?

Mr. Wearn: Exactly. I have in these a number of editorial type changes that I would suggest, but, nothing of substance at this point.

Ms. Valcik: And John was great with his editorial comments. They're already much better for his comments.

Mr. Wearn: Now I interrupted you at 1D, so..

Ms. Valcik: We were talking about the SEC and client lawsuits and how we would know that. Finally we have material client servicing problems.

Mr. Wearn: I'm assuming that's referring to First Union?

Ms. Valcik: Well, you can see the reconciliation, clearly when I was going through and putting examples in, that was the first thing that popped in my mind. We do expect managers to reconcile their statements back to the bank. It's not always done. I know it seems like a pretty standard thing that every manager would do, but, it's just not always done.

Mr. Wearn: Isn't that something that we should require?

Ms. Valcik: Absolutely. I used to fight to put it in my contracts and the managers, none of the managers wanted it in there because they'd say we aren't responsible for the bank. I said no I don't want you to be responsible for the bank, you just tell me what the differences are.

Mr. Wearn: I see Mr,. McCracken has opened up his hand and we'll note it accordingly, not only for our policy, but, perhaps for some editorial revision of our contracts when they come up, as they do January 1st for renewal.

Ms. Valcik: The next paragraph is where we said the consultant will come and talk about what is an extraordinary event. In the long term performance in relation to the market index, what you had asked..

Mr. Wearn: Let me interrupt before you go on. The opening language in that sentence seems to indicate that there would be a number of extraordinary events, I'd like to suggest revision in substance for there to be only one extraordinary event to call forward your guidance. In other words I think it should read in the opening sentence, "in the occurrence of any extraordinary event". And the language immediately after that where it says the investment consultant, that's you, the investment consultant is identified in the policy as the investment performance consultant and so I'd like that to be consistently noted also. And you're identified in the policy as being a professional investment performance consultant so we should include all of those so everything is tied together.

Ms. Valcik: Okay, long term performance. The one thing that you wanted to be added here was rolling five years or longer. We had just simply had rolling five years before.

Mr. Wearn: And I have a question about that. We were doing it since inception and for just a rolling five year or should we do it also for a five year? In other words I see rolling five years for picking up not just calendar years necessarily, but, fiscal years. My question about that is whether it should be just one of those periods or both of those periods? Rolling in calendar and/or fiscal?

Ms. Valcik: Well, I think when we go the rolling five years or longer we continue to pick up all periods as we go, so that if we end at June 30, five years, if we have longer we'll look at rolling five, we'll look at rolling six, seven, whichever period we have.

Mr. Wearn: Okay that ties in with the question I had on the third one, where instead of three years it said three or more years, I was just trying to tie it down to periods.

Ms. Valcik: We had actually made the change to three or more years at the request of the Board.

Typically when we're looking at a short term performance period it is three years. If you have a manager who doesn't look well, relative to a style group. And say it's been a one year period or a two year period, we like to say let's give them three years relative to their peer group. So that's where the original three years came from. The three years or longer were inserted to say, three years, yes, minimum, but, as the performance continues we're going to give, we'll look at three years, four years and five years. The two distinctions would be, our shorter term is relative to the style group because shorter term, the expectation is that if you're compared to your peer group you ought to do well. Longer term you ought to do better than market indexes. For a five year period you ought to be able do better than the market index, because we all know we can go out and buy an index very cheap. So that's the distinction we're making between longer term relative to the index. We know there can be periods where there's definite style bias, we've just gone through it, we've seen growth dramatically out performing value.

Mr. Wearn: That wasn't entirely clear, that differentiation to me and perhaps it wasn't clear because there wasn't a caption to item two like there is to item three.

Ms. Valcik: Mine has one.

Mr. Crouse: It was e-mailed. So we'll take care of it.

Mr. Wearn: We'll recess for the copies to be made. (Recess from 10:25 to 10:35 a.m.)

Mr. Wearn: Reconvene after the recess. We now have in front of us a copy of the same thing Callan has, so we're on the same page. It looks like there are no changes down through one, two has a caption on it now, Long Term Performance in Relation to Appropriate Market Index. That helps a great deal. In item two, the second sentence has a preceding clause and I would like to suggest, I'll give some language for concept, and in addition that it read in substance. " The professional investment consultant will promptly inform the Board and furnish the Board all appropriate related information documented advice and recommendation" and then it continues on with " and then upon completion of appropriate due diligence the Board shall consider whether to recommend termination", etc. of the language there. The concept being that you would inform the Board and furnish us with documentation that's appropriate, your advice and recommendation, which then after due diligence the Board would consider and instead of whether to recommend the Board would consider termination. The Board would not be recommending termination, it would just act. Shall I go over those two substantive type provisions of what we have in front of us in item two again.

Mr. Garvy: Do we want to put the professional investment consultant in the status of having to make a recommendation to this Board before the Board is actually considering the facts of the matter?

Mr. Wearn: The reason I did is going back to the first one. It says in the occurrence of any extraordinary event the professional investment performance consultant will provide guidance to the Board, so I was parallel tracking that concept to provide, to inform us and to provide us back up documentation and then advice and recommendation, which is the reason for that. If it's the feeling of the Board that we'd rather not have any of that.

Mr. Garvy: I think the documentation and guidance is appropriate, I'm just wondering if whether or not we want a recommendation to the Board at that time, before the Board has the opportunity to review the materials provided to us, that's my only question.

Mr. Wearn: I have not any problem at all in taking out the "and the recommendation" concept.

Mr. Garvy: I suggest that we do that since our only discussion opportunity is at these meetings. That perhaps we should have an opportunity to discuss it and as long as we've been properly advised of the circumstances, provided with guidance relative to it, and then we can discuss it and make our recommendation.

Mr. Wearn: And we can also ask the recommendation at such a time.

Mr. Garvy: Ask for a recommendation then if we so choose. Jeanne how would you feel about that?

Ms. Valcik: You know that I will come and give a recommendation. Whether it says so to do it in writing or not.

Mr. Wearn: Well the language that was used in the first one was guidance, maybe it would be better to just utilize that same kind of terminology instead of the word advice as I suggested. Are there any other comments on the substantive type provision? Let me just go ahead and read it to see if the substantive concept is clear. "Long term performance standards should measure a manager since inception and rolling five year returns or longer in relation to the market index that the manager is measured against. If a manager fails to generate a return premium in excess of the performance objective as stated in the investment policy statement, then the professional investment performance consultant will promptly inform the Board and furnish the board all appropriate related information, documentation, and guidance and upon completion of appropriate due diligence, the Board shall consider whether to terminate the contract with the manager. Does anyone have any comments on that substantive revision?

Mr. McCracken: The only thing that you might want to add, is to your language concerning termination of the contract and putting them on a watch list.

Mr. Wearn: So we should probably insert watch list ahead of termination in concept. And I think both of those revisions of the termination and watch list should go back into item one. Are there any other comments or questions on item one and two on the policy? Let's go on to item three.
I think the first two sentences are clear on the policy, maybe the third sentence which again goes back to what Callan's actions are and what ours may be should be revised accordingly. Anyone else have any thoughts on those?

Mr. Garvy: Well I would note that if we adopt this then we are, we have a circumstance right now in which Loomis would immediately be subject to these considerations and would be on this watch list, which perhaps is why we brought this whole thing up to start with, but, it provides flexibility to evaluate the current circumstances as we go forward.

Mr. Bradford: I had a comment about the guidelines, the introductory paragraph, the second sentence says that the Board has deemed it appropriate to include objective standards designed to assist, etc., etc. Then the preceding sentence states that, makes reference to due diligence during the selection process as being important. It seems to limit the issue of termination, if you will, or retention to either the objective standards we've done here or a factor somehow related to due diligence during the selection process. Well, what if we just don't like the manager anymore, are we taking away our ability to just say we don't want this person or firm.

Mr. Wearn: That's a very good observation, I think we need to broaden this, that these guidelines don't necessarily inhibit the discretion that the Board has to act without reference to the guidelines, have to act in accordance with the contracts however. Mr. McCracken, you can devise some kind of a statement along that line, it's a very good point, Mr. Bradford, thank you. What I think we need to do is give our comments on all of this, these guidelines and maybe see them again for final consideration and adoption at the February meeting. I'm a little reluctant for us to go forward at this stage with so many substantive additions or revisions.

Mr. Garvy: I would also note that Roanoke fixed income would be subject to placement on the watch list, given their performance, once these are adopted. I think it's appropriate, perfectly appropriate. We have some standards now to evaluate where we see a problem emerging or we have a problem we now have subjective standards to evaluate those and move forward in making decisions about them.

Mr. Wearn: I agree. The point is well made. They would be. Let's go back, yes, Mr. McCracken.

Mr. McCracken: I was just hoping you would leave your copy with us so we could us it.

Mr. Wearn: I will. We were then, I think we were then able to move on from the extraordinary events from the long term performance to the short term performance to the watch list concept. Let's take a look at that. It identifies in the watch list that is to highlight continuing conditions, I'd like to suggest the substantive change of the deletion of the word continuing, preceding the word conditions, so it's to highlight conditions. Does anyone have any comment on that? The second sentence, looks to me to need some kind of predicate indicating the occurrence of an extraordinary event or a long term performance failure or a short term performance failure, as providing for a manager going on a watch list.

Mr. Garvy: Well the conditions for placing a manager on a watch list are the three standards listed above, listed here as well.

Mr. Wearn: Maybe my confusion then comes that second sentence should be following that.

Mr. Garvy: Correct. The conditions for placing a manager on a watch list are the three standards listed above and summarized below, perhaps you'll want to add that, with a one, two, three items detail.

