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Document Name	MayMinutes102002GenEmp	Subject	May 2002 General Employee Retirement Board Meeting Minutes	Date	Fri 05/10/2002
Directory	Retirement	Type	Minutes	Category	Retirement

GENERAL EMPLOYEE RETIREMENT BOARD MEETING
FRIDAY, MAY 10, 2002, 9:00 A.M.

General Employee Retirement Board Meeting, May 10, 2002

I CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James McC. Wearn at 9:08 a.m., May 10, 2002 in the Town Council Chambers. Attending were Chairman James McC. Wearn and Trustees Charles Boggs, Robert Garvy and Peter Elwell. Also attending were Board Attorney John McCracken, Finance Director Jane Skittone, and Human Resources Director and Plan Administrator William Crouse.

II APPROVAL OF AGENDA

Mr. Wearn added under Other Matters, a discussion of future board meetings, particularly the November meeting. Mr. Boggs stated that he would need to be replaced on the board due to his pending DROP application and would not be allowed to serve on the board any longer, therefore, an election would need to be held. Mr. Wearn stated that this item would be under the Administrator's Report.

Mr. Garvy moved to approve the agenda with Mr. Wearn's addition, Mr. Elwell seconded, and the motion carried unanimously.

III APPROVAL OF MINUTES-REGULAR MEETING OF FEBRUARY 8,2002

Mr. Elwell moved to approve the minutes of the regular meeting of February 8,2002, Mr. Garvy seconded, and the motion carried unanimously.

IV ADMINISTRATOR'S REPORT

Mr. Crouse stated that due to Mr. Boggs' retirement a prompt election would be necessary in order for his replacement to be on board by the August meeting. He also stated that the process would begin within the next week, and the new trustee would fulfill the remainder of Mr. Boggs' current term.

Mr. Wearn stated that Mr. Boggs had been an excellent representative for the General employees and that he was disappointed to see him go. Mr. Crouse stated that through his contact with General employees everyone has been pleased with Mr. Boggs as well.

Mr. Crouse reported that at their last meeting, the Public Safety board chose to completely restructure their investment strategy in reference to equities, which contains 60% of the total investment. He also stated that they were also planning on terminating the contract with Loomis and proceed with a manager search for a total of four money managers to take on large cap growth, large cap value, small cap growth, and small cap value; they have decided to retain Roanoke, therefore, the search will bring in three new managers. Mr. Crouse stated that this was a significant change in the structure. He also stated that at this time the board had not decided who would do the search from a consultant standpoint, Callan did put in a bid to do the search.

Mr. McCracken stated that the decision was to allocate the 60% equities, 16% to an index with Callan, it had not been decided as to whether it would be an enhanced index or not, 32% to large cap growth, 32% to large cap value, 10% to small cap value, 10% to small cap growth, while treating Roanoke as small cap growth. He also stated that the Public Safety board was not happy with the cost of the manager searches and requested that the Plan Administrator and Mr. Boggs gather information that would compare Callan's bid to other consultants who perform manager searches, to insure they are getting the best value. Mr. McCracken stated that the Public Safety board would be having a special meeting within three to four weeks to make their decision.

Mr. Garvy stated that as the entire board shares the high regard for Mr. Boggs that it would be appropriate for the chairman, on behalf of the board, to send a letter of commendation to Mr. Boggs for his service.

Mr. Elwell moved to approve the commendation letter, Mr. Garvy seconded, and the motion carried unanimously.

Mr. Garvy inquired as to whether it would be appropriate for this board to make observations regarding consultant fees to the other board based on their own personal experiences. Mr. Wearn stated that it would be more appropriate to address those observations to the Plan Administrator personally. Mr. McCracken stated that the board members are permitted to speak individually with the administrator, they cannot meet as a group.

Mr. Boggs stated that he would appreciate hearing Mr. Garvy's opinion on the $25,000 fee per search, whether or not it is too high, and that the board should know this in order make a more informed decision.

