GENERAL EMPLOYEES RETIREMENT BOARD MEETING
Friday, August 11, 2006, 9:00 a.m.

I. CALL TO ORDER

The regular meeting of the General Employees Retirement Board was called to order by Chairman Robert Garvy at 9:01 a.m. on Friday, August 11, 2006, in the Town Hall Council Chambers. Roll call was conducted. 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, Callan Associates' Jeanne Valcik, Human Resources Director and Plan Administrator, William Crouse and Finance Director, Jane Struder.

II. APPROVAL OF AGENDA

Mr. Garvy inquired whether there were any changes or additions to the agenda. He suggested that item VI, the Asset Restructuring Discussion, become the last item to be discussed. There were no other changes to the agenda.

III. APPROVAL OF MINUTES

Mr. Garvy inquired whether there were any changes or additions to the minutes of the regular meeting of May 12, 2006. There were no changes or additions to the minutes and Mr. Garvy stated that the minutes would stand approved.

IV. ADMINISTRATOR'S REPORT

Mr. Crouse advised the Board that he had a few items to report. He explained to the Board that, as directed in the May 2006 meeting, DROP participants were now offered the opportunity to invest in the ICMA Milestone Funds. He informed the Board that additionally, as directed by the Board, the Milestone Fund Age 65 was now the default for those individuals who do not initially make a selection once they enter the DROP Plan.

Secondly, Mr. Crouse advised the Board that at the August meeting, the Council passed Ordinance number 7-06, which clarified that the 2% reduction of DROP participants' pensions was for the life of the pension; not just the period of time that an individual was in the DROP program. He advised that the Ordinance also included the definition of compensation, which was revised to exclude any lump sum payments of vacation which an employee may receive during employment with the Town, and the approval of all the recommendations that put the Ordinance in compliance with IRS codes.

Mr. Crouse reminded the Board that the Town will be recognizing Veterans' Day on Friday, November 10, 2006 and, as a result, the next regular meeting of the General Employees Retirement Board would be held in the Council Chambers on Thursday, November 9, 2006.

Mr. Crouse advised the Board that while the Town Council was addressing various issues regarding Town wide Boards, Commissions and Committees, there would soon be a revised application for service. He explained that once the changes were completed, he would present the Board with a revised trustee manual. Mr. Crouse explained that the Town Council, with reference to the resident's position on retirement boards, had decided to now give individuals, who apply for service on a Board, the opportunity to introduce themselves to the Council members the day before a regular scheduled Council meeting. He inquired whether Mr. Elwell had any additional information. Mr. Elwell responded no, but informed the Board that he wanted to provide an update on the 'umbrella investment committee' and the potential consolidation of Funds for investment purposes only. He explained that in early September, there will be a meeting consisting of town staff and the individuals representing the legal and policy interests of the three retirement boards. Mr. Elwell advised that because of the Sunshine law, no two individuals from the same board are allowed to be engaged in the meeting. He advised that, because of his role as town manager, he would have to be engaged in the meetings and, as a result, Mr. Garvy could not be a key participant in the meeting. The Board members commented that although they were very confident that Mr. Elwell would do an excellent job of representing the General Employees Retirement Board's interest as well as perform his duties as town manager, they were very concerned that Mr. Garvy would not be able to attend the meeting. Mr. Garvy inquired whether there was any possible way that he could attend the meeting. Mr. Elwell advised that the meeting was initially intended to be a private meeting, but there may be that possibility if the meeting was changed from private to public and, as a result, Mr. Garvy could become a participant. Mr. Elwell advised that he would consult the Town's attorney about having the meeting become public and, through Mr. Crouse, would advise the Board members. There were no other comments or questions from the Board.

