GENERAL EMPLOYEES RETIREMENT BOARD MEETING
Friday, November 14, 2008, 9:00 a.m.

I. CALL TO ORDER

The regular meeting of the General Employees Retirement Board was called to order by Vice Chairman, James Karman at 9:00 a.m. on Friday, November 14, 2008, in the Town Hall Council Chambers. Attending were Trustee Lisa Gorman, Secretary Brett Madison, Trustee Peter Elwell and newly appointed Trustee, Alvin Parven. Also in attendance were Board Attorney, John McCracken, Human Resources Director and Plan Administrator, William Crouse and John Carr from Callan Associates.

II. OATH OF OFFICE

Alvin Parven took Oath of Office as new Member of the General Retirement System Trustee of the Town of Palm Beach to which he had been appointed.

III. SELECTION OF CHAIRMAN, VICE CHAIRMAN, SECRETARY

Mr. Parven made a motion to nominate Mr. Karman as Chairman of the Retirement Board. Mr. Elwell seconded and the motion carried unanimously. Mr. Elwell made a motion to nominate Mr. Parven for Vice Chairman. Ms. Gorman seconded and the motion carried unanimously. Mr. Elwell moved to nominate Mr. Madison as Secretary. The motion carried unanimously.

IV. APPROVAL OF AGENDA

Mr. Karman inquired whether there were any changes or additions to be made to the agenda. There were no changes to report.

V. APPROVAL OF THE MINUTES

Mr. Karman inquired if there were any comments or changes to the minutes of the Regular Meeting of August 8, 2008. There were none.

The minutes were approved by Mr. Karman.

VI. ADMINISTRATOR'S REPORT

Mr. Crouse stated that he requested approval for Mr. Garvy's recognition plaque expenditure.

Mr. Elwell moved approval and it was seconded by Mr. Karman.

Mr. Crouse announced the retirements and drop participants. He stated that each of these members had met their time and age requirements for the pension. Mr. Crouse announced there would be an appointment to a Citizen's position that would need to be filled. He stated that Mr.

Karman's position would be terminated on January 31, 2009 and Mr. Karman desired to re-apply for another term. He also announced that there would be an election for Mr. Madison's position as his term would expire on February 28, 2009.

Mr. Crouse requested Mr. Elwell inform the board as to the purpose of the Finance and Tax Committee meeting that was scheduled for December 16 and the topics that would be discussed.

Mr. Elwell relayed the specifics of the Finance and Tax Committee meeting regarding pension- related issues and other aspects of the pensions that would be discussed. He added that Brad Armstrong would be preparing a report that would address pension-related factors and other issues related to the reserve funds of the Town that were not pension-related. He stated that all members were welcome to attend and that information packages about the discussion would go out to members of the board so everyone would be equally informed.

Mr. Karman asked how members should be prepared. Mr. Elwell replied that preparation is based on experience. Mr. Parven asked if there would be a discussion on benchmarking. Mr. Elwell replied that the subject would certainly enter the discussion. Mr. Karman inquired if investment advisors should be present. Mr. Elwell suggested that it would be helpful if the board authorized it. Mr. Karman concurred and thought it would be very beneficial for Mr. Carr to attend.

Mr. Madison moved authorization for Mr. Carr to attend the Finance and Tax Committee meeting on December 16, 2008. The motion was seconded by Mr. Karman and carried unanimously.

VII. REPORT ON GENERAL EMPLOYEES DROP

Mr. Trey Sizemore, Retirement Plan Specialist of ICMA-RC introduced himself and Fernando de Aguero, Regional Vice-President of ICMA-RC. Mr. Sizemore presented his report and explained the plan assets, total assets and drop plan. He discussed the breakdown of account balances while including the number of participants and classification. He announced the participants allocation of assets as well. Mr. de Aguero explained the structure of the Plus Fund. He stated it was a solid fund considering the market volatility experienced.

