GENERAL EMPLOYEES RETIREMENT BOARD MEETING
Friday, August 12, 2005, 9:00 A.M.

I. CALL TO ORDER

The meeting of the General Employees Retirement Board was called to order by Chairman Robert Garvy at 9:00 a.m. on Friday, August 12, 2005, in the Town Hall Council Chambers. Attending were Chairman Robert Garvy, Vice Chairman Brett Madison, Trustees Jonathan Luscomb, James Karman, and Peter Elwell. Also in attendance were Board Attorney John McCracken, Jeanne Valcik from Callan Associates, Human Resources Director and Plan Administrator William Crouse, and Finance Director Jane Struder.

II. APPROVAL OF AGENDA

Mr. Garvy called for any changes or additions to the agenda submitted by the Plan Administrator. With no changes to report, Mr. Garvy stated that the agenda would stand approved.

III. APPROVAL OF MINUTES OF REGULAR MEETING OF MAY 13, 2005.

Mr. Garvy inquired if there were any comments or changes to the minutes of the Regular Meeting of May 13, 2005. There were none.

Mr. Madison moved approval of the minutes of May 13, 2005, Mr. Luscomb seconded. There was no further discussion, and the motion carried unanimously.

IV. RECOGNITION OF JAMES McCARTNEY WEARN

Mr. Garvy explained that Mr. Wearn had provided over fifteen years of service to the Town of Palm Beach's Fire, Police and General Employees Retirement Boards and was a key driver of efficient operations, commitment and professionalism. Mr. Garvy then presented Mr. Wearn with a certificate and gift on behalf of the General Employee's Retirement Board. Mr. Wearn explained that it was his honor and pleasure to have served as a member of the Retirement Boards. Mr. Garvy thanked Mr. Wearn. Mr. Wearn exited the Council Chambers.

Mr. Garvy thanked Mr. Crouse for selecting Mr. Wearn's recognition gift and certificate.

V. ADMINISTRATOR'S REPORT

Mr. Crouse reported that there had been two employees who had elected the Deferred Retirement Option Program (DROP) and two who chose retirement. He advised that Janet Kinsella, who worked for the Police Department for over twenty-four years, had elected the DROP, as well as, Mr. Paul Barten who worked with the Public Works Department for over ten years and had met the age requirement for retirement. Mr. Crouse reported that the two employees who chose retirement were Linda Dinolfo, who worked with the Police Department for over twelve years and had met the age requirement, and Leslie Shields, who for thirteen years also worked with the Police Department. Mr. Crouse explained that Mrs. Shields had not met the full conditions for retirement and, as a result, had decided to defer her retirement until she reached the appropriate qualifying age in August of 2014.

Mr. Crouse explained the Florida Public Pension Trustees Association (FPPTA) conducted a number of Trustee Schools throughout the year and would be conducting a school in October of 2005 in St. Augustine, Florida. Mr. Crouse advised that any Board members who were interested in attending should contact Venice Powell in the Human Resources Department to make the arrangements. He explained that the training was divided into three classes: beginner, intermediate and advanced, and attendees were able to choose the class that best suit their needs.

Mr. Crouse reminded the Board that, due to the Veteran's Day holiday, the November meeting would not take place on the second Friday of the month as was customary, but would be held on Wednesday, November 9, 2005 in the Town Hall Council Chambers at 9 a.m. That announcement concluded Mr. Crouse's report. Mr. Garvy inquired if the Board members had any questions or comments regarding Mr. Crouse's report. With no statements or questions from the Board, Mr. Garvy thanked Mr. Crouse.