V. CALLAN ASSOCIATES QUARTERLY REPORT

Ms. Jeanne Valcik from Callan Associates presented the quarterly report to the Board. She was accompanied by Mr. John Krimmel, Senior Vice President and Brian Zeiler, Vice President, at Callan Associates. Ms. Valcik introduced her colleagues to the Board and gave a brief summary about their background and expertise. She referred the Board to page three of the Callan Associates fund summary ending June 30, 2006 and advised that for the last quarter, the S&P 500 was down 1.44%, while for the one year it was up 8.63%. Ms. Valcik informed the Board that for the last quarter, Large Cap performed better than Mid Cap, which outperformed Small Cap and Value stocks again outperformed Growth stocks. On page four, with reference to Domestic Fixed Income, Ms. Valcik informed that the Lehman Aggregate (which is representative of the US Bond market) lost 8 basis points, while for the one year it lost 81 basis points. Ms. Valcik explained that because the level of interest rates increased, it was surprising that the Bond market only lost 81 basis points. On page 5, with reference to International equity, Ms. Valcik advised that the EAFE aggregate was up 70 basis points for the quarter and 26.56%

for the one year. On page eight, Ms. Valcik pointed out that the actual asset allocation was almost the same as the target asset allocation. She advised that when comparing the Plan with other Plans of a similar size, in terms of Domestic Equity, the Plan was at the top of the scale, in the top 1/3 in Domestic Fixed Income and in International, the Plan was in the low end. She explained that one of the things the Board needed to discuss was the lowering of Domestic Fixed Equity while increasing the International Equity exposure. On page nine, quarterly total fund attribution, Ms. Valcik explained that it was not a good quarter for the Fund, because it lost 2.12%. She explained that the loss was in Domestic Equity with manager, Roanoke Asset Management, who dramatically underperformed their benchmark. Regarding the cumulative one year effect on page ten, Ms. Valcik explained that the money managers added 96 basis points of return. She explained that the Domestic Fixed Income was still in the negative and although she had hoped that this was incorrect, it was correct. She reminded the Board that at the last meeting, Mr. Garvy had asked her to look back at the Plan's loss with the Loomis Sayles & Company portfolio and examine whether similar portfolios that they managed suffered a similar effect. She explained to the Board that she went back and looked with State Street Global and reviewed the quarter where the loss occurred and went through the books on rates of return on a day by day basis, and she also went back to Loomis and found out that Loomis' other clients also did poorly that quarter. Ms. Valcik advised that between December 14 and 27, 2005, after Loomis no longer managed the portfolio, the Fund was in cash and being in cash, rather than being in the bond market had a negative effect on performance. Ms. Valcik explained that being in cash sometimes happens when a plan is in transition, but advised that fortunately there was strong equity return that offset the loss. With reference to asset class performance, Ms. Valcik advised that although Roanoke had a particularly bad quarter, their return enabled the Plan to be above the Russell 3000 benchmark for the one year period. On page thirteen, Ms. Valcik referred the Board to a bar graph which showed the fifteen-year history of relative return versus the target benchmark. As requested at the last meeting, Ms Valcik enclosed a graph of the ten-year history of cumulative and quarterly relative return versus the target benchmark. She advised the Board that she also had a graph of the five-year history of the cumulative and quarterly relative return versus the target benchmark. Ms Valcik informed the Board of the asset distribution across investment managers and advised that the fund was very close to the benchmarks at the total fund level. She advised that one thing that the Board members should be cognizant about was that 11.47% of the fund was being managed by Roanoke Asset Management and they have been managing funds for the Town for more than twenty-two years. On page eighteen, Ms. Valcik reviewed the returns for the last quarter, fiscal year to date, one, two and three years for the period ending June 30, 2006 and explained that for the quarter, almost every fund had a negative return, with the exception of international equity. She explained that the 9.46% return for the three year period was enough to fund the 8% actuarial return. Ms. Valcik explained that with the current asset allocation, Callan's projected return was that the fund would not be able to meet the 8% with the amount currently invested in bonds. She advised that the Board would need to discuss what needed to be done going forward. Ms. Valcik discussed the performances of all money managers in detail and Mr. Garvy inquired whether Roanoke was formally notified that they were in a 'watch status'. Ms. Valcik advised not yet and inquired whether the Board wanted to invite them to the next regular meeting of the Board. The Board discussed Roanoke's volatility and percent of the Fund managed and Mr. Garvy called for a motion.

