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GENERAL EMPLOYEES RETIREMENT BOARD MEETING
General Retirement Board Meeting, November 9, 2001
FRIDAY, NOVEMBER 9, 2001, 9:00 a.m.

I CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James McC. Wearn, at 9:00 a.m., November 9, 2001 in the Town Council Chambers.
Attending were Chairman James McC. Wearn, Vice-Chairman Robert Garvy, Secretary Vernon Richards, and Trustees Charles Boggs and Peter Elwell. Also attending were Board Attorney John McCracken, Finance Director Jane Skittone, and Human Resources Director and Plan Administrator William Crouse.

II APPROVAL OF AGENDA

Mr. Garvy moved to approve the agenda, Mr. Boggs seconded, and the motion carried unanimously.

III APPROVAL OF MINUTES

A. REGULAR MEETING OF AUGUST 10, 2001

Mr. Wearn asked for a revision on page 3, in the second full paragraph, motion should read Mr. Garvy moved that the assets be shifted to Loomis. He also revised the third paragraph, fifth line on page 8, should read to make sure it is not void or voidable.

Mr. Boggs moved to approve the minutes of August 10, 2001, with the revisions as stated, Mr. Garvy seconded, and the motion carried unanimously.

B. SPECIAL MEETING OF AUGUST 29, 2001

Mr. Elwell asked for a revision on page 10, third line of Mr. Armstrong's comments, it should read "so therefore, there would be no significant spike"; also on page 13, sixth paragraph, should read "together with Vernon" not "together with running."

Mr. Boggs moved to approve the minutes of August 29, 2001 with the two revisions as stated, Mr. Elwell seconded, and the motion carried unanimously.

IV ADMINISTRATOR'S REPORT

Mr. Crouse reported that the Town Council passed on second reading, the ordinance change to the benefit of the multiplier for General and Lifeguard employees, at the October 9, 2001 meeting.
He also stated that after a great deal of work with the actuary and the finance department, all changes have been made to the files of the 115 plus retirees, and their checks were recalculated and sent out at the end of October. Mr. Crouse also reported that many calls were received thanking the Board and the Town for this new benefit.

V DISCUSSION OF RENEWAL OF FIDUCIARY LIABILITY INSURANCE

Ms. Temme, Risk Administrator, presented a report outlining two options for renewal of the fiduciary liability insurance policy. One being to continue with the current limit of liability and deductible with an increase in premium of 12.9% or keep the same limit of liability and change the deductible from $75,000 to $100,000 with a decrease in premium of 15%. Ms. Temme recommended that the board choose option 2, increasing the deductible with a decrease in premium, as well as, granting Mr. Crouse the authority to renew the coverage on January 1, 2002.

Mr. Boggs moved to approve increasing the deductible with a decrease in premium and giving Mr. Crouse the authority to renew the policy, Mr. Elwell seconded, and the motion carried unanimously.

VI REQUEST FOR ADDITIONAL COMPENSATION FOR AUDIT

Mr. Mark Veil, of Caler, Donten, Levine, requested additional compensation for performing the special audit for the period of October 1, 1999 to December 31, 1999 when the retirement boards were split. Due to inaccurate statements from First Union, the cost was more than three times of the estimated fee. Mr. Veil proposed splitting the excess fee with his firm taking half and the other half would be split between the two pension boards.

Mr. Wearn requested that this portion of the memo be printed in the minutes. "Our billing sheets reflect total time invested on our part of $17,850 or roughly three times our original budget and fee estimate of $5,000. Since the extra $12,850 of time we incurred was caused by the bank (First Union) and was beyond our control, I would propose that we split this cost between the two retirement systems and Caler, Donten & Levine. This would result in an additional billing to the retirement plans of $6,400, or $3,200 to each plan." Mr. Wearn stated this was a very fair recommendation, but, that the record needs to show that the extra funds are approved and available by reason of the reduction in fees paid to First Union, therefore this is not an additional cost.

Mr. Boggs inquired as to whether the Public Safety Board approved their portion. Mr. Veil stated that they had.

Mr. Boggs moved to approve the additional funds, Mr. Elwell seconded, and the motion carried unanimously.

VII CALLAN & ASSOCIATES

Mrs. Jeanne Valcik of Callan & Associates presented a performance quarterly review report as of September 30, 2001. Mrs. Valcik stated that all of Callan's clients are staying the course as far as asset allocation, meaning that if they had a 70% asset allocation to domestic equity, and a 30% allocation to bonds, all of their clients have reported that they will do the rebalancing, so they are selling bonds and buying stocks. Callan has written a paper on how disciplined rebalancing works and how it adds money to the portfolio.