Mr. Parven inquired about Mr. de Aguero's objective in terms of return of the Plus fund. Mr. deAguero replied his objective would be to try to keep it above 4% as much as possible. Mr. Parven asked if he was competitive with other funds. Mr. de Aguero replied that there was only one other stable value fund that compared favorably to the Plus Fund however, that fund was not available as it had been closed for a number of years. In terms of what was available currently, the Plus Fund remained the most favorable.

Mr. Madison inquired if the Plus Fund was at no cost to the Town. Mr. de Aguero replied that there was no administrative cost for management or record-keeping, however there was an underlying cost for each of the funds in which a participant was invested.

Mr. Sizemore explained more about the defined benefit and defined contribution plans.

Mr. Karman inquired whether or not the participation of the drop of only 12 people was either worthwhile or if it had not been explained properly.

Mr. Elwell stated that when an employee entered the Drop, he or she was considered retired and this froze the defined benefit. He explained that pay outs would be monthly as it would if the person had actually retired. Mr. Elwell relayed that instead of paying out in cash, the benefit of this investment program functioned like a defined contribution for that element. Mr. Elwell stated that the number of participants who took part in the Drop did not seem that low to him.

Ms. Gorman stated that employees needed to meet the normal retirement age and/or years of service to enter the Drop. She explained that the small numbers might be attributed to the general employees who are not able to achieve retirement as rapidly as Firefighters and Police employees do. She stated that may be the reason why the numbers were not as high because of the time it took for general employees to reach retirement.

Mr. Madison stated that educating employees on benefits had improved as employees in public works had a better understanding of how retirement worked. He explained that numbers should increase since the Town had employed a younger workforce.

Mr. Elwell explained that he was concerned whether the Town was educating enough employees about the 457 Plan to ensure that throughout their careers, employees were participating in enough numbers to supplement their retirement income with what they could set aside as deferred income. He stated that the Town continued to make efforts in that regard to make certain employees are aware of their benefits and that those benefits were available to them.

Mr. Parven inquired if Mr. Sizemore could provide a summary of the market on future reports so the board would have a better idea of how well they were doing. Mr. de Aguero concurred and stated that on the next report, he would include the benchmark so the board would have a clear comparison of how they were doing versus the benchmark for that particular investment style.

VII. DISCUSSION OF RENEWAL OF FIDUCIARY LIABILITY INSURANCE

Ms. Temme, Risk Manager, recommended that the Board renew the Fiduciary Liability coverage expiring with Travelers Casualty and Surety Company of America with a $10,000,000 aggregate limit of liability and a $150,000 deductible at an annual premium of $25,755. She recommended that the Board grant authority to the Plan Administrator, Mr. Crouse, to approve the Fiduciary Liability coverage for the renewal date of January 1, 2009.

Pam Nelson with Wells Fargo relayed that Travelers responded to the increase in deductible. She explained that she visited a wholesaler and discussed higher limits and various deductible options.

Mr. Karman stated that the Police board of Trustees was looking at three different levels of coverage at $10, $15 and $20 million and hoped to receive three quotes on that. He inquired if this was being pursued.

Ms. Nelson responded that she had been in constant conversations with Mr. William Hanes, Pension Administrator. She stated he had not mentioned any higher limits for the Police. Currently, the Firefighters have a $10 million with an excess policy of $10 million. Ms. Nelson stated that Mr. Hanes had not mentioned anything as far as police, however, he had asked for 3 competitive quotes. She stated that she was currently working on Firefighter and Police renewals, but that Mr. Hanes had not returned any renewal information as far as an application was concerned.

Mr. William Hanes entered the Council Chambers.

Mr. Karman explained the subject of discussion to Mr. Hanes. Ms. Temme asked Mr. Hanes what other insurance the Town may have. Mr. Hanes stated what was suggested by Bob Klausner in that they looked at what the Town might offer because Pension Resource Center had ever done that.