Mr. Karman moved approval to put Roanoke Asset Management on a 'watch list', notify them of such and invite them to appear before the Board at the November meeting; Mr. Luscomb seconded. There was no further discussion, and the motion carried unanimously.

Ms. Valcik advised that there was a new tab in the Callan booklet titled 'Callan Research/Education' and explained that this section showed Callan's recently published white papers and other newsletters and discussed items such as upcoming educational events. A copy of Ms. Valcik's report is on file with the Plan Administrator.

VI. APPROVAL OF ACTUARY'S FEE

Mr. Crouse advised that Mr. Brad Armstrong of Gabriel, Roeder, Smith & Company, proposed an increase from $11,800 to $12,300, which would be payable in the amount of $3,075 on a quarterly basis. He recommended that the Board discuss and approve the proposed fee. Mr. Garvy inquired whether any Board members had any questions, there were none. Mr. Garvy called for a motion.

Mr. Elwell moved approval of the $12,300 actuarial fee; Mr. Madison seconded. There was no further discussion, and the motion carried unanimously.

VII. RECOMMENDATION TO APPROVE REVISED PARTICIPATION AGREEMENT REGARDING NYLIM LARGE-CAP ENHANCED INDEX COLLECTIVE FUND

Mr. McCracken referred the Board to his letter to them dated August 3, 2006 and advised that the Board was requested to execute a new participant agreement with New York Life Trust Company. He advised that the new agreement was almost exclusively editorial changes which did not change the original meaning, except for one provision which gave Trustees a very broad discretion to change almost everything in the Fund. Mr. McCracken advised that he explained to NYLIM that that was unacceptable and the Board would need to review and comment. He advised that after a few discussions with NYLIM, they agreed that, if they were to make such a change in the agreement, they would give the Board a 120 day notice, which would allow the Board enough time to meet and have discussions on the change before it took effect. Mr. McCracken advised that if the Board did not agree with the change, they could decide to invest with another vehicle. He recommended that the Board approve the agreement. Mr. Garvy called for a motion.

Mr. Madison moved approval to accept the revised agreement with NYLIM; Mr. Karman seconded. There was no further discussion, and the motion carried unanimously.

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

Mrs. Struder advised that over the past years, the Board approved using the ten year treasury number as the annual rate of interest to be credited to members' accounts. She advised that for this year, the ten year treasury number was 4.99%. Mr. Garvy called for a motion.

Mr. Madison moved approval of the rate of interest credited to members' accounts for 2006 be 4.99%; Mr. Elwell seconded. There was no further discussion, and the motion carried unanimously.

IX. REPORT ON QUARTERLY EXPENDITURES

Mrs. Struder referred the Board to her memo to the Plan Administrator dated August 3, 2006. She explained the cash flow projection for August 1, 2006 through October 31, 2006, and advised that there was a projected deficit of $367,041.01 and, as a result, a transfer from the money managers for $400,000 was required. Mrs. Struder explained that the operating expenses through July 31, 2006 were $211,637.51. Mr. Garvy inquired of Ms. Valcik what Fund the $400,000 should be taken from. Ms. Valcik advised the Fixed Income Portfolio. Mr. Garvy inquired whether there were any questions; there were none. Mr. Garvy called for a motion.

Mr. Elwell moved approval of the transfer of $400,000 from the Fixed Income Portfolio for Expenditures; Mr. Madison seconded. There was no further discussion and the motion carried unanimously.