VI. QUARTERLY REPORTS

Ms. Valcik from Callan Associates presented to the Board. She referred the Board to page seven of the Callan handout and reviewed the actual versus the target asset allocation. Ms. Valcik explained that Domestic Equity was slightly over weighted. On page eight, Ms. Valcik pointed out the attribution for the quarter and advised that Roanoke Asset Management and Loomis Sayles and Company had added value with respect to Domestic Equity, while there was a loss on the Bond side. Ms. Valcik explained that the one year cumulative effect was 7.79%, which was closer to the actuarial target. On page ten Ms. Valcik pointed out how the Domestic Managers performed relative to the target and advised that the Domestic Fixed Income, relative to other Public Funds, ranked at the 67th percentile. Ms. Valcik then referred the Board to page eleven, which showed how the Fund looked relative to other Public Funds of its size. Loomis Sayles & Company, Ms. Valcik advised, did well in the quarter and returned 2.54%, while the benchmark was 1.67%. She explained that while Loomis Sayles & Company did very well in the last quarter, they did not do so well over the five year period and had not been able to add much value over the benchmark. Page twenty two showed Loomis Sayles & Company's long-term record. Ms. Valcik informed the Board that the Bond portfolio slightly underperformed the Index for the quarter. She explained that the Index was up 3% and long-treasures was the ideal place to be as it returned 7%. Roanoke Asset Management, Ms Valcik advised, had a 3.41% return and the benchmark was 3.56%. Information on Roanoke Asset Management was listed on page 32. Ms. Valcik advised that State Street Global Advisors' Enhanced Index Fund, listed on page 39 of Callan's booklet, outperformed the benchmark, which improved their longer term record. Mr. Garvy advised that along with the information ratio, there was the excess return ratio, which was another equivalent computation which related to the efficiency of investing and the returns achieved based on the risks that Funds took. He explained that this measure was very important and suggested that Board members take this ratio into account when evaluating the various money managers. Mr. Garvy explained that when looking at Loomis Sayles & Company's performance, the key factor was that for one, three, and five years, Loomis was behind their benchmark, net of fees. He advised that when Funds pay for active management, they expect returns, net of fees, above an Index Fund. Mr. Garvy continued that if a manager could not provide those returns, there was no rational to continue on with that manager. Mr. Garvy also pointed out that while Roanoke Asset Management had a positive long-term record, they were also behind their benchmark, net of fees, for one, three and five years, which was another reason why the Fund was being diversified. Mr. Garvy inquired if there were any comments or questions from the Board regarding Ms. Valcik's report. Mr. Karman responded that Ms. Valcik provided a good summary. There were no other questions or comments form the Board. Mr. Garvy thanked Ms. Valcik for her report.

VII. APPROVAL OF ACTUARY'S FEE

Mr. Crouse advised that Mr. Brad Armstrong of Gabriel, Roeder, Smith & Company, proposed a slight increase of 2.6% in the fee for the upcoming year. Mr. Crouse advised that the increase would result in an annual fee of $11,800, which would be payable quarterly in the amount of $2,950. He recommended that the Board approve the proposed fee for 2006. Mr. Garvy inquired whether the Board should be acceding to an annual increase due to inflation. Mr. Crouse advised yes. Mr. Garvy stated that the inflationary increase did not seem to be appropriate for an actuary service and inquired if any of the Board members had any comments. Mr. Karman advised that the Board could benchmark the fee to other Plans. Mr. Elwell advised that the fee was always a small amount and, as a result, he had never scrutinized it, however, he explained that if the Board were interested, he would agree with Mr. Karman's suggestion regarding comparing the fee to that of others. Ms. Valcik advised that the fee was relatively low compared to that of other Plans. Mr. Elwell advised that there have been numerous activities over the past years that caused the Town to make fairly frequent calls to Mr. Armstrong, some of which required additional analysis and follow up and Mr. Armstrong sometimes spent long hours on the phone with the Town and had always been very responsive and helpful. Mr. Elwell explained that the Town did not pay Mr. Armstrong for any of the additional hours and, as a result, the proposed fee was not a problem. Mr. Garvy called for a motion regarding the actuarial fee.

Mr. Madison moved approval of the $11,800 for the actuarial fee, Mr. Karman seconded. There was no further discussion and the motion carried unanimously.

