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TOWN OF PALM BEACH
MINUTES OF RETIREMENT BOARD MEETING
Friday, August 15, 1997

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Harvey at 9:05 A.M. on Friday, August 15, 1997 in the Town Hall Council Chambers. Attending were Chairman Robert Harvey, Vice-Chairman James McCartney Wearn, Trustees John DeIorio, George Frick, Karen Lane, Charles Boggs, Mayor Paul Ilyinsky, Council President Lesly Smith, and Town Manager Robert Doney. Also in attendance were Town Clerk Mary A. Pollitt, Plan Administrator William C. Crouse, Finance Director James Demming, Assistant to the Finance Director Cheryl Somers, and Attorney John McCracken.

II. APPROVAL OF AGENDA

Chairman Harvey asked if there were any changes to the agenda. Mr. Frick requested to switch the order of Items VI and VII. The change was approved.

III. APPROVAL OF MINUTES OF REGULAR MEETING OF MAY 16,1997

Mr. Boggs moved to accept the minutes for the Regular Meeting of May 16, 1997. Mr. Frick seconded the motion. The motion passed unanimously.

IV. REPORT ON ELECTION TO RETIREMENT BOARD OF TRUSTEES

A. General Employee Representative

Mr. Crouse reported on the election results for the General Employee representative to the Retirement Board of Trustees. He explained that Karen Lane was re-elected to the Retirement Board. Mr. Crouse then submitted the results of the election to the Retirement Board for the appointment of Karen Lane as the General Employee/Public Works representative to the Town of Palm Beach Retirement Board of Trustees for a four year term.

V. QUARTERLY REPORTS

A. Callan Associates, Inc.

Carl Deane of Callan Associates appeared before the Retirement Board of Trustees to provide a quarterly report. Using page one of the presented brochure, Mr. Deane described the market environment, pointing out that "equities was the place to be, in most cases." Mr. Deane explained the bar chart on page one demonstrated that the S&P 500 outperformed two-thirds of the active managers and had been the driving performance where almost all the money had been made over the last twelve months. He explained that the S&P 500 had a 35% return while the typical managers had a 30% return. Mr. Deane further explained that the performance of bonds was shown on page three, page seven showed actual returns versus targeted returns, and page eight gave the performance for the Total Fund relative to that of the Public Plan Sponsor Database for the last year. He explained that the Total Fund did not have a good year relative to the other funds. Mr. Deane then reported on page fourteen, which covered the T-Bond Account and showed that the Account was doing exactly what it was set up to do, with the rate of return having been about 6.5% per year for the last five years. Mr. Deane reviewed Roanoke Asset Management, which had at the last quarter about 54% in fixed income and 38% in equities and 8% in cash. He stated that Roanoke's performance was quite poor for last year, as shown on Appendix page 30, with a return of only 1.28% for the last year, and a total fund return of only 1.2%. He stated that it had not been a good time period for Roanoke. Mr. Deane explained that Roanoke's equity portfolio was compared on Appendix page 34 with the middle capitalization companies which demonstrated the problem for the last year. He explained that Ronanoke's fixed income portfolio shown on the next page underperformed but had a much tighter spread of returns. He summarized by saying that Roanoke's equity portfolio was really damaging to their asset pool and damaging to the total fund.

Mr. Deane then reported that the Loomis, Sayles contribution was shown on Appendix page 19, and was found to be more competitive because they were heavier in Fixed-Income and lower in cash than Roanoke, but had 39% in Equities. He explained that Loomis, Sayles also had a tough quarter with a 7.8% rate of return. Mr. Deane stated that their equity portfolio for the quarter, shown on Appendix page 23, was a bit above average with a 15.3% rate of return. He further explained that Loomis, Sayles' bond portfolio, shown on Appendix page 25, was above average for the quarter and was about average for the last two and quarter years. He stated that their total fund was below median but their equities and bond portfolio were at or above the median, which demonstrated that the asset mix was conservative.

In closing, Mr. Deane pointed out that the last two pages gave the Investment Objectives for the Total Plan, Equity Portfolios, Fixed Income Portfolio, Balanced Managers, and Index Fund, which showed that Palm Beach was meeting or exceeding its median range goals.

