MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM POLICE OFFICER BOARD OF TRUSTEES MEETING OF AUGUST 24, 2010

I Call to Order

Chairman Snow called the meeting to order at 9:02 a.m. at Town Chambers, 360 South County Road, Palm Beach, FL. 33480. Chairman Snow noted that Mr. Goldsmith had called to let him know that he would be out of town, and that he will not attend the day's meeting. He noted that all other members are in attendance.

In Attendance:

TRUSTEES:	ALSO PRESENT:
Ray Snow, Chairman	William P. Hanes, Pension Administrator
Detective Michael Lynch	Bob Klausner, Klausner & Kaufman
Sergeant Chris Proscia	Alexia Varga , Nowlen,Holt & Miner
James McC. Wearn	Sean Higman, Prime Buchholz

II. Approval of Agenda

Mr. Lynch moved that the agenda be approved. Mr. Proscia seconded the motion. The trustees unanimously approved the agenda.

III. Comments by Trustees

Mr. Lynch announced that Police Officer Joshua Faller had been involved in a serious automobile accident and is in serious condition. He discussed that the Fraternal Order of Police had set up an assistance program with Wachovia Bank and is accepting donations.

Mr. Wearn asked how it came about that there was a change in the August board meeting. Mr. Lynch stated that he had requested the change in date for the current meeting because of the Sergeant's examination that he had been scheduled to take was in conflict with the regular meeting date. Mr. Wearn asked if a change in the meeting schedule had been considered for November 11, 2010, which falls on Veteran's Day. Chairman Snow answered that it had been considered, and noted that the board had met at prior Veterans Days and in each case the trustees would observe a moment of silence. He stated that even though the Town is typically closed on that day, it has made meeting facilities available for a meeting. He discussed that he would be open for change if the majority wished to do so. Mr. Wearn stated that Veterans Day is a State of Florida as well as a Federal holiday, and it is at least as important to cause a change in schedule as a Sergeant's examination, and stated his statement is not intended to diminish the merit of the Sergeant's examination. He stated he felt it to be important for staff and this board to have a day of recognition on Veteran's Day, and that in his view having a moment of silence is insufficient for that purpose.

Mr. Wearn made the motion that the board reschedule the quarterly board meeting in November to a date that is not a legal recognized holiday. Mr. Lynch seconded the motion. The trustees unanimously adopted the motion.

Chairman Snow noted the passing of former Chief of Police Joseph Michael Gaffney.

Chairman Snow noted a memorandum prepared by Town Finance Director Jane Struder providing an update on investment performance for the quarter ending June 30, 2010, and brought to the attention of the trustees the one, three, five and ten year performance numbers for the three retirement plans. He particularly noted that over the ten year period the Police Board's number was 3.2% annual rate of return, while the Firefighters Board were at 3.1%, and the General Employees Board were at 2.6%.

Chairman Snow stated that Town Council usually will call the three retirement plan chairmen to provide an annual report in June of each year, but the presentations have been pushed to the September 14, 2010 Town Council meeting.

Chairman Snow circulated two investment related articles that he thought would be of interest to the trustees. He discussed the first article to be an article from the New York Times about the deleveraging cycle that has been occurring over the past two years. He said that to return to the status quo, or before the housing boom, it would take five more years of deleveraging at the current rate. He stated there to be a growing body of opinion that we will be stuck in this low return, low inflation, low growth environment for several more years. He stated that it seems to be more difficult for the board's consultant to advise trustees, and more difficult for the trustees to deal with it. The second publication related to a focus on municipal bonds and municipal finance. He referred to a section that discussed how municipalities and states were changing retirement plans in 2010. He stated that the board brought these concerns to Town

Council's attention over a year ago, and he stated that it is the trustees fiduciary responsibility to not only run the fund the best we can, but to advise the Town Council about issues that pertain to the board's duties to administer the plan.