Mr. Karman suggested that the Fiduciary Committee provide more results and further examination of quotes before January 1st. He explained that they could form a small committee chaired by Mr. Parven since he is an expert in insurance and pensions. Mr. Karman requested feedback from Mr. Elwell concerning this. Mr. Elwell stated that it would be best to call a Special Meeting of the Board. Mr. Karman stated that Ms. Temme and Mr. Hanes work with Mr. Parven to gather all information to decide the matter. Ms. Temme inquired what specifically Mr. Karman was requesting. She inquired if he was asking for additional quotes that have the $15 million and $20 million limit. Mr. Parven and Mr. Karman stated that they were. Ms. Temme inquired if the board was interested in also looking at deductibles. Mr. Parven and Mr. Karman stated they would be interested in looking at that information as well.

VIII CALLAN AND ASSOCIATES REPORT

A. Roanoke Asset Management Report

Ed Vroom presented a review of the portfolio's activity. He discussed investment issues and provided outlook for 2008. He explained that the global financial system was in repair and that a recession was being experienced. His partner, Adele Weisman, discussed the attribution analysis for the portfolio. Ms. Weisman discussed healthcare and the serious issues that had a negative impact on the portfolio. She explained allocation, returns and relative contributions. Mr. Vroom continued with his review of portfolio activity and the actions that were taken. He discussed sector concentrations and reviewed weightings in health care, technology and consumer sectors.

Mr. Elwell stated that he would like to learn more about the headline risk considering our entry into an uncertain period in national policy. Mr. Vroom stated that any significant changes would be two years away, but there would be some short-term changes in the spirit of what the campaign was about. He stated that significant changes in the uninsured population and how we would proceed with this would be both complex and costly. He stated there would be changes in healthcare, but long-term risk for health care reform was more in the large pharmaceutical companies and the very large healthcare services companies.

Brett Madison requested clarification on page 2 of the Roanoke booklet that the benchmark was the Russell 2500 growth. Ms. Weisman responded that it was the "bullrun" and that it did not run against the Russell 2500 as stated, but the Russell 2000, she apologized for the error. Mr. Parven inquired when the portfolio would surpass the Russell given the changes to be made. Mr. Vroom stated that they had been tracking this for the past few months and would be disappointed if recovery was not made soon.

Mr. Karman stated that bouncing changes back and forth was not very encouraging and that the board was expecting some results. Mr. Carr asked Mr. Vroom about an update on the current cash position of the portfolio and stated that as of September 30, Roanoke held approximately 12 percent in cash. Mr. Vroom responded that there were 3 stocks during the summer months that were acquired and having looked at the number of sales versus the number of additions, the cash was 8 percent or 7.5 percent so the cash had been utilized. Mr. Carr stated he was surprised since the stocks had been cut in half. He inquired why the cash was not being re-deployed more quickly in the market and if there was any outlook to try to get the 8 percent invested. Ms. Weisman responded that they had chosen to go slowly and that in 3 or 4 weeks the cash would be down to the normal 3 to 5 percent range. Mr. Carr inquired if Roanoke had lost any clients. Mr. Vroom and Ms. Weisman responded that they had not lost any. Mr. Carr inquired if there were any organizational changes. Mr. Vroom responded that there had been none.

Mr. Elwell provided background information on Roanoke for Mr. Parven's benefit. He reiterated that Roanoke had been on a watch list. Mr. Elwell stated that while he was satisfied with the explanation of why things happened the way they did, he wanted to make sure that the board was clear in communicating expectations for the future. Mr. Elwell expressed his concern that Roanoke would need to succeed and to do better than the market in the recovery since it suffered worse in the market on the way down. Mr. Vroom acknowledged and assured Mr. Elwell improvement.

Mr. Karman suggested a meeting break for 5 minutes. The board resumed shortly thereafter.

Mr. Parven asked Mr. Carr what the duration of a manager watch was prior to making a recommendation that a conclusion be made. Mr. Carr responded that the policy statement reflected a length of time of 1 year. He stated that this offered the active manager the opportunity to improve the process.

