Town of Palm Beach Police Officers' Retirement System
MINUTES OF MEETING HELD
October 14, 2004

I. CALL TO ORDER

Administrator Scott Baur called a meeting of the Police Officers' Retirement System to order on behalf of the Board of Trustees at 9:05 AM on October 14, 2004, in the Town Council Chambers. Those persons present included:

TRUSTEES	OTHERS
James Wearn, Town Appointed Trustee	John McCracken, Attorney
Raymond Snow, Town Appointed Trustee	Scott Baur, Administrator
George Frick, Employee Member Trustee	Maya Saxena, Milberg Weiss
Mike Lynch, Employee Member Trustee	Ramelle Hieronymus, Prime Buchholz
	Mary Pollitt, Town Clerk

II. OATH OF OFFICE

Mary Pollitt, Clerk for the Town of Palm Beach, administered the oath of office for the new Board members.

III. INTRODUCTIONS

Members of the new Board of Trustees introduced themselves by name.

IV. SELECTION OF CHAIRPERSON AND SECRETARY

The Trustees briefly discussed the nomination process for a new chairman and secretary.

Mike Lynch made a motion to nominate George Frick as Chairman for the Board of Trustees. Raymond Snow seconded the motion, approved by the Trustees 4-0.

Chairman George Frick assumed control of the meeting. Sgt. Frick called for nominations for a Secretary for the Board of Trustees. Raymond Snow then nominated James Wearn. John McCracken indicated that nominations did not require a second, as with a motion. The Board decided to wait on the nomination for the Vice-Chairman until the next meeting, following the selection of the fifth Trustee.

Raymond Snow nominated James Wearn as Secretary, approved by the Board of Trustees 4-0.

V. APPROVAL OF AGENDA

Mr. Baur noted an addition to the agenda, appearing as "Actuarial Estimate for Multiplier Increase". Trustee Mike Lynch requested the agenda item.

James Wearn made a motion to approve the agenda. Mike Lynch seconded the motion, approved by the Trustees 4-0.

VI. SELECTION OF FIFTH TRUSTEE

The Board reviewed the applications submitted to the Town of Palm Beach for the position of Trustee. Mr. Wearn recommended Gerald Goldsmith for the position of the fifth Trustee, selected by the other four members of the Board. He noted that Mr. Goldsmith previously served as a Trustee for the Town of Palm Beach Public Safety Retirement System. Furthermore, Mr. Goldsmith had additional civic experience as a former member of the Town Council. Mr. Baur also stated that Mr. Goldsmith indicated his willingness and availability to serve on the Board.

James Wearn made a motion to appoint Gerald Goldsmith as the fifth Trustee to the Board. Mike Lynch seconded the motion, approved by the Trustees 4-0.

VII. APPROVAL OF MINUTES: MEETING OF AUGUST 12, 2004.

John McCracken indicated that the Board did not need to approve the final minutes for the Town of Palm Beach Public Safety Retirement System, as a matter of procedure for the terminated plan. The Trustees reviewed the minutes, and Mr. Wearn requested additional detail regarding the report by the investment consultant in future minutes. The Board received and entered into the record the minutes for the meeting of the Town of Palm Beach Public Safety Retirement System on August 12, 2004.

VIII. OVERVIEW OF SUNSHINE LAW REQUIREMENTS

John McCracken provided the Trustees with a brief overview of the Florida Sunshine Laws. He stated that the business of the Board is a matter of public record. Therefore, the Trustees must not discuss issues affecting the plan outside of a public meeting or posted workshop of the Board. Mr. McCracken made a distinction for communication between Trustees and communication with staff, since the Trustees may communicate with both staff and other constituents.

Mr. McCracken provided the Trustees with a brochure containing an overview of the Florida Sunshine Law published by the Commission on Ethics. He also suggested a possible future presentation by the Town Attorney regarding Sunshine and Public Records Laws in Florida.

IX. PRIME BUCHHOLZ (Ramelle Hieronymus)

A. Overview of Asset Allocation

B. Investment Managers

Ramelle Heironymous, investment consultant for the Town of Palm Beach Public Safety Retirement System, provided an overview of the investment portfolio for the new Board of Trustees. She began with a review of the process and history to structure the current investment portfolio. Mr. Baur also distributed copies of the Investment Policy adopted by the Public Safety Retirement System to the new Board prior to the meeting.