VIII. DISCUSSION OF PENSION BOARD CIVIL LIABILITIES

Board Attorney John McCracken apologized for not being at the last General Employees Retirement Board Meeting but explained that it coincided with his youngest daughter's graduation date. He referred the Board to a letter by Town Attorney, Mr. John Randolph, and pointed out the section regarding the Florida Volunteer Protection Act. Mr. McCracken explained that the Florida Volunteer Protection Act states that Government officials, included those appointed to Boards such as the General Employees Retirement Board, shall incur no civil liability and have immunity, and the only basis of liability would be to a Board member who acted in bad faith or with malicious purpose or in any manner that exhibited wanton and willful disregard of human rights, safety or property. Mr. McCracken explained that Mr. Randolph concluded that members of the Board are relatively safe from suit, but, there is nothing that prohibits people from bringing suit against Board members. Mr. McCracken advised that the Town had a generous insurance policy that had a $150,000 deductible, which meant that the first $150,000 of expenses, including Attorney's fees would be the obligation of the Board and/or of an individual member of the Board. Mr. McCracken elaborated on Mr. Randolph's letter and advised that if someone were to bring suit against a member of the Board, that member would have qualified immunity, which would shield the member from liability and in addition, the letter mentioned that it had been the policy of the Town to provide a defense to individuals who are sued, not withstanding the statute, and if the Town declined to provide an attorney, and the individual was successful in defense, the Town would be obligated to reimburse that member's attorney's fees. Mr. McCracken advised that Mr. Randolph had discussed the Policy in detail with Mr. Elwell and inquired if Mr. Elwell could speak about the subject. Mr. Elwell advised that it was so rare for anyone to file suit against a Board member that he could not recall such an instance. He explained that there were times when individual employees were named in litigation, for actions that they did while they were performing their duties for the Town. Mr. Elwell advised that on such occasions, the Town had always defended employees. Mr. Elwell sited page two of Mr. Randolph's May 6, 2005 letter which stated that it was the Town's (on behalf of the tax payers') obligation to make a determination first to find out that the employee or Board member was acting in good faith in discharging his or her duties. Mr. Elwell stated that as long as that determination was made, then it would be appropriate for the Town to undertake the defense on behalf of the employee/Board member. Mr. Garvy inquired if there were any comments from any Board members. Mr. McCracken explained that Mr. Elwell gave an accurate synopsis of the history of the Town and how the Town responded over the years, but advised that the Town had no obligation, but rather it was a good faith issue with the Town Council and there was nothing that bound the Town to provide a defense. Mr. Garvy inquired if there were other questions. There were none. Mr. Garvy asked Mr. McCracken, on behalf of the Retirement Board to thank Mr. Randolph for his very thorough response to the matter.

IX. APPROVAL OF ANNUAL RATE OF INTEREST TO BE CREDITED MEMBER CONTRIBUTIONS

Finance Director, Jane Struder advised that every August the Board determined what annual rate of interest to credit to the members' accounts. She explained that last year, the Board approved using the ten year treasury, which last year on July 31st was 4.5%. Mrs. Struder advised that for this year, the ten year treasury was 4.28% at the end of July. She requested that the Board determine and approve an appropriate rate of interest. Mr. Elwell stated that a few years ago, the Board worked very hard to revise a Policy and agreed upon the appropriate manner to handle the annual rate of interest. He requested that the Board adhere to their Policy of adopting the rate from the ten year treasury.

Mr. Elwell moved approval of the rate of interest credited to members' accounts for 2005 be 4.28%; Mr. Luscomb seconded. There was no further discussion and the motion carried unanimously.

X. REPORT ON QUARTERLY EXPENDITURES

Mrs. Struder explained that the cash flow projection through October showed that there would be a deficit cash position of $750,000. She explained that her memo outlined the amount of DROP payouts made to date, which were $776,000, and there was an additional $300,000 to be made through October. As a result, Mrs. Struder requested, with Ms. Valcik's direction, a transfer from the money managers of $750,000. Ms. Valcik advised that because the Fund was being restructured, the money should be taken from the State Street Fund, which was a daily value liquid Fund.

Mr. Karman moved approval of the transfer of $750,000 from SSGA for Expenditures; Mr. Madison seconded. There was no further discussion and the motion carried unanimously.

XI. REQUEST FOR DISABILITY RETIREMENT FOR ROBERT KENNEDY

Mr. Crouse advised that Robert Kennedy was the Parks/Streets Supervisor in the Public Works department. He explained that Mr. Kennedy was 48 years of age and was hired on March 17, 1987, which brought him to a total of 18 years and five months of credited service with the Town. Mr. Crouse explained that, per the ordinance, in order for an individual to qualify for disability retirement, the individual must have at least 10 years of credited service and must be medically examined by a duly qualified physician or surgeon who could certify that the employee was mentally or physically totally incapacitated for continued employment by the Town, and that such incapacity was likely to be permanent and that the member should be retired. In addition, Mr. Crouse explained that the Board of Trustees must concur with that certification. Mr. Crouse explained that on December 14, 2004, a request had been received from Mr. Kennedy for disability retirement. He advised that at that time, all that was received was the request with no medical evidence to substantiate whether he had a qualifying disability. Mr.