Mrs. Valcik stated there were three topics she wanted to go over at this meeting, the performance report for the quarter, rebalancing of the fund, and the memo she wrote on indexing and enhanced indexing.

Mrs. Valcik stated that the move to a 60%-40% split had been made to the portfolio, however, it had not been implemented as yet due to the change in custody to State Street.

Mrs. Valcik explained that to reach the 60% in domestic equities, all of the money should be moved out of Roanoke and be reallocated to Loomis and that it should be done at this time, due to what has happened to the stock market over the last 18 months. Mr. Garvy restated Mrs. Valcik's proposal as recommending moving $3.1 million to Loomis, and $2.6 million to Roanoke. Mrs. Valcik stated this was correct. Mr. Garvy stated that the PE on the S&P is still 28 times, which is double it's historical average. Mr. Wearn stated that the timing may not be right to shift the money at this time. Mr. Garvy stated that this may be correct, however, there is a policy in place to make this decision easier, and the policy is a 60-40 split. Mrs. Valcik stated that the fund would be at this level if it were not for the situation with First Union. Mr. Wearn stated that he felt the policy should be looked at on a regular continuing basis as a living document.

Mr. Wearn asked Mrs. Valcik if any changes had occurred in the investment world to change her view and recommendation on the policy. Mrs. Valcik stated that the U.S. stock market has always been a good long term investment, but, there is a degree of volatility in the short term. Mrs. Valcik stated that if the asset reallocation was rerun at this time the numbers would be the same.

Mr. Garvy moved that the Board approve the recommendation of Callan Associates to re-balance the fund toward the recommendations in their report, moving to 60% equity with 24% in the S&P 500, 24% in Loomis, and 12% in Roanoke. Mr. Boggs seconded, and the motion carried unanimously.

Mrs. Valcik reported on the domestic equity portfolio and referred to Mr. Garvy's presentation at the last meeting of active vs. passive investment. Mrs. Valcik stated that this demonstrated the fact that over all periods indexing is not the answer, indexing is a style, the reason the Town had indexing in its portfolio was not for performance reasons, it was to allow for large capitalization exposure to look like the market, the portfolio could suffer considerably. Mrs. Valcik stated that the reason they brought in the S&P was because there was a manager that was severely under-performing and the other was to get the capitalization exposure to the Town's domestic equity portfolio, and up until the last year it has served the Town well. Mrs. Valcik stated that when a domestic equity portfolio is built, there should be equal portions of both growth and value, and that the capitalization exposure should be about like the broad market.

Mrs. Valcik stated that she endorsed equity management in sectors where there is less market exposure. Mrs. Valcik stated that she felt enhanced management would be a good idea for the Town, this is a style of investing that will closely replicate the benchmark, but, will add a little alpha by making modest type controlled bets against the index. Therefore, by doing an enhanced portfolio, it would bring in capitalization exposure and a little extra return over the index. Mrs. Valcik stated that enhanced indexing has come into favor in the last couple of years, with several academic papers out on it, and most of the consultant data bases of enhanced managers show that the enhanced managers have been able to out perform the index by a small amount of 50 to 100 basis points. Mrs. Valcik stated that the 40-40-20 split gives a good level of market capitalization.

Mrs. Valcik stated that the portfolio should stay positioned this way, and that the Board should consider looking at an enhanced manager for the S&P 500. She also stated her report explains the Callan search process used when looking for a domestic equity manager search.

Mr. Wearn inquired as to how many enhanced managers there were in this style. Mrs. Valcik stated that there were at least 200 that claim to be enhanced managers, however, she felt some in that group are active managers not enhanced. Mr. Garvy stated that about 10 years ago there were about ten, five years ago there were 60, and now there are 200. He thought that the Callan data base had about 45-50 that could be screened for this job. Mr. Wearn felt it was worth while to pursue this, as it would provide more balance then in the past with just Roanoke and Loomis.
Mr. Wearn asked Mr. Crouse if this plan was presented to the Public Safety Board. Mr. Crouse stated it was not. Mr. Boggs stated he had spoken to George Frick after the last meeting and that Mr. Frick was interested in having Mr. Garvy give his presentation to that board as well. Mr. Garvy stated he had not been contacted as of this time and would make himself available.