Mr. Wearn: The second to the last sentence, if the Board determines, that may be broadened perhaps. It says the relationship will be terminated, perhaps may be terminated. I think what we're looking for is a clear yellow light that we have on the continuation of the managers performance before we get to a stop light, that we don't have to throw the switch. Does anyone else have any comments in reviewing these guidelines?

Mr. Boggs: The sentence in italics is a little confusing.

Mr. Bradford: Yes, it's been suggested that it be placed under these three bullets here or after them.

Ms. Valcik: So it reads funny right there, so I think it should be and

Mr. Boggs: At all future meetings.

Mr. Wearn: An until the Board..

Ms. Valcik: I put the Board in there.

Mr. Wearn: If we may, we'll defer to the three of you, including the administrator to put this together in final form for our consideration and then if we may have it agenda'd as a separate item and bring it back for consideration for adoption at the next regular meeting of the board, that would be very much appreciated. I think we have an excellent start though to the concept. Does anyone else have any comments or questions on the guideline.

Mr. McCracken: Do you prefer a red line copy next time or just the final copy?

Mr. Wearn: I'm comfortable with a final copy, does anyone else wish to have a red line copy? The next item on the, well let me see, that concludes everything I believe with Callan at this moment, but, you're not running away, is that correct? The next item on the agenda is the discussion of the town audit.

VII DISCUSSION OF THE TOWN AUDIT (Mark Veil, Town Auditor)

Mr. Veil: For the record Mark Veil, I'm with the firm of Caler, Donten, Levine, Druker, Porter, & Veil. I guess I'm here to give you a little update on where we're at. In just a back up, historically we were engaged in the early part of the, we've been doing the Town's audit for a number of years. Earlier this year we were asked to do a short period audit on the pension funds with two things in mind, one to have a December 31st cutoff statement so we'd have some good numbers to make the split and then secondly based on that to be able to work with Miss Skittone to come up with that exact split, so we can true up the final split of the investment monies that were done earlier in December. I guess where we have been, we got statements sometime in May from First Union and staff reconciled all of those. We actually did the majority of our work in June and there were a couple of outstanding items that we were waiting to get reconciled, to make sure everything was okay, and then we found out there were some other problems with some statements. I guess, to keep it short we, in fact about a month ago we got some revised final statements that are, we've been told, are good. With those numbers the accounting staff has gone back and remade the adjustments, made all the reconciliations to make sure that all the transactions are recorded in their records and the, I guess I got updated trial balances and the schedule of the splits. At this point we're going to start over again and redo our numbers and calculations. I guess just by way of a quick look at the numbers, I think it was about $2.6 million from the original statements to the old statements and changes. Based on what we've got now as revised numbers it looks like the true up number is going to be relatively small, somewhere in the $200,000 range, would be my estimate at this point.

Mr. Wearn: Who has told you that the statement is good?

Mr. Veil: I've gotten all my information from Jane, I guess we've gotten almost everyone to sign off on those.

Ms. Dixon: Yes, we're fine, we're reconciled through October now.

Mr. Veil: And the 12/31 statement, revised one is okay.

Ms. Dixon: I haven't, all I've received is the holding list and a list showing the cash, the ending cash list. I have not received transaction for this time.

Mr. Wearn: Are you comfortable with your true up to go forward now?

Mr. Veil: Yes. I'd love to get this finished. Actually we'll be starting the Town audit in the next week or so, we'll do that done first, get it done, I would say by the end of the year we'd have all that..

Mr. Wearn: By the end of this year? This calendar year?

Mr. Veil: Yes, within the next month, have that all finished, as a function of the Town's year end audit we'll do the last nine months, with the actual, the two plan split.

Mr. Wearn: I would ask that if there are any problems encountered on account of the accuracy of the account, that you would please let the Board know as soon as that happens.

Mr. Veil: Absolutely.

Mr. Wearn: So that we're fully informed of the status of the ability to have an audit.

Mr. Veil: In all honesty, if there's a problem with that, we're going to have a big problem with the year end numbers. It will be a snowball effect if there is any problems.

Mr. Wearn: You said that you expected to have the audit by calendar year end, this year and do you really anticipate it right at the end of the year or do you think it may be sooner?

Mr. Veil: There is a very good possibility it could be sooner, what we're working with now is a schedule, now's probably our busiest time of year and in fairness, the Town's been a great client and you're first on the list to get this thing done and like I said we'll be out here within the next week anyway. That will be first priority on the list is to get that thing finished.

Mr. Wearn: I appreciate that very much because I'd not like to go past another calendar year end with the problems that we've had persisting.

Mr. Veil: I understand that, and we'll get it done. If you'd like, I'd be glad to be present at your next board meeting if you..

Mr. Wearn: I don't know if there's a necessity for that, but, if there is we'll ask for it. Actually if the audit comes in before, I presume we'll be sent our copies, at least let us know that things look fine for year end. Are there any questions? Appreciate you're coming, this is important. The next item we have on the agenda is the discussion of the First Union custodianship, what's the Board's pleasure, do we need to take about a five or a ten minute break before we get into that. We look like we may well go beyond the noon hour.

Mr. Bradford: Yes, I'd like a five minute break if possible.

Mr. Wearn: Let's try and be back then in about ten minutes at the maximum.

Break: 10:55 to 11:05 a.m.

VIII DISCUSSION OF FIRST UNION CUSTODIANSHIP (JeanneValcik)

Mr. Wearn: I would fill in the remaining members of the board, when I learned of the October 11, 2000, response from First Union by letter from Valentine J. Link, Jr., Vice-President and Regional Manager, it caused me significant concern and consternation. As a result of which I contacted our administrator and requested that the letter be distributed to our advisor and our managers, who are then to consider and provide us with whatever input, comments they may wish to make in writing, so that now we should have in front of us the responses from Roanoke, from Loomis, and from Callan, on the First Union, October, 11, 2000 letter. Does everyone have those at this point, it appears that everyone does. Has everyone before the meeting had an opportunity on the Board that is to review the October 11, 2000 letter. Everybody is indicating in the affirmative, Mr. Boggs?
Mr. Boggs: Yes.

Mr. Wearn: Have you also had an opportunity to take a look at the Roanoke, November 7, 2000 letter, which is addressed to me in response to First Union's letter, we also have from Loomis a

November 8, 2000 letter, which is a comment and also a November 6, 2000 memorandum from Callan. Has everyone had an opportunity to review all of these? My review of the First Union letter jumped out at the second sentence in particular which is that First Union was retained as service custodian for your retirement plan and assets were transferred to us on August 31, 1999. That sentence seems to indicate that the author of the letter is either unaware, uninformed, or denies the long standing decade relationship with the Town of Palm Beach retirement system in particular, but, the Town of Palm Beach government in general has had with First Union and it's predecessors acquired by it. That was also apparently the predicate in the letter for some jabs about not providing First Union with more responsibility and more opportunity for fee from the Town, and I was unhappy with that.

I will make preliminary comment for the Board and I wish the Board to also respond with further comment. My feeling is I would like to write to others at First Union who are superior to the author of this letter and inform them of not only the view I've just expressed about that one sentence in that letter, but, to also inform them of the responses that we've received from our managers and our advisor. And also anything else that the Trustees may wish to express, I'm very unhappy with the letter and with the situation. With that I'll pass it to the board to make whatever comments you may wish to make at this point. We do have a representative or representatives from First Union present.

Mr. Garvy: Would the Board like to hear from the First Union people?

Mr. Wearn: Is that your pleasure?

Mr. Bradford: At some point I would. Doesn't matter at what point.

Mr. Boggs: In their letter they say on or about December 15, 1999, we received instructions, I thought we instructed them at our meeting of November to go ahead with the segregation?

Mr. Wearn: That's correct. The letter is fraught with inaccuracies and misstatements. Okay, we'll go ahead and afford the opportunity then to First Union's representatives, if you would like to come forward and address any of these matters we would welcome that.

Mr. O'Leary: I appreciate the opportunity. For the record I'm Jerry O'Leary, I manage the southern region of First Union's benefits services group. I've been involved with the Town on a professional relationship really since 1994 with the finance department, I have some history here, including some knowledge of the negotiations that began, I believe in the second quarter of 1997, concerning your retirement plan, which as you correctly pointed out has with our First National Trust department here on the island. I became in the instant case about October 5th, when the President of First National, here on the island, called me and said what is going on and at that point I began to try and get up to speed on where we were and see how we might go forward. I
will state that I have not seen the letters from Roanoke, Loomis or Callan in response to the letter that we wrote, so let me try to explicate that a little bit if I may. Again our position is we think, we did significantly more than is called for in the charter that came into effect when the assets moved from First National, to First Union Benefit Services Group, we're part of the same organization, but, different

departments. We don't think that probation is appropriate. For the record, when we bid on this service the ultimate bid, it was a long series of negotiations, we agreed to provide monthly and annual reporting in an audit ready format, accrued income schedules, transactions grouped by type, interaction with an outside audit firm, on-line access to account records, report download capability, availability of full service pension distribution function, significant time savings for members of your staff, and consolidated reporting. I would say or submit for the most part we have probably done those things that are listed on our service contract. Now in coming in when I did, trying to step back and look at this from a high level, I would have to conclude that the relationship has not been a successful one. Again not having seen the other letters, it appears your service providers are pointing fingers at each other and saying this or that isn't my job.

I do know that there's an apparent disconnect in perception of the value of services, I believe Mr. Chair, you're letter to Mr. Link actually commended your First Union account officer for his efforts, I've also been told some of the other providers have called Mr. Link and castigated your First Union account officer. So there's a perception difficulty. I'm also aware that one of the senior members of the service provider, threatened to bury someone at an associate level at First Union, now, we can debate whether an attack like that is appropriate, but, I think we can certainly agree that the tone has not been collegial, we don't like that, and as I say, at a high level it appears that the relationship has not been a successful one. Can it be fixed, can we go forward, I would like to think that we can. I can tell you and I have previously met with Mr. Crouse of the H.R. department, Ms. Somers with the Finance department, I had a conference call with Miss Skittone of the Finance department and I can tell you that I can work with the Board if that's your pleasure and make a substantial accommodation on the fees.

