GENERAL EMPLOYEES RETIREMENT BOARD MEETING
Friday, May 12, 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 9:04 a.m. on Friday, May 12, 2006, in the Town Hall Council Chambers. Roll call was conducted. Attending were Chairman Robert Garvy, Vice Chairman Brett Madison, Trustees Jonathan Luscomb and Peter Elwell. Also in attendance were Board Attorney, John McCracken, Callan Associates' Jeanne Valcik, Human Resources Director and Plan Administrator, William Crouse. Trustee, James Karman and Finance Director, Jane Struder arrived later.

II. APPROVAL OF AGENDA

Mr. Garvy called for any changes or additions to the agenda. Mr. Elwell advised that there were three items he had to present to the Board, but would do so under the 'Any Other Matters' section of the meeting. There were no other changes to the agenda.

III. REPORT ON ELECTION RESULTS AND SWEAR IN BOARD MEMBER

Mr. Crouse informed the Board that on May 3, 2006, there was an election for the General Employee Retirement Board representative. He advised that Mr. Luscomb was re-elected to the position and was to serve a two year term. Town Clerk, Sue Eichhorn then swore in Mr. Luscomb. Mr. Garvy congratulated Mr. Luscomb.

IV. APPROVAL OF MINUTES

Mr. Garvy inquired whether there were any changes or additions to the minutes of the regular meeting of February 10, 2006. There were no changes or additions to the minutes and Mr. Garvy called for a motion.

Mr. Elwell moved approval and acceptance of the minutes of the regular meeting of February 10, 2006; Mr. Luscomb seconded. There was no further discussion, and the motion carried unanimously.

Mr. Garvy inquired if there were any changes or additions to the minutes of the special meeting of March 3, 2006. There were no changes or additions to the minutes and Mr. Garvy called for a motion.

Mr. Elwell moved approval and acceptance of the minutes of the special meeting of March 3, 2006; Mr. Madison seconded. There was no further discussion, and the motion carried unanimously.

V. ADMINISTRATOR'S REPORT

Mr. Crouse advised the Board that Charlotte Van Horn retired from her position of Public Works Project Administrator on April 21, 2006. He explained to the Board that she met the age requirement and had worked with the Town for over twenty years. That completed the Administrator's report; Mr. Garvy thanked Mr. Crouse.

