TOWN OF PALM BEACH
MINUTES OF RETIREMENT BOARD MEETING
Friday, February 20, 1998

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Harvey at 9:05 a.m. on Friday, February 20, 1998, in the Town Hall Council Chambers. Attending were Chairman Robert Harvey, Vice-Chairman James Wearn, Trustees John DeIorio, George Frick, Karen Lane, Charles Boggs, and Town Manager Robert Doney. Also in attendance were Carla Kneipp, Personnel Analyst, Cheryl Somers, Assistant Finance Director, and Attorney Skip Randolph.

II ANNUAL ELECTION OF CHAIRMAN, VICE-CHAIRMAN, AND SECRETARY

Mr. Harvey called for nominations for Chairman. Nomination of Robert Harvey to serve as Chairman was made by Mr. Doney and seconded by Mr. Boggs. Mr. Harvey called for further nominations and there were none. Mr. Wearn moved to close the nominations and elect by acclamation Mr. Harvey as Chairman. Mr. Boggs seconded the motion. The motion carried unanimously.

Mr. Harvey then called for nominations for Vice-Chairman. A blanket motion was made by Mr. Doney for those individuals serving as Vice Chairman and Secretary to continue to serve in those roles. Mr. Frick seconded the motion, and the motion carried unanimously.

III. APPROVAL OF AGENDA

Mr. Harvey asked for any additions or changes to the agenda. Capt. DeIorio asked to add an item to number XI, Any Other Matters, explaining that he would like to discuss a possible review of Section 15.25 of the Ordinance regarding survival spouse benefits.

There being no further additions or changes, Ms. Lane moved approval of the Final Agenda of February 20, 1998. Mr. Frick seconded the motion. The motion carried unanimously.

IV APPROVAL OF MINUTES OF REGULAR MEETING OF NOVEMBER 21, 1997.

Mr. Harvey asked for changes or corrections to the minutes of the regular meeting of November 21, 1997.

Capt. DeIorio asked that the minutes be corrected to show that as he had not been present at the meeting of November 21, 1997, explaining that the minutes indicated that he had been the maker of several motions. Mr. Boggs moved correction of the minutes to indicate Capt. DeIorio's absence from the meeting of November 21, 1997, and that the necessary motions be corrected. Ms. Lane seconded the motion. Mr. Wearn asked that corrected copies of the minutes be provided to the board members. There being no further changes or corrections, all voted aye, and the motion carried.

V. ANNUAL REVIEW OF STATEMENT OF INVESTMENT POLICY

Mr. Harvey asked if there were any additions or corrections to be made to the Statement of Investment Policy, last revised August 15, 1997. Mr. Doney asked if all the changes discussed at that time had been incorporated into this revised version. Ms. Kneipp replied that all of the approved changes had been included. Mr. Doney then asked if the investment managers had approved the changes. Ms. Kneipp explained that each time the board makes changes to the Statement of Investment Policy, revised copies are forwarded to the investment managers, and that they sign that they are in agreement with the changes and will comply with the revised policy. Ms. Kneipp explained that most recently, copies of the revised Statement of Investment Policy had been included with the contracts when they were renewed, with a signature page indicating that the managers would comply with the Statement of Investment Policy.

Mr. Harvey asked for any other comments or corrections. As there were none, Capt. DeIorio moved approval of the Statement of Investment Policy. Mr. Boggs seconded the motion. All voting aye, the motion carried.

Mr. Doney asked that a signature page for the Investment Policy be drafted, and that it include signature blocks for the investment managers, Callan Associates, and the Retirement Board's attorney. Mr. Harvey asked that this draft be prepared for the May 1998 meeting.

VI. QUARTERLY REPORTS.

A. Callan Associates, Inc.

i. Request to increase evaluation services fees.

Carl Deane, Callan Associates, appeared before the Board and reported that the current fee for evaluation services of $18,000 had been in place since January 1, 1991. He explained that, due to an increase in costs, Callan Associates was requesting an increase of $3,000 annually, which would bring the total fee for services to $21,000 annually.

Mr. Wearn moved that the fee for evaluation services for Callan Associates be increased to $21,000 annually, per Mr. Deane's request. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

ii. Semi-annual rebalancing.

Mr. Deane reported on investments for the last quarter and for the entire year of 1997. Mr. Deane stated that the "Performance by Objectives" pages were being corrected and would be handed out to the Board by the end of the meeting. Mr. Deane explained that the last quarter of 1997 had been different from the rest of the year in that the bonds, and not the stocks, were the best performers. He explained that the assets stood at $102 million dollars at the end of the quarter and were very well in balance among the managers.

Mr. Deane reported that ANB was tracking the S&P 500, which was exactly what was wanted. He explained that Loomis, Sayles & Company was a balanced manager with both stocks and bonds and was running slightly behind the target, mainly because their style was out of favor with the market at the time. He explained that their fixed income was above the target, the equities below their target, and doing exactly what they had been hired to do. Mr. Deane reported that Roanoke Asset Management was the other balanced manager, and their performance had not been good, explaining that they had had two good years but three bad years. Mr. Deane reported that mid cap stocks had been out of favor, but Roanoke still had not done well compared with its peers. Mr. Deane then reported that the bond portfolio had been erratic, but was still above the benchmark and above the peer group for the last five years. Mr. Deane then reported that the T-bond account functioned as a ladder portfolio, and had been a bit of a crag on the total portfolio performance.