We do believe it's important that there be an understanding of each service provider's role, we believe the Board is ill served by the finger pointing that seems to have gone on. We do however feel very strongly about probation, we don't think that's an appropriate remedy, given the apparent misunderstandings. We are regrettably ready to resign if the Board insists on probation.
I'm happy to answer any questions you may have.

Mr. Bradford: Would you repeat your point about someone said that someone was going to be buried, I don't want to get into the details, it just didn't sink in with me, could you just say it one more time, I didn't catch who said what.

Mr. O'Leary: I didn't attribute a name or even which of the firms it might have been, I don't think that's really appropriate.

Mr. Bradford: That's okay, I don't want to know, I just didn't get the gist of what you were saying, clearly.

Mr. O'Leary: There was a personal attack from a senior person to a junior person and as I say, we can debate whether that's appropriate, but, to repeat myself, I think we can probably agree that the tone of the relationship has not been collegiate among the service providers.

Mr. Bradford: Okay, thank you.

Mr. Boggs: Mr. Link's letter says that they're not, you're not willing to make any fee concession. So you're saying that, that's not true, that you..

Mr. O'Leary: I am saying that is our official position in writing, in response to the letter that we received from Mr. Chair. I'm also telling you, in the interest of trying to move forward in a more professional and supportive relationship that I will make substantial fee accommodations. And I've communicated those previously to Mr. Crouse, to Ms. Skittone, and to Ms. Somers. We would like to make this work, but, we do believe it's important that we have a partnership arrangement.

Mr. Wearn: Before I pose some questions, does anyone else have any?

Mr. Boggs: The only question I have is, I'm concerned it was October 11, before we received this letter from Mr. Link. With all the problems we've had, why didn't we get this letter in April or May?

Mr. O'Leary: I believe the letter was actually triggered as a response to the letter from Mr. Chair. I don't know that I have the date on that,..

Mr. Boggs: It was late August, I believe.

Mr. Wearn: September 20, is the date of the letter.

Mr. Garvy: I had several questions I'd like to ask. Is your, is it First Union's contention that the bulk of the problems are associated with the managers providing incorrect information to First Union?

Mr. O'Leary: I don't know that it is productive to explain or cast aspersions I think I go back to my earlier comment where it is important that everyone understand their role. It appears to me and hindsight is always 20/20, that there was a lot of assumption going on about who was responsible for which aspect of the service.

Mr. Garvy: I'd like to ask our consultant whether or not it's her opinion that First Union has technology sufficient to adequately carry out the responsibilities of custodian in this account?

Ms. Valcik: First Union's technology is not at the highest level of the industry. It turns out however that people can make a difference. So if you have an excellent client service relationship, if you have someone who understands how the system works, knows how to make corrections, can get things done, you can do it with color crayons and pencils. However, what we had in this case as you know was, we had someone who probably didn't understand basic accounting, I mean I went and sat down and tried to go through transactions and explain why things weren't working. I know you said you were involved in October, now I actually asked to meet with you on June 7th, and was in your office on June 7th. And you said no.

Mr. O'Leary: We've never spoken before.

Ms. Valcik: No, I talked to Alan, who went to you and I said I wanted to come and discuss this problem and at that time we were told that to get answers we had to issue RFP's. I put the request in two times, because I said the first time "you can't say no, we have to solve this problem".

Mr. O'Leary: We've never spoken, you've never called me, you've never written to me, I'm sorry.

Ms. Valcik: I talked to Alan Smith who discussed things with me.

Mr. O'Leary: I, um, um, I really can't comment further than to say that with respect, you've never called me, I'm sorry.

Mr. Garvy: Jeanne, let me ask you another question, do you think the understanding of the responsibilities of the investment managers and First Union are clarified to such a degree that there is the possibility of us moving forward without these sorts of errors?

Ms. Valcik: I think it's very possible if we have qualified people on our account to work as I said within the system. As you know I'm very disappointed, you saw that I had myself sent I don't know how many e-mails, over and over and over again and said, are the statements done, have they been reconciled. I've never had to do that on an account, it just doesn't happen.

Mr. Boggs: Who were you dealing with? Alan Smith?

Ms.Valcik: The gentleman who was here at the last meeting, the gentleman who actually apologized for the service and said that, indeed the service was not good.

Mr. Garvy: I noted both in your response as well as in Roanoke's response, there was concern that, at the working level of First Union, there was not sufficient experience to handle the basic accounting issues, perhaps First Union could respond to those concerns of the consultant and money managers.

Mr. O'Leary: As I said, earlier, we have received verbal commentary expressing concern over the capabilities of the account officer, but, the Chair's letter praised him, so as I say there's an apparent disconnect throughout this, involving different perceptions. Now if in addition to what I've previously mentioned, a reassignment of the account would be in order, we can certainly do that, in fact I've, um, I know that the relationship with the Town is important to the President of First National and I've committed to him, that if it would make a difference, you know, I would be happy to take over this relationship myself. I don't handle that many because of my other duties, but, this is certainly one that's important enough to the organization that, that stuff is warranted, if it's to the Board's pleasure.

Mr. Garvy: Have you had an opportunity to investigate these problems and determine the people on the firing line on the ground on this account? Whether there's sufficient...

Mr. O'Leary: I would have to echo some of what Ms. Valcik just said, the things I've heard, I have never seen before in a custody relationship. What's gone on here just doesn't happen. You know, we have a whole box of documents which I'm afraid would make your eyes glaze over, if we looked at some of them, but, I can tell you there is lots of blame to go around. Now for a simple straight forward custody relationship, yes, Alan Smith is perfectly capable of handling one of them, if a higher level of service is required, perhaps there are nuances in the transfer that are inherent in this relationship, then I would say it is not a straight forward custody relationship and perhaps a reassignment would be appropriate.

Mr. Wearn: Just for the record, in response on your comment about my letter, I'm looking at my September 20, 2000, letter to Mr. Link, you may have a copy of it. The only reference I recall making and that is confirmed in the letter itself, about Mr. Alan Smith, is in the fourth paragraph, which reads in it's entirety as follows: " While the Board wishes to express concern of the poor service it has received, it also wishes to state it's appreciation for the numerous attempts made by Mr. Alan Smith, our local account contact, to resolve these issues." I don't believe there's an inconsistent praising of the performance of First Union contained in that language or in that letter.

Mr. O'Leary: No sir, I don't disagree, my comment had to go with the evaluation of Mr. Smith.

Mr. Wearn: (to Mr. Garvy)Did you have any other questions?

Mr. Garvy: No. I have no other questions right now.

Mr. Wearn: The question of finger pointing is not so much a question of, shall we say politics, like Palm Beach County politics. It is more a question of accountability and responsibility. I consider it my fiduciary responsibility as a Trustee, to know from where mistakes in an account have occurred, especially when they go to such an extent that they persist for months and months and months. Even to the extent that our auditor is not able at this point to perform the audit as he should have been able to begin at the conclusion of the fiscal year September 30, 2000. It's not for question of personal satisfaction, it's not for any of those possible reasons or purposes, but, it's so that we know where there was a problem and can insure that it does not happen again. For that reason with the fact that you have not seen this correspondence, what I'd like to suggest is that you be provided a copy of it now and then perhaps we drop this item until the end of our agenda today, giving you an opportunity to review it now. And come back with some comment, perhaps this might appropriately be further addressed at that time for the Board to consider some later negotiations with you and First Union for a resolution of the request of the set off, which you are apparently in the position to informally discuss and negotiate. But, not to formally discuss at this point, perhaps..

Mr. O'Leary: Excuse me sir, I'm in a position to formally discuss fee accommodation.

Mr. Wearn: Do you have a suggestion or proposal that you want to put on the table about that?

Mr. O'Leary: I think I'd rather see whether we're going forward, I mean, there's at least a tacit offer to resign on the table, I don't know if that's what the Board wants. The Board could certainly turn around and say well you know your service is horrible, we're going to fire you before you can resign and I'd just like to get a sense as whether we're going to be able to go forward in a constructive manner before we get into a fee discussion.

Mr. Wearn: Well as I tried to indicate, I haven't formulated an opinion as to a firing, I'm interested in learning where the problem lies. If I were not interested in that, then I perhaps would be interested in going forward with.., I'd really like to give you, them, the documentation that we have and ask you to, I know it's a short time to come back as soon as you can to comment on that. And then perhaps it's appropriate to discuss what you might be in a position to propose. Mr. Boggs?

Mr. Boggs: Could I suggest that he also look at the minutes of the last meeting, pages 23-29, it's where we discussed it and Mr. Smith's comments?

Mr. Wearn: Surely, good.

Mr. O'Leary: There's one question or comment that I have to make and it's born of ignorance of scheduling, I believe there's a police board meeting this afternoon, and I'm not sure if it's going to be a conflict.

Mr. Wearn: We're not going to be able to conflict because they're going to be sitting in our seats. What I'd like to do is ask you to take these perhaps outside the room. I think it would be easier for you to confer with your associate and to consult on them. Feel free to mark them up, if, with whatever comments or observations you have, let us know when you're ready for discussion and we'll move on, on the agenda to other items and then we'll come back when you're back.

Mr. O'Leary: Good enough.

Mr. Wearn: And hopefully not too long, but, I certainly don't want to cut the amount of time that you have to consider those issues. They're very important issues.

Mr. O'Leary: We don't disagree, that's why we're here.