VI. PRESENTATION STATUS OF SELF DIRECTED DROP - SECOND YEAR

Mr. Harvey Kramer from ICMA appeared before the Board. He gave the Board members two handouts containing information on the first quarterly DROP statement of 2006 as well as information on the allocation of assets in the 457 Plan. Mr. Kramer advised that there were currently seven participants in the DROP Plan and explained that the contributions since inception were $378,808.00 and the current balance as of April 30, 2006 was $394,446.00. He advised that Board that, with reference to the way the assets are dispersed in the DROP, the bulk of the money, 82%, has been going into the Plus Fund, the basic Stable Value Fund, with the remaining 18%, into Equities. Mr. Garvy referred to the second page of the hand out and inquired why it stated 38.6% Stable Value and Bonds and 61.4% Equities. Mr. Kramer advised that those numbers referred to the 457 Plan. Mr. Kramer continued that most DROP participants, when they enter the DROP, seem to be very comfortable with choosing the Stable Value Alternative. He explained that the Board might want to discuss that tendency as he compares the allocations in the DROP to the 457 Deferred Compensation allocations. In addition, Mr. Kramer advised that most participants, as they go into the DROP Plan, tend to be more interested in protecting assets because of the relatively large sums of money. Mr. Garvy inquired whether the DROP Plan had a typical five year horizon. Mr. Kramer advised that the Town of Palm Beach DROP is five years, so participants tended to be more protective due to the short term horizon. Mr. Garvy stated that protective participants should be only those people who intended to completely withdraw their money at the end of the DROP. Mr. Kramer advised that the 457 Plan assets, in contrast, had 66% in Equities and the remainder in Stable Value. He advised that perhaps at the Town level, as people enter the DROP, there needs to be a more intense job of educating them about the strategies of how to position the DROP etcetera. Mr. Garvy inquired whether there was default if participants did not make an election. Mr. Garvy responded that the default Fund had always been the Stable Value Plus Fund. Mr. Elwell inquired whether the Milestone Funds are also available to DROP participants. Mr. Kramer explained that when the choices in the DROP were first created, the intent was to offer about 6 or 7 investments options; and the Board's intent was to create some parameters so that people would have core investments, but also limit investments that tended to be particularly volatile. He advised that the Board might want to think about modifying the choices in the DROP to reflect choices that could be more productive. He advised that the Milestone Funds that Mr. Elwell referred to could probably add some value to the existing DROP Plan. Mr. Kramer inquired of Mr. Crouse what the procedure was to modify the DROP choices. Mr. Crouse advised that the Board of Trustees had to approve modifying the choices available to DROP participants. Mr. Kramer explained that with respect to the Milestone Funds, many organizations have introduced target retirement age funds, which are funds created based on a designated retirement age. He advised that the Milestone series are based on five year increments and recommended that the Board add at least three Milestone Funds to the DROP program. He explained that these Funds typically start out with more risk at the beginning, but once it gets close to maturity, there would be more stable value. Mr. Garvy inquired whether any Board member had any questions. Mr. Madison inquired if the years for maturity can be adjusted with Milestone Funds. Mr. Kramer responded no. Mr. Madison commented that the educational seminars that ICMA delivered earlier in the year were very informative and requested that the Plan Administrator invite ICMA back for more of such seminars. Mr. Elwell agreed and commented that the Board should add the Milestone Funds to the DROP program. Ms. Valcik advised that Callan recommended the Milestone Funds as the default, versus Stable Value and recommended that the Milestone Funds be an option for DROP participants. Mr. Garvy thanked Ms. Valcik for her comments. Mr. Elwell explained that there is the opportunity for DROP participants can retire on the Town's pension and have the Milestone Fund continue and mature afterward. He advised that as people age, the DROP can be used to extend value and, as a result, retirees would be able to maintain a good quality of life through retirement as opposed to having the 457 or DROP be considered basic components of the initial years of retirement. Mr. Garvy called for comments, observations or a motion. Mr. Elwell commented that it would be unnecessarily restrictive to offer the Milestone Funds that mature sooner and explained that there should be an array of choices because people have different circumstances. Mr. Garvy inquired whether it was preferable to have the default be 60/40. Ms. Valcik explained that a 60/40 Fund was probably the preferred default seven years ago and stated that Callan never recommended Stable Value for the preferred Default. She advised that the targeted mature Funds are a better default and that was the current norm for the industry. Mr. Crouse advised that if the targeted mature funds became the default, the Human Resources Department would work with ICMA to make sure that, based upon a participant's age, the correct Milestone Fund is selected. Mr. Elwell inquired about what would happen with a person who is in their early sixties, who decide to choose the default. Mr. Crouse explained that the DROP establishes that it ends at the age of 65, so if someone selected the DROP after age 60, their DROP period would be less than five years. Mr. Elwell thanked Mr. Crouse for his clarification. Mr. Garvy inquired what the liability of the Board and participants would be if the default included Equities. Mr. McCracken advised that he did not believe there would be liability as long as the default was within the industry standard and the selection was made with reason. Mr. Garvy thanked Mr. McCracken for his comment and inquired if there were any other questions or comments from the Board, there were none. Mr. Garvy then called for a motion.

Mr. Madison moved approval to add the Milestone Funds to the DROP options and be the default which matures at the age of 65; Mr. Elwell seconded. There was no further discussion, and the motion carried unanimously.

VII. REPORT ON THE AUDIT

Mr. Mark Veil from Caler, Donten, Levine, et al. reported on the audit. He explained that the Plan had a total net asset of $62,396,697 as of September 30, 2005 versus $55,666,161 on September 30, 2004. Mr. Veil explained that the majority of that asset amount was the investment portfolio. He advised the Board that the total liabilities were $690,854 versus $1,157,085 of September 30, 2004. Mr. Veil explained that the liabilities were mostly due to the DROP Plan. He also discussed the changes in net assets and pointed out the Plan's unfunded and funded ratio. Mr. Garvy thanked Mr. Veil for his report. A copy of this report is on file with the Plan Administrator.