The prior Board considered cash flow requirements, risk tolerance, and the plan objectives to determine the current asset allocation. The Public Safety Retirement System maintained the highest possible exposure to equities in line with the risk assessment, while minimizing cash in the portfolio. The Public Safety Retirement System also held alternative asset classes such as a hedge fund and an absolute return product, in order to further diversify the portfolio. The plan for diversification included assets that do not tend to behave in the same manner in a given market environment, consisting of a variety of assets classes and management styles. Ms. Heironnymous then reviewed the asset allocation process, based on an allocation optimizer that balanced expected return with risk.

The Public Safety Retirement System most recently added a position in convertible bonds to the other asset classes held in the portfolio. Ms. Heironymous compared the asset allocation for the Public Safety Retirement System to investments typically held by public plans. She stated that management is the most critical factor in the selection of the alternative investment strategies. The asset allocation adds an expectation of higher investment returns over time with slightly higher risk or volatility in the portfolio. Even under the most difficult market conditions, the asset allocation should outperform the typical long portfolio.

The Public Safety Retirement System allocated 55% of assets to equities, 10% to alternative strategies, and 35% to fixed income. The alternative strategies consisted of an equity hedge to provide equity-like returns with a risk profile similar to fixed income securities, as well as an absolute return strategy to reduce overall volatility in the portfolio by low correlation with the other investment managers. Prime Buchholz recommended investment managers based on a quantitative screen followed by qualitative analysis. The current portfolio includes a mix of index funds and active managers as follows:

	Target Level	*Range*	*Manager*
Equity	**55.0%**	**50 – 60%**	
Large Cap Core	30.0%	25 – 35%	State Street, Torray
Mid-Cap Growth	7.5%	5 – 10%	Frontier Capital Management
Mid-Cap Value	7.5%	5 – 10%	Cooke and Bieler
International	10.0%	5 – 15%	Arisan (Growth), Harris (Value)

Fixed Income	**35.0%**	**30 – 40%**	
Core Fixed	25.0%	20-25%	SSgA, Richmond Capital Management
Convertibles	10.0%	5-15%	Income Research
Alternative Assets	**10.0%**	**5 – 15%**	
Hedge	5.0%	2.5 – 7.5%	Meridian
Absolute Return	5.0%	2.5 – 7.5%	Pine Grove

Prime Buchholz provides the Board with quarterly detailed investment reports with an analysis of the market. The current report included preliminary returns for the portfolio as of September 30, 2004. Prime Buchholz will present a complete quarterly report at the next meeting of the Board.

Ramelle Heironnymous reviewed a recommendation provided to the Board to terminate the current investment management arrangement with Frontier Capital Management. The lead manager for the portfolio announced his recommendation as of the end of the calendar year. The replacement manager, meanwhile, lacks the experience and the track record of the current portfolio manager. Ms. Heironymous indicated that she would provide recommendations for a replacement manager at the November meeting.

The Trustees briefly discussed adoption of the current Investment Policy. The Board also requested an item on the agenda for comments by the Trustees.

Raymond Snow questioned whether the plan should properly classify the convertible bond strategy as an equity or fixed income asset class. Ms. Heironymous indicated that the manager had a fixed income style of management for the portfolio, with an orientation to high-grade bonds.

X. SECURITIES MONITORING PROGRAM (Milberg Weiss)

James Wearn noted that the Public Safety Retirement Board made a recommendation to begin a monitoring program with Milberg Weiss for possible securities litigation, but that recommendation did not bind the Board for the Police Officers' Retirement System.

Maya Saxena explained the securities monitoring program offered by Milberg Weiss. Milberg Weiss, a firm that litigates class action suits, offers to monitor the investment portfolio for potential class action lawsuits and pending litigation. Ms. Saxena presented the Board with sample reports, which identifies current class actions involving current or prior holdings in the portfolio and possible issues for litigation. Maya Saxena explained that the service was designed to assist the Trustees with their fiduciary obligation to the plan. Milberg Weiss offers this service free of charge.