B. Roanoke Asset Management

Ed Vroom of Roanoke Asset Management began his presentation by recapping the information presented earlier by Mr. Deane. Using the charts in the distributed brochures, Mr. Vroom reviewed the strengths and difficulties of the performances of Fixed Income and Equities. Mr. Vroom used the chart on page 7 to show the difficulties Roanoke had in the market the past quarter, and stated that looking at the Portfolio Fundamentals on page 8 and the characteristics of the Equity Portfolio on page 11 gave confidence for future performance. He reported that the Fixed Income Portfolio profile was given on page 13. Mr. Vroom summarized by stating that it had been a difficult two quarters, but Roanoke had experienced this before, and as there were no fundamental weaknesses in the Portfolio, the underlying earnings growth remained very strong and future growth looked positive.

C. First Union Bank

Sandra Fleming of First Union Bank began her presentation by directing the Board to turn to the Treasury Bond Portfolio Performance at Tab I which demonstrated that First Union had obtained the goals set by the Board. She explained the charts showing Asset Allocation, Schedule of Bond Maturities, Maturity Schedule, and the Trend of Market Values, and explained that the charts following Tab II could be perused by the Board at their leisure. Ms. Fleming opened the floor to questions. Mr. Harvey clarified that on the rebalancing as of June 30th, funds of $1.3 million flowed to First Union and also to Roanoke of $1.2 million from A&D Investment Management Index Account, which outperformed the other managers. Mr. Boggs asked if the last column on the Schedule of Bond Maturities was slightly larger than the rest. Ms. Fleming answered that each year was approximately the same, but it was difficult to show the difference in a chart and she tried to smooth each year's par value to be the same, which was approximating $2,575,000 coming due each year.

D. Loomis, Sayles and Company

Peter Van Beuren of Loomis, Sayles & Company began the presentation using Tab 2, page three as a financial market review to discuss the previous year's volatility and the powerhouse of the stock market. He explained that there had been a ten percent correction at the beginning of the year and another five percent correction since the end of July. He further explained that the swing was almost one and one half percent over all throughout this period, and it had been very difficult to anticipate all of this. Mr. Van Beuren further explained that there also seemed to be a rotation happening among the Blue Chip Stocks into the other disciplines, such as smaller mid-cap companies and cyclical and value companies. He explained that economic conditions remained attractive; however structural changes were now occurring which were coming about because of improved productivity, the newer manufacturing plants, the lost cost producers, the computer network systems, and other factors. Mr. Van Beuren stated that the future for financial assets was exciting and this was the position the Town of Palm Beach was in.

Mr. Van Beuren then turned the presentation over to Michael Harris, explaining that Mr. Harris was from the Detroit Office and was the Fixed Income/Equity Portfolio Manager. Mr. Harris reported on Tab 2, page four, the highlighted returns of the Equity Portfolio, and pointed out the differences between growth and value. He explained that the Bond Portfolio had been consistent, and the total Portfolio had been in line with the 60/40 split expected, with the exception of a slight cash reserve. Mr. Harris reported that Tab 3, page one showed that the Portfolio was almost fully invested with a total value invested of $24 million, cash reserves representing about 3.4% of the Portfolio, Fixed Income Portfolio at 57%, and the Equity Portfolio at 39.5%.

Mr. Harris discussed the letter written to Mr. Crouse regarding a request to modify the investment guidelines with respect to the Fixed Income Investments. He explained that the guidelines as of August required investments in the single A rating or higher. Mr. Harris stated that the proposal was to modify those guidelines to allow all investment graded bonds, "BBB" rated bonds and higher, to be included. He stated that background information for the request was provided along with the letter of request. There was acknowledgment of possible government legislation of the state which may restrict any possible changes.

Mr. Harvey stated that the Board would look at the proposed change to the investment guidelines. Mr. Harvey stated that it would be necessary to determine if the change could be made legally and then it must be determined if the Board wanted to do so. There was discussion as to the difficulty of holding just to AAA , AA, and A rated bonds.

VI. STATEMENT OF INVESTMENT POLICY

A. Approval of revisions recommended by Board of Trustees on 2/21/97(Continued from 5/16/97 meeting)

Mr. Deane reviewed the changes approved at the May meeting regarding the Statement of Investment Policy and recommended, with explanations, replacing item 7 under Balanced Investment Manager Responsibilities with the following:

> "All balanced managers will be measured against a target asset mix of 40% equities and 60% fixed-income. In order to allow the managers some reasonable flexibility and to contain costs, managers will be assigned a range of equity exposure from 37% to a maximum of 43%. However, once the individual manager attains a 40% level of equities, the manager will refrain from any further equity purchases (unless offset by matching sales.) If market action then increases the exposure to the maximum of 43%, the manager will reduce the exposure to at least the target of 40% by month end. The individual managers will be held responsible for compliance but will be monitored by the trustees."