VIII. CALLAN ASSOCIATES

A. Quarterly Report

Ms. Jeanne Valcik from Callan Associates presented to the Board. She gave the Board a handout and summarized the Domestic Equity portfolio and advised that the market was very strong for the first quarter of the year and the S&P 500 was up 4.21%. She advised that inflation remains low even though gas prices are still high. Ms. Valcik informed the Board that Small Cap stocks continued to do very well for the first quarter. For the one-year, Ms. Valcik advised that the S&P was up 11.73% and small cap growth stocks were up over 29%. She referred the Board to page four and advised that for Domestic Fixed Income, interest rates were raised two times for a total of 50 bases points. Ms. Valcik explained that Core-Plus Bond managers did better than Core Bond managers and reminded the Board that the Fund had recently switched to a Core-Plus Bond mandate. She explained the high yield securities continued to do very well. She advised that with reference to International Equity, the markets did well for the first quarter of 2006 and the EAFE (Europe, Australia and the Far East) index was up 9.4%. Japan, Ms. Valcik advised did not do well for the first quarter of the year while emerging markets did very well; for the one year period, emerging markets were up 50 %. She advised the Board of the actual versus target allocation, actual versus target returns, attribution by asset class and showed the Board a comparison of the Fund to other Public Funds of a similar size. Ms. Valcik informed that Board that the money managers were able to add 31 basis points to the total plan return. With respect to the one year cumulative effect, Ms. Valcik advised that the actual return was up 11.9% versus the target of 8.81%. Ms. Valcik advised that the Domestic Fixed-Income cumulative effect was negative for the one year and reminded the Board that at the last Board meeting, she had advised that there might be an error, however, she consulted SSGA and after a day-by-day verification of the records, it was found that there was no error in the previous report. Domestic Equity, Ms. Valcik advised returned 18% for the one year and 6.62% for the five year while the Bonds did not do as well. She explained that the last quarter of the year really hurt the Bond return for the one year period and reminded the Board that that was the reason why there was a switch in Bond managers. Mr. Garvy inquired about what happened to the Bond portfolio. Ms. Valcik responded that she has to get back to the Loomis portfolio and advised that the thought that the lost happened in the transition period. Mr. Garvy asked Ms. Valcik to examine whether similar portfolios suffered a similar effect and advised that if other portfolios did not, there needed to be further investigation. Ms. Valcik advised that this level of loss had happened with Loomis in the past because their portfolio had a lot of volatility. Mr. Garvy referred to page 21 of Ms. Valcik's handout and inquired about the intersection of standard deviation and return in the lower right hand corner. Ms. Valcik responded that the intersection was the median manager. Mr. Garvy also inquired about the number of years shown in the chart of relative return versus the Russell 2500 Growth. Ms. Valcik advised that the number of years shown could be adjusted in the future and suggested a ten year period; there was no objection from any members of the Board. Mr. Garvy advised that the comparisons that start on page 13, he advised that it was useful to know the number of funds in those comparisons. Ms. Valcik advised that a number could be added. Mr. Garvy then asked Ms. Valcik to explain the difference between information and excess return ratio. Ms. Valcik explained that the information ratio is based upon the capital asset pricing model which takes the return of the fund and regresses it against the benchmark. She advised that the formula for the information ratio is alpha + beta x the return of the market - the risk free rate + the residual. The excess return ratio, Ms. Valcik explained is the return of the portfolio - the return of the benchmark ÷ standard deviation of the return of the portfolio - the return of the benchmark. Mr. Garvy commented that he was pleased to see that the Plan has been in a good place over the past fifteen years but stated that he was a little concerned about whether the Board should be viewing a chart with a shorter time horizon. He advised that while charts show long-term performance, they could minimize an important incident that happened in the past few years. Ms. Valcik continued her presentation and explained the manager analysis, returns for the quarter for the fiscal year-to-date, the asset distribution across investment managers and advised that the Goldman portfolio was finally funded in the quarter. Ms. Valcik referred the Board to page 22 of Callan's booklet and explained that Roanoke Asset Management had an excess return ratio in the 62nd percentile. She advised that, as a result, they were be taking more risks than their Mid Cap Growth Peer group. Ms. Valcik advised that it might be more appropriate to put Roanoke Asset Management in the Small/Mid Cap peer group and explained that they were placed in the Mid Cap group because the Small/Mid Cap group does not have a long history. The Board members agreed to have Roanoke compared to the Small/Mid Cap Growth peer group. Ms. Valcik advised that if the Small/Mid Cap group is used, some of Roanoke's history would be lost because the peer group had a short history of about five to ten years. Ms. Valcik spoke about Thompson Seigel et al and advised that they did very well and explained that there were in the Small/Mid Cap Value peer Group which had a short history. Mr. Garvy inquired whether there were changes or comments form the Board; there were none. A copy of this report is on file with the Plan Administrator.

There was a short break at 10:20 a.m. The meeting reconvened at 10:27 a.m.