Crouse advised that on July 22, 2005, enough medical data was received that was sufficient to be brought before the Board. Mr. Crouse explained that on July 22, 2005, a memorandum was received from Marlene Rizzolo, the Town's Occupational Health Nurse, which explained that records had been received from Dr. Hanna, an Internist and Dr. Agresti, a Psychiatrist that supported Mr. Kennedy's request. Mr. Crouse explained that with that information, Dr. Persuad, the Town's Physician, who is a Medical Doctor, a General Practitioner, Internist and a Certified Occupational Medical Director, and who was very familiar with Mr. Kennedy's position and the Town's retirement codes, met with Mr. Kennedy and reviewed all the psychiatric and medical records. Mr. Crouse advised that Board that after review and the meeting with Mr. Kennedy, Dr. Persuad wrote a letter dated August, 1, 2005, explaining that Mr. Kennedy 'is totally incapacitated for continued employment with the Town and that the incapacity is likely to be permanent.' Mr. Crouse recommended that the Board approve disability retirement for Mr. Kennedy and explained that Mr. Kennedy's disability pension would be based upon his years of service to date and advised that in about seven years, Mr. Kennedy would qualify for a normal pension. He explained that during that time, the Board could periodically review Mr. Kennedy's status. There were no questions from the Board members.

Mr. Karman moved approval of Disability Retirement for Robert Kennedy; Mr. Luscomb seconded. There was no further discussion and the motion carried unanimously.

Ms. Struder exited the Council Chambers.

XII. REVIEW OF MONEY MANAGER APPLICATIONS

Mr. Garvy inquired whether Ms. Valcik from Callan Associates, Inc. could remind the Board of the asset allocation structure as decided at the General Employees Retirement Board Special meeting on April 4, 2005. Ms. Valcik explained that there was a 5% allocation made to non US stock which was taken from the current US Stock allocation. She explained that the total US Stock allocation was 55%, which was split up into 40% in Large Cap Equities and 15% in Small Cap Equities. Ms. Valcik advised that the Policy Statement did not contain the division of Small Cap Equities into Growth and Value and if there was a specific percentage allocated, the Council's approval would be needed to change the percentage allocation over time. She explained that Roanoke Asset Management would have 12% of the Small Cap Portfolio while the new money manager would be in charge of the other 3%. In addition, the opportunity set for Bond manager was increased so that they could invest in non Benchmark securities; as long as the overall quality of the portfolio was 'A' or better. These potential non-Benchmark securities, Ms. Valcik explained, would include High Yield Bonds, non-US Debt, and Emerging Markets Debt. Derivatives, Ms. Valcik clarified, were now allowed in the Policy and could be used for hedging, cost reduction, and liquidity enhancements only, not leverage. Ms. Valcik explained that the Investment Policy Statement did not change the 5% limitation to any one issuer or any one security and it left the allocation to Bonds at 40%. Mr. Garvy inquired if any Board member had any questions for Ms.

Valcik. There were no comments or questions. Mr. Garvy thanked Ms. Valcik for her report.

A. CORE PLUS FIXED INCOME

Ms. Valcik explained Callan Associates' method for doing manager searches. She advised that Callan Associates chose six finalists for Core Plus Fixed Income; Barclays Global Investors (BGI), Fidelity Management Trust Company (FMTC), Hartford Investment Management Company, Goldman Sachs Asset Management (GSAM), Pacific Investment Management Company (PIMCO), and Western Asset Management Company. For all of the prospective money managers, Ms. Valcik discussed their history, structure of the portfolio, their key professionals and their experience, tenure, and turnover, employee structure, total asset growth and structure, return of the portfolio, U.S Tax-Exempt Separate/Commingled Assets as of December 31, 2004, U.S Tax-Exempt Assets, the Rolling 12 Quarter Tracking Error versus L/B Aggregate, manager duration versus the Lehman Aggregate, product highlights, fee schedule, performance composite, portfolio construction, duration of exposure to CorePlus, yield curve description, security selection, return analysis, risk analysis and risk adjusted return, and their historical sector allocation.