X. ASSET RESTRUCTURING DISCUSSION

Mr. Garvy advised that the discussion on asset restructuring came about because of the progression over recent years of the funded status. He explained that many public and private funds, over the past decade, have struggled with their pension obligations. He advised that cost increases funded by either corporate contributions or increased taxes to tax payers, have resulted in a significant move to end defined benefit plans and switch to defined contribution plans, which shift the risk of retirement security from the plan sponsor to the individual participant. Mr. Garvy advised that Palm Beach has not been immune to this shift and advised that the Town Council has been very concerned with the funding level necessary to maintain the defined benefit plan. He advised that, as a result, the Board needed to consider the current asset allocation and whether or not the expectations of the asset allocation would lead to adequate funding of the plan without increased taxation. Mr. Garvy advised that over the past fifteen years, the contributions as a percentage of payroll, which is required to maintain adequate funding of the pension, has risen from the low teens to about 19%. He advised that this was another reason for pressure on sponsors of defined benefit plans. Mr. Garvy advised that diversifying the plan might be a good solution to alleviate some of these pressures. He advised that at Callan's conference in June 2006, he, along with Mr. Madison and Mr. Elwell, was able to discuss the pros and cons of global tactical asset allocation, 130/30 and other types of alternative investments, as a means of diversifying portfolios. Mr. Garvy advised that in the past, small funds, such as the Town of Palm Beach's general fund, had not been able to participate in any of these other alternative strategies because the minimum deposits were well beyond the amount that the plan could commit to. He advised that the development of commingled funds and mobile participant vehicles have opened up many alternative strategies to smaller funds; where deposits as low as $1 million can be invested into areas such as private equity, long-short, absolute return and international investments. Mr. Garvy advised that he had asked Callan Associates to prepare a report on the June 2006 conference and on the opportunity set available to the Town of Palm Beach general employees retirement plan. He advised that traditionally, the plan had had a very conservative asset allocation of 60% equity and 40% fixed-income, but recently 5% of the equity participation was moved from domestic equity to international. Mr. Garvy inquired whether any Board members had comments or questions. Mr. Karman inquired about the number of readings required to change the allocation of the Fund. Mr. McCracken responded that any change would need to be submitted to the Town Council for approval by resolution on one reading. Mr. Madison inquired whether there was a limit to the International and Fixed Income exposure the Fund can have. Mr. McCracken advised there is limitation in the present policy, which also does not allow any alternative investments. There were no other questions from the Board. Mr. Garvy turned the discussion over to Ms. Valcik and her team.