IX. ANNUAL ACTUARIAL VALUATION

Mr. Brad Armstrong from Gabriel, Roeder, Smith & Companies appeared before the Board and referred the Board to his company's booklet. He presented the actuarial valuation report through September 30, 2005. He explained that the general employee retirement contribution had not changed and remained at 6.47%, with the Public's portion being 19.34%. Lifeguard contributions, he advised, are 7.21%, with a Public portion of 27.27%. Mr. Armstrong advised the Board that the funding value of the assets of the Retirement System increased less than projected by the fund's long-term investment income funding assumption. He stated that the return on the funding value of assets was 5.88%, net of investment expenses, versus the projected return of 8%. He advised that the aggregate effect of the system experience was a loss of $2,753232 mostly due to unfavorable investment experience and slightly higher than expected pay increases for active members and low turnover partially offset by retired morality. Mr. Armstrong explained that year-to-year experience variations are normal and expected and advised that the plus and minus years will tend to cancel over 5 to 10 year periods. He provided a chart with the experience gains and losses from the years of 1991 to 2005. Mr. Garvy referred to the supplemental factor to be considered in the future, and inquired whether it should impact the Board's thinking about the Fund's return assumption. Mr. Armstrong responded that he believed that it did. He explained that generally, because of the overall limitation on the total experience, everything in the Retirement experience would have to be favorable for the Plan to payout supplemental Pension distributions. He advised that there would be no pension distribution payable this year, even though the market returns exceeded 8% for the fiscal year, the accumulated System experience since October 2000 was still negative; he referred the Board to page B9 of the booklet. Mr. Garvy referred the Board to page B3, which was a chart the showed the Public contribution since 1977, and advised that the trend around the nation was eliminating Defined Benefit Plans and replacing them with Defined Contributions or other types of Plans. He explained that one of the major factors that led to more Plans becoming Defined Contribution was what was shown in column 3 and 4, high Public contribution portions. Mr. Garvy inquired whether any Board members had any comments. Mr. Karman agreed with Mr. Garvy statement about the trend with corporations and advised that the issue will not disappear and that was something the Board needed to pay special attention to. Mr. Armstrong commented that there had been significant benefit increases over the past 25 years and explained that investment opportunities were more conservative in many years. He explained that there were much more opportunity for less conservative investment now, which could have larger gains. Mr. Armstrong added that the trend was much more prominent in the private sector and advised that Gabriel Roeder et al. wrote research memos about stabilizing the contribution rates and advised that he could make that information available to the Board. Mr. Garvy commented that such memos would be of interest to the Board. Mr. Luscomb inquired about the years for smoothing. Mr. Armstrong responded that going forward, there should be positive gains and there should not be any upward pressure from past experience. Mr. Madison inquired whether Mr. Armstrong had indicated in 2000, when the General Employees Retirement Fund was split from the Public Safety Funds and there was a WMS study, that the rise in benefits and pay would apply downward pressure. Mr. Elwell explained that upward pressure would be on the taxpayers' contribution and downward pressure on the funded ratio. Mr. Madison commented that now that the WMS study was being done every five years, there should not be such a drastic effect. Mr. Elwell explained that the changes in the pay system moved some people more quickly through their pay ranges and that there would be a time when that also would normalize. Mr. Elwell explained that in the future, once the transition period is complete, there would be more consistency from year to year. Mr. Elwell stated that there were a few things that contributed to the current numbers. He advised that the hurricane overtime had impacted the numbers, as well as having 27 biweekly payroll periods for the year versus 26. Mr. Elwell advised that these two contributing factors are not likely to happen every year and commented that the smoothing should stabilize or reduce the taxpayers' contribution. Mr. Armstrong advised that the Town's contributions do not affect gains or loses, other than the potential investment opportunity. He referred the Board to page B6 of Gabriel Roeder Smith & Company's booklet and advised that the employer contribution was a little over $1,700,000, which was also imbedded in the assets. He explained that when the expected unfunded liability was developed, that was the difference between the liabilities and assets. Mr. Armstrong then referred the Board to page A3 of the booklet and advised that the Ordinance required that the retirement reserve account be equal to the liabilities on an annual basis. He explained that there would be a transfer from the employer reserve fund into the retirement reserve fund to make sure that was always fully funded. He said investments or cash flow are not affected and the money was transferred continuous between these funds. Mr. Armstrong advised that Board that the current total of the retirement reserve fund was $29,143,077. Mr. Garvy inquired what the number was for last year. Mr. Armstrong advised $26,024,590. Mr. Garvy called for a motion.