Chairman Harvey opened the floor for discussion. Mr. Wearn had several comments concerning the proposed language and the rationale for including a low end of the range without direction for buying back into equities at that point. After general consensus, the suggested wording of item 7 under Balanced Investment Manager Responsibilities was amended to:

“All balanced managers will be measured against a target asset mix of 40% equities and 60% fixed-income. In order to allow the managers some reasonable flexibility and to contain costs, managers will be allowed equity exposure to a maximum of 43%. However, once the individual manager attains a 40% level of equities, the manager will refrain from any further equity purchases unless offset by matching sales. If market action then increases the exposure to or over the maximum of 43%, the manager will reduce the exposure to at least the target of 40% within thirty days from reaching or exceeding the 43% maximum. The individual managers will be held responsible for compliance but will be monitored by the trustees.”

Mr. Wearn moved to accept the replacement for item 7 under Balanced Investment Manager Responsibilities per the May 9, 1997 memorandum from Mr. Crouse with the recommended changes. Mayor Ilyinsky seconded the motion. The motion passed unanimously.

B. Report on Changes Recommended by Carl Deane of Callan Associates, Inc. (continued from 5/16/97 meeting)

Chairman Harvey asked Carl Deane of Callan Associates, Inc. to comment on the Quality Bonds, which had been brought up earlier in the meeting by Loomis and Sayles.

Mr. Deane stated that he wholeheartedly agreed with the assessment by Loomis and Sayles, especially in the inclusion of the top four ratings rather than just the three, and Mr. Deane added that the benchmark that is the comparison included bonds of those ratings. He stated that when the lowest ratings were doing the best, Loomis and Sayles were presently precluded from participating. Discussion regarding the request included that this would be fine for personal investment but a bit too risky for the Town; the differences in the different ratings and what they were; no “junk bonds” to be included in these ratings; and the increase of risk that was acceptable that would generate a higher rate of return. Mr. Deane volunteered to supply an illustration of the risk and return of Lehman Brothers Aggregate with and without the lower bonds so that the Board could evaluate for themselves if it would be worth the risk. Mr. Deane also mentioned that it was possible to show incremental risk returns visually of what 50%, 30% and 60% equities would do to the risk reward. He explained that BBB bonds were as low as Lehman Brothers went. Mr. Deane stated that he would also be willing to compare the risk return with and without the BBB bonds. Mr. Deane was asked to do so for the next meeting. Mr. Deane provided an explanation of junk bonds and explained what companies were involved in the different rating levels. The observation was made that the tightest leash the Board had was the asset allocation and though the BBB level bond was the lowest level mentioned, it had less risk than common stocks would have. There also was the question of legality, which was brought up by Mr. Harris. It was determined that Mr. McCracken would provide a legal opinion first to Mr. Deane and then to the Board at the next meeting. When asked, Mr. Deane said he felt that the Board should set the tone on what ratio they were comfortable with, as the Board was the responsible party. Mr. Deane then reported that he would also address risk adjusted return at the next meeting.

Capt. DeIorio stated that Mr. Wearn had with him the Statutes, Chapter 175 and 185, the

Firefighter and Police Officer Retirement Trust Fund Statutes. In those chapters it was stated that bonds of corporations must be organized in the United States (or the District of Columbia) and hold a rating of one of the three highest classifications of a major rating service, which answered the pending question. Mr. Deane was then asked to have all the managers check to see that all their bonds were corporations registered in the United States. Mr. Doney moved that the performance monitor be requested by letter to ask each investment manager to fully comply with the Florida Statute requirement cited by Mr. McCracken, and that Mr. Deane request a written response from each manager within a reasonable time period. After some discussion concerning who may make motions, the answer was found in The Code of Ordinances, Chapter 15, Sec. 15-39, in that the Town Manager is an ex officio member and could not make motions. Capt. DeIorio then so moved and Mr. Boggs seconded the motion. Mr. Deane asked if he may send them a copy of the Statute and tell them to please comply, and stated that he would also remind them of the domicile aspect. The motion passed unanimously.