Ms. Valcik commented that given the Fund's size, it was somewhat difficult to find alternative investments. She referred the Board to the Callan booklet titled, Alternative Investment Strategies, and advised that the booklet covered asset allocation alternatives, hedge fund, 130/30 strategies and fee schedules, and private equity. On page two, Ms. Valcik advised the Board of the capital market assumptions for the various asset classes and advised that the Fixed-Income assumptions were almost always correct. Mr. Garvy referred to the 5% projected return for Fixed Income and explained that there will be a problem with the Fund's future returns if that number is correct because almost 40% of the Fund is invested in Fixed Income. Asset Mix Alternatives was the next item discussed by Ms. Valcik; she advised that at the current asset allocation, the Fund's expected return was 7.41%, which fell short of the actuarial assumption. She advised that her team put together four different asset mix alternatives involving Broad Domestic Equity, Domestic Fixed, Absolute Return and International Equity for the Fund. They discussed reducing the Domestic Fixed to increase the International Equity and introduce Absolute Return to the Portfolio. The Board also discussed possibly including Private Equity into the portfolio, which would reduce the percentage of Domestic Equity in the portfolio. Mr. Garvy commented that the remaining Domestic Equity managed by NYLIM could then be converted from a long-only to 130/30. He explained that NYLIM was considering offering the 130/30 long-short vehicle in the fourth quarter and, as a result, there would not need to be major search effort in that regard. Mr. Zeiler recommended having either two separate managers (NYLIM and another manager) who would both manage a portion of the Domestic Equity 130/30 portfolio that NYLIM currently managed or having NYLIM continue to manage their 40% of the Domestic Equity fund with 20% in 130/30 and the other 20% in the existing style. Mr. Madison inquired whether the fund would be limited in the kinds of vehicles that are available if there were to be two money managers for that 40% of Domestic Equity. Mr. Zeiler advised no. Ms. Valcik agreed with Mr. Zeiler's response. Mr. Garvy commented that money manager, D E Shaw, had $15 million as a minimum for investment and inquired whether Callan would be able to influence them to take $10 million as a minimum, if the Board decided on that route. Mr. Zeiler responded that could be a possibility, although not a guarantee. Mr. Madison inquired whether the current management fees being paid to NYLIM would increase if 20% of the Domestic Equity fund were transferred from NYLIM to another manager. Ms. Valcik advised that there would be a different type of fee schedule. Mr. Garvy commented that for the types of specialty vehicles that the Board was considering, the market fees were significantly higher than what the Board was accustomed to. After a lengthy discussion, the Board decided to change the current 55% Broad Domestic Equity to 50%, and 5% moved into Private Equity. Of the 50%, the 40% managed by NYLIM, would then be invested in 130/30, with two different money managers (NYLIM and another manager). In addition, the current 40% of Domestic Fixed Portfolio would be reduced to 20%; the remaining 20% would then be divided into 10% Absolute Return/ Hedge Funds of Funds and 10% into International Equity. Because there is already 5% invested in the current International Equity portfolio, this 10% would make the total of 15% in International Equity. Mr. Elwell commented that he was comfortable rearranging the fund, but he would want more information so that he could be more comfortable with Private Equity and Hedge Funds of Funds. Ms. Valcik referred the Board to section II of Callan's 'Alternative Investment Strategies' booklet, she reviewed the pros and cons and the characteristics of hedge funds and informed the Board that hedge funds do not have to be registered with the SEC, and there was no real way to benchmark them. Mr. Garvy commented that the possibility of fraud in hedge funds should be lessened because Callan Associates reviewed the backgrounds of money managers. Mr. Elwell inquired about how such managers would be able to be monitored, besides reviewing the quarterly returns. Ms. Valcik commented that the managers would be compared to their peer groups, but rarely can a list of securities underlying the fund be seen. Mr. Garvy inquired whether there would still be reports on ranking, volatility and performance in the quarterly Callan booklet. Mr. Zeiler responded yes, but advised that a list of their holdings would not be included. Mr. Elwell commented that he was still a bit uncomfortable with Hedge Funds of Funds because of manager secrecy, but based on history and track records, would go with whatever the Board decided. Mr. Garvy inquired about the trends with Public Funds in relation to Hedge Funds of Funds. Mr. Zeiler responded that Public Funds are still adopting but there was more openness to direct partnerships, especially with an individual manager within the multi-strategy space. Mr. Garvy inquired whether Callan Associates, besides on-site visits, have for example a check list or criteria that Hedge Funds of Funds managers would have to meet. Ms. Valcik advised that Callan does have a criteria used for managers of Hedge Funds but she did not have them with her. Mr. Zeiler commented that Mr. Jim McKee, Callan's specialist in the area of alternative investment strategies could also put together background information on Hedge Fund managers. Mr. Garvy recommended that the Board adopt a revision of the Statement of Investment Policy, which would allow, if the Board chose, to enter into such an asset class, as well as Private Equity. He commented that the areas where all Board members are comfortable could immediately be adopted by motion, but that there would need to be a special meeting, where further input from Callan's specialist on alternative investment strategies, and further exploration of Private Equity could be discussed and the Board could then make a decision. Mr. Karman agreed with Mr. Garvy's comments. With reference to section three of the booklet, where information is listed about managers, Mr. Madison inquired about the lock-up periods listed under the various managers and whether the

