TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
MEETING OF NOVEMBER 10, 2011

I. Call to Order

Chairman Raymond Snow called the meeting to order at 9:07 a.m. at Town Council Chambers, 360 South County Road, Palm Beach, FL. 33480. Roll call was called and all trustees were in attendance.

In Attendance:

TRUSTEES:
Raymond Snow, Chairman
Gerald Goldsmith, Vice Chairman
Sergeant Chris Proscia, Secretary
James McC. Wearn
Officer Michael Lynch

ALSO PRESENT:
William P. Hanes, Pension Administrator
Gerri Duvall, Staff
Bob Klausner, Klausner & Kaufman
Alexia Varga, Nowlen, Holt & Miner
Sean Higman, Prime Buchholz

II. Election of Officers

Mr. Goldsmith nominated Mr. Raymond Snow for Chairman of the Board of Trustees. Nominations were closed and the trustees unanimously approved the nomination upon motion.

Mr. Wearn nominated Mr. Goldsmith for Chairman Pro Tem of the Board of Trustees. Nominations were closed and the trustees unanimously approved the nomination upon motion.

Officer Lynch nominated Sergeant Chris Proscia for Secretary of the Board of Trustees. Nominations were closed and the trustees unanimously approved the nomination upon motion.

III. Approval of Agenda

Office Lynch made the motion to approve the agenda as presented. Mr. Goldsmith seconded the motion. The trustees unanimously approved the agenda as presented.

IV. Comments by Trustees

Chairman Snow discussed the passing of Mr. John McCracken, and that the board had previously directed that a letter be prepared for presentation to the family. He discussed that after discussion among the other Town retirement board chairmen, it was agreed to present one resolution adopted by the three retirement boards and with signatures by all trustees of the boards. He noted that the resolution has been drafted and is ready for framing. Chairman Snow read verbatim the citation from the resolution.

Mr. Goldsmith moved for the adoption of the resolution. Officer Lynch seconded the motion. The trustees unanimously adopted the motion.

V. Approval of Minutes, August 11, 2011

Officer Lynch made the motion to adopt the minutes of August 11, 2011. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

VI. Financial Report

Ms. Alexia Varga provided the financial report to the trustees for the period ending September 30, 2011. She reported total assets of the plan to be $54.5 million. She discussed the liabilities of the plan and reported that the total net assets held in trust for the payment of pension benefits to be $54.5 million. She reported changes in plan assets total additions of $3.4 million and total deductions to be $4.4 million. She noted a net decrease in net assets for the year at $931,000. Chairman Snow noted a difference in reporting of investment performance between the financial report and as reported by Prime Buchholz. Ms. Varga noted that net appreciation includes the net capital gains as well as assets received through redemptions. Chairman Snow noted that the numbers should be the same as what is reported with the consultants report. Mr. HIgman stated that he does not know what the starting point was for the reporting of their net appreciation numbers, but it shouldn't result in the difference reported by Ms. Varga. He stated that he would take a look at it.

Officer Lynch discussed matters of refunds received by former members.

Ms. Varga discussed the detail of expenses, and noted that the investment management fees represent around 36% of all expenses, accounting and auditing represents 16%, investment advisor is 14%, and custodial fees approximately 10%.

Mr. Goldsmith noted that the custodial fees seemed high.

Chairman Snow stated that he would like for Ms. Varga to work with Mr. Higman to reconcile the difference in the reports representing net appreciation in assets. He asked Ms. Varga to republish the numbers and redistribute to the trustees if the numbers change through error and after reviewing with Mr. Higman. Ms. Varga stated that she is fairly confident that the numbers are correct on her side. Chairman Snow stated that Mr. Goldsmith continues to raise the issue of the importance of cash flow, and that reporting of asset appreciation needs to be right in order for everyone, including the auditor, to have the true numbers as it relates to cash flow.

Mr. Goldsmith asked Ms. Varga why it is that her firm represents that they are not independent with regard to services to this board. She replied that it is necessary because the firm does the monthly accounting for the board and that if they do the monthly accounting for the board they cannot be considered as independent. She discussed that the board receives an independent audit by another firm under contract with the board.