VII. REPORT ON DROP PLAN

Mr. Crouse distributed materials concerning the DROP Plan and pointed out the minor changes which included the expanded definition of DROP, the deletion of the Employment-at-will clause, the interest credited to a member's DROP plan , and the inclusion of the Internal Revenue Code requirements. Mr. Crouse also included the legal opinion of Mr. McCracken that the DROP Plan did not violate the Age Discrimination in Employment Act.

Before she began her presentation, Denise Jones of Gabriel, Roeder, Smith and Company addressed the attorney, stating that he might wish to review the document because, as she was reviewing the document, she noticed a reference to a paragraph 16 which no longer existed. The reference she noticed was in paragraph 6, under DROP account, termination of membership, 6-c and 6-d and the proper reference should be 7. It also was noted that on the bottom of page 4, that 4-h should be 3-a.

Ms. Jones stated that she was asked to review the proposed Drop Ordinance Amendment and report on it. She stated that in the long run, the DROP Plan would not increase the cost to the pension plan if it was structured primarily in the same manner as the normal retirement benefits. Ms. Jones stated that the Bureau of Retirement believed that a DROP Plan would encourage members to retire earlier and consequently, any DROP Plan being reviewed by the State would be directed to have the actuary increase the probability of retirement to reflect the probable increases in those who retire earlier and elect the DROP Plan. Ms. Jones stated that the report assumed an average of an additional 5% of the members eligible to retire electing the DROP provision. Ms. Jones stated that some slight costs may be seen as a result of the DROP Plan, which may be offset by dropping the DROP benefits to a range of 90% to 95 %. Ms. Jones suggested that the Board review the Plan after a period of years to determine if there indeed was an increase in activity and then perhaps provide for an amended ordinance to reflect the actual activity of the plan. Ms. Jones stated that until the Plan was in place, it would be very difficult to present a report to the State without recognizing some higher probabilities of retirement.

Ms. Jones went over page two of the report, an outline of the provisions reviewed. She stated that there was no accurate way to measure DROP credits, and most plans credited fixed rates because it was easier. She again suggested that, after a few years, the Board review the rate and adjust the rate at that time if it needed adjusting. Ms. Jones then addressed the rate of interest and whether it should be the actual rate of return or a fixed rate. Ms. Jones commented that converting the account balance to a monthly benefit to enhance regular pension payments was not seen specifically in the Ordinance, but did not seem that it would have an impact. Ms. Jones asked for further clarification on that so that when the Plan was submitted to the State, she could reflect the benefit provisions accurately. Ms. Jones reported that page six of her report showed the probabilities of retirement that were used in costing out the DROP proposal, and that the costs of the current Plan provisions were shown on page four.

Ms. Jones was also asked to evaluate the impact of increasing the multiplier for the Police/Fire group to 3% after 25 years. Ms. Jones stated that those costs were shown on page 5, and resulted in an additional .2% of payroll. She stated that with the recent enactment of the Tax Bill, section 415 benefit limitations had been removed from the Code so now the dollar limits for the Police/Fire group were $125,000. She stated that the implication was that with a 3% multiplier, the members would more than likely exceed the maximum pension limitations provided by Section 415 of the Code; and for earlier retirements and limitations, the benefit would drop down to $70,000 a year. She explained that with a 3% benefit formula, it was likely that a member could exceed that $70,000 a year limitation. Ms. Jones stated that those reductions had been removed from the Code and now it appeared that the full limitation was $125,000.

Ms. Jones then addressed what effect “at will” versus “not at will” would have on the plan, and stated that there were none. She explained that the Board could choose the interest rate for the plan, and suggested 7% to 7.5%, if the assumed rate of return is 8%. She explained that this would allow for the administrative expenses that would result from a DROP Plan. She stated that crediting to the employees’ DROP account could be done on a month by month basis or once a year, whatever was easiest, except for the year that the employee decided to retire. She explained that this incident could be handled easily. Ms. Jones stated that there would probably be a lot of activity the first several years of the Plan, but the activity would lessen after it had been in place for a while.