Mr. Elwell moved approval to accept Mr. Armstrong's report and have the retirement reserve fund be equal to $29,143,077; Mr. Karman seconded. There were no further discussion and the motion carried unanimously.

X. DISCUSSION OF MONTHLY BENEFITS PAYABLE TO DROP PARTICIPANTS

Mr. McCracken advised that a question was asked by a participant who left the DROP program. He advised the Board that the individual believed that his pension would be recalculated and would not include the administrative surcharge. Mr. McCracken advised that when the DROP plan was adopted, in order to make the system cost neutral to the Town, there was a calculation made by the actuary which determined that the cost to the system for utilizing the DROP would be approximately 2% of the benefits payable to the DROP participants. He advised that a retiree who was in the DROP thought that once he left the DROP, the 2% fee would no longer be charged. Mr. McCracken explained that the individual asked that the Ordinance be reviewed and a conclusion be reached. Mr. McCracken advised that the Ordinance was reviewed and it was not completely clear on the issue. He advised however that Mr. Armstrong, who was consulted at the origin of the DROP, was very clear in his reports, and his testimony that was given at the time, that the 2% charge would be a charge made against a DROP participant's pension when he was in the DROP and would be assessed against his pension for his or her life. Mr. McCracken advised that he had submitted a provision to be added to the Ordinance which would make the issue very clear. He advised that the 2% administration fee was devised based on experience that Gabriel Roeder et al. had with DROP plans in other communities. He advised that the Ordinance stated that the Board would need to take a look at the fee occasionally to determine what the appropriate percentage should be. He explained that the individual who was concerned about the issue was satisfied, based on documentation, that the 2% was to be charged for life. Mr. McCracken recommended that the Board request the Town Council to pass a proposed amendment to the Ordinance which clarified that the percentage reduction would be a ‘permanent reduction’. Mr. McCracken informed the Board that they might want to have a study done to find out whether the 2% was still an appropriate amount, prior to forwarding the amendment to the Town Council. Mr. Garvy thanked Mr. McCracken and inquired whether there were any questions or comments from Board members. Mr. Madison commented that initially the DROP plan was administered by the Town and then ICMA began to administer the plan. He inquired of Mr. McCracken why the Town assessed administration fees after the retiree left the Town and ICMA was managing the Plan. Mr. McCracken responded that was a part of the confusion because to categorize the 2% as an administration fee, made it seem as though the Town was getting the money during the time that someone was in the DROP program. He explained that it related more to the cost to the Town of early retirement for DROP participants. Mr. McCracken inquired whether Mr. Armstrong could comment on the issue. Mr. Armstrong stated that the 2% was really an actuarial reduction and explained that he did not believe that any of Gabriel Roeder Smith & Company’s documents suggested that it was an administrative fee. He advised that it was similar to a person who elects a non-spouse beneficiary, he or she too would take a reduction. Mr. Armstrong advised that when employees choose to go into the DROP, they are still active employees, but the Division of Retirement mandates the Town to fund their retirement benefits immediately upon their entrance into the DROP. He explained that in different circumstances without the DROP, the Town would have a longer funding period to put money into employees retirement, however, with this mandate from the Division of Retirement, the Town’s contribution would need to be accelerated to account for that mandate; he advised that that was why the 2% reduction of retirement benefits was devised. Mrs. Struder inquired how many other employers had implemented a similar deduction. Mr. Armstrong advised that in the State of Florida, such a reduction was rare, but in others such as in Arkansas, similar reductions were quite severe. He advised that other areas have been seeking to repeal the DROP program. Mr. Garvy inquired whether there were any reasons why the proposed amendment to the Ordinance should be submitted immediately to the Town Council. Mr. Karman commented that because the 2% fee was already in place, there was no reason to postpone having the Ordinance clarifying it as a permanent actuarial adjustment. Mr. Elwell agreed with Mr. Karman’s statement and explained that although the Ordinance specifies that the Board review the actuarial adjustment occasionally, he believed that the Board should not review it until the DROP had a longer history. He advised that if a review was done, it might be very convoluted by the fact that there was a period of time where there was a guarantee of 7.5% and administrative costs and then the new model was devised. Mr. Elwell informed that Board that he had an item he wanted to discuss with them which was a similar clarification that will also require an Ordinance change. He advised that the items could be brought to the Council simultaneously at the July and August Town Council meetings. Mr. Garvy called for a motion.