Chairman Snow discussed that Mr. Hanes had been the administrator for over two years. He said he recently reviewed the contract Mr. Hanes entered into with the board at the time of his engagement, and he thought it appropriate to ask Mr. Hanes to review with him his accomplishments during that period. He reminded the board of the shift in the model the board made in 2008 over the intense lack of confidence and dissatisfaction with the firm providing the prior administrative services. He stated that Mr. Hanes's engagement began on April 15, 2008 and the immediate charge was to stabilize the functions, monitor expenses, and provide services to active and retired members. Chairman Snow discussed other duties that were attached to the contract. He stated that he believes that Mr. Hanes has accomplished each of these assignments, and has corrected numerous of the prior administrator's errors. He stated that Mr. Hanes has brought several policies and procedures up to date, and has instituted benefits counseling. He stated that Mr. Hanes has brought a wealth of information through his many contacts around the country, and particularly with the National Association of State Retirement Administrators (NASRA). Chairman Snow stated that it is his intention to bring a summary of this to Town Council when he presents the board's report, and to work with Fire Board Chairman Wilbur Ross to suggest that the Fire board take a similar exercise. He stated that he believes it is the obligation of the board to periodically review the administrator's services, and to go through the appendix of the administrator's duties, and that Mr. Hanes and his associate, Ms. Duvall, should be commended for their work under the model that the boards adopted in 2008. He said that he felt it is something that the boards should continue to monitor, and that he intends to discuss with Chairman Ross to see how they want to proceed.

Mr. Wearn recommended that the process that was established by the Town with regard to Town Manager Mr. Peter Elwell be reviewed and considered for Board adoption in the future and suggested that Chairman Snow review that process with Mr. Elwell.

IV. Approval of Minutes: May 13, 2010

Mr. Wearn moved to approve the minutes of May 13, 2009. Mr. Proscia seconded the motion. The trustees unanimously adopted the motion.

V. Financial Report

Ms. Alexia Varga presented the June 30, 2010 quarterly unaudited financial report. She noted that the net assets in the plan stood at $52,280,980 at the end of the quarter. Mr. Hanes noted that a check had been received from the state Department of Retirement representing the State Chapter 185 subsidy for $211,524.38, which has been deposited to the Police account at Wachovia. Ms. Varga discussed changes in plan net assets ending June 30, 2010, that has resulted in a net decrease in assets of $284,205 from October 1, 2009. Ms. Varga discussed the detail of expenses, and that total expenses since October 1, 2009 represent $325,966.

Mr. Wearn made the motion to accept the report and to file it for audit. Mr. Proscia seconded the motion. The trustees unanimously adopted the motion.

VI. GASB and Board approved assumptions:

Mr. Randy Dziubek, GRS, presented a report to the trustees by telephone regarding matters of the Governmental Accounting Standards Board (GASB) preliminary view.

Mr. Dziubek discussed highlights of the preliminary view. He discussed that the preliminary view applies to the balance sheets of public employers, and in itself does not impact issues of funding. He stated that GASB believes the plan's unfunded liability should be accurately stated on the employer's balance sheet.

Mr. Dziubek discussed that the plan's liability would be calculated differently than the way it is done with the actuarial report. He stated the key difference to be that a discount rate, representing a blend of the long term rate (8% for the plan) and a lower municipal bond rate, would be used, and would increase the stated unfunded liability.

Mr. Dziubek stated that the GASB preliminary view would use market valuation of assets to measure the unfunded liability. He stated that this valuation method could cause significant increase in the unfunded liability booked on the employer's balance sheets.

Mr. Hanes discussed that in his experience with GASB 43 and 45 in Kentucky, the bond rating agencies did not seem to be concerned over the absence of immediate change, but were more concerned with plan progress toward compliance.

Mr. Hanes stated that he learned recently that based on a survey provided by NASRA, approximately 40% of the state plans do not pay more than 90% of the actuarial required contribution (ARC). He stated that he has discussed matters of the lower discount rate with a few actuaries, and that it appears that GASB is attempting to tell those plans that have a history of not paying the full ARC rate, that the new GASB reporting will require reporting at a lower discount rate. He stated that it would seem that since the Town of Palm Beach plans have never not paid the ARC, that the blending of rates would not apply.

Mr. Higman stated that GASB statements lag FASB statements, and the FASB change similar to what is being proposed by GASB caused significant volatility in the private sector, which was a strong reason for ending defined benefit plans in the private sector.