There was general discussion concerning the advantages and disadvantages using the range of 90% to 95% reduction at the time of the election to DROP, 3% less the actual rate of return, and a fixed rate of return such as 7% or 7.5%. Ms. Jones stated that her best guess was that this would be an attractive option even with a reduction as it was not a large reduction compared with some other plans seen. Ms. Jones, in response to further questioning, stated that perhaps a combination of a reduction somewhere near 95% to 97% with a fixed rate in the area of 6% would be a good compromise to keep the Plan cost neutral and still be attractive to potential DROP Plan members.

Mr. Wearn requested that Denise Jones approach the State of Florida Division of Retirement and informally propose a compromise as suggested and see if it would be acceptable, and then report back at the next meeting. He also asked that the clarification she had suggested be incorporated into the plan so the Board would have a full understanding as to how to go forward with this.

Mr. Doney stated that it would be best if all sides of the issue were presented with all the pros and cons, as well as how it would benefit the employee groups and how it would benefit the Town, taking into consideration the newness of DROP Plans in general. Mr. Wearn asked how the Town Manager would suggest the Board go forward with an analysis of the pros and cons. Mr. Doney answered that at the next quarterly meeting, the different representatives of different employee groups could list from the perception of their specific employee groups the pros and cons of the now revised DROP Plan in a written report, and the Personnel Director and the Town Manager could provide a report to the Board from their unique perspectives as to the benefit for the Town along with information Ms. Jones would provide from her discussions with the State. He stated that the Board could then formulate the final recommendation to the Town Council.

Mr. Frick asked to see two packages, one with the 95% reduction and 5.5% interest rate, which was Ms. Jones' recommendation, and the other being the present package with the cost to the employee of .32%. He stated that he felt his people would prefer pay a third of a percent, which over ten years is three per cent, rather than lose three percent right up front the first year. Capt. DeIorio asked if the .32% for Police and the .34% for Fire would cover everything being talked about without a reduction to the benefit paid to the employee. Mr. Boggs stated that he preferred paying for this with a reduction in the rate of return. There was general discussion about which different options would be the best choice for the possible members of the DROP Plan.

After discussion, Mr. Frick moved that Denise Jones do an actuarial study showing what the reduction in benefits would be to keep the plan cost neutral, and approval of funding not to exceed $1,000 for this additional study. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

VIII. REPORT ON QUARTERLY EXPENDITURES

James Demming, Finance Director, presented the Town of Palm Beach Employees' Retirement System Cash Flow Projection for the period of time from August 1 to October 31, 1997. He explained that, based on the estimated expenses and anticipated employer contributions, there should be $250,000.00 available to transfer to investments. After discussion again on who may make motions, Mr. Boggs moved to accept the recommendation to transfer the funds to investments. Capt. DeIorio seconded the motion and the motion was approved unanimously.

IX. REQUEST FOR DUTY DISABILITY RETIREMENT

A. Diane Gale, Employee Group General

Mr. Crouse reported that Chief Terlizzese had requested that Ms. Gale, who was permanently injured in an accident two years ago while she was working as a parking control officer, be considered for disability retirement. He explained that there was ample evidence showing that Ms. Gale was totally and permanently disabled. Mayor Ilyinsky moved approval of duty disability retirement for Dianne Gale pending confirmation by William Crouse of two separate medical opinions that concur, to be effective upon such confirmation. Mr. Wearn seconded the motion, and all voting aye, the motion carried.

X. RETIREMENT APPLICATIONS

A. Jacquelyn Reedy, Town Clerk's Office, 10 years, 7 months

Mr. Crouse reported on the retirement application of Jackie Reedy, and stated that having met all the qualifications, Ms. Reedy had submitted her request for retirement. There being no discussion, Capt. DeIorio moved approval of the application for retirement of Jacquelyn Reedy. Mr. Boggs seconded the motion. The motion passed unanimously.

XI. ANY OTHER MATTERS

Mr. Wearn requested that the May, 1998 meeting be scheduled a week later so that he may attend the meeting. After discussion, it was decided that this would be determined at the November meeting.

Mr. McCracken clarified the issue regarding an ex officio member making motions, and stated that in the present Ordinance a five member quorum was required to pass a motion, and because there were only six elected members of the Board, it would be logical to assume that ex officio members may make motions and vote on issues.

XII. ADJOURNMENT

FUTURE RETIREMENT BOARD MEETINGS
February 20, 1998
May 15, 1998
August 21, 1998
November 20, 1998

There being no further business, the meeting was adjourned at 12:10 P.M.

Approved: ______________________________________
John DeIorio, Secretary