Mr. Garvy stated that he had spent 15 years in the consulting field with Wilshire Associates. He stated that based on his understanding, Callan has offered to do three searches for $20,000 each, and he feels that this is a very fair price, one that is actually lower than normal. Mr. Garvy stated that the knowledge that the current consultant has of the board, the historical perspective and experience would not be found with a new consultant, therefore, he feels that the board should proceed cautiously.

V PRESENTATIONS ON ENHANCED S&P 500 INDEX-INVESTMENT MANAGER EVALUATION

A. Aeltus Investment Management, Inc.

Mr. Arnold West and Mr. Hugh Whelan of Aeltus Investment presented their proposal to manage enhanced indexing for the fund. A copy of the presentation material is on file with the Plan Administrator.

Mr. West stated that Aeltus had a proven investment philosophy based on a systematic, risk controlled approach.

Mr. Garvy inquired as to the turnover in the investment team that was involved in this search over the last five years or so. Mr. West stated there had been none, stating that many of the portfolio managers and team members had been with the firm in excess of ten years.

Mr. Whelan stated that their enhanced index strategy had two objectives, the first would be to out perform the index, specifically by delivering an out performance of 1% per year over full market cycle, net of gross. He stated that the second objective would be to retain the look and feel of the index by maintaining a tracking error of around 1.5% relative to the S&P 500. Mr. Whelan stated Aeltus had been managing with this strategy since October, 1991.

Mr. West corrected his earlier statement regarding turnover in the last five years, he stated that there had been 2, the assistant portfolio manager and the chief investment officer.

Mr. West stated that for the Town of Palm Beach they would ask a fee of 30 basis points, which is approximately 20% less than their standard fee.

The board decided to hold off discussion until after all three candidates had made their presentations, therefore, they moved to another item on the agenda due to Mr. Armstrong having a travel constraint that would not allow him to travel home if he was unable to meet his 1:00 p.m. flight.

VIII REPORT ON ACTUARIAL STUDY ON THE OPTION TO BUY UP TO FIVE YEARS OF SERVICE CREDIT

Mr. Armstrong of Gabriel, Roeder, Smith & Co. presented the study on the option to buy up to five years of service credit. He stated that the key consideration would be what type of service would be allowed. There are three types of service, vesting service would allow a person to buy up to the vesting period just before they would normally retire anyway, eligibility service would allow a person with 29 years of service, but, who is less than 55 years of age to buy an additional year that would give you 30 years toward being able to retire immediately, and the third type would allow the purchase of benefit service, which is credited service that would count in the formula for calculating the retirement benefit.

Mr. Armstrong stated that most of the service purchase programs he has seen are benefit purchase programs. He stated that this would allow employees to buy service that would count as service worked at the time the employee was eligible to retire. Mr. Armstrong stated that the eligibility service is not relatively common due to the expense involved. An example being that if a person had a $24,000 pension annually and bought eligibility that allowed them to retire one year sooner, that person would pay $24,000, the cost of benefit service would be $6,000-$7,500 a year. Mr. Armstrong stated that allowing the purchase of eligibility service may encourage employees to leave early. He also stated that there would be no harm to the retirement system as long as the objectives are clearly stated within the ordinance.

Mr. Boggs stated that the reason he had asked for this study was to allow an employee nearing retirement, to consolidate all of his retirement accounts into one good pension if they desired. He stated that this would be a one time option only. Mr. Armstrong stated that most often an employee would only choose to purchase service at the end of their careers due to the economics involved.

Mr. Crouse stated that the Public Safety board chose to allow the option to either purchase the eligibility or the benefit, but, had ruled out any vesting.

Mr. Armstrong stated the purchase could be made in six month increments and that the service purchase and benefit purchase could both be purchased.

Mr. Wearn inquired of Mr. McCracken that as he was already revising the plan on behalf of the Public Safety board would he simply add another document to cover the General Employees as well.

Mr. Garvy moved to adopt the option of purchasing eligibility or benefit service, excluding vesting service and not restricting the choice to a one time option, Mr. Boggs seconded the motion, and the motion carried unanimously.