Mr. Wearn: Good. Thank you. Is that acceptable with the Board, I didn't ask.

Board: Consensus was that it was a good idea, everyone said agree at once.

Mr. Wearn: Report on Quarterly Expenditures, item nine, finance director.

IX REPORT ON QUARTERLY EXPENDITURES (Jane Skittone, Finance Director)

Ms. Skittone: Jane Skittone, for the record, Finance Director. You should have my November 8th memorandum that has attachments of the cash flow projection and operating expenses from January 1st through September 30th, for the General Employees Retirement System. At this time we're not recommending any transfers be made from the money managers for the General Employees. Total expenses, unaudited, through September 30, 2000, were $232,007.05. Are there any questions?

Mr. Wearn: I have a question. Under cash flow projection there's an estimated balance available in the account of January 31, 2001, of $30,339.50. We do not meet, I believe until sometime almost to the end of the third week in February and I just wanted to be sure that there is not a problem with that.

Ms. Skittone: It should be fine because we make payroll at the very last week of the month, so this includes the January payroll.

Mr. Wearn: So there would be no expenditures necessary until after we've had an opportunity to meet. Okay, I just wanted to be clear on that.

Mr. Boggs: What exactly is DROP payable? Is that the amount the general employees have in the DROP?

Ms. Skittone: Correct. The handful of general employees that are in the DROP plan, that's their balances. I put that on there because, not so much with the general employees, but, the Public Safety, the number's growing and at anytime any of those people can leave so therefore you will have a healthy payout that you should be aware of. And hopefully we know ahead of time before a meeting or a quarter in advance that these people may be leaving and we'll be able to notify you.

Mr. Wearn: Does anyone else have any other questions or comments? I think this is something we normally accept by motion.

Mr. Garvy: Move approval.

Mr. Boggs: Second.

Mr. Wearn: So the motion is for acceptance in filing for audit. We have a motion and a second, any discussion, all those in favor please say aye, and all said aye; opposed like sign, (silence). Motion carries unanimously. Thank you. The next is the report on the revised statement of investment policy, Mr. McCracken. For those that are statutory required and then we'll have some other discussion.

X REPORT ON REVISED STATEMENT OF INVESTMENT POLICY (John McCracken)

Mr. McCracken: The Florida legislature passed a new statute this year which requires plans such as ours to have a statement of investment policy. It has several pages of requirements in the statute. There was a corresponding change made to the requirements for how town municipalities invest their funds so that the town will also looking at it's requirements and probably be adopting some of the same changes we are suggesting here. Basically what I did, was I took our existing policy and I laid it next to the statute and where our policy did not include things that were required by the statute, I have inserted those items into the policy. In general I have used the statutory language that came from the statute. Some of that language may not be language which I would have chosen, but, that was the language that was in the statute so I thought it appropriate to utilize that language.

There are a couple of complications that, basically, the changes I don't think are too controversial. There are a couple of areas that you might want to pay attention to in your discussions. And they really relate to differences which are evolving between this board and the other board. The first is that the other board, at it's last meeting voted to recommend to the Town Council, that it be allowed to increase it's equity investment to 60%. And in fact instructed the plan administrator to have an ordinance to that effect drawn for the Town Council. Similarly the other board adopted and item that is on your agenda, later, on the agenda which relates to supplemental plan distributions and we have prepared that change which would be a change by ordinance as well, so that they are moving in at least two directions that are different than the directions that this board has moved in so far. Other than that these changes basically..and that does introduce some complication that make this statement of investment policy a little bit more difficult to craft with the percentages and so forth. Other than that it's just the changes required by statute.

Mr. Wearn: A question or two first off, it's my recollection that we, "we" as the general employees retirement board were required to have a statement of investment policy that was the same as the one for the police and fire, the public safety, is that correct or is that not correct?

Mr. McCracken: No,. I think that happened was the Town Council approved the existing statement that we have in our package which was revised May 14, 1999. It approved that statement for both boards. The direction that I thought this was going, was to make the changes requested by both boards in the same policy and submit that policy as an amendment to the Town Council for approval. Now it may be that the board's think it's better for each to establish their own policy and submit those proposals to the Town Council, that's a legislative issue that I haven't really focused on.

Mr. Wearn: But we're not under a requirement of the Town Council at this time not to have a separate policy?

Mr. McCracken: No, sir.

Mr. Wearn: Are there any other preliminary questions, what I'd like to do is go through the changes. If you can identify, just in general terms, what each of the specific changes mean.

Mr. Boggs: One other thing that I notice, looking through this is that there's a lot of reference to bonds below BBB. Did Public Safety change their investment policy?

Mr. McCracken: No, they did not.

Mr. Boggs: They weren't allowed to use Triple B bonds before and this looks like it's allowing it. Before the statute wouldn't allow Public Safety to use Triple B's and therefore as a combined board we couldn't invest in Triple B's. But, it appears now that we are changing to allow Triple B's.

Mr. McCracken: Which are you referring to?

Mr. Boggs: Under investment objectives, page one, at the bottom. "The bonds below Triple B" third line down. That's one place.

Mr.Garvy: It's minus the bonds, below triple B.

Mr. Boggs: Before it was below anything B or lower. Or anything not in A, I guess it was. And now it's anything below Triple B, so that leads me to believe that Triple B's are okay now.

Mr. Bradford: Correct me if I'm wrong, this paragraph he's focusing on, this is a description of the target, it's not necessarily a description of what we may or may not invest in.

Mr. McCracken: I think that's correct, except that the target has always been congruent with what we can invest in and I'm looking at this right now and I, the statute was not changed in respect to the problem that you are referring to, so I think this is misstated here. How do we describe this index in the Callan reports, we should really...

Mr. Garvy: It's minus the Triple B's as I recall.

Mr. Boggs: Triple B and below.

Mr. McCracken: So it should be minus the bonds Triple B and below, okay, that's a mistake, thank you.

Ms. Valcik: Actually that says B, Double A.

Mr. McCracken: B, do you put a capital B and then two small a's or, okay.

Mr. Garvy: It's the same thing, but, we should be consistent. As a general observation I would suggest that since we now have two independent boards, and two separate funds we can expect over time that they will diverge in their objectives and their implementation of the objectives.

Mr. Wearn: And I think following up on that, it'll become more and more cumbersome to try and continue to tie the two of them together. So that maybe we might be wisest at this point to go ahead and accomplish the separation, however, I just want to be sure that we are not disregarding the guidance or the requirements imposed by the Town Council.

Mr. McCracken: No, I don't think that would, I think the Town when we presented this to them last year was really guided by the recommendations of the previous board and I think they would probably be so guided today.

Mr. Boggs: I'm not sure I agree with going in separate directions. You know traditionally Public Safety employees have been able to take the lead on improving the retirement benefits for their employees and the General employees have piggybacked on those changes and if we see them getting even farther, right now there is a disparity because of the retirement ages for public safety and different factors. Their pension system is better than the General employees, if they continue to make changes and we lag behind then the perception of the general employee population is going to be that, hey, we didn't benefit from this and not only that but, we've lost our piggybacking capabilities that we've had in the past when we were a combined board.

Mr. Wearn: I don't think that we would lose the piggybacking capability because we still have one plan administrator. We're all in the same town, we all have the same kinds of minutes that are available to us and the same kind of record. Really just like what you brought forward for our consideration later, so that having two separate independent investment policies where the General employees are not bettered by requirements that are statutorily imposed on both fire and police. I think we'll make it a little clearer and facilitate our role in picking up what they're doing, the good things that we can and to incorporate, but, also maintain a policy to us that is more clear and understandable. I think they're almost apples to oranges in a way. The two concerns, so it's better for us to have a separate policy would really be more helpful to me than not to have a separate policy. But, I welcome any other comments and the administrators comments.

Mr. Crouse: With reference to this statement of investment policy, I believe that it would be beneficial to move away from the Public Safety, because I think it would be simpler for this board to have their own investment. We're not going to stop by state statute, we are not going to stop the Public Safety board from moving further and further away because they have certain rights that are given to them, the unilateral rights to make changes, many of which can be made without Council approval. These things are going to start to take place and for us to try and continue to keep up every time with our own written policy would probably bog us down and the fact that we will know what they're doing simply by if nothing else the sunshine law.

Mr. Boggs: I notice that like you said the Public Safety has raised their equities exposure to 60% and that's, I assume that's going to take a change in the Town's ordinance, personally I don't think right now is the appropriate time to be going to 60%, but, I would have liked to have that option for us available should things get a little better. Should a statute be written to allow us to do that, I mean once the Town ordinance is changed for Public Safety, could that..

Mr. Garvy: This investment policy is ours to design and change and implement, subject to the approval of the Town, where there are statutory limitations.

Mr. McCracken: The design that we used last year when the plans were separated, was to, put into effect the statement of investment policy by resolution. Whereas the change that we're talking about, increasing to 60%, you can do that under state law, but, only if the Town Council amends the ordinance to allow that and amending of the ordinance is a little bit more cumbersome than just merely a change in this document by resolution.

Mr. Boggs: But once it gets amended to 60% for Public Safety then we can just amend this document and with the Council's approval, it doesn't take an ordinance change.

Mr. McCracken: Sure.

Mr. Wearn: I think the discussion's been good here, there are two other areas that I'd like to touch base on if we may, without going through the detail here, because I think what we are moving in the direction of doing is separating out and having two separate policy statements. And I think our separate statement, we should ask to come back to our next meeting before we approve it, so long as we do not face legal sanctions from the Division over something like that.

Mr. McCracken: I think we're safe until our next meeting, but, probably not much longer.

Mr. Wearn: Okay. On page 6 of 7, we have a heading toward the bottom of the page of Internal Controls and there's a requirement that the board shall establish a system of internal controls which shall be in writing and made a part of the Board's operational procedures. It goes on that they need to be reviewed by an independent certified public accountant as part of any financial audit required. Do we have such a system of internal controls as described?