Mr. Boggs moved that the Board should move to the enhanced S&P 500, give Callan the go ahead to do the search. Mr. McCracken stated that the Public Safety Board did vote to change their index manager from Northern Trust to State Street, and they did express an interest in enhanced managing and having the Board's work in tandem, as there are financial benefits to be had, such as decreased custody fees should the board switch to them for index funds. Mrs. Valcik stated that it was discovered that the Northern Trust S&P 500 fund has securities lending in it, this was not the case when it was first started at American National Bank. She stated the investment policy clearly states no securities lending, but, when Northern Trust bought American National's index business, and three years ago had sent a letter to the Town by fax stating "if we don't hear from you, you'll be in a securities index fund," the letter was filed, however, it should have been sent and a return signature asked for to acknowledge receipt. Mrs. Valcik stated that the fund may go into securities lending, however, State Street has non-securities lending funds. She stated the advantages as far as cost within the custody, there is a line item that is paid for a single asset on a statement, and the savings by going to the S&P index at State Street was $2500, strictly on the custody side and the fee would stay the same.

Mr. Boggs asked Mrs. Valcik if she was suggesting that this Board do the same thing at this time. Mrs. Valcik stated that no, since the Board was looking into an enhanced index fund, then they should stay the course for the time being, as there will be costs involved when the shift is made. Mr. Wearn stated that he felt they should pursue the enhanced index manager and while pursuing that and going through the search, that Public Safety should be invited to join in it as well, even though they seem to have already made up their minds. Mrs. Valcik stated that Public Safety wanted to shift to the index, and that they may want to do something more active in the index, however, for now they prefer to move the S&P Index to State Street in tandem with going into a Lehman Brothers Aggregate Index for the bond portfolio Roanoke and that's going to State Street as well.

Mr. Wearn stated that this board should proceed with the search for an enhanced manager and acknowledged that the search fee not exceed $22,500. Mr. Boggs moved to proceed, Mr. Richards seconded, and the motion carried unanimously.

Mrs. Valcik stated that a profile of the type of manager the board is looking for needed to be drafted now in order for a search to begin. She did not want to slow the process down by having to do a profile, come back to a meeting, approve the profile, and then come to another meeting with the candidates. Mrs. Valcik stated that by doing the profile now, she would be able to come to the next meeting with six candidates that the Board may want to interview. Mr. Wearn inquired as to whether a special meeting would be needed to move the process along at a more productive rate. Mr. Elwell stated he was not averse to the idea of a special meeting, but, he questioned whether the matter was urgent enough to require a special meeting, given the marginal improvement the fund may expect. Mrs. Valcik stated it would take two weeks to do the profile, five to six weeks for the search, so that would leave only add another month, but, perhaps have the special meeting immediately following the next scheduled meeting. Mr. Garvy stated that they could have the semi-finalists in February and then if the Board chooses to move forward from there with finalists or whatever, come in at a special meeting at that time. Mr. Wearn agreed. Mr. Boggs inquired as to the necessity of having interviews. Mrs. Valcik stated that she felt very strongly that interviews should be held as all six candidates that would be brought before the Board would be very strong.

VIII STATUS REPORT ON CUSTODIAN TRANSFER

Michael Chad presented a status report on the transfer of custodianship from First Union to State Street. He stated that Alice Dean will be the primary client relationship officer for the Town of Palm Beach. Mr. Chad stated that there were some issues involved dealing with the transfer due to the events of September 11, as First Union did have an office in the World Trade Center that was responsible for transferring the fixed income assets through the Fed. He stated that as of Wednesday, November 7, 2001, all assets had been delivered to State Street as well as the accrued income. Mr. Chad stated that there were issues with First Union that required leverage in order to get certain reports required to do the balancing, and that Jane Skittone had supplied much needed assistance in these matters. He also informed the Board that certified reports from First Union had not been received as yet. The reconciliations contained in his report were reconciled to non-certified reports from First Union. All assets and transfers are in balance based on these non-certified reports.

Mr. Wearn inquired as to whether Mr. Chad anticipated any difficulty in receiving certified reports from First Union that are sufficiently accurate. Mr. Chad stated that the asset transfers on First Union's books, for whatever reason, they had written off the assets for the Town's accounts on September 28, 2001, not October 1, 2001, when the asset transfer actually took place. He also stated that this has caused, in First Union's terminology, in order to provide State Street with an accurate certified list of holdings on September 30, they would have to pull a report on a settling day basis, versus a trade day basis, which is out of the norm, based on how reporting was provided to the Town in the past. First Union stated these reports should be delivered by next week, however, they had been promised earlier as well.

Mr. Wearn stated that should those reports not be received, that the board's attorney should become involved to assure that a prompt, complete, accurate, and full response of certified reports. Mr. McCracken stated that he would meet with Mr. Chad in the afternoon.

Mr. Chad stated that State Street was able to deliver partial reports to Jane Skittone for October 31, 2001, partial meaning that as the index fund is with Northern Trust, they are not able to provide accurate pricing until the eighth business day, therefore, those accounts are missing from the portfolio at this time, only within the reporting, they are not actually missing.