Mr. Wearn raised the question of this being a one time benefit. Mr. Crouse stated that the option could be taken at anytime during their career, but, only one time.

Mr. McCracken stated that Public Safety did not include the one time option and he asked for clarification of that issue. Mr. Elwell stated that this was a win win situation by building flexibility and additional opportunity into the plan that will allow employees and their families to do financial planning that is customized to their needs at no cost to the Town; however, he did not understand restricting this to a one time choice, as this would create practical and psychological pressures in having to make that decision.

Mr. Crouse stated that his motivation for the one time option was due to the cost to the employee of buying service or benefit being cheaper at the start of their careers.

Mr. McCracken stated that the revision would be on the agenda at the next quarterly meeting in August.

V cont. Presentations on Enhanced Indexing

B. DSI International Management, Inc.

Mr. John J. Holmgren, Sr. and Mr. John J. Holmgren, Jr. presented their proposal to manage the enhanced indexing for the fund. A copy of the presentation material is on file with the Plan Administrator.

Mr. Holmgren, Sr. stated that the firm began as a research firm in 1970, incorporating into DSI International Management after selling their services throughout the institutional investment world for about 10 years. In the 1980's they began managing funds and today have approximately $5-6 billion dollars under management. DSI was acquired by Paine Webber over two years ago. Mr. Holmgren, Sr. stated that Paine Webber had been acquired by UBS Asset Management, UBS is a Swiss bank, possibly the fourth or fifth largest bank in the world. He also stated that even with such a large organization behind them, they have been able to maintain their autonomy and remain a small firm giving them the advantage to being flexible.

Mr. Holmgren, Sr. stated that their firm would give the fund a portfolio with very much the same characteristics of the S&P with an excess return of about 100 basis points per year. He also stated that there would not be a liaison person dealing with the Town, it would be either himself or Mr. Holmgren, Jr. answering any questions, one of them would always be in the office, one of them would always attend any meetings as requested.

Mr. Holmgren, Jr. stated that the fee for a commingled fund of about $12 million would be about 30 basis points in the type of vehicle that does include custody, they also have performance fees that are structured at 10 basis flat at 1% of the target excess return, the fee continues up to 30 basis points of 1% of excess return, it is capped at 50 basis points.

A five minute break took place at this time.

VII ANNUAL ACTUARIAL VALUATION

Mr. Armstrong presented the 55th Annual Actuarial Valuation, a copy of this report is on file with the Plan Administrator.

Mr. Armstrong stated that the fund had a shortfall of $7.5 million, this money will need to be recognized over time and that the market under-performance will be effecting the contribution rate for several years to come, in the absence of over-performance. He also stated that the markets being cyclical the fund should see returns of 8% or greater within the next four or five years that will help offset the shortfall as well.

Mr. Garvy inquired as to a four year smoothing period being the standard. Mr. Armstrong stated that 3-5 year smoothings are the most common, it is possible with the current market volatility that 5 year smoothing may become more prevalent. Mr. Armstrong stated that it was only in the last decade that plans started using smoothing. He also stated that governmental accounting standards mandated that some kind of market related return be used, which encouraged plans who were not using it to start. Smoothing enables funds to cut off the peaks and valleys in the market returns.

Mr. Armstrong stated that the objective 55 years ago was to fund the liabilities over an employee's career, with the goal being 100% funded. He also stated that the most important factor in a retirement system is to continue to receive recommended contributions not only from the Town, but also from the members.

Mr. Armstrong stated that the actuarial condition of the retirement system is excellent as of the report of September 30, 2001.

Mr. Elwell inquired as to the smoothing that is needed after the unfavorable performance last year and the relationship between that and the over-funded status. Mr. Elwell stated that even though the statistical outlook is reassuring, the matter of $500,000 the Town needed to find in a tight budget year that could cause the Town not to be able to fulfill some projects. Mr. Armstrong stated by going to five year smoothing, the contribution rate would be a little less, the impact in the absence of any out performance of the total fund in the next three years the negative returns would pull the fund rapidly toward the 100% from the 115% it currently has by 3-4% per year.