Mr. Veil: As a function of the audit, we do go through and test the systems, obviously the cash system, who can write checks, who can sign checks, who approves invoices, we test the approval process that the forms go to the actuaries. Now actually what they're doing is they're forcing the accountants to report as part of the statute to the governing body that we have in terms of the investment policy.

Mr. Wearn: I know that you applied those systems of internal controls, but, I'm not sure of it being a published, written system.

Mr. Veil: I don't think we have a formal, you know..

Mr. Wearn: Since we're going to be looking at the next meeting having the policy come back to us, if we need that, I would like to have those internal controls come out at the same time so that we can be in compliance as opposed to adopting a policy for which we're automatically out of compliance. So I'd ask that the administrator and staff put together whatever system of internal controls is needed in order to comply with this statutory requirement. Does anyone have any problem with that?(several talking at once agreeing)

Mr. Garvy: I had that started also, that we should look at them, endorse them or...

Mr. Wearn: I noted also a continuing education requirement. My agenda item was not in compliance with the statute, however, given the late hour, I'll be very brief on that, maybe address it at this point if it's acceptable. It was my feeling that we should pick some subjects of continuing education for the Board, upon which we as Board members undertake responsibility to become educated and come back to the Board and make a presentation to the board, perhaps a half an hour, perhaps a forty-five minute presentation on a given subject. The way I was envisioning that we might do that is to, since we have four meetings over a year's time for four of us to take those responsibilities, letting off the hook, the Town Manager, because of his multiple responsibility, so that the remaining four of us would then have a subject assigned to us on which during the year's period of time before our assigned meeting, we would be charged with the responsibility of going and learning about that subject and coming back to the Board and making a presentation on it. Fielding questions and things like that. In order to prepare to go forward to do something like that
it was going to be my suggestion at today's meeting that next meeting we each come back with maybe two or three subjects in order of priority that we would like to see addressed. Then we'll bring those to the administrator, who will compile those, and for example, if we each have the same subject on a list, or the subject appears three times on the list, that's obviously a very high priority and we'll address that and make the assignments among ourselves of who will take which subjects we'll choose, who will take which subject and who will address at which meeting. That way we can also tune our attendance at seminars and things such as that. Does anyone else have any comments on that, which we might as well address now since it's part of the policy.

Mr. Boggs: I'm not sure that even Vernon or I are qualified to give a presentation like that.

Mr. Wearn: I'm not sure any of us are at this stage, but, pick something out and become as well educated as we might on that and if we need help, go to our administrator to start and do what we can. If more's needed then that's what we'd do. Nobody should be embarrassed about it.

Mr. Boggs: There's some things that I and I know Vernon has, we've commented to each other on, we didn't understand how to read some of the reports.

Mr. Wearn: Then we should talk about it, pick that as a subject and let's have..

Mr. Boggs: Wouldn't it be more appropriate for our consultant or an outside party to come in, someone who's an expert to teach us the things we need to learn.

Mr. Wearn: That's fine and I encourage that, I think that we should make that part of it.

Mr. Boggs: Personally my presentation skills are not very good.

Mr. Wearn: You're doing wonderfully. I understand. That doesn't mean that you have to stand up for a half an hour or twenty minutes or ten minutes, it just means that you helped organize who is going to come in and address that subject. If one of the subjects is reading a particular report or a particular page of the report, then it's our responsibility as a body to go get the best that we can to present that so it's understandable to all of us. There's no desire to put anybody on a hot seat or to make it difficult.

Mr. Boggs: The bottom line is to learn a lot more than we know right now, of doing our jobs as Trustees.

Mr. Wearn. Absolutely. Any other comments?

Mr. Garvy: I think it's an excellent suggestion and supports the notion of continually upgrading the knowledge and understanding of the Trustees and I think we'll find it to be very useful. What will emerge out of that, what do these risk returns statistics mean, what are the implications of them and since we have to vote on issues where these may become central, then certainly we should try to provide to members of the Board the ability to, one ask the question, two to have an understanding of the answers to those.

Mr. Wearn: Let me ask that the preceding one week before our next regular meeting, each of us give to the plan administrator, two or three or more, if you wish, subjects which you elaborate on to be sure we understand what the subject is, for the plan administrator to put down on a compiled list, to bring back to us with the agenda packets, of subjects that we've expressed interest in and that way we can look at those subjects. We can be sure we know what they are, we can decide which ones we want to go forward for the four meetings. If we have ten subjects, then we have two and a half years to cover, so that when we come back for the May meeting, we
can perhaps have some of them presented at that time, okay? Is that acceptable for everyone?
I don't think we need a motion for that, we'll just plan on doing it.

All spoke agreement.

Mr. McCracken: Before we leave that item Mr. Wearn, looking at the bottom of page 6, there is a statutory requirement that this particular sentence seeks to fulfill, it's a slightly different twist then what you put on it, and I don't know if you want to change this or not. But, this is quite close to the statute, but, I'm sure there's some room to amend it.

Mr. Garvy: It would seem to me that this might be sufficient, we may want to go beyond this, particularly for those members of the Board that want to have perhaps more professional analysis of these subjects by attending conferences or otherwise. I think Charlie, you went to a conference.

Mr. Boggs: Well I didn't go, by the time I called to make the hotel reservations, they were booked and I couldn't get another rate, another room, so I just canceled. But, I would like to go in the future.

Mr. Garvy: I think we should encourage that for those members of the Board that want to do that and allocate funds to make sure that we're able to provide that.

Mr. Wearn: With what we are doing for currently for continuing education, comply with the statute as you construe it?

Mr. McCracken: I think so yes.

Mr. Garvy: I make an observation on page 3, under the small cap, we have a target and then the range, it looks like the range is below the target.
Mr. Boggs: You've got 40+40 is 80 +30 is 110 under your target, but, that has to be 20, I think it's just a typo.

(Everyone: the small cap should be 20)

Mr. Garvy: That makes the range correct then.

Mr. Harris: Through the Chair, Mike Harris, Loomis-Sayles, could we get a copy of the new statute as well as a copy of this, so that we may have an opportunity to comment like in identifying something like that before this becomes a final draft.

Mr. Wearn: If you do have comments, actually we'd like you to pursue getting the information, documentation, which you need in order to give us comment and give us comment, even up to a month before the meeting.

Mr. Harris: So we would need a copy of the statute as well, I know you've highlighted those areas of change, but, I'd like a copy of that as well to go with this.

Mr. Wearn: Both of the managers and Callan should have them.

Mr. Garvy: Mr. Chairman, are we going to discuss the details of this at this point or..

Mr. Wearn: I think it's probably better advised for us to hold off going through the details until we see what's extracted for ours, unless there are certain aspects that you'd like to ask about.

Mr. McCracken: I think the only thing that would be extracted are at the bottom of page 1 and over on the targets and so forth. Everything else is pretty much required by statute. The rebalancing of course would be extracted also.

Mr. Garvy: I have a couple of minor observations and then a major area I'd like to discuss. First, on page 7 of 7, Review of Policy, it says that we must review the policy annually and revise or confirm as appropriate. Is that what we're doing here, now?

Mr. Wearn: We have done that annually and do that annually.

Mr. Garvy: Is that part of this discussion now though?

Mr. Wearn: I would say it would be.

Mr. Garvy: Okay, fine. Then on page 5 of 7, item number three, it says that each investment manager will insure that no purchase shall be made which would cause the holding of any one issuer to exceed 5% of the investment managers maximum equity committed, commitment valued at market. Is that a state requirement?

Mr. McCracken: No. Well now wait a second, 5% I think it is.

Mr. Garvy: Well there are two 5% typically that come into play, 5% of the outstanding issuing versus 5% of the managers holding. I mean there are indices out there, for example, the S&P Barra Growth index, where the largest company in the index is over 9% of the index itself. If we restrict the money manager to only 5% maximum holding, and by definition we're forcing them into a bet against that company. This may become an issue..

Ms. Valcik: We in fact have gone back and rewritten many client guidelines that had the old 5% language, you know that 5% language has been in forever to say that the manger could hold 125% of the benchmark weight. So your example of 9% of the benchmark, they ought to be able to hold at least 9% otherwise you've made a bet against the benchmark. Plus a little extra, but, I thought, John, that you and I had discussed that?

Mr. McCracken: I don't have the statute with me unfortunately, but, I believe the statute is 5% of the portfolio, not 5% of the outstanding shares.

Mr. Garvy: well there is a 5% of the issue outstanding, also item 4 there, if item 3 is a state issue it ought to be addressed because we now have concentrations in these indices that often exceed 5%. This dates by the way to the General Motors, 1950, Charles Wilson, who was the chairman of General Motors, to attempt to get diversification in the portfolio, set this 5% standard. Many pension funds back at that time invested a large amount in their own company's stock, but, it has become, because of the explosion of these indices, a very inappropriate mandate and, because you can have several issues in an index itself. The manager's being compared to the index and they can't buy the stock. In the case of Microsoft, Intel, Cisco Systems, for example, and the S&P Barra Growth index, all exceed 5% of that index.

Mr. Wearn: If there are proposed changes I would think it would be good for them to come for many of us, to the administrator directly.

Mr. Garvy: I think we should confirm where the source of that is and if it's not changeable then I think it's incumbent upon us to actually revise the benchmark, to adjust the benchmark. It gets very complicated for the consultant to do so, so that there is not an implicit, explicit, actually bet against those indices, it's a minor point, but, important, I think. I'd like to go into a policy issue though if it's the appropriate time.

Mr. Wearn: Let's identify it anyway.