Mr. Chad informed the board that he and Ms. Skittone had tested the on-line reporting system in her office on Thursday. Once the downloads of all the data has been audited and matches the trust reports, the on-line access will be released to Ms. Skittone and later to the board. He also stated that State Street would be happy to offer training to anyone who would like it, regarding accessing the on-line system of reports.

Mr. McCracken stated that he had not heard the controversy regarding certified reports during the

Public Safety meeting, and asked if they had received certified reports. Mr. Chad stated that they had not.

Mr. Crouse brought up a discussion that occurred in the Public Safety meeting regarding the volume of paperwork received from the custodian. The Public Safety board wanted to save as many trees as possible by having a small summary report given to the trustees, while the complete document be housed either in Finance or Human Resources. Mr. Chad stated they could provide a synopsis composite report, which would show corporate value flows from beginning to end, and a holding inscription for each of the accounts held, also they do have CD ROM capabilities as well, which would provide access to the full report and allow for easy storage, as well as being able to print whichever report was needed. Mr. Chad stated that the on-line reporting system would allow for eighteen months of reports. Ms. Skittone stated that she would receive a CD.

IX REPORT ON QUARTERLY EXPENDITURES

Ms. Skittone presented the report on quarterly expenditures, recommending a transfer of $400,000 from the money managers to cover an anticipated shortfall.

Mr. Boggs moved to approve the transfer of funds, Mr. Elwell seconded, and the motion carried unanimously.

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

Mr. Wearn reported that each year the board has recommended an interest level be credited to member contributions, and that rate has been historically, 5.5%.

Mr. Boggs moved approval of the interest rate of 5.5%, Mr. Richards seconded, and the motion carried unanimously.

IX APPROVAL OF ACTUARY'S FEE

Mr. Crouse reported on a memo from Brad Armstrong, of Gabriel, Roeder, Smith & Company, stating that the fees for the current fiscal year would be $10,500. Mr. Crouse stated that in the past the fees had been $10,000 in 2001, in 1999 when the boards were combined the fee had been $13,600.

Mr. Boggs moved to approve the actuary fee to be $10,500, Mr. Richards seconded the motion, and the motion carried unanimously.

X APPROVAL OF RETIREMENT APPLICATIONS

Mr. Crouse reported that there were two retirement requests, both of which are early retirement requests. He explained that the ordinance allows an individual in the general employee system to retire at age 50, which is five years earlier than normal retirement age, these individuals receive a reduced pension at three tenths of a percent for each month shy of age 55.

A. Harold Daniels - Equipment Operator, had deferred upon leaving in January, 2001, met the age requirement as of October 31, 2001.

Mr. Boggs moved approval for Harold Daniel's retirement, Mr. Richards seconded, and the motion carried unanimously.

B. Gwendolyn Zamecnik - Administrative Aide

Mr. Elwell moved approval for Gwendolyn Zamecnik's retirement, Mr. Boggs seconded, and the motion carried unanimously.

XI ANY OTHER MATTERS

Mr. Boggs stated that the Public Safety Board had business cards produced for their members, and asked if this board was interested in doing the same thing. Mr. Wearn inquired as to the purpose and benefit of having the cards. Mr. Boggs stated that he felt the purpose was for identification at seminars and other business functions. Mr. Wearn asked if these cards were available in-house. Mr. Boggs stated that they were not, they would be sent to a printer, and that the cost would be about $20 per member. Mr. Crouse stated that the Public Safety board members tend to travel and do more networking. Mr. Wearn stated that usually seminars have name tags available to provide identification. Mr. Garvy recommended that they be available if the member wants to have them.

Mr. Elwell moved approval of business cards to be ordered for whichever member would like to have them, with a budget not to exceed a total of $120 for, Mr. Boggs seconded, and the motion carried unanimously.

Mr. Wearn requested that the administrator follow up on his request to Roanoke Asset Management to provide monthly reports similar to Loomis-Sayles. To date he has not received any reports, and due to the fact that the board has asked for a reduced summary of reports from State Street, that it would be beneficial to receive the manager's monthly reports. Mr. Crouse stated he was not sure if Roanoke had been asked to provide these reports, but, that he would follow up. **Mr. Wearn requested that Mr. Crouse send copies of the reports Loomis was providing as an example for Roanoke.**

XI ADJOURNMENT

Mr. Boggs moved to adjourn the meeting at 10:50 a.m., Mr. Richards seconded, and the motion carried unanimously.

Approved:__________________________
Vernon Richards, Secretary