Mr. Garvy advised the members of the Board to pay close attention to the statistics for all the managers including the standard deviation, the downside risk, residual risk and tracking error; in addition to the information ratio and the excess return ratio. He advised that these characteristics would give Board members an idea about how much risk was contained in a given portfolio. The Board members discussed what they liked and the concerns they had regarding the various money managers. They decided that they wanted to invite three finalists, at which time a decision would be made regarding which money manager should be hired. Mr. Garvy inquired whether Ms. Valcik could contact the finalists and let them be aware of the names of the other money managers who they would compete against, and in addition, have the presenters focus on differentiating between their approach and that of their fellow competitors. The Board members agreed to have the money managers limit their presentations to half an hour, twenty minutes to present and ten minutes for questions and answers.

Mr. Luscomb moved approval to invite Goldman Sachs Asset Management (GSAM), Barclays Global Investors (BGI) and Fidelity Management Trust Company (FMTC) to present to the Board regarding Core Plus Fixed Income. Mr. Madison seconded. There was no further discussion and the motion carried unanimously.

Booklets containing information about the various money managers are on file with the Plan Administrator.

XIII. TEMPORARY ADJOURNMENT

At 11:00 a.m., Mr. Garvy advised that the meeting would be temporarily adjourned.

The meeting reconvened at 11:12 a.m. Mr. Garvy excused Mr. McCracken for the remainder of the meeting. Mr. McCracken exited the Council Chambers.

XIV REVIEW OF MONEY MANAGER APPLICATIONS (continued)

B. STRUCTURED EQUITY

Ms. Valcik advised the Board that Callan Associates chose four money managers for Structured Equity; BGI, Franklin Portfolio Associates, GSAM and New York Life Investment Management, LLC (NYLIM). Mr. Garvy clarified that these four managers would be looked at in addition to State Street Global Advisors (SSGA). The Board members discussed each money managers' history, structure, key professionals' tenure and turnover, employee structure, total asset growth, total asset structure, U.S Tax-Exempt Separate/Comingled Assets as of December 31, 2004, investment policy, research process (including Alpha Tilts), security selection, product highlights, portfolio characteristics, portfolio construction, portfolio characteristics, sell discipline, return analysis, tracking error, and their cumulative and quarterly relative return versus the Russell 1000. In addition, the Board members discussed the risk adjusted return versus the Russell 1000, risk analysis versus CAI Stock Based Enhanced Indexing Style, Rolling 12 Quarter Tracking error, Risk statistics ranking, diversification, fee schedule, and their portfolio characteristics analysis. The Board members had a lengthy discussion and selected two managers.

Mr. Karman moved approval to review SSGA as well as invite Barclays Global Investors (BGI) and New York Life Investment Management, LLC to present to the Board regarding their Structured Equity Portfolio; Mr. Luscomb seconded. There were no further discussions and the motion carried unanimously.

Booklets containing information about the various money managers are on file with the Plan Administrator.

C. SMALL CAP VALUE

Ms. Valcik advised the Board members that small cap value had been a very popular product over the past five years and explained that many money managers were closed to new clients. She advised that Callan Associates, after conducting a small cap value manager search, decided that there were six managers who were appropriate: Buckhead Capital Management, Goldman Sachs Asset Management (GSAM), Integrity Asset Management ("Integrity"), Peregrine Capital Management, Royce and Associates, and Thompson, Siegel, & Walmsley, Inc. Ms. Valcik and the Board members discussed each money manager on the basis of their history, structure, investment professionals' tenure and turnover, total asset growth and structure, U.S. Tax-Exempt Separate/Commingled Assets as of December 31, 2004, fee schedule, product highlights, performance composite, U.S Tax Exempt Assets, investment philosophy, security selection, portfolio construction, sell discipline, return analysis, performance versus CAI Small Cap Value Style, Cumulative and Quarterly Relative Return versus Russell 2000 Value, Risk

Adjusted returns, risk analysis, rolling 12 quarter tracking error versus the Russell 2000 Value, risk statistics ranking, sector weights and allocation, diversification, and their top 10 portfolio holdings characteristics. The Board, after discussion selected Thompson, Siegel, & Walmsley, Inc. as the Small/Mid (SMID) Cap Value manager.
Mr. Garvy inquired about what to do regarding the current manager, State Street Global Advisors. Ms. Valcik advised that in similar situations, the Funds that were most successful were the ones who used Transition managers. She advised that SSGA was very good at transition management. Ms. Valcik advised that SSGA could continue to manage the Fund as a Transition Manager until such time as Thompson, Siegel, & Walmsley, Inc took over.