Mr. Karman moved approval to accept the clarification of the 2% as an actuarial adjustment and recommended submitting the amendment to the Council for approval; Mr. Madison seconded. There were no further discussion and the motion carried unanimously.

Mr. Garvy thanked Mr. McCracken for his information and inquired whether Mr. Elwell would address the Board now, rather than in the ‘Any Other Matters’ section of the meeting. Mr. Elwell agreed.

XI. IMPROVEMENT IN BENEFITS/VACATION BUY BACK

Mr. Elwell informed that Board that there were three main items he wanted to discuss with the General Employees Retirement Board. He explained that the Town was in the process of reviewing the composition of its Boards and Commissions, their activities and authority. He explained that the Town had received separate recommendations made in a report by the Palm Beach Civic Association to the Town Council, as well as a meeting was held in the Council Chambers on Wednesday, May 10, 2006, where the Town Council prioritized the recommendations of the Palm Beach Civic Association. Mr. Elwell explained that the items would be reviewed again in the July Council meeting to move forward. He advised that the recommendations would not likely affect the basic functioning of General Employees Retirement Board. Mr. Elwell explained that one of the items that the Council discussed was the way applicants for appointments were reviewed and the way these appointments were made that might have some impact on selection. He advised that some other Boards/ Commissions were being looked at more closely and informed that he would advise the Board of more details once they were available.

The second item that Mr. Elwell informed the Board of was regarding vacation buy back. He explained that the Police and Firefighter Board had already had their quarterly meeting for the month of May and he had already informed both Boards of the items at their meetings. He advised that neither Board had a strong objection to his recommendations. With reference to the Ordinance change that needed to be made, Mr. Elwell informed the Board that at the June 13, 2006 Council meeting, he was going to propose an improvement in employees' benefits package that would allow flexibility and enable employees to receive more cash income, while reducing some of the long-term liabilities of the Town. He explained that employees currently receive 100% of their accrued, unused vacation balance when they resigned, retired or are terminated. He advised that that vacation pay would be paid out at the final salary of the employee. Mr. Elwell explained that he was proposing that employees be given the opportunity to buy back a portion of their vacation balance. He advised that the details were still being worked out, but he explained that there will be a limit on how much time they could buy, and employees, in order to be eligible would have to have taken a specific amount (or more) of their vacation time in the twelve months preceding the buy back. Mr. Elwell advised that there would also be deadlines for advising of buy back intent, so that the budgets for the fiscal year would be properly funded for the event. He informed the Board that the buy back would allow lower leave balances, thus there would be a lesser long-term liability by the Town paying in today's salary versus the employees salary when they separate from employment with the Town. Mr. Elwell advised that because the Ordinance specified that at retirement, the payment for accumulated unused leave would not be calculated into the retiree's average retirement total, there would need to be a similar provision for current employees who opted to participate in the proposed vacation buy back. He advised that without such a provision in the Ordinance, a tax burden would be inadvertently created, while increasing employees' potential pensions. Mr. Elwell advised that if the Council approves the vacation buy back, there would be an effort to have it effective with the next fiscal year. Mr. Madison inquired about sick time. Mr. Elwell advised that sick time would not be included at this time. Mr. Garvy inquired whether there were any comments from the

Board members. Mr. Luscomb commented that the vacation buy back sounded like a good idea. Mr. Karman agreed. There were no other comments or questions.