Mr. Garvy: It's okay if we identify it now. It falls under the rebalancing policy and on page 3 of 7 where we discuss the commitment to the S&P 500 Index, where 40% of the equity committed, equity portfolio will be invested in the S&P 500. This is a mandated policy of the Board at this time and I think that, that we should examine very carefully. In light of the, that is also a bet against active management and in light of the conditions that exist in the market today and active versus passive management I'd like to examine this policy at 40%. I'm prepared to do so today if you want, if you prefer to hold that until our February meeting that would be fine as well. But, this has major implications, as 40% of our entire equity commitment is being forced into the S&P 500. I think all of the board members should understand what the implications of that might be going forward.

Mr. Wearn: I'd like to hear the implications.

Mr. Boggs: They've been very good the last five years.

Mr. Garvy: Been great. My question earlier to Jeanne was about her thoughts were about this outstanding performance that we've had and so if you're prepared to do so I'll..

Mr. Wearn: Do you think it can be done in a relatively short time, at least to present the eye of the concept?

Mr. Garvy: I think it can be done in about ten minutes. Is that too long?

Mr. Wearn: No, but, let me take that as a jumping off point to raise the balance of our agenda and discussions on it. I really think that we're getting really tight here.

Mr. Garvy: Perhaps we should go through the agenda and if we have time come back, if we don't we'll do it next meeting.

Mr. Wearn: Alright, sorry to put you off on that.

Mr. Garvy: No that's fine, it's a policy as opposed to a tactical issue.

Mr. Wearn: But that's one that we've identified, are there others that you'd like to raise?

Mr. Garvy: Not from me.

Mr. Boggs: I would like to raise the Triple B's.

Mr. Wearn: Okay, when the policy statement comes up, maybe you could have some sub parts to the agenda, on the policy statement, that would address first of all the S&P 500 and second of all Triple B. Are there any others on this policy statement report.

Mr. McCracken: Percentage in equity, which the other board has acted on.

Mr. Garvy: I think it's appropriate to discuss that as well. The overall.

Mr. Wearn: And we talked about the restrictions also, the 5%, actually that should be the first one. We should add in there the question of the internal controls. I have one more question about the policy statement, and that is, it's on page 7of 7, the expected annual rate of return. We normally have identified and expected annual rate of return for the current year, but, it also indicates that we need to address that for each of the next several years.

Mr. McCracken: Yes, statutory language.

Mr. Wearn: And for the long term thereafter. How far do we have to project?

Mr. McCracken: Exactly what the statute says right there, so your guess is as good as mine.

Mr. Wearn: What I'd like to ask for is that we discuss this as a subject at the next meeting and maybe ask for some guidance on what we should do with that, in order to come into compliance.
Does anyone else have any questions or comments about our statement of investment policy.

Mr. McCracken: Not to make the list too long, but, there was also the issue of international stocks that has come up from time to time and I don't know if you want to put that on your list.

Mr. Boggs: This list is getting very long, it sounds like we need a special meeting on the investment policy.

Mr. Wearn: It may be.

Mr. Boggs: Limiting us to half a day may turn out to be a problem for us.

Mr. Wearn: I understand. Is that a subject that we need to open Pandora's Box?

Mr. Garvy: The international?

Mr. Wearn: I for one don't see a need to open that box. Are there any other reasons to open Pandora's Box on the investment policy? Okay, very good. If we may we'll travel on from that one, because I'd like to consider how we're going to manage the balance of our agenda. We have

Mr. Boggs: The rest should be really quick.

Mr. Wearn: Well item eleven, let's consider addressing that one, item twelve, item thirteen and see where we are at that time, that would leave us with First Union and Other Matters. So let's move to item eleven.

XI APPROVAL OF RETIREMENT APPLICATIONS

Mr. Crouse: There are four individuals who do meet the conditions for retirement, three of which are staying on under the DROP plan and with your approval they do meet every condition under the ordinance. So I would recommend approval.

Mr. Wearn: The first one, Russell Bitzer with the application to drop. Is there a motion to approve.

Mr. Bradford: So moved.

Mr. Boggs: Second.

Mr. Wearn: Any discussion motion has been made and seconded for approval with an application to drop, all in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. The second is Michael Eterginio.

Mr. Boggs: Move for approval.

Mr. Bradford: Second.

Mr. Wearn: Any discussion? All those in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. Sandra Levine, Records Secretary, motion to drop.

Mr. Boggs: Move approval.

Mr. Bradford: Second.

Mr. Wearn: All those in favor, aye, and all said aye; opposed like sign (silence). Motion carries unanimously. Isiah Jackson, Parks Foreman I, application to drop.

Mr. Boggs: Move approval.

Mr. Richards: Second.

Mr. Wearn: Any discussion, all in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. The approval of the annual rate of interest.

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

Mr. Crouse: Each year the Board recommends an interest level to be credited to member contributions, that rate has been 5.5% for as long as I can remember. It was discussed in great detail in 1996 and at that time it was decided to remain at 5.5, Denise Jones with Gabriel, Roeder Smith, recommends that it be maintained at 5.5, therefore that is the recommendation.

Mr. Wearn: Is there any discussion? Would anyone care to make a motion?

Mr. Boggs: I move that we accept the annual rate of interest to be credited to member contributions at 5.5%.

Mr. Bradford: Second.

Mr. Wearn: Motion and a second, is there any discussion?

Mr. Garvy: I'd like to ask a question, what are the implications of this rate of interest for the benefits paid, could you clarify for me.

Mr. Crouse: The interest is simply there, should a member leave employment, not be vested and take their contributions with them in addition to the contributions. They are accredited once a year with 5.5% on whatever the balance is of their contribution, so they get to take their contributions plus that interest earned.

Mr. Wearn: Are there any other questions or comments? We have a pending motion, I call the question, all those in favor, please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. Next item approval of the actuary's fee.

XIII APPROVAL OF THE ACTUARY'S FEE

Mr. Crouse: Again to move this along, the actuary, which is Gabriel, Roeder, Smith, is requesting a fee for fiscal year 2001 of $10,000. To give you an idea of what the fee has been in the past, when we had one board, through the years, '98 was $13,600, in '99 it was $14,000, through the nine months of the year 2000 it was $8,600, the $10,000 fee is for actual time and expenses and is not expected to exceed the $10,000, that is their proposal.

Mr. Wearn: Is their proposal a time and expense proposal with a not to exceed $10,000?

Mr. Crouse: Well, no, they don't specify it not to exceed, but, not expected to exceed and in reality, other than some special studies it has never exceed what their expectations.

Mr. Wearn: Otherwise the same terms and arrangements.

Mr. Crouse: Yes, there are no changes, it's just simply, that now that we have the two boards they're submitting two different proposals. Public Safety, for your information, happens to be a little higher, simply because they anticipate more in special studies and they're trying to come in with what they expect the cost to be.

Mr. Wearn: And of course we'll be able to piggyback on their special studies.

Mr. Crouse: In some cases you can.

Mr. Wearn: Are there any questions or comments further on the actuary's fee? A motion would be in order.

Mr. Garvy: So moved.

Mr. Boggs: Second.

Mr. Wearn: Is there any discussion? All those in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. Mr. Boggs would it be acceptable for you just to spend a moment on item 14 B to let us have the subject and then agenda it for full consideration at the next meeting.

Mr. Boggs: No. The reason being, that the Public Safety is going to have this on the December Town Council agenda for approval to be effective January 1st, 2001 and we would like to have that go forth as a joint recommendation for both Public Safety and General employees.

Mr. Wearn: What's the Board's pleasure, we have that item and First Union remaining on our agenda. I'm going to have to depart in a fairly short amount of time, within the next twenty minutes, how should we proceed, does anyone have any suggestions?

Mr. Garvy: Well I would suggest we either discuss it now or set a special meeting date prior to the end of year if the discussion is to be..

Mr. Wearn: The concern is that at the December 10th meeting, I believe is where this is going forward..

Mr. Garvy: Prior to December 10th, if we're not going to discuss it now.

Mr. Boggs: It probably needs to be prior to that so he can get it on the agenda.

Mr. Crouse: In fact we've just received all of the information from Mr. McCracken, just this past week, so we're ready to roll with it.

Mr. Wearn: Then I think maybe we should..

Mr. McCracken: May I interrupt before you reach your conclusion, the fact is that nothing will happen with the legislation, the ordinance legislation for a number of months, there's really no prejudice to Public

Safety if this is adopted now, or in February for example. Because it doesn't really take effect, it doesn't accomplish anything until the end of the fiscal year, and benefits really aren't paid until the following year. So it may be that on request, the Public Safety people would agree that it should be deferred.

(Everyone at once, I wouldn't count on it)

Mr. Wearn: I'm not sure if that request would be successful, but, assuming it was not, would the General employees understand that? If we were to defer consideration, to specific consideration at the top of the agenda at the next meeting?

Mr. Boggs: I don't see why not, as long as there's no lynch party waiting for me when we get out of this meeting.

Mr. Wearn: They were expecting it then is what you are saying?

Mr. Boggs: Yes. The General employees have known about this 13th check subject since the Public Safety people started talking about it.

Mr. Wearn: I feel that is very important then to have some discussion about it today. Let me go to the First Union consideration. I know that you've come back in the room, so I assume you've had a chance to review their comments and things. I'm wondering if maybe we might ask you to perhaps be prepared to come back at our next meeting with whatever comments you might have with the understanding that we're not looking to point fingers, that we're looking to find where a problem lay and see if we can get it resolved. With that in mind, perhaps let us have a written response even before that time. Then maybe you could have some discussion with our administrator to see what adjustments informally might be acceptable so that at the next meeting we can hopefully bring this matter to a conclusion. How would you feel about that because I'm very concerned about the General employees and I'm very concerned about Police and Fire with their weapons, coming and taking us out of our seats.