Mr. Dziubek discussed matters of how the GASB preliminary views were to expense based on the remaining service for the membership, and would require reporting of a shorter amortization and higher expenses than what is currently funded through the actuarial report. He discussed that if the plan experiences a more than 15% annual loss in market value of the assets, then the amount exceeding the 15% corridor would be recognized, and not smoothed. He stated that unlike the 20% corridor that currently is a process of asset smoothing with the Palm Beach plans, where the recognized loss for that year is smoothed over a 30 year amortized period, the preliminary view with GASB would have the loss above the corridor to be immediately recognized and reported as part of the pension expense.

Mr. Dziubek stated that the GASB preliminary view is in a comment period, and that interested parties are encouraged to submit comments by September 17, 2010. He said that public hearings are scheduled in October of this year, and that GASB plans to have an exposure draft by the second quarter of 2011 with the final standard adopted approximately a year later.

Mr. Wearn asked if the matter has been discussed with the Town Finance Director, Town Manager and Town Council or if they have been otherwise informed? He stated his concern is that it looks like this is on line for implementation, and the Town may have long term plans for capital improvements that may be affected by the proposed change in the Town's balance sheet.

Mr. Hanes stated that he knows that the Town is aware of the GASB issues. He stated that the Firefighter Board of Trustees met last week and heard the same presentation, and directed that the Town Council and Mayor be sent a message from that board to consider making comments to GASB before the September 17, 2010 deadline for comments.

Mr. Wearn requested that Chairman Snow address a letter to the Town Council and Town Manager, with a copy to the Finance Director submitting that the preliminary view has been presented to this board by Gabriel, Roeder and Smith, and to provide an overview of the importance of the changes.

Mr. Snow stated that through Mr. Hanes's contact in the industry, he and Mr. Hanes listened to a conference call by another actuarial firm on this topic a couple of weeks ago, and acquired additional handout information of the presentation that will be added to what the Town receives.

Mr. Klausner stated that several national organizations are making comments in opposition, including the Governmental Finance Officer's Association (GFOA) and other national pension associations.

VII. Investment Report.

Mr. Higman provided the investment report to the board. He spoke from the most recent July 31, 2010 investment report. He discussed matters of the markets, and stated that he expected greater future intra-day volatility. He stated that uncertainty creates the volatility. He stated that the financial regulation introduced much uncertainty in the markets. He mentioned that the activity going on in Europe and in the PIG countries (Portugal, Ireland, Italy, Greece, and Spain) and the increasing risk on their sovereign debt also creates uncertainty in the markets. He stated that the EU created a rescue plan that was able to calm nerves over the near term, but that the market is wanting more certainty over less certainty, and doesn't need to know the results, but only what the rules are.

Mr. Higman stated that the markets rebounded in July with a 7% S&P 500 return. He said the non-US markets rebounded even more, at the 9 to 10 percent level. He stated the economy is predicted to grow no more than 2% over the next few years, and that does not indicate that it will absorb jobs in any meaningful manner for the next few years. He stated that we can expect lower interest rates and lower growth until that slack in the economy changes. He stated the climate will provide opportunities for active managers to take advantage of the volatility in trading; that several of the plan's active managers should be able to take advantage of the climate; and that our portfolio is well positioned.

Mr. Higman discussed the July 31, 2010 fiscal year to date, 2010 calendar year to date, and the one year performance ending Juy, 31, 2010 for each class of assets held in the portfolio. He stated that on a fiscal year basis the plan is up by 4.7% net of fees and on a calendar year the plan is up by 1.1%, but that the plan is up 9.1% on a one year basis.

Mr. Higman stated that the portfolio is experiencing very good performance against the benchmarks. He stated that the performance by the active managers is doing well considering a recent publication that indicates that 2/3 of active managers are not making their benchmarks and that quality stocks have not been rewarded. He noted that CRM has been behind its benchmark, but that they believe CRM will do fine when the market reverts and starts to reward the higher quality stocks. He stated that Artisan is also a victim in the same way as CRM.