VII. Quarterly Investment Report

Mr. Sean Higman provided the consultant report to the board. He handed out the October performance report and discussed with the trustees. He noted that the timing of the fiscal year ending September 30, 2011 could not have been worse for reporting of performance.

Mr. Higman noted that the quarter was off by 9.5%. He discussed that during that time the flexible capital and inflation hedging as a group trailed their benchmarks. He noted from the October performance numbers that the fund recovered a great deal from the September 30, 2011 low point. He noted that for the month of October the performance was up about 6.1%. He discussed that there was an increase in volatility, and through a series of events people became concerned about long term growth rates throughout the world. He stated that if the growth rates are considerably below what is built into the pricing of the markets then those growth rates need to be re-priced into the market. He discussed matters of volatility measurements (VIX) and matters of global concern with European debt. He advised that the board should remain vigilant to the allocation, continue to rebalance, and from an implementation standpoint, implement with managers that have flexibility, or the flexible capital managers in this portfolio.

Mr. Higman discussed that at the end of October there was $56.5 million in assets with a one year return that is flat, but generally meeting or exceeding the benchmarks. He stated that while disappointed with the flexible capital and inflation hedges over the quarter ending September 30, 2011, they have been contributing since.

Mr. Higman noted that at the last meeting the board acted to redeem all of Private Advisers, and said he would discuss the matter of the replacement later in the report.

Mr. Wearn asked Mr. Higman to review the watch list.

Mr. Higman stated that PB does not place anyone on the watch list other than Guggenheim for long term underperformance. He discussed that Income Research's performance against the benchmark is not an issue, and has actually been positive measured to its benchmark. He restated that there is no manager that PB considers to be on the watch list today.

Chairman Snow commented that he continues to believe that we are in a low return environment which he expressed would continue for years to come. He noted that Federal Reserve Chairman Ben Bernanki has stated that the Fed funds target interest rate will stay at 25 bps until 2013, and he stated that what concerns him is our expected return of 8%, and where we will get the alpha to make up for the required fixed income portion of our portfolio that is projected to be in the low single digit return for some time to come. Mr. Higman stated that the strategy is to be widely diversified, as the plan is, and the board strategy is that we have to go look for alpha performance somewhere else in order to make up for what we are stuck with on the fixed income side by law.

Mr. Higman noted that the fixed income side of the law says we must have 20%, which means we can go get 80% in equities, but that he could review with legal counsel to see how to legally change the allocation formula. He recalled that the board previously reviewed the assumption, and PB opined that the asset allocation adopted by the board supports the assumption. He stated that he and Mr. Brad Armstrong, actuary, have concurred in the past on that opinion. He cautioned that the trustees need to be careful not to put too much weight on the current experiences. He stated that PB does not anticipate going into the January meetings of reviewing from a bottoms up forecast with any expectation that it will change significantly when looking at a 10 year time horizon. He agreed with Chairman Snow that looking at it from here, it is difficult to see where the alpha will be attained.

Mr. Goldsmith noted that Mr. Higman had stated at the last board meeting that he was going to provide the trustees PB's best view of inflation at the current meeting. Mr. Higman stated that the long term look at inflation today is not considered an issue. However, he stated that clearly there is increasing probability for inflation. He stated that the question becomes "what do you do and when do you do it?" He noted that PIMCO, arguably the best bond manager in the world, had their worst quarter in the history of their firm in September. He said the firm had previously positioned their portfolio for an expectation for rising interest rates, which seemed obvious in the spring and after Treasuries were downgraded by S&P. He stated that rates fell almost 100 bps in September. Mr. Goldsmith expressed his concern for the future and the ability to make payment to the officers.

VIII. Attorney Report

Mr. Klausner stated that the Marchman settlement has been finalized and Pension Resource Center is scheduled to make its first payment by December 1, 2011. He reminded the trustees that there is an acceleration provision that requires full payment if a monthly payment is made late.

Mr. Klausner advised the trustees of matters pending before the Palm Beach County Ethics Commission. He commented that if a trustee receives a gift valued over $100, that the issue for the trustee is whether to report under the County or State requirements. He stated that the County Code is specific, and if you are covered by the state law, and are obligated to report a gift under the state law, then you do not need to duplicate the reporting under the county law. He stated that you need only send a copy of your state report to the county ethics commission. He stated that the county ethics commission is in the process of sending out guidance regarding the issue.