The third item that Mr. Elwell presented to the Board related to Investment Strategies. He explained that there had been some thought given to investment strategies, including the Fund's asset allocation and all the work that was involved in deciding asset allocations. Mr. Elwell explained that he has been approached by several different people, including a Council member who has had a lot history of expertise and success in the field, regarding portfolio management being more into equities and taking on a greater level of risk. He advised that there were also the practical implications of using taxpayer money and possible scrutiny by taxpayers. Mr. Elwell advised that the model that the two public safety Board had moved toward was an alternative investment strategy which had a very broad diversification of the portfolio. He advised that the working theory was that by being more involved in the international markets, and being much more broadly diversified, a Fund could over the long horizon, reduce the volatility and the risk and increase the expected rate of return. Mr. Elwell advised that before the other conversations evolved, there were plans to have a discussion from the Town Council's perspective on the Town's investment strategies. He advised that the discussion would be held at the June 13, 2006 council meeting. He explained that each Board would be represented. Mr. Elwell explained that the Town is working on creating a Trust Fund for employees health insurance funding. He informed the Board that the Town, over a period of years, had developed a good, healthy reserve for paying the long-term cost of health funding, including retirement health benefits. Mr. Elwell stated that Mr. Crouse, as well as others in the Town, deserve recognition for having the foresight over fifteen years ago to set aside modest sums of money from annual budgets for this purpose. He advised that overtime, the modest sums of money grew into a healthy reserve. He informed the Board that most other municipalities had not done the same and today they have almost nothing. Mr. Elwell explained that GASB (Governmental Accounting Standards Board) imposed a requirement that municipalities show in the financial statements, the long-term liability of post retirement benefits. He advised that when the actuarial calculation was done, the Town needed to have $15 million dollar for this long-term liability; the current total of this reserve, he informed, was $17 million. Mr. Elwell explained that this reserve needed to be a health trust fund that should be managed, similar to the retirement funds. He advised that if the reserve be considered a health trust fund, there could be opportunities to invest in a broader array of investments, so it could better benefit the employees, retirees, beneficiaries and taxpayers. He stated that the trust would need a group of people to manage it and the group would be made up of representatives from each of the three retirement boards as well as citizens who would be designated by the Town Council. Mr. Elwell explained that all three retirement Boards could benefit from regaining the economies of scale, by pooling their funds, as they had when they were all one fund. He advised that at the June 13, 2006 Council meeting, there would be talks of this Investment Committee, who would be making decisions regarding the pooled assets. Mr. Elwell advised that there was a real advantage to pooling the funds, as there would be vehicles of investment which are not available to each retirement Board separately. He explained that there could also be disadvantages that the Board would need to discuss. He advised that the trust could help reduce the burden on tax payers. Mr. Elwell stated that the Police and Fire Board had concerns about the State money that is put into the Town's funds for their benefits through

chapters 175 and 185. He stated that general employees and citizens probably also have their own concerns and commented that the share in the pool that is for the general employees would be properly accounted for. Mr. Elwell advised that this would be just for the purposes of investments and the Boards would continue on as they always have from a policy oversight and administration perspective. He explained that the investment portion would be the only thing that would be handled by this separate investment committee that would oversee the pooled investments. He explained that the General Employees Retirement Board would have representation on his committee and be able to monitor the activity. Mr. Luscomb inquired how autonomy would be maintained by the three separate Boards when there was a separate committee or 'umbrella Board' directing the activities of the Boards. Mr. Elwell explained that the investing would be the only aspect of the Boards that would be joined. He explained that everything else about the Board would be separate and it would not be the 'umbrella Board' directing the Board to do things, but the General Employees Retirement Board would no longer be doing the things related to the investment portfolio. He advised that the Investment Board would be doing the things related to the investment portfolio with the commingled tool, on behalf of all of the retirement Boards, while the Boards would still address the administrative Plan aspects, contributing thoughts to the investment committee, but the responsibility of handing investments would be the responsibility of this investment committee. Mr. Madison commented that it seemed as though the General Employees Retirement Board would no longer have any fiduciary responsibility. Mr. Elwell responded that the General Employees Retirement Board would still be responsible for the oversight of the General Employees retirement program, while the separate investment committee would be responsible for the investment decisions and the oversight of the portfolio. Mr. Luscomb inquired whether the newly formed investment committee would be able to decide policies on what the rates of return and decide on the threshold. Mr. Elwell stated that the idea of the investment committee was so new that those sort of things had not been established as of yet but stated that he believed that there would need to be a rules and guidelines. Mr. Garvy stated that eventually the investment committee might want to make such decisions. Mr. Karman commented that he would be interested in Mr. Garvy's thoughts on the issue. Mr. Garvy stated that he has had some concerns about diversification in the fund in the past. He advised that in his thirty five years of experience in doing investing, he believed that the one methodology that he was absolutely sure that works was diversification. Mr. Garvy explained that diversification is the method by which the standard deviation of the volatility is reduced through the low correlation or relationships of the entities to each other. He advised that over the years of being a consultant, the funds that he realized continually succeeded consistently are those with broad diversification. He advised that he was in favor of increasing the diversification of the Fund. As it related to the current discussions, he advised that there were a number of advantages as well as concerns about moving to a centralized investment committee. He advised that the three retirement boards would become primarily administrative Boards and no longer be interviewing money managers because the investment committee would take on that responsibility. Mr. Garvy explained that because the nature of the Boards and the predisposition of a group of people as to how they want to position themselves in the market
could lead to potential conflicts because some people might be conservative, while others are aggressive. He advised that that could create a lot of dissonance between the individual