Mr. Madison moved approval for Thompson, Siegel, & Walmsley, Inc. to manage the SMID cap value portfolio; Mr. Karman seconded. There was no further discussion and the motion carried unanimously.

Mr. Garvy inquired if Ms. Valcik could contact Thompson, Siegel, & Walmsley, Inc and notify them of the Board's decision. Ms. Valcik advised a contract would have to be drawn up and reviewed. Mr. Garvy thanked Ms. Valcik.

D. CORE PLUS INTERNATIONAL EQUITY

Ms. Valcik advised the Board that a manager could be hired who dealt only with international or one that did both international and emerging markets. She explained that a few of the managers did not have the emerging markets exposure. She also advised that because of the size of the Fund, the search was limited. Ms. Valcik advised the Board of the various fees for each manager. For a Core Plus International Equity manager, the Board was given six options resulting from Callan Associates manager search; Capital Research & Management Company, Goldman Sachs Asset Management (GSAM), Julius Baer Investment Management (JBIM), New Star Institutional Managers Ltd., Philadelphia International Advisors, LP ("PIA"), and State Street Global Advisors (SSGA). The Board discussed each firms' history, key professionals tenure and turnover, total asset growth and structure, U.S Tax-Exempt Assets, Performance composite, Product Highlights, investment policy, portfolio construction, security selection, return analysis, Performance versus CAI Non-U.S Equity Style, Risk Adjusted Return, measures versus MSCI EAFE Index, risk analysis summary, sector allocation, bottom-up versus top-down analysis, client allocation, sector allocation, tracking error, and U.S. Tax-Exempt Separate/Commingled Assets as of December 31, 2004. The Board members discussed all of the prospective managers and narrowed the selected down to New Star Institutional Managers Ltd. and SSGA. They later decided to appoint SSGA as the Core Plus International Equity Manager. Mr. Garvy called for a motion.

Mr. Karman moved approval to appoint State Street Global Advisors as the Core Plus International Equity manager; Mr. Madison seconded. There was no further discussion and the motion carried unanimously.

Mr. Garvy inquired whether Ms. Valcik would also advise SSGA of the Board's selection and arrange for a contract. Ms. Valcik advised yes.

Booklets containing information about the various money managers are on file with the Plan Administrator.

XV. ANY OTHER MATTERS

Mr. Garvy advised the Board that Mr. Sowerby of Loomis Sayles and Company had requested to appear before the Board even though there were structural changes being made to the Fund. He inquired if there were any objections from any of the Board members. There were none.

Mr. Garvy explained that there needed to be a special meeting for interviewing prospective Core Plus Fixed Income and Structured Equity Managers. The Board members reviewed their calendars and agreed to meet for a special meeting on Monday, September 19, 2005, at 1:00 p.m.

Mr. Garvy inquired if any of the Board members saw the June 27, 2005, article in the Wall Street Journal about law firm Milberg Weiss being investigated by Federal prosecutors for alleged fraud, conspiracy, and kick backs in scores of securities lawsuits and explained that there could be criminal charges brought against the firm and its principals. He advised that there were allegations that the firm routinely made secret illegal payments to plaintiffs who appeared in class action lawsuits brought by the firm. Mr. Garvy reminded the Board that Milberg Weiss was the firm that appeared before the General Employees Retirement Board and requested that they be hired on a no-cost basis to monitor the money managers; which the Board had declined. Mr. Garvy explained that Mr. Wearn brought the article to his attention and requested that Mr. Crouse make copies of the article for all of the Board members.

Mr. Garvy inquired if there were any other matters to be discussed. There were none.

XVI. ADJOURNMENT

There being no further business, the meeting adjourned at 1:10 p.m.

Approved: ______________________
James Karman, Secretary