Board would be locked into a contract with a given manager for the entire 'lock-up period'. Mr. Zeiler responded yes. Mr. Garvy commented that if the Board decided to withdraw the money, the manager would need to be given notice, based on their notice period (which may vary by manager). Ms. Valcik agreed. Mr. Garvy inquired of Callan Associates whether they have had any difficulties withdrawing monies after the appropriate notice period was given. Ms. Valcik advised that she was not aware of any. Mr. Garvy inquired whether Mr. McKee could comment on that subject. Ms. Valcik responded yes. Mr. McCracken commented that he did not believe that Hedge Fund managers typically attend any quarterly meetings. Mr. Zeiler commented that that was usually true, but advised that phone calls are usually responded to. Mrs. Struder inquired why some auditing firms listed were located outside of the U. S, in such places as the Bahamas and the Cayman Islands. Ms. Valcik responded that it was not unusual for an auditing firm to be located outside of the U.S. Mr. Garvy added that there was also an unrelated business income tax on leveraged investments that corporate funds were subjected to if they were located in the U.S. He advised that offshore entities, are not the sort of historical havens for criminals to congregate. He explained that the Cayman Islands have one of the most stringent registration control regulations and reporting requirements than anywhere else around the world. Mr. Madison inquired whether there were other alternatives to Hedge Funds, which were more regulated and less secretive. Mr. Elwell commented that a similar margin could be had with a more traditional equity or 130/30. Mr. Zeiler commented that the big advantage to Hedge Funds was the diversification and low volatility. Mr. Garvy agreed with Mr. Zeiler's statement. Mr. Elwell commented that given the time and complexity, in order for the Board to be in a better position to make a more informed decision, there should be a special meeting prior to the regular scheduled November meeting, as well as the modified Statement of Investment Policy. He suggested that rather than doing a partial approval to the Fund and holding off on other aspects, it would be helpful to have the actual document prior to the special meeting. The Board discussed revising the Statement of Investment Policy to include language that would allow the Fund to be invested in Private Equity, 130/30, Absolute Return or Hedge Funds of Funds, if decided at a future date. Mr. Garvy suggested that there could be language that stated for example that there could be a 0% up to 10% available for Hedge Funds, 0% to 5% available for Private Equity, 5% up to 20% in International Equity, Domestic Fixed 10% to 30%, and Domestic Equity, 40% to 70%. Ms. Valcik agreed on having ranges stated. Mr. McCracken agreed that rather than going to the Town Council for every change, ranges would be more appropriate. Ms. Valcik agreed. Mr. Zeiler suggested including wording such as opportunistic shorting or long or short extension strategies, while maintaining the S&P market exposure. Mr. Garvy agreed. Mr. Elwell recommended that the revised Statement of Investment Policy be approved at the special meeting in September and be brought to the Council for approval at the October council meeting. Mr. McCracken inquired whether the Board wanted to specify that a portion of the Domestic Equity is in Small Cap and another in Mid Cap. Mr. Garvy and Ms. Valcik suggested leaving that area open. Mr. Garvy suggested that Ms. Valcik assist Mr. McCracken with the wording. Mr. Garvy called for a motion.

Mr. Elwell moved approval for Mr. McCracken, with the help of Ms. Valcik, to draft the changes to the Investment Policy for the Board to review at the next meeting; Mr. Madison seconded.

Mr. McCracken requested that the first draft of the Statement of Investment Policy be drafted by Ms. Valcik and her team because they wrote the last one.

There was no further discussion, and the motion carried unanimously.

XI. ANY OTHER MATTERS

Mr. Garvy requested that everyone review their calendars to decide on the date for the special meeting. After a short discussion the Board decided to have the special meeting on Monday, September 25, 2006 at 1 p.m. Mr. Crouse advsied that the room was available for the meeting.

Mr. Garvy inquired whether there were any other questions or comments. Ms. Valcik inquired whether the Board, at the upcoming special meeting, wanted to review the group of Hedge Funds or Private Equity listed in Callan Associates' booklet on Alternative Investment Strategies. Mr. Garvy responded yes and advised that at that meeting, the Board should make their selections and leave the meeting with the view toward moving ahead, both with the approval from the Town and the implementation of all changes. He advised that in some cases, prospective managers may be requested to appear before the Board.

Mr. McCracken advised that there was a claim made by SSGA on the Board's behalf regarding WorldCom victim trust. He advised that he requested clarification from SSGA to decide if the claim is for the General or Public Safety Board(s) and stated the claim needed to be executed by August 15, 2006 and recommended that as chairman, Mr. Garvy sign the papers to execute the claim form on behalf of the Board, if the claim is found to be for the General Employees Board. The Board members agreed, Mr. Garvy called for a motion.

Mr. Karman moved approval of for Mr. Garvy to execute the claim forms on the Board's behalf; Mr. Luscomb seconded. There was no further discussion, and the motion carried unanimously.

XII. ADJOURNMENT

There being no further business, the meeting was adjourned at 12.01 p.m.

Approved:______________________________
James Karman, Secretary.