components of the investment committee. He advised that there are other issues that might need to be considered more fully. Mr. Karman commented that every investment policy should reflect the feelings and ideas of its constituents. He advised that his concern was that the three Boards had their own objectives and as a result, in pooling the money, the identity of the three Boards should not be lost. He advised that he wanted to Board to make sure that the investment of the General Employees Retirement Board's fund is invested in vehicles that represented the thoughts of the General Employees Retirement Board. The Board discussed past practices of investment and investment vehicles and investment manager fees and Mr. Madison inquired whether there would be less cost to the Board for pooling investments and whether it could be really beneficial to pool the funds. Ms. Valcik responded that there would definitely be saving because currently there is a base fee for each of the accounts, as well as consultant fees. She advised that it was the same for each of the retirement boards. Ms. Valcik advised that another advantage of pooling the funds was the fact that there were some vehicles in which there could be no investment because of the size of the General Employees Retirement fund, but with more than double the fund, these opportunities would now be available. The board continued the discussion and Mr. Elwell advised that the conversation could also continue at the June 13, 2006 council meeting. He commented that even though the investment committee members might have different opinions, he believed that these differences of opinions would lead to good, interesting discussion and conversation and eventually good investing. Mr. Luscomb commented that the three Boards were initially one and were separated in the past, and inquired what would happen if everyone agreed to have this new investment committee, it is formed and then some members, after dissonance and much discussion decide they want be separate once more. Mr. Elwell advised that there would need to be need to be research and much more work done because he was not sure, after deciding the three Boards decide to commingle for investment purposes, what independent ability groups would have to decide to separate. The Board continued the discussion and recommended that some members decided to attend the June 13, 2006 meeting. Ms. Valcik informed the Board that there would be a free conference held by Callan Associates in Atlanta in June regarding alternative strategies, and recommended that a few members of the Board attend
because similar topics would be discussed.

XII. DISCUSSION OF THE NOVEMBER MEETING DATE

Mr. Crouse informed the Board that the next regular scheduled meeting of the General Employees Retirement Board on Friday, November 10, 2006 coincided with a Town observed holiday. He advised that, as a result, the Council Chambers was reserved for the meeting the day before, Thursday, November 9, 2006. He inquired whether there were any objections to having the meeting on that date. There were no objections and Mr. Crouse asked all Board members to make a note of it in their calendars. Mr. Garvy thanked Mr. Crouse.

XIII. REPORT ON QUARTERLY EXPENDITURES

Mrs. Struder referred the Board to her memo to the Plan Administrator dated May 4, 2006. She advised that a transfer from the money managers was not required at the time and, based on her estimates, it was unlikely that a transfer would be required for the remainder of the fiscal year. She explained that the operating expenses through April 30, 2006 were $148,133.96. Mr. Karman inquired about year to date expenses. Mrs. Struder advised that she did not keep a record of year to date expenses, but she could compile one. She advised the Board that an operating expenses analysis from fiscal years 2000 to 2005 was listed on page 4 of the memo. Mr. Garvy thanked Mrs. Struder for her report.

XIV. ANY OTHER MATTERS

Mr. Karman stated that as laws change, occasionally many Boards review the charter, statues and what the Plan was doing and inquired whether the General Employees Retirement Board could do something similar. Mr. Crouse stated that the most prevalent document was the Ordinance, which was periodically reviewed. He reminded the Board of the most recent amendment to the Ordinance based on the IRS revisions. Mr. McCracken stated that since he began working with the General Employees Retirement Board, the entire Ordinance had not been reviewed, but advised that the Ordinance does get amended as issues arise. Mr. Karman inquired whether the Plan was up to date and recommended that the Plan documents should reviewed to make sure that it was up to date and in compliance with current laws. Mr. Garvy reminded the Board that the Investment Policy was reviewed regularly as well as the Town's benefits package, and vesting requirements was just surveyed. He inquired whether anyone had any other recommendations. There were none. The Board discussed the return of investments for the three retirement boards and Mr. Karman advised that he would attend the June 13, 2006 Council meeting and Mr. Garvy advised that he would attend one of Callan Associates' conferences; both advised that they would report to the Board at the next meeting.

XV. ADJOURNMENT

The meeting adjourned at 1:28 p.m.

Approved:________________________
James Karman, Secretary