Mr. Higman discussed that the total "flexible class" performed handsomely during the down market as did the fixed income over the same period. He discussed that the convertibles in the fixed income portfolio will experience more volatility, and are less correlated to bond performance than stock performance. He stated that over time the board can expect a premium return for that volatility. He noted that over the short term IRM has suffered in hitting their benchmark. Mr. Higman discussed that the real asset class performance has been heavily influenced by staying with Wellington, who has earned back losses from when the plan first started with them. He discussed that in 2008 there was a collapse in the commodities space, and that the space has rebounded nicely. He discussed that the lower performance in the class is related to Guggenheim, and that Guggenhiem recently distributed about 25% of the plan account. He stated Guggenheim is trying to manage their way out of one of the worst real asset downturns in our lifetimes, while trying to do a good job returning monies from those clients requesting redemptions, and not damaging the portfolio for other investors.

Mr. Wearn asked Mr. Higman about the decision to make the Guggenheim redemption once it was known. Mr. Higman discussed that it occurred after the last board meeting; that Prime Buchholz recommended that the board take the redemption; and he had conferred with Chairman Snow for approval.

Chairman Snow made several remarks from the Prime Buchholz publication regarding the macro-economic environment. He asked that if the plan is hedged so significantly for inflation and deflation, how is the plan to achieve an 8% total return? Mr. Higman stated that the practice is to have a asset liability workshop every two years when the same question is examined. He stated that the engine for the returns is with the long only global equities as well as the flexible capital portion in combination. He stated that the fixed income portion serves as the insurance policy, or the hedge to deflation, and sometimes creates a drag to returns. However, Prime Buchholz expects the fixed income to return 5 to 5 1/2 % over time. He stated that the inflation hedges in the portfolio is expected to be about 8% over time and that Prime Buchholz continues to look at the assumptions and do asset allocation once every two years.

Mr. Hanes asked Mr. Higman about the recent regulations over hedge funds. Mr. Higman stated that the regulations are a big concern for hedge funds.

Chairman Snow noted a favorable indicator for emerging market bonds, and asked Mr. Higman if he believes there is anything the plan should do to take advantage of that asset strategy to achieve more portfolio alpha. Mr. Higman responded by saying that they would look at the value of making investment with non-US currencies, but that the restrictions of non-US probably makes it better to gain the exposure of non-US through the hedge funds. He stated that he would be willing to look at investment to non-US currencies when the board reviews the next asset allocation models.

VIII. Attorney's Report

Mr. Robert Klausner provided the attorney report to the trustees. Mr. Klausner discussed a matter of an overpayment made to a survivor account by the prior administrator. He discussed the matter of the board's legal duty toward the overpayment. He stated that the board does not have discretion, and the board should correct the error by adjusting the payment downward for payments going forward.

Mr. Klausner recommended that the survivor meet with the administrator and that the facts and circumstances be explained. He stated that there is not enough time to do anything regarding the current payroll, but the September payroll should reduce the benefit payment.

Mr. Klausner advised that the anti-alienation law in Florida statute would not allow the board to use self-help to recoup involuntarily from the beneficiaries future payments. However, he did state that the board could ask the beneficiary for payment to recoup the overpayment. He discussed that the board could file in court, but that the beneficiary-defendant would have a very strong defense in estoppel.

Mr. Klausner opined that the board does not have any liability as long as the person is provided notice and the payment is fixed going forward. He stated that the matter of recovery is a business judgment to the board, and that if the board does file suit, it will cost money.

Mr. Klausner recommended that the board first put prior administrator Pension Resource Center on notice for what we know and ask them to notify their insurance company. He stated the second thing that should be done is that the board notify the survivor, discuss the facts and circumstances, and see what her willingness is to repay. Mr. Klausner stated that he will write the letter and send to Pension Resource Center. Mr. Klausner noted that the administrator has audited all other beneficiary files from the time of the former administrator's tenure and that there are no other overpayments that have been found.

Mr. Klausner stated that the first step would be for him to contact Pension Resource Center to see if they will pay, or maybe they pay half, but that he would prefer to start with the deeper pocket.

Mr. Wearn stated he thought the analysis by counsel is good. He stated he believes that the board should go after Pension Resource Center, by giving them notice and asking that they notify their carrier, but also to request that they provide us the coverage they have. He stated it is appropriate to bring in the survivor to have a face to face understanding of the mistake and how it effects her going forward. He proposed the board should make the request from her to pay a refund to be taken from each of her pension payments going forward until the overpayment is satisfied. He suggested that the board provide documentation for her to do it. He expressed his concern about the litigation cost, but believed the board must balance it with their fiduciary duties. He stated that if the board were to be successful in receiving some or all of the recoupment from the former administrator or carrier, that it would offset the debt owed by the survivor. Mr. Wearn stated that it should be voluntary for her to agree to recoupment.