B. QUARTERLY REPORT – JOHN CARR

Mr. Carr presented a market overview. He discussed small cap and large cap financials and growth versus value. Mr. Carr explained the domestic equity investment and the distribution of assets across the fund. He also touched on asset allocation and performance. Mr. Carr discussed asset distribution across investment managers. In particular he explained the specifics of the domestic equity segment. He stated that Roanoke had 4.8 million and TSW had 1.6 million. He suggested equalizing the two funds by removing funds from Roanoke and then adding them to TSW. Mr. Carr calculated $1.5 million to be put into the TSW account at his recommendation.

Motion was made by Mr. Parven and seconded by Mr. Madison to move $1.5 million dollars from Roanoke into the TSW fund.

Mr. Madison inquired if we should be concerned about Roanoke in that the last 5 years they were down and that perhaps they did not have a good structure. He stated they should realize that the benchmark was not being outperformed. Mr. Carr responded that was a question that could have been asked while the money managers were present. He stated that in the future, he as well as the board should be more firm and direct about relaying their expectations. Mr. Carr's bigger concern in the near-term is the potential for client losses which would force more selling to meet client redemption requests. He stated that was more important to him than not investing the cash in the future. He relayed that time would be the determinant and that he did not feel a sense of urgency to do a wholesale change.

Mr. Elwell stated that he was concerned that the fact that Roanoke was managing our funds in the core consumer staples while culturally changing our ways. Mr. Carr concurred that the core consumer group would not do well anytime soon, but it was one small component of the portfolio.

Mr. Parven inquired what options the board had if it had to terminate business with Roanoke. Mr. Carr responded that if a wholesale change was in order, it would take 6 weeks to start a search, but the first step would be to rebalance the style bias between smid value and smid growth and then revisit the issue in February. He stated he felt we should not act too imprudently or too quickly. Mr. Karman concurred and suggested this issue be revisited at the next meeting.

Mr. Carr stated he would have the updated Total Fund expected returns at the February meeting. He stated his expectation would be that the return would be a bit lower with the current asset allocation.

William Diamond of 220 Wells Road inquired how long the board committed to the 8%. Mr. Karman stated it was in place currently but could be changed and under review. Mr. Diamond inquired if it needed the ascent of beneficiaries or if it could simply be done by the boards. Mr. Karman replied the board could set the benchmark, but it would get approved by the Council. Peter responded that the December Finance and Taxation

Committee meeting would be related to the actuarial considerations and more fundamental elements of the plan.

Mr. Carr examined asset allocation and the performance of funds. He provided a summary of the holdings of the fund's investment managers and returns. He stated he did not have any recommendations regarding international equity. Mr. Carr explained that the past 4 months have been a difficult period for active management. He discussed his concerns with the brokers who short-sell the portfolios of NYLIM and Analytic.

Mr. Karman inquired what risk the Town was taking to achieve the returns desired and asked if it was over-reaching given the current risk volatility. Mr. Carr responded that the bond and absolute return portfolios actually helped to lower the risk and that the Town was not taking undue amounts of risk in the portfolio. He stated it had a lot to do with diversification. He reiterated that the risk management was very sound and there was a prudent amount of risk being taken. Ms. Gorman inquired what the negative 100,000 was in the Goldman-Sachs new investment. Mr. Crouse replied that they were benefit payments for expenses.

C. INVESTMENT MANAGER EVALUATIONS

Mr. Carr presented the compiled investment manager evaluation information booklet to the board. He stated that this was information provided by candidate firms and other sources believed to be reliable. Mr. Carr explained that the investment manager organizations have submitted information to Callan regarding their investment management capabilities and he provided a summary of the investment manager search to the board. He explained the importance of company diversification. Mr. Carr stated that every manager had at least 100 securities so there was no dependency on any one company as it would be the collective movement of the stocks.