Mr. Garvy stated that the actuarial return assumption of 8% is aggressive for a public fund. Mr. Armstrong stated it was now the most common assumption today. Mr. Garvy stated that according to many professionals, such as Warren Buffet, the next decade is expected to have equities return only in the mid single to low single digits. He also stated that moving to a five year smoothing was not out of the ordinary and would alleviate some of the contribution pressure.

Ms. Skittone inquired of Mr. Armstrong of maintaining the 8% return and no benefit changes are made, would the Town's contribution remain stable. Mr. Armstrong stated that the Town's contribution would go up next year with an 8% market return due to the unrecognized loss. Ms. Skittone inquired as to what the Town's contribution rate would be over the next few years. Mr. Armstrong stated he would expect it to be about 1% per year.

Mr. Armstrong stated that the board could change from four to five year smoothing and set up an employer reserve, which would be reserved for prepaid employer contributions, which would allow the employer to choose how and when to recognize the assets.

Mr. Boggs stated that as the Town has been very generous with the General employees, especially last year with the increase in benefits, therefore, if the board is able to help the Town get through a tight budget year by changing the smoothing to five years which would free up $377,000 to reduce the Town's contribution, he did not feel that the General employees would mind the board acting on this issue today.

Mr. Boggs moved to change the smoothing process to five years and amend the annual actuarial report to the state to show prepaid employer contribution reserve, Mr. Garvy seconded, and the motion carried unanimously.

Ms. Skittone inquired as to whether the 1% per year would drop due to the five year smoothing. Mr. Armstrong stated that it would probably drop to a .8% over the next four years compared to 1% over the next three years.

IX REPORT ON ACTUARIAL STUDY ON THE COST OF REDUCING THE VESTING REQUIREMENTS FROM TEN TO FIVE YEARS OF SERVICE

Mr. Armstrong stated that should the Town go to five year vesting, in effect it is changing the normal retirement eligibility from 55 and 10 to 55 and 5, in order to be consistent in the benefit provisions. He stated that as the Town does hire people at older ages the cost will raise by .68%.

Mr. Boggs stated that the reason he had requested this study was due to the fact that the State of Florida was changing their vesting to six years. Mr. Boggs inquired as to the cost of raising the suggested change from five to six years. Mr. Armstrong stated that a six year vesting would reduce the cost from .68% to .52%.

Mr. Garvy felt that it was not prudent to pursue this at this time. Mr. Boggs stated that should this be approved the costs would not show up until October 2003. Mr. Wearn stated that this report would be revisited next year.

Mr. Boggs stated that there were a number of employees that this would effect and that there is a lot of interest in this plan by the members. Mr. Wearn also stated that by using a ladder effect, going from 10 years to 9 to 8 and so on until reaching the desired goal would be easier to assimilate into the Town's budget.

XII DISCUSSION OF PROVIDING DROP PLAN ALTERNATIVES

Mr. Boggs stated that the Town's DROP plan is a great benefit for everyone, however, there have been people who are interested in managing their own DROP accounts. He stated that it would take quite a bit of skill to beat the 7.5% guarantee, especially in the next few years. Mr. Boggs stated that by allowing this it would take some burden off of the plan. For example, in the last year these people were paid 7.5% and the plan lost $1.8 million. He stated that if there was a DROP program set up and managed by ICMA, similar to the 457 Plan, the cost of the plan would be nothing and would allow the employees to direct their investments as they like with fewer limitations, possibly raising the limit from 5 to 7 years of participation.

Mr. Armstrong stated that compensation is the biggest consideration in the Town's overall budget. He stated that a longer drop period would be better for the retirement system by deferring the onset of the new hire's liability. Mr. Armstrong stated that by allowing this, the Town would have educational matters to consider, such as, explaining tax laws, and how to handle risk. He also stated that sooner or later someone who may have had a large drop lump sum, will, after 15 years have only their underlying annuity to live off of for the rest of their lives.