Mr. Lynch asked if it is possible to find out how much coverage is held by Pension Resource Center before pursuing the beneficiary. He noted that the reduction will be drastic. He discussed that while we have a fiduciary responsibility, we also have a moral responsibility, and it will cause a lot of hardship. He stated we should go after Pension Resource Center as hard as we can, and then we can see if the beneficiary will take responsibility for what we do not recover. Mr. Klausner stated that he will call Scott Baur and see what he says.

Mr. Wearn made the motion to accept the recommendation of legal counsel to provide Pension Resource Center the appropriate notice and to pursue full recovery from Pension Resource Center while simultaneously notifying the survivor by letter to come in for a review of the error and the correction to understand what it will mean to her, and at that time to seek reasonable recoupment according to whatever financial circumstances the administrator is able to determine she has, and her ability as a result of those circumstances, and to have paper work available so that she can voluntarily sign if she chooses to do so. Mr. Lynch seconded the motion.

Mr. Proscia expressed that the board should pursue recovery from Pension Resource Center, and felt that the spouse did not understand what she is entitled, and he would like the board's involvement to be with recovery with Pension Resource Center, and that the Board eat what it does not recover from Pension Resource Center.

Mr. Klausner clarified the consensus on the board to be that the administrator only offer, but that the beneficiary would need to fully volunteer to further reduction or recoupment before it would be done.

Mr. Hanes discussed that the letter Mr. Klausner is to provide should also spell out her right to due processes.

Mr. Wearn stated he does understand the sensitivity, but that he feels the board has a fiduciary duty to make the voluntary request.

The Trustee unanimously adopted the motion.

Chairman Snow asked that he go out of order of the agenda before Mr. Higman left the meeting, and discussed with the trustees an appropriate time for the November board meeting. The trustees decided that it would prefer to meet on November 18, 2010 in Town Council Chambers.

Mr. Klausner discussed the proposed election policy. He discussed that a correction needed to be made to the Town Code to allow for transition to two year staggering terms of office.

Mr. Hanes discussed that the Town received first reading to a corrective Town ordinance in August, and he anticipated passage in September. He discussed that the the Town appointments are scheduled to be made at the October 16, 2010 Town Council meeting. Likewise, Mr. Hanes discussed that since the state of Florida is a holdover jurisdiction, the election or appointments will not need to be made by October 1, but that the goal might be to try to have all appointments and elections completed by November 1, 2010 so that all trustees could be sworn in by the November 18, 2010 board meeting.

Mr. Klausner discussed that the election of positions will need to be by lot, and that one position will serve an initial one year term office, while the other position will need to be selected to serve a regular two year term of office. Mr. Lynch and Mr. Proscia agreed, as did the board without motion, that Mr. Lynch's position will serve for a two year term while Mr. Proscia's position will serve a one year term beginning October 1, 2010.

Mr. Wearn made the motion to adopt the Rules of Procedure for the election of trustees as distributed. Mr. Lynch seconded the motion. The trustees unanimously adopted the motion.

Mr. Hanes thanked Mr. Wearn for his assistance in the drafting of the Rules of Procedure.

Mr. Klausner stated that he felt that notice for the election by the trustees for a 5th trustee has been satisfied, and that the trustees could elect a 5th trustee to begin office beginning the term of October 1, 2010.

Mr. Lynch made the motion to reelect Mr. Gerald Goldsmith as 5th trustee to begin term of office on October 1, 2010. Mr. Wearn seconded the motion. Mr. Wearn asked that the motion be amended to waive the time allowances within the rules of procedure to effect the transition of the 5th trustee in implementation. The trustees unanimously adopted the motion with amendment.

Mr. Wearn made the motion that in order to implement in transition the rules of procedure that the time limits be waived, but to apply whatever time limits that may be applied so that the two appointed and two elected trustees can be seated

at the earliest practical date. Mr. Lynch seconded the motion. The trustees unanimously adopted the motion.