Ms. Saxena commented that many public plans do not receive proper notification for inclusion in pending class actions, so the monitoring service notes settlements involving holdings of the plan along with the claims administrator. The service also identifies holdings where the plan incurred significant losses as the result of securities fraud. She indicated that, while plans have no obligation to become a lead plaintiff, the Trustees should always consider their role in matters that affect the assets of the plan.

John McCracken reported that he obtained an acceptable agreement from Milberg Weiss that offers the service at no cost or obligation to the plan. The service does provide an outlet for information. Mr. Wearn asked Ramelle Heironymous if Prime Buchholz receives notice of pending class actions, but State Street typically receives such notices as the custodian for the plan. Maya Saxena noted that State Street cannot provide an estimate of the financial loss for a specific holding in the portfolio, while Milberg Weiss can estimate the damage to the plan.

Mr. Wearn noted that, since Milberg Weiss provides a service at no cost based on information available to the public, the firm should be able to provide information and reports to the Board without a formal agreement or retainer for services. Ms. Saxena responded that the agreement stipulates the information that Milberg Weiss provides, as well as the authorization necessary for the transfer of records from the custodian. The Trustees then discussed the likelihood that either the Police Officers' Retirement System or the Firefighters' Retirement System would ever become a lead plaintiff in a class action, following the division of assets from the Public Safety Retirement System. Mr. Wearn noted that he had no issue with the authorization to provide Milberg Weiss with public records regarding the holdings for the plan, but he did not want to create an attorney/ client relationship between the Board and Milberg Weiss.

James Wearn made a motion to authorize the Chairman to request that State Street provide Milberg Weiss with information regarding holdings as a response to a request for public records, for the Board to receive and review the reports from Milberg Weiss. Raymond Snow seconded the motion, approved by the Board 4-0.

XI. SPLITTING OF PUBLIC SAFETY RETIREMENT SYSTEM

   A. Division of Plan Assets
   B. Agreements with Service Providers
   C. Designated Gifts to Retirement System

Scott Baur reviewed the process to divide the assets of the Public Safety Retirement System, which the actuary reviewed and the Trustees for the Public Safety Retirement System approved in the meeting of August 12, 2004. Mr. Baur explained that the annual actuarial valuation reports the asset balances in the plan attributed to the police members and the firefighter members. The Town updates these balances based on cash flows during the fiscal year, so the split of assets was based on the proportion of asset balances attributed to the police and the firefighters on the June 30, 2004 financial statement. According to the actuary, any additional activity not captured by the June 30, 2004 financial statement would not have a material impact on the funding requirements for either of the new plans.

Mr. Baur planned for the division of assets to occur on or around October 28, 2004, based on the valuation of assets as of October 1, 2004, and following pay downs on mortgages in the fixed income portfolio managed by Richmond Capital. The current account for the Public Safety Retirement System will be registered to the Police Officers' Retirement System. The administrator obtained a new Tax ID Number and opened new accounts for the Firefighters' Retirement System. Based on the June 30, 2004 financial statement update of the October 1, 2003 actuarial valuation, 48.7253% of the assets and cash from the Town of Palm Beach Public Safety Retirement System will then transfer to the Town of Palm Beach Firefighters Retirement System. Exactly 51.2747% of the assets will remain in the Town of Palm Beach Police Officers' Retirement System. The custodian will segregate the assets at cost rather than market, so any subsequent appreciation or depreciation of securities in the portfolio after October 1 will credit proportionally to the Police Officers' Retirement System and the Firefighters' Retirement System. Assets and cash will transfer in kind, with rounding errors expected since not all securities will divide at the exact ratio. Mr. Baur established that minor deviations from the ratio used to determine the asset split would not have a material impact on either the Police Officers' Retirement System or the Firefighters' Retirement System.

The Trustees asked whether the Police Officers' Retirement System would have any issues with account minimums following the division of assets. Based on conversations with all of the investment managers, Mr. Baur did not believe that either plan would have a problem with minimum balances following the division of assets. He noted that State Street might increase the fees for the index portfolios manage by SSgA, and Cooke and Bieler might substitute institutional shares of mutual funds for the separate accounts following the division of assets.