Mr. O'Leary: I would be happy to attend the next meeting, as far as a written response to the two letters, one memo and minutes. We could get into a lot of detail and minutia, I don't know that, that's productive..

Mr. Wearn: Do you think it would be productive for you to meet with Callan, our advisor, there apparently was a request and question about whether there was a request, maybe if the two of you were able to meet, even on the telephone if face to face was not possible.

Ms. Valcik: I met with Jim Link in Atlanta.

Mr. Garvy: And was he responsive?

Ms. Valcik: No.

Mr. Wearn: What would you propose at this point?

Mr. O'Leary: Well, ultimately it comes back to the Board's decision. I, there are several issues in these statements, several statements in these documents that I would take issue with. We can nit pick back and forth.

Mr. Wearn: I don't want to do that, I'm interested in finding out how we can solve the problem so that it doesn't happen again. I'm not looking to cast slings and arrows at this point, I'm looking for analysis of well the problem goes back to this procedure or this methodology and that's what we need to correct. If there are actions on two parts or three parts or four parts that need to be corrected in order to insure that doesn't happen again. That's the positive productive interest that I'm expressing.

Mr. O'Leary: I'd like to support that, that's the direction we need to be going in.

Mr. Wearn: Do you think you can do that, coming back?

Mr. O'Leary: Yes and I go back to one of my earlier comments, it's important that we all have an understanding of what our prospective roles are, and I would be happy to do that.

Mr. Wearn: Great , that would help a lot. Mr. Boggs?

Mr. Boggs: Could I suggest that he come back to us certainly with something in writing, some positive steps that he's taking to make things better.

Mr. Wearn: Taking or suggesting.

Mr. Boggs: Suggesting to make things better in the future, so that this won't happen again?

Mr. O'Leary: Yes, I'd be pleased to do that.

Mr. Boggs: Because frankly when I first read the letter from Mr. Link, I was very upset, it was totally the reverse of what my understanding of the situation was.

Mr. Wearn: What's the feeling of the other members of the Board on what I've just requested so that we can at least address Mr. Boggs issue?

(Everyone: sounds reasonable)
Mr. O'Leary: I will return to the next board meeting and have something in writing to you in advance of that for your review.

Mr. Wearn: We appreciate that very much and appreciate you're being here today, sorry that we had to not dispose of the matter. Let me ask you to start, I may, we may have to cut it short or let me ask you to go ahead.

Mr. Boggs: I sent a memo, I think you all have a copy. I don't think it's necessary to read it. The main thing is that this 13th check proposal, which is also known as the supplemental pension distribution, would provide a once a year check in the event our returns were greater than the 8% target that we have. And it would be limited from 8% to 10%, if we made 20% returns then it would still only be the 2% from the 8 to 10% that would be returned in a supplemental pension distribution. Our pension is funded right now at about 118%, or something like that, so we're at the point where this is not something that's going to hurt us. The Public Safety board recommended approval of this for their pensioners to the Town Council and hopefully we can do the same. I don't know if you saw the estimates of what the one time payments would have been for police and fire, I think they were like $5,200 for each policeman that was retired and $6,000 or so for each fireman that was retired. It wouldn't be as much for General employees, $3,000 or $4,000. But this would go a long with helping our folks with the high cost of medical insurance and medical care. Right now, one of our retirees is paying about $400 a month for himself and his wife, he is under 65, that's a lot of money, especially when I think more than half of our people make less than $1,000 a month in pension benefits. Having to pay $400 and right now it's after taxes I believe, to pay for medical insurance, most of them can't afford it. So the risk to them is significant. I don't think that the cost to the Town's pension plan is going to be that significant, especially in view of the fact that we're 118% funded. If we were below 100%, it might be questionable, I don't think the long term cost is going to be a big problem.

Mr. Wearn: As I tried to understand the concept as I read through the minutes and the presentation that we had, there seems to be sort of a built in pressure valve on having it by if we don't produce higher than 8% then there's no distribution. And that seems persuasive with the exception of if we begin to suffer a loss then the funds that were taken out of the system for that are no longer in the system available to help turn around the situation from the loss. It struck me that, that is the principal downside, but, I didn't have the report of the actuary.

Mr. Boggs: Basically the portions are very similar to Public Safety, their fund is higher than ours, their distributions would be higher, but, the impact on the fund is basically the same as stated in the Public Safety study, the actuarial study that you have.

Mr. Wearn: Does anyone else have any questions or comments on it? I have some suggestions.

Mr. Bradford: I do, I'm familiar with the concept of the, that which the Public Safety members are going to be proposing. When I looked through the excerpts of the minutes, it struck me while I was reading it, it seemed to me that as a board member that we, as a group, need to do the same type of analysis that the Public Safety board did to make sure that these assumptions that you're making actually hold true in our circumstances. I'm also worried about the point that Mr. Wearn made about the excesses, if you will, in some years, they will be taken away in essence and not available to off set the problems or the down cycles in the off years. I noticed too, that it appears there is a more aggressive investment target for Public Safety. I don't know if they had that benefit of a higher target, is this in anyway the fact that we as General address a target, are we somehow hurting ourselves by going to this 2% supplemental distribution. So I feel in summary that we ought to have some sort of report to look at the pros and cons of it, before we actually take action.

Mr. Wearn: Especially knowing that we don't really have to rush to consideration or conclusion on this matter right now. I think that's a very good idea, Mr. Bradford. And I concur with that. I also want to be sure that we don't have any legal impediment from the standpoint of our own plan, not just state law, but also from our own plan and our own ordinances. I assume that, that's the case, but, we should ask on the record that a distribution for this purpose is legal.

Mr. McCracken: If the ordinance is changed by the Town Council, yes. I would add that I think you need to have the study that you were referring to, because this is a benefit change in order to propose it to Town Council.

Mr. Wearn: Are there any other questions or comments at this stage before we go to considering whether or not to have the study?

Mr. Bradford: Just to throw a thought out for the board members, if the intent of the General Employees is to offset the cost of medical insurance when you're retired, this isn't the only way to go about that. So I just think you ought to keep that in mind as you think about ways and means to help offset costs as you retire. This 2% supplemental is not the only way to do it, and I would say to you for example, the Florida retirement system, they have what they call the Health Insurance Subsidy Payment that they make to their retirees. So there are other ways to go about doing this other than this, this concept.

Mr. Boggs: I had worked up a proposal for a health insurance subsidy supplement. In discussing this with the general employees, they prefer the 2%, this the 13th check proposal. I think they were dazzled by the numbers from Police and Fire, you know the six thousand and the fifty-two hundred. I've told the people I don't expect it to be that high. It would be nice to have the numbers so that I can tell them what the numbers would have been as of September 30th of last year, I think is what the Police and Fire study shows.

Mr. Wearn: Can you show us what, or share with us what you showed to the general employees on the alternates.

Mr. Boggs: What I was recommending was going to be a $10 a month subsidy for each year of service that the retired employee had, and that would be payable regardless of what the performance of the fund was. So if you had 20 years service, you would get $200 a month subsidy.

Mr. Wearn: Are there other alternates that Mr. Bradford was suggesting, might be considered?

Mr. Boggs: I think there are, a pre-tax thing that our plan administrator may be working on. Where at least these health insurance premiums are taken out pre-tax rather than post-tax like they are now. But, those are smaller, both of those are much smaller impact on the employees than this 13th check. I think this is the number one priority for us. Especially since Public Safety has already got their board to approve it and they're recommending it to..

Mr. Wearn: I understand that, what I'd like for us to do at the next meeting would be to identify the alternates that are available, on the agenda and have some discussion on that so that we know that we've considered regardless of what Public Safety may or may not have considered, that we've considered all the alternatives.

Mr. Boggs: Now keep in mind that Public Safety stated that the purpose of this was to offset some of the costs of medical care. That doesn't necessarily mean that, that's the only thing they want it for. They want it, a once a year check, amount to be determined, to supplement their retirement, regardless of what they use it for, they don't want any strings tied to it. This one doesn't have any strings tied to it, the other ones that we're discussing do.

Mr. Bradford: May, for example FRS Health Insurance Subsidy, when you retire with them, if you get the check you're not required to spend it on health insurance, you can spend it on anything you want.

Mr. Richards: Is this money based on a base salary, the 13th check?

Mr. Boggs: No, it's based upon the return of the fund, the Public Retirement Fund. If the fund makes 10% or more than 2% of that is refunded to those people already retired. In the form of the 13th check. I think it's April 1st is when West Palm Beach gets..

Mr. McCracken: I think Vernon's question is a little different though, as to how it's paid to the individual retiree. And there are different ways to determine that, they actually had an election and the Fire and the Police are both doing it differently. So it can be by had, or by service or different ways.

Mr. Boggs: Could we recommend that Gabriel, Roeder, Smith do an actuarial study in line of the, so we would be prepared to discuss this at the February meeting?

Mr. Wearn: Yes. And I would like to inquire of the administrator whether we have any estimate of the cost of that?

Mr. Crouse: Based upon the study done for the Public Safety, it's $1500.

Mr. Wearn: I think it would be in order for there to be a motion to have..

Ms. Kneipp: Excuse me Mr. Chairman, could I ask a question, because we did run into a problem with Public Safety over this same thing. There was so much confusion of what Denise was to study, are you asking for the 13th check as well as a $10 per year service supplement?

Mr. Wearn: No. Just the 13th check. I was asking that all of the concepts be agenda'd so they're at identified, so that we can touch base on them a little more clearly. On the 13th check concept, would there be a motion to retain the actuary to do the analysis for the General Employees, with the fee not to exceed $1500.

Mr. Crouse: Public Safety had a not to exceed $2000, but, their actual cost was fifteen, so we have some leeway with the fees.