Mr. Elwell inquired if broad diversification was specific to Principal if Mr. Carr meant it was true of all the companies. Mr. Carr replied that it was true for all candidates. Mr. Parven inquired if the employee structure in regards to Principal, had 1400 people dedicated to the product. Mr. Carr replied that no it would only be Principal Global Investors. For the international product, there were 23 dedicated analysts that would conduct the research and 2 portfolio managers that would control the stocks.

Mr. Carr provided a summary matrix and explained the risk return chart to the board.

Mr. Karman inquired if Mr. Carr could update the return information before the Board made a manager selection. He also agreed that Mr. Carr could invite Batterymarch, Principal, and Pyramis as the three finalist investment managers for the May meeting. Mr. Elwell suggested Mr. Carr pay particular attention to anything besides just the returns that might change.

IX. REPORT ON QUARTERLY EXPENDITURES

Mr. Crouse stated that Ms. Struder was out of town as well as her assistant. He stated that a transfer from the money managers was not required at this time and requested approval of Ms. Struder's report.

Mr. Karman inquired if the report stated there was no need for cash in the next year. Mr. Crouse clarified that it was for the next quarter.

X. ANY OTHER MATTERS

Mr. McCracken stated that there was a desire for the Police and Fire Boards to obtain a letter of confirmation from the IRS determining that the plan is tax exempt. He relayed that Mr. Klausner appeared before the House Committee on the matter in Washington and had decided to move the deadline from applying on January 31, 2009 to January 31, 2011. Mr. McCracken stated that they were hopeful applications would be made by January 31st . He further stated that anyone who applied by January 31st would have any fines or sanctions discounted by 50% if they applied early.

Mr. Crouse explained that the Town incorporated a new software system named Eden and the Town no longer had the capability to calculate employee pensions with regards to final average compensation. He explained that Police and Fire have reviewed proposals to get a system to calculate benefits and that their estimate was over $100,000. He stated they had received another proposal that could calculate the information needed for all the options the retirement system allowed and would produce annual statements. Mr. Crouse explained that the proposal would capture retirement related data required for reports from actuarial and town auditors on an annual basis. He relayed that the estimated cost for this company based on all 3 boards would be $11,505 and $750 in annual maintenance. Mr. Crouse stated this software would coordinate with the current software system. He shared that Ms. Struder recommended this as well as Spencer Wilson, I.S. Manager. Mr. Crouse requested approval from the board.

Mr. Madison moved approval to purchase this software for $12,000 and Ms. Gorman seconded.

Mr. Parven inquired how employees would access the system. Mr. Crouse responded that employees would be able to access it via the Town's website. Mr. Madison concurred that the online estimator would be of great benefit to employees. Mr. Karman inquired if there were any other questions. There being none, the motion passed unanimously.

Mr. Elwell inquired with Mr. Carr about an update in regards to the fee Analytic was charging and the possibility in having it reduced. Mr. Carr responded that when Analytic was originally hired, a performance base fee was chosen for them. He stated that after the August meeting, they moved it to a 60 basis point flat fee and all documentation was signed and the commitment was being honored.

Mr. Madison stated that he wanted to congratulate Laddie Murrell for having been chosen as Employee of the Year in 2008. He relayed that he completed the first part of the FPPTA training and had a passing score of 85%. Mr. Madison stated that he was looking forward to his next session in February.

Ms. Gorman inquired when employees ask her questions regarding the Town's retirement, if there was a proper way to answer their questions. Mr. Elwell responded that if she felt confident with her answer, to feel free to be their resource. He explained that if she had any doubt, she could refer them to Mr. Crouse or contact him to get an answer.

Mr. Karman voiced his concern about residents who, in the future, plan to attend the Retirement Board meetings, to keep their questions until the end of the meeting. Mr. Madison suggested mirroring the Council meetings and to answer residents questions as they come up. Mr. Parven concurred.

XI. ADJOURNMENT

There being no further business, the meeting adjourned at 12:30 p.m.

Approved: ______________________
Brett Madison, Secretary