Mr. Wearn stated that the Town's interests were in providing the employees stability, not only during their employment but also in their retirement. He stated that he was concerned with adding the burden to an employee to look after their own affairs, their own investments, the peer pressure that may make an employee undertake this option who may not be inclined to do so.

Mr. Boggs inquired as to whether the current DROP program is limited to five years due to the ordinance being written this way, or was it an IRS requirement. Mr. Armstrong stated that it was an ordinance requirement only. Mr. Boggs inquired of the board as to any reluctance to increasing the limit from five years to seven years.

Mr. Garvy stated that even though it would be creating a bigger lump sum, it takes the employee out of the retirement program, which reduces the annuity. He stated that he felt that the shift in the current retirement system in this country from defined benefit to defined contribution and self directed type plans suggests a social experiment of considerable proportions, with the largest experiment currently with the State of Florida Defined Benefit Plan, which is the fourth largest in the country. Mr. Garvy stated the drop in dollars of participation in this plan reflects the fear and concern of the participants in the current environment. He also stated that while an employee may do better on their own by saving, the outcome with doing better in investments would be buying better clothes or fancier cars, however, the outcome of doing poorly is that they would be more dependent on the tax payers, the state, the city and the county to provide for their retirement. Mr. Garvy stated they should approach any issue related to shifting the risk with extreme caution of the retirement income security to the participant, particularly in light of the difficulty of the social security system, which is a supplement to retirement.

Mr. Boggs stated that the people who are interested in extending the drop period are age 55 with 10 years or with 30 years before age 55, therefore, they have intended to work until age 62 and he does not feel that changing the period of the drop would effect that, it would allow them to take advantage of this benefit earlier. Mr. Garvy stated it was a definite trade off with the lump sum being larger, but, the monthly check for the rest of their lives would be smaller; and that what is being given up are the last years with the greatest increase to the annuity.

Mr. Crouse stated that he had contacted one of the leaders in public sector retirement plans, ICMA-RC, which also happens to be the company who handles the Town's deferred comp plan. He stated that ICMA is an innovator and leader in self-directed drops, they have over $15 billion and manage over 6,000 retirement plans in the state. Mr. Crouse stated that in looking over their plan he saw some advantages for the Town to consider; one being it relieves the Town from administering the drop plan. He stated that at the time the Town entered into the drop it was to be a cost neutral issue and it has not been cost neutral. Mr. Crouse stated that when 7.5% is paid, based on the reports of the past year in the quest to meet the 8% funded, it is possible that the 7.5% is not realistic, as well as the fact that the program is administered internally, maintaining the records. Should the Town go into a self-directed drop, there are guaranteed programs available, but not at 7.5%, this will enable the Town to avoid surprises such as being approached by employees to un-drop or back-drop or all of the issues of the future, this would also ease the spending of the contributions. Mr. Crouse stated that by moving to ICMA and using their methods make administering the funds fairly easy, requiring only transferring the monies into their package, they also have a complete turn-key package which includes education, including pre-drop counseling, individual counseling, computerized program to keep people informed, quarterly or semi-annual visits to the employer, they are involved in all the enrollment procedures, the distribution and tax planning for each individual in the plan; additionally, their investments are diversified, they have multiple approaches and choices, including the guaranteed account. He also stated that there is something to say about the independence of investments adding integrity to this situation.

Mr. Wearn stated that as Mr. Crouse had several important issues and information regarding this issue for the board to consider, that he prepare a memorandum of his comments and suggestions detailing these items to the board, and placing it on the agenda for the next meeting. Mr. Crouse stated that he would like to invite ICMA to present to the board all of the options available and be more knowledgeable in answering the board's inquiries. Mr. Elwell agreed. Mr. Garvy inquired as to other potential program sponsors. Mr. Crouse stated that there were others, one large competitor is Pepsco, which is primarily in the county governments. Mr. Elwell stated that the initial advantage in exploring this option with ICMA would be that they are the current provider for the Town's self-directed plan and the employees are familiar with their work. Mr. Garvy stated that one concern would be that they are proponents of this direction and it might be worth while having another company's point of view. Mr. Elwell stated he would find it informative to have the function of a self-direct plan explained in person. Mr. Wearn stated that he would rather have the information in written form before inviting anyone to come and present before the board.
Mr. Garvy stated that he concurred with Mr. Wearn, he would like to see Mr. Crouse's memo with the details and materials of the issues that he raised today. Mr. Crouse stated that anything he would provide would be his own research and using the internet. Mr. Wearn stated that after receiving this information that this item should be placed on the agenda and also whether or not the board wished to have a presentation on the issue in person.