John McCracken first reviewed the custodial agreement and assignment presented by State Street. Mr. Wearn indicated that he would review all the agreements prior to execution by the Board of Trustees. Thus, the Police Officers' Retirement System would continue the existing relationships established by the Public Safety Retirement System on an at-will basis during the review process. He also noted that the General Employees Retirement System initially encountered difficulties negotiating an acceptable contract with State Street. George Frick questioned whether the Board should undertake a second legal review of the contracts, but Mr. Wearn responded that the agreements also defined the business relationship between the Board and the service providers. Mr. Baur notified the Trustees that the Public Safety Retirement System could not proceed with the division of assets in the mean time.

John McCracken commented that the Public Safety Retirement System subjected the original agreements to much scrutiny. The new agreements do not contain material changes from the original agreements, while most of the agreements also contain a simple 30-day termination clause. Mr. McCracken did note that he had problems with the agreement submitted by Cooke and Bieler, although he only received the agreement late in the afternoon on the preceding day. Frontier initially provided the wrong agreements as well.

Chairman George Frick questioned whether the Board should undertake a process to review an agreement with an investment manager recommended for termination by the consultant. Raymond Snow suggested that the Board could liquidate the account and reinvest the proceeds in an Exchange Traded Fund, pending hire of a new manager, to maintain exposure to the asset class. Ramelle Heironymous reminded the Trustees that the manager in question would continue to manage the account for Frontier Capital Management through the end of the calendar year. The Board decided not to continue negotiating a new agreement with Frontier. Mr. Snow also recommended the services of a transition manager to assist with the liquidation of the portfolio.

James Wearn made a motion to terminate the relationship with Frontier Capital Management as of the end of September, 2004, or as soon as possible thereafter, reinvesting the proceeds in an Exchange Traded Fund in the same asset class and using State Street as the transition manager. Mike Lynch seconded the motion, approved by the Trustees 4-0.

The Board called a short recess.

As the Board addressed the agreement with Cooke and Bieler, Mr. Wearn indicated that he was interested and willing to read all of the agreements before the Board. John McCracken noted that the agreements for Prime Buchholz and Pension Resource Center included fee changes with the division of the Boards, although the fee increase to the Pension Resource Center was anticipated as part of the original proposal for administrative services.

James Wearn made a motion to continue at-will relationships with the existing service providers pending further review of the agreements, with all of the pending agreements added individually to the agenda for the next meeting scheduled by the Board. Raymond Snow seconded the motion, approved by the Trustees 4-0.

John McCracken reviewed the issues associated with the proposal by the Public Safety Retirement System to allow individuals to designate gifts or donations by individuals to the plan. The current ordinance stipulates that the plan allocates all gifts to the unallocated earnings reserve, which ultimately offsets the employer contribution. The firefighter members, on the other hand, wished to allow for the possibility of gifts designated for allocation to the firefighter Share Accounts. The Town Council removed the mention of designated gifts from the proposed ordinance at the first reading in July, so the Board of Trustees for the Public Safety Retirement System requested that the issue appear on the agenda for the first meeting of the new Boards.

The Trustees commented that, since the Police Officers' Retirement System does not have a provision for member Share Accounts, the issue in fact did not apply to this plan. The Board directed John McCracken to propose an ordinance on behalf of the Police Officers' Retirement System only if the Town Council should agree to the change for the Firefighters' Retirement System.

XII. ACTUARIAL ESTIMATE FOR MULTIPLIER INCREASE

Mike Lynch asked the Board to approve a cost estimate by the actuary to increase the multiplier from 3.25% to 4% for all members of the plan, including those members now in the DROP, effective as of October 1, 2003. The Board for the Public Safety Retirement System approved a similar study for the firefighter members at the August meeting. Mr. Lynch noted that the study and possible benefit change was time sensitive, since members impacted by such a change would soon be leaving the DROP. George Frick noted that the cost for the study should not exceed $2,000, and the proposed change would not benefit members who left with a vested deferred retirement benefit. Mr. Wearn indicated that he would like the study to include a cost estimate for a multiplier increase for future years of service, in addition to the cost for all years of service.

Mike Lynch made a motion to authorize the actuary to produce a cost estimate for a multiplier increase to 4%, the cost of the study not to exceed $2,000. Raymond Snow seconded the motion, approved by the Board 4-0.