Chairman Snow asked Mr. Klausner if the attendance of his annual client conference is considered a gift. Mr. Klausner replied that since the fund pays the trustee's way to the conference, it would not be considered a gift as to the trustee. He stated that a spouse might be treated differently since the fund does not pay for conference benefits received by the spouse. He stated that his firm is considering a fee for the spouse, and that he will advise the board at the appropriate time. He stated that the position the Klausner firm takes is that since the plans pay the firm a fee, it is a paying client, and only clients are allowed to come to the conference. Chairman Snow asked how the commission would look at receipt of a gift by a family member. Mr. Klausner stated that only if the gift from the family member is intended to influence a decision on the board would he believe the gift reporting rule be implicated to cause reporting of the gift.

Mr. Klausner stated that as far as a discussion regarding the plan's transition to a new plan, that the current law continues to be in place and he is not able to discuss a transition to another plan until there is a law change. He stated that the trustees will have sufficient time to do so after a law change has been made. He discussed that there will need to be an investment transition, and particularly as it relates to the different strategies amongst the plans. He concluded that it is not worthy of consideration today.

Mr. Klausner discussed that the Board's retirement payment and operation checking accounts are the only monies impacted by the Florida Public Depository Law. He stated that the accounts held at Wells Fargo are considered public depository under Florida law, and that the administrator has made the annual filing as required by the law. Mr. Hanes discussed that the monies that are subject to the public depositories are the monies used to make payments for retiree payroll and for the operation of the plan. Mr. Klausner stated that there is protection for the plan assets help by the trust maintained at State Street in an amount of $250,000 times the number of members in the plan.

IX. Disability not-in-line of duty review

Mr. Hanes discussed the matter of the review of Mr. Josh Faller, and stated that the request by the Board from the previous meeting has been satisfied. He explained that pursuant to the board's directive, Dr. Petruis submitted a letter to his office declaring Mr. Faller disabled citing the requirements under the applicable code.

X. Administrator's Report

Mr. Hanes stated that he discussed with Clement Johns, GSK, the request made by the trustees at the prior meeting that the auditing firm consider a contract with the board going forward that would provide for a partial year's audit. He discussed that after a delay in time, Mr. Johns recently replied that GSK does not have a policy for engaging a pro ration for a partial year audit or for assigning a fee.

Mr. Hanes discussed that he has received an invoice for dues to be paid by the National Conference of Public Employee Retirement Systems (NCPERS). He noted that Mr. Klausner serves as the General Counsel for NCPERS. Mr. Klausner explained that it is an association representing public pension plans, and advocates before the IRS for favorable tax treatment and takes on other national interests on behalf of governmental public plans and members. He discussed that the organization provides educational services for the plan. Mr. Hanes stated that the Police and Firefighter plans typically split the cost of membership. He stated that the membership fee is $200. Mr. Klausner stated that the organization is advocacy in the sense of advocating for pubic pension plans, but not for labor purposes. Chairman Snow asked if any trustee objects to participation. There were no objections.

Chairman Snow directed that without objection the board authorizes the administrator to make payment on behalf of the Police Officer Board of Trustees for participation with NCPERS.

Mr. Hanes stated that he had reviewed all non-investment firm contracts pursuant to the board's request to confirm the existence of a 30 day cancellation clause for each vendor. He stated that all contracts include a 30 day clause except for the custodian, State Street Bank. He stated that State Street Bank contains a 90 day cancellation clause. Mr. Klausner stated that State Street Bank is a very large custodian for many larger state and local funds, and expressed concern that State Street may change their mind about the size of funds they wish to deal with to the disadvantage of this fund. He stated that the other large custodians typically do not take funds in size of less than $100 million. Mr. Klausner advised and recommended that the board should continue with the existing contractual term including a 90 day cancellation clause.

Mr. Hanes stated that as far as investment contracts, with the exception of the hedge funds and Guggenheim, the managers and consultant contracts consist of 30 day cancellation clauses. Mr. Higman agreed.