Mr. Boggs stated that five or six years ago, West Palm Beach offered their employees the opportunity to change to a defined contribution system and eliminate the defined benefit program, 70% of the employees chose to do the defined contribution, and he felt the same percentage would also show when it is offered to the state employees. He stated that West Palm Beach found a $30 million surplus that was used for other improvements. Mr. Garvy stated that he felt that 90-100% of those who chose to go into the defined contribution would like to return to a defined benefit program today.

Mr. Boggs stated that he would like to have Mr. Crouse also address expanding the current drop program to seven years. Mr. Wearn stated that Mr. Crouse could cover any items about the drop program or issues that come to mind pertaining to the drop.

Mr. McCracken stated that the Public Safety board was grappling with the un-drop problem and that there had been very disturbing testimony from one board member about the personnel problems in the fire department over recent benefit enhancements which the drop people are not participating in, and the problems that it is causing in the department. Mr. McCracken stated that in looking into the un-drop program with a natural consequence of that being an un-retire program, and that these matters become very complicated.

Mr. Elwell stated that the difference in the action that was taken in the past year in improving the benefit, specifically the multiplier applied retroactively to all general employees whether they are retired or drop or current employees, however, the public safety version applied only on an ongoing basis to all current employees. He stated that those who had dropped and those who had retired in the public safety system did not receive the increased multiplier, this being the clear motivation for this subject to have been presented to the other board and that he hoped a similar situation was not going to be presented at this board. Mr. Wearn stated that he felt the distinction between the two boards was becoming more pronounced.

Mr. Garvy stated that this type of drop plan and a self directed plan results in disparate outcomes that are very distinctive. He also stated that in a defined benefit plan there is salary, time of service and non-disparate outcomes. Mr. Garvy stated that there will be complications in the other board with the individuals involved, as well as socially and politically in the organizations that sponsor these plans.

V cont. Presentations on Enhanced Indexing

C. State Street Global Advisors

Mr. Eric Roberts, a client service officer and Ms. Ava Williams, a senior member of the enhanced equity team, presented their proposal for managing the fund's enhanced indexing portfolio. A copy of the presentation material is on file with the Plan Administrator.

Mr. Roberts stated that State Street was a 209 year old institution that is recognized for a very strong fiduciary heritage. Mr. Roberts stated that State Street has two core businesses, one being investment servicing(custody) and the other being investment management, with a little over $800 billion in assets under management, which is comprised of passive index assets, enhanced assets, and active management. He also stated that State Street currently has 17 investment relationships with Florida public funds, one being the Town's Public Safety Board for passive fixed income assets and the contract has been approved by John McCracken.

Ms. Williams stated that State Street Global Advisors is committed to providing the Town with a stable stream of asset returns above and beyond the S&P 500. She stated their performance objective is consistent in adding 50 basis points in any given year, 1% above the benchmark over a longer period. Ms. Williams stated that their process is built on fundamentals, they currently manage $5.3 billion in assets within this group, they use stock selection and industry selection.
Ms. Williams stated that State Street had out performed six out of the last six years. She also stated that they had reviewed the Town's guidelines and they are able to follow them, the use of futures may need to be discussed later.

Mr. Boggs requested verification that State Street rebalances every 2-3 weeks. Ms. Williams stated that this was correct, the rebalancing is dictated by the market conditions, they are capable of rebalancing on a daily basis if they desired. She also stated that turnover is typically kept low and less than 40% on an annual basis. Ms. Williams stated that when there is a need to equitize cash they have not used futures since 1997, they tend to use spyders.