Mr. Wearn asked for additional background regarding the request for the increase in the multiplier. George Frick explained that a prior change to the multiplier in 2001 excluded members now in the DROP, dividing the department. Furthermore, the West Palm Beach Firefighters Pension Fund recently adopted a 4% multiplier, so the benefit provisions for the Police Officers' Retirement System were no longer as competitive by comparison. Mike Lynch commented that many retired officers, even those currently in the DROP, would need a second job during retirement to make ends meet.

The Division of Retirement provided an opinion when the multiplier increased to 3.25% in 2001 that the Retirement System could not include members already in the DROP. Mr. Baur stated that many public pension plans had since enacted benefit changes that did include members in the DROP by defining all members of the plan employed on or after a certain date as eligible for the benefit. Mr. Wearn requested that the administrator obtain clarification on the matter from the Division of Retirement before authorizing the study by the actuary. So as not to delay the process, the actuary will begin work on the cost estimate once the administrator receives confirmation from the Division of Retirement that a benefit change can include members of the DROP.

James Wearn made a motion to amend the original motion authorizing the cost estimate for the multiplier increase, first requiring clarification from the Division of Retirement regarding the members in the DROP. Raymond Snow seconded the motion, approved by the Trustees 4-0.

XIII. ATTORNEY REPORT

John McCracken reported that the ordinance submitted to the Town Council for the purchase of prior qualifying service credit passed on the first reading in July and the second reading on August 10. The benefit modifications approved in Ordinance 17-04 and 19-04 were both incorporated into the restated ordinance for the division of the

Public Safety Retirement System. The Town Council approved the Ordinance adopting the split at the second reading on September 30, with an October 1 effective date.

The Trustees asked a question regarding the vesting status for members purchasing prior qualifying service credit, since the ordinance does not allow members with between 5 years and 10 years of service to buyback time. John McCracken explained that a member that purchases time could receive a refund of contributions if separating from service prior to vesting. Members with more than 10 years of service are not eligible for a refund of contributions, since those members are entitled to benefits under the plan. Mike Lynch wanted to know why members never received the option to buyback time previously. The Pension Resource Center, the new plan administrator, is obtaining a calculation system from the actuary to provide accurate cost estimates to the members requesting information on the buyback.

XIV. ADMINISTRATOR REPORT

A. Signature Authorizations and Account Agreements
B. Fiduciary Liability Insurance
C. Accounting Controls & Procedures

Mr. Baur presented the Trustees with checking account agreements with Fidelity Federal Savings and Loan to open a new account on behalf of the Police Officers' Retirement System. He reported that, while the Pension Resource Center handles accounts with many banking institutions, Fidelity Federal currently provides checking accounts on special arrangement with interest credited at the federal overnight home loan rate and no fees.

James Wearn made a motion to execute the signature authorizations for the new checking account for the Police Officers' Retirement System. Mike Lynch seconded the motion, approved by the Board 4-0.

Mr. Baur then reported that Traveler's, the carrier for the Fiduciary Liability Insurance purchased by the Palm Beach Public Safety Retirement System, continued to cover both new Boards until the expiration of the existing policy. He will provide quotes and options for the January 1 renewal at the meeting scheduled for November 11.

Mr. Baur also noted that the incumbency agreement and signature authorization for State Street required the Pension Resource Center to initiate transactions on behalf of the Board, with the Town acting as a verifier for such instructions. He briefly explained the accounting controls and procedures in place.

XV. BENEFIT APPLICATIONS

The administrator had no current benefit applications for approval by the Board.

XVI. OTHER BUSINESS

George Frick reported that the administrator put an incorrect cell phone number on a contact list provided to the Board. Mr. McCracken suggested that the Pension Resource Center provide a brief overview of Chapter 185 Florida Statutes for the Trustees at the next meeting of the Board. The Trustees briefly discussed the date for the next quarterly meeting, since the Town Hall would ordinarily be closed on Veteran's Day. Mr. Baur will make arrangements to have the building open for the meeting. The Board also requested that the agenda include a report on items addressed from the previous meeting.

XVII. ADJOURNMENT

There being no further business, James Wearn made a motion to adjourn the meeting and seconded by Raymond Snow. Chairman George Frick adjourned the meeting at 12:14 PM.

Approved: ________________________________