Chairman Snow asked Mr. Higman about MF Global, and whether any of our fund holdings are involved? He asked if Prime Buchholz has a position regarding the bankruptcy itself or regarding any other issues that the board should take note of as fiduciaries regarding the security and safety of our funds.

Mr. Higman stated that in regard to MF Global, there is very slight potential. He explained that the equity interest was only one tenth of one percent of the small cap index, and stated he did no believe the system has any. He noted also that SSgA has indicated there is no direct exposure. He stated regarding the issue of custodial implication, the potential litigation regarding Bank of New York Mellon and State Street

Global relative to how they settled currency trades, trades regarding Harris and Artisan could have exposure to the extent they are in the class, but he stated that he did not believe that either are involved and probably will not be in the class settlement. He stated that regardless, there is nothing for the board to do.

XI. Election update of Member-Trustee

Mr. Hanes reported that Officer Lynch has been elected for a two year term by the Police Officers, and that he arranged for Officer Lynch to be administered the oath of office shortly after the meeting adjournment. He also discussed that Mr. Wearn continues to serve in a hold over position, and a reappointment has not been made by Town Council.

XII. Retirement/Benefit Payments

Mr. Hanes discussed that Officer Joseph Recarey and Officer Frederick Hess had begun participation in DROP. He noted that Officer Recarey began DROP participation on August 20, 2011 and Officer Hess began participation in DROP on October 1, 2011. Mr. Hanes presented to the board for an approval by ratification.

Officer Lynch commented that the trustees should approve Officer Recarey. He stated that he is not sure how Officer Hess is to be treated in that he is no longer going to be employed as a Police Officer. Mr. Klausner stated that if he is no longer participating in a covered position with this plan, he can no longer be participating in DROP. Officer Lynch commented that Officer Recarey has not notified the administrator. Mr. Hanes agreed and stated that he learned of the concern today (just prior to the meeting), and that he has already e-mailed to the Police Director Bluin for later discussion of the issue. Mr. Goldsmith wanted to know if Officer Hess had left employment. Officer Lynch stated that he had left employment as a Police Officer. Mr. Hanes clarified that Officer Lynch is asserting that Officer Hess is going from a Police Officer group to a civil position, which would take him out of the covered position.

Mr. Klausner stated that the only way a person can remain in DROP is by continued employment as a Police Officer. Mr. Hanes stated that the implication for Officer Hess would be that Officer Hess's participation in DROP would discontinue and he would begin receiving payment as a retiree. Mr. Klausner agreed. Officer Lynch asserted that he could be wrong, and Officer Hess may have transferred into a sworn position.

Mr. Klausner stated that he suggests that since the board does not meet again until February that the application be approved conditional upon proof satisfactory to the plan administrator, and that he is in fact enrolled in a covered position in the Police plan, and if not, the application for DROP is not to be approved and that he would be approved for retirement.

Mr. Hanes commented that the error of records will take care of the rest. He stated that if we determine that he has gone into a civil position then it will have its natural consequences of terminating his DROP and he would become a retiree.

Mr. Wearn stated that concerning Officer Hess, he would like to move that the board take the action verbatim expressed by the board's attorney. Mr. Goldsmith seconded the motion. Chairman Snow asked for further discussion regarding Captain Hess. and there was none. The trustees unanimously adopted the motion.

Officer Lynch made the motion to accept the DROP application of Detective Recarey. Sergeant Proscia seconded the motion. Chairman Snow asked for further discussion and there was none. The trustees unanimously adopted the motion.

XIII. Disbursements

Mr. Goldsmith made the motion to adopt the disbursement report as presented and to file for audit. Mr. Wearn seconded the motion. The trustees unanimously adopted the motion.

XIV. Other Business

Mr. Hanes presented the report regarding schedule of future quarterly matters as recurring.

Chairman Snow made an inquiry with Mr. Higman regarding asset modeling and asked if it would be part of an annual review in February. He asked Mr. Higman if it will reflect the Prime Buchholz January off-site review of asset class returns and standard deviations. Mr. Higman stated the review in February will reflect the PB fresh thoughts.

XV. Adjournment

Mr. Goldsmith made the motion to adjourn the meeting. Officer Lynch seconded the motion. The trustees unanimously adopted the motion.

Next Meeting: February 10, 2012

Secretary

2/10/12
Date