Mr. Roberts stated that based on the asset size of the fund, they are proposing a flat 30 basis point investment management fee, however, as there is an existing relationship with State Street on the custody side, should they be hired, they would rebate $6,000 yearly off of that fee, making it a flat fee of 25 basis points. He stated that Ms. Valcik had inquired as to whether they would be receptive to a performance based fee, and the answer is yes.

Board Discussion of Enhanced Proposals

Mr. Boggs inquired as to whether a motion to increase the reserves Mr. Armstrong had recommended. Mr. Wearn stated that as Mr. Armstrong was going to return with changes to the report, therefore, if there is a need for a motion, it would be done at that time, and he also asked that Mr. Crouse place it on the next agenda.

Mr. Wearn inquired of Ms. Valcik her comments on the three investment managers. Ms. Valcik stated that Aeltus is definitely more active within their approach, they have a forecast tracking error relative to the benchmark that is higher, their stock weight could be at it's highest decile at 1.7 times the S&P weight. Ms. Valcik stated that DSI would go 5.25, and SSGA(State Street Global Advisors) could go to up to 1% over, even though they are historically it is 10-40. Aeltus has a significantly higher turnover than the other managers, at about 120% a year; DSI's turnover is about 30% a year and SSGA is about 50% a year. In terms of fees, Aeltus offered 30 basis points, DSI was 30, SSGA was at 30 with a rebate that would make it 25.4.

Mr. Wearn called for a break at 1:05 p.m.

The meeting resumed at 1:15 p.m.

Ms. Valcik stated that Aeltus did have an issue with the Town's investment policy. Mr. Garvy stated that SSGA may have an issue as well. Ms. Valcik stated the investment policy states that the fund could not own securities in the S&P 500 index weight, except upon a specific finding by the board that sets higher percentages in the best interests of the fund.

Mr. Boggs stated that all three managers were competent, he felt State Street was the best and that their fee was certainly better, therefore, he would vote in their favor. Mr. Garvy stated that he was a big proponent of the information ratio, which is the efficiency of the investing, and that Aeltus had a higher ratio over the last seven years, but, State Street in terms of alpha has a substantial return over five years that is closer than 10 basis points of Aeltus. He also stated that in terms of overall risk of standard deviation over both 7 and 5 years, State Street appears to be the least risky. Mr. Garvy stated that DSI was a much smaller organization than the other two, which would not raise concern except for the fact that they sold out all of their equity. Mr. Wearn stated that he supported both Mr. Boggs and Mr. Garvy in their comments. Mr. Elwell stated that he agreed as well, particularly when talking about the relatively smaller gains that are being attempted through this effort, therefore, the more competitive fee offered by State Street, unless there was a performance concern, would be his choice. Mr. Wearn stated that he liked their consistency. Mr. Garvy stated that the senior manager had been in place at State Street for 14 years. Mr. Elwell stated that the leader of the group would be personally responsible for handling the Town's funds.

Mr. Boggs moved to accept State Street Global Advisors as the enhanced investment manager and to allow Mr. Wearn to execute the contract subject to necessary negotiations, Mr. Garvy seconded, and the motion carried unanimously.

Mr. Wearn inquired as to how to set up the contractual relationship. Mr. McCracken stated that as there is already a relationship with State Street and that Public Safety has entered into an indexing contract most of the issues have been covered, which should make it relatively simple. Mr. McCracken stated that he would be in touch with State Street and elicit an agreement and that in a week or so he would present the contract to Mr. Wearn for execution.

Mr. McCracken clarified that the entire index amount would be placed within this new product. Mr. Wearn stated that that was correct.

Ms. Valcik stated that the assets are now with Northern Trust in a co-mingled fund and that she had been attempting to get Northern Trust to do an in-kind out transfer to release the 500 securities out of the fund. She stated this began when Public Safety wanted to move to State Street, however, Northern Trust stated that the amount was too small for that type of transaction.