Mr. Wearn: With the fee not to exceed $2000, that motion would be in order.

Mr. Boggs: So moved.

Mr. Bradford: Second.

Mr. Wearn: There's a motion and a second, is there any further discussion? All those in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. Does that address the item so that you won't be lynched? Good, we look forward to more full discussion and then consideration of facts and circumstances of the study at the next regular meeting. I think that concludes the agenda'd business, however, I would like to comment that, ma'am, I understand that you are from Roanoke, I wondered if you might come to the microphone and identify yourself for us, so that we can say Hello and..

Ms. Dixon: I'm Irene Dixon, from Roanoke Asset Management, and I came today to discuss the First Union problem.

Mr. Wearn: Mr. Vroom indicated in his letter that you would be here, we do appreciate him asking you to come here. I know he's going to be here at the next regular meeting. Hopefully we may have some positive results from that. I'm sure you'll be reporting back to him but, please let him have my personal thanks for his interest and concern about the matter and that of the Board's also, especially in sending you when he wasn't due to appear today. Thank you very much. Is there any other business to come before the Board, I have one very brief thing I'd like to raise. That is I had asked Ms. Valcik to or and the administrator to consider the possibility of a change from First Union. And to be prepared to address that issue with us. So I'd like to spend just a minute or two on that and if we choose to go to a request for proposal, I think we have to do that by a motion. And I think it would be appropriate if we wish to do so.

Ms. Valcik: Callan Associates, in as far as looking at custodian banks is the best known in the industry. We have a specialist and that's all that he does, is custodian searches. We would say that if you would elect to go with that process, we are prepared. We were asked by Mr. Crouse to give a list of the items that you all would need if you elected to go forward today. We've been working on that, so we are prepared to start a search for a new custodian, we can start it this afternoon. Because we've already done a lot of the background work into it. We would propose a fee for each board of $30,000, I shouldn't say for each board, a total fee of $30,000, which would be split between the two boards. I can tell you probably who the list of candidates are likely to be, who the top custodians are, and I've spent a lot of time with Bo Abesamis, who is the specialist, discussing First Union and what we could do. Months ago when we couldn't get any resolution, I said Bo, I need some help here, what can I do? And he frankly told me that all the top people that he knew at First Union had left.

Mr. Wearn: My interest would also be, I'll just comment on this for the board's edification, that my interest was many, many years ago, and has been actually for the last twenty or almost twenty years that I've been officially connected with the Town, to have local financial institution representation and involvement. Because I think it's better, more reliable, I just feel more comfortable personally. I realize that's probably a statement indicative of my gray hair.

Ms. Valcik: But, you do have, you seem to have a lot of local presence here anyway. When I walk down the street.

Mr. Garvy: Yes, we do, Northern Trust.

Mr. Wearn: What's the board's pleasure?

Mr. Boggs: You know I was concerned that First Union has part of their people in Miami and part of them in Charlotte and we had to go to Atlanta to talk to somebody and ran into a brick wall there, I would rather have somebody here too. Here, I mean Palm Beach County.

Mr. Wearn: Are you aware of all the financial institutions who are local?

Ms. Valcik: Other than walking down the street and I look and I see a lot of the folks that we would consider, I saw Chase as I walked here today. I saw Northern Trust as I walked here today. The other ones that are very, very good or not represented, would be State Street, because State Street is a custodian and not, they are not really a financial bank anymore, they sold that business. Very, very good as a custodian though. Bank of New York, very good custodian. Mellon Bank, another good custodian, Bob knows these names, he deals with them all the time.
There's a few smaller ones that we would also take a look at. But, the fact is it takes a whole lot of money to be in the custody business. It's just transaction, transaction, transaction, and unless you have a serious size, it's real hard to keep up with the technology requirements. And so you have the first tier and then you have the second and a third.

Mr. Wearn: I'd like to suggest that before we go through the formal process, we ask our administrator to make contact with the local managers or vice-presidents in charge of the financial institutions that have occupational licenses in Town and are otherwise complying with their special exceptions and see if there would be interest so that we would be prepared perhaps to narrow the field and decide how to proceed at the next regular meeting if we have an unhappy result. Or is there a more formal process that you prefer to pursue at this time?

Mr. Boggs: Could that not be written into your RFP?

Ms. Valcik: Local presence, yes, absolutely

Mr. Boggs: I don't see any reason why we couldn't go ahead, subject to the Public Safety going along with it, go the RFP and be prepared in February, if they come in with a bad attitude. Give them their walking papers.

Mr. Wearn: The only concern I have is keeping an open mind. But, I can do that, personally, I don't have a problem with it, I do it all the time. If it's the Board's pleasure, I'd entertain a motion to go out for Request For Proposals as suggested by Callan, with the understanding that it would be subject to Police and Fire doing the same and that the criteria in the proposal, specify that it must be a local presence, financial institution. Which will have local presence representatives for the activities.

Mr. Boggs: And local administration?

Mr. Wearn: I don't know that local administration is necessary.

Ms. Valcik: You're actually better off without the local administration, but, the local presence helps. When you have a problem and you can walk over and say look and we actually, as we struggled to get help with First Union, Jane finally said, let's call someone at(could not make out)
and that was in August and he finally..

Mr. Garvy: Well are we going to engage Callan to formally go through this?

Mr. Wearn: That's what we would be, to go forward with request for proposals, if we were to discontinue that, however, would there be any charge in excess of the time expended up to that date? In other words, I think what the Board is doing is looking to be prepared for something to happen, but, not to be prepared to interview or maybe not even have a final..

Ms. Valcik: But you would like to have the actual request for proposal and you would like to have the actual answers. As you know, that's a whole lot of the process anyway, it's preparation of the actual proposal, because it is customized to your needs, send it to them, see what comes back and we analyze their technology, we analyze their people, we analyze what their fees were for the quote.

Mr. Garvy: Perhaps it might be premature to do that, if we're going to terminate First Union, we should make that determination, then we should move forthwith with the hiring of the new.. But, to go through all this effort, even the asking the custodian banks to respond to RFP when there's no decision really made to hire somebody or really not necessarily an expectation, right now, we're going to keep an open mind about it. If we have an expectation, that's a different matter.

Mr. Boggs: I would not be surprised to see Public Safety tell First Union to take a hike today and if they do so, our costs are going to increase significantly, because we'll be the only fund they'll be managing.

Mr. Wearn: I think if that's the decision of First Union today, I think we want to have a request for proposal on the table.

Mr. Boggs: And making it subject to the Public Safety's decision is a safe way of, I mean she isn't going to spend $30,000 today.

Mr. Wearn: I would ask however, that Public Safety make their decision independent of any report on what action we took.

Mr. Bradford: My concern was that by doing this, that what we're talking about here is, that we're sending cross signals to First Union. I mean, he, the fella that was here is going back with the effort to try and come back with a list of things that could be done or should be done to make things better. But, then if we and Public Safety make this type of motion, then he's probably going to shrug his shoulders and say, why bother?

Mr. Crouse: He will be here this afternoon, so he'll get a very clear indication as to his status with the Public Safety board, so I think maybe what's being said is that if Public Safety makes a motion to proceed to fire them and get an RFP, then we might want to fit something to slide into that move. Would we want to keep First Union if Public Safety fires them. That's going to take place in approximately thirty-five minutes.

Mr. Wearn: I agree that it's a difficult situation, from that standpoint, but, from our standpoint and what's fair based upon how we left it with First Union, and the need for us to be prepared for the eventuality, I just feel that maybe going out for the requests for proposals at this stage with those conditions and under those circumstances that were specified is necessary for us to do as stewards and trustees. How does everyone feel about that? I started off by saying that I would entertain a motion along that line, is there anyone who would like to make the motion. The motion being that we would retain Callan to go out for requests for proposals, subject to the action of the Public Safety board this afternoon, vis a vis, First Union and conditioned upon the, those to whom it's submitted having a local presence and what was the terminology we used, local first responder should there be problems. But, the administration not necessarily in the Town of Palm Beach. When I say local I mean Town of Palm Beach.

Mr. Garvy: I'll make that motion.

Mr. Boggs: Second.

Mr. Wearn: Is there any discussion?

Mr. Boggs: If Public Safety doesn't fire First Union or if they don't ask for an RFP then this will fall..

Mr. Wearn: Then we have not gone forward, that is correct. With that understanding are there any other questions or comments?

Mr. Crouse: If they do fire and we do proceed with an RFP, you will probably want a, I would prefer a joint meeting and a special meeting for this process. I mean obviously this will take place after today, but, keep that in mind that we will probably be coming back in at some time period, like I say, hopefully, a joint meeting to do this.

Mr. Wearn: If that's the case, I appreciate your comments there and I think it would be good for us to have a joint meeting for that consideration, even as soon after the first of the year as practical.

Mr. Garvy: And the administrator will notify each of the members as to the outcome.

Mr. Wearn: Are there any other questions or comments from anyone remaining present? All those in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. I appreciate you bringing up that last business because I think it ties up a loose end, this could leave us out there without solutions.

Mr. Garvy: One more observation I'd just like to make in regards to Loomis, that I appreciate them appearing before us again and I note the improved performance in the equity area. I'm gratified we did not terminate them at the last meeting. But, I think this merits continued full scrutiny and we encourage continued good performance, relative to the peer groups as we move forward.

Mr. Wearn: That's good, I echo that and appreciate your presence here for the entire meeting. Is there anything else that anyone wishes to raise? Is there a motion to adjourn?

XV ADJOURNMENT

Mr. Boggs: So moved.

Mr. Garvy: Second.

Mr. Wearn: I have a motion and a second, all in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously.

Meeting adjourned at 12:58 p.m.

Approved:

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Vernon Richards, Secretary