Mr. Lynch inquired of Mr. Klausner matters of the responsibilities of trustees in regarding the collective bargaining process. He disclose that he serves both the board of trustees and is a member of the collective bargaining negotiating board. He stated that while serving this board, he has not acted as a negotiating member. He noted for the record that there are members that are not negotiating members that the trustees of this board do represent. He stated that there are questions and concerns they have that he believes should be answered. He stated that he believes it is our responsibility to bring these issues to these meetings.

Mr. Klausner stated that the board of trustees has no role in collective bargaining. He stated that bargaining is between labor organizations and employers, and that trustees of the board are neither. Mr. Klausner stated that likewise, the setting of assumptions can not be a product of negotiations. He stated that if the negotiations resulted in upending otherwise constitutionally protected concerns, then as trustees you are concerned.

Mr. Lynch asked Mr. Klausner if the Town were to pass an ordinance that was unconstitutional or violated state law, is the board bound to follow it? Mr. Klausner stated that if the Town passed a law that was unconstitutional or invaded your duties, then he would ask the board to file an action for declaratory relief in the Circuit Court in Palm Beach County. He stated that there is a state law specifically for that purpose.

IX. Election Policy

The matters of the election policy were discussed at item VIII.

X. Administrator's Report

Mr. Hanes presented matters of the administrator's report. He discussed a request made by Mr. Brad Armstrong to provide the Town staff updated information regarding the Police Officer's plan. Mr. Hanes noted that by contract the actuary must receive approval from the board to do so. Mr. Wearn asked if we knew what the cost will be.

Mr. Hanes stated that the Town has not provided a cost. Mr. Hanes informed the trustees that the Town has agreed to pay the actuary for the service. Mr. Hanes stated that he had requested from the Finance Director a summary of the request. He stated that the Town has indicated they would not provide the summary. Mr. Wearn stated that he would agree if there is a cap of $10,000.

Mr. Lynch stated that he believed that at a previous meeting of the board that Mr. Armstrong stated he would tell the board about any request made by the Town. Mr. Hanes discussed that the Town is a client of Mr. Armstrong, and that Mr. Armstrong probably will not provide information about this request.

Mr. Klausner stated that he would think the information to be public record, unless the information is being collected relative to collective bargaining strategy.

Mr. Wearn made the motion to authorize the actuary to perform actuarial service for the Town for an amount not to exceed $10,000 with the understanding that the Town will pay the actuary directly for the services for matters related to Police Officers. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

Mr. Wearn moved to approve a $50 per quarter increase in the fee charged by Gabriel, Roeder, Smith for the actuarial serviced performed for the board. Mr. Lynch seconded the motion. The trustees unanimously agreed to the motion.

Mr. Hanes reported that the report to the state Department of Retirement had been accepted by the state Department of Retirement, and that payment has been received and deposited in the amount of $211,524.

Mr. Hanes stated that Chairman Snow will report to the Town Council at the September 14, 2010 meeting on matters of the Police Officer Retirement Board.

Mr. Hanes stated that the candidates for the appointment of trustee will have until September 30, 2010 to make application.

XI Disbursements

Mr. Hanes provided the report on disbursements. Mr. Wearn raised an issue of three checks. Mr. Hanes stated that it represented a beneficiary that would not deposit checks, and that it was agreed with the accounting firm to place a stop payment and have the checks reissued. The trustees discussed.

Mr. Wearn made the motion that the board approve the list of disbursements and to file it for audit. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

XII Retirement/Benefits

Mr. Wearn made the motion to approve the termination of DROP by Captain James Dean. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

XIII. Other Business.

Mr. Hanes stated that the administrator has provided a report on DROP participants as a matter of audit. He stated that the Town of Palm Beach code provides that a DROP participation shall not exceed a five year period, nor shall it exceed ten years from the date of eligibility. He stated that he will plan to include this as a regular quarterly agenda item.

XVI Adjournment

Mr. Lynch made the motion to adjourn. Mr. Wearn seconded the motion. The trustees unanimously adopted the motion.

Attested by: William P. [signature] **Date** 11/18/2010

Secretary: [signature] **Date** 11/18/10