Ms. Valcik stated that by moving it over without this type of transfer would cause the fund to give up the fee savings, now however, with the General fund needing to be moved, she will try to renegotiate using both funds assets. Ms. Valcik stated that in terms of transition she would work on the most cost effective.

VI CALLAN & ASSOCIATES

A. Quarterly Report

Ms. Valcik presented the quarterly report, a copy of which is on file with the plan administrator. Ms. Valcik stated that Loomis had a 2.15% return for the quarter, which ranked them in the 63rd percentile, that puts them 62nd for the one year. She stated that they needed to be addressed as they have not improved with the extra time that has been given to them. Ms. Valcik stated she had also noticed that Loomis had 1.6% position in WorldCom and she called them on it, and they stated they still had them, even thought they had elected to take out the other telecoms. She also stated that WorldCom was now rated a mid triple B, which is investment grade, but, they may be lowered to junk and will have to be taken out of the portfolio.

Mr. Garvy stated that he felt retaining Loomis earlier when they were at the bottom of the value cycle had been appropriate, however, there needs to be improved performance relative to their peer group, and they need to be watched closely.

B. Market Projections Report

Ms. Valcik presented Callan's capital market projections for the next five years and the expected return for the Town based on the asset allocation. A copy of this report is on file with the Plan Administrator.

X REPORT ON QUARTERLY EXPENDITURES

Ms. Skittone presented the report on quarterly expenditures. She recommended a transfer of $150,000 from the money managers to cover the anticipated shortfall. Ms. Valcik stated that the money should be taken from the bond portfolio.

Mr. Boggs moved to approve the transfer of funds, Mr. Elwell seconded, and the motion carried unanimously.

XI REQUEST AUTHORIZATION FOR MEDICAL EVALUATIONS TO BE PERFORMED ON DISABILITY RETIRANTS

A. Kevin Reynolds, Electrician

B. Robert Doney, Town Manager

Mr. Crouse stated that the Town ordinance states that the continuation of a disability retirement may require the retirant to undergo a periodical medical examination by a physician or under the direction of a physician selected by the board of trustees if the retirant has not attained the age of for normal retirement. He stated that the names of retirants are brought before the board once a year to make the decision whether to request a medical examination.

Mr. Crouse stated that Kevin Reynolds worked in Public Works, he was injured in February of 1999 and has not been evaluated since that injury. He stated that the decision not to evaluate has been due to the severeness of his injury. Mr. Crouse stated that no one knows his current status on an official basis, but, due to the severity it is believed to be unimproved, therefore, the board may want to have a review to obtain a current standing.

Mr. Crouse stated that Mr. Doney's disability was not an injury, but, an illness. He stated that in two years Mr. Doney would qualify for normal retirement and that his current pension amount would not change. Mr. Crouse stated that he did not feel that a medical evaluation was necessary due to the shortness of time between now and his normal retirement.

Mr. Garvy moved to request a re-evaluation of Kevin Reynolds by the Town's physician, Mr. Elwell seconded, and the motion carried unanimously.

Mr. Boggs stated that he had spoken to several employees who are in touch with Mr. Reynolds and they do not feel he has had any improvement.

Mr. Boggs moved to accept the current status of Mr. Doney and not require an evaluation this year or next year, Mr. Garvy seconded, and the motion carried unanimously.

XIII ANY OTHER MATTERS

Mr. Wearn stated that he would not be able to attend the November 8, 2002 meeting. Mr. Garvy inquired as to moving the date.

Mr. Elwell moved to change the meeting to November 6, 2002 at 1:00 p.m., Mr. Garvy seconded, the motion carried unanimously.

Mr. Boggs stated it had been a privilege and an honor to work with the board in the last five or six years.

XIV ADJOURNMENT

Mr. Boggs moved to adjourn, Mr. Garvy seconded, and the motion carried unanimously.
The meeting adjourned at 1:45 p.m.

Approved:___________________________

Vernon Richards, Secretary