Mr. Deane then reported on a ten year analysis on the equity portfolio of Roanoke Asset Management. He explained that four of the ten years had been above the median quartile, while six of the ten had been bottom quartile. In response to Capt. DeIorio's question, he explained that the performances of the managers were not adversely affected by the restrictions put on them by the board. In response to Mr. Boggs question regarding a difference in timing from review of the investment policy and the review of the performances, Mr. Harvey asked the Board if they would like to adjust the timing of the signing of the contract. Mr. Wearn pointed out that the investment policy was really a living document, being reviewed frequently throughout the year with a formal review only happening once, and that timing did not have to be changed for either the evaluation of the policy or the signing of the contracts.

iii. Report on Alpha Management.

Mr. Deane reported that Alpha Management, a subsidiary of Callan Associates, was a Commission Recapture Program. He explained that using this program would not be worth it for the

Town of Palm Beach. Mr. Harvey asked if the investment managers could provide their commission rates when they presented their reports. Mr. Deane stated that he would prepare a form so that the managers would be able to easily report the number of trades on a quarterly basis, their commissions, who they traded with, and the average cost per share. He stated that this could then be provided to the board members.

B. Roanoke Asset management.

Brian O'Connor, a consultant to Roanoke Asset Management, appeared before the Retirement Board and explained that Mr. Vroom was unable to attend the meeting due to illness.

Mr. O'Connor reported that one major factor during the last year had been not turning the portfolio over enough. He explained that in response to the last two years performance, Roanoke was changing its policy regarding strategic trading.

Mr. O'Connor was unable to answer many of the questions the board members had, but stated that he would relay the concerns to Mr. Vroom and that Mr. Vroom would address them at the May meeting. Mr. Harvey asked that Mr. Vroom prepare a letter to the board addressing Roanoke's performance in each of the categories during the quarter, and what the peaks were. Mr. Wearn asked that Mr. Vroom provide written comments on the asset allocation and rebalancing when he reported in May, and that he include a comparison between Callan's report and Roanoke's report, covering the years from inception versus years from 1991. Mr. Harvey asked that Mr. Vroom attend the May meeting and that he provide to the board written statements regarding the asset allocation and rebalancing one month prior to the meeting. Mr. O'Connor indicated that he would convey this information to Mr. Vroom.

C. First Union Bank

Sandra B. Fleming of First Union Bank appeared before the board to report on bond activity. She requested that the board inform Fist Union Bank in writing when they were to rebalance so they could invest the cash they were holding back in anticipation of rebalancing. Mr. Harvey opened the floor for questions. There being none, Mr. Harvey thanked Ms. Fleming for her report.

D. Loomis, Sayles and Company

Gregg D. Watkins appeared before the board and explained that David G. Sowerby would be assuming the client contact responsibilities for the fixed income portion of the portfolio. Mr. Watkins stated that he had all of the information provided regarding commissions that had been discussed earlier in the meeting. He explained that for the year 1997, there had been approximately a 65% turnover, just a little under $14,000 in equity commissions, which averaged 4.9 cents per share paid. Mr. Watkins explained that the returns in 1997, on a relative basis, had done well.

Mr. Sowerby then reported on the bond market, explaining that returns for 1997 had been up 9.8%. He stated that the highlight for the bond market was the low inflation, and the last quarter had been the best for bonds.

Mr. Watkins then discussed the specifics of the equity portfolio. He explained that the ratio now stood at 38% equity ratio, and Loomis Sayles was defensively positioned in the allocation of assets and the content of the equity portfolio.

Mr. Harvey opened the floor for questions. There being none, Mr. Harvey thanked Mr. Watkins and Mr. Sowerby for their reports.

VII. ANNUAL ACTUARIAL VALUATION

Denise Jones of Gabriel, Roeder Smith and Company reported that the Town's retirement plan was now over 100% funded. She explained that actuaries were now able to use the same actuarial cost method in financial reporting that were used to determine the contribution rate, which helped maintain consistency in reporting trends and the computing of liability. Ms. Jones then reviewed computed gains and the historical schedule of investment return.

Mr. Harvey opened the floor for questions. As none were forthcoming, Mr. Harvey thanked Ms. Jones for her report.

VIII. CONSIDERATION OF PROPOSED DROP PLAN

Ms. Kneipp reported that the Deferred Retirement Option Program ordinance reflected the policy that the board had developed, with the exception that it was now in language suitable for an Ordinance. She explained that one modification with the DROP plan involved the introduction of an election period that required individuals to choose to DROP within a specie period of time after reaching minimum retirement age. She further explained that the Town's plan mirrored the State's plan as closely as possible. Mr. Doney asked if legal counsel and the actuary had reviewed the plan. Ms. Kneipp replied that they had.

Capt. DeIorio moved approval of the DROP ordinance, and to forward the Ordinance, along with proper documentation, to the Town Council for consideration at their May meeting. Mr. Frick seconded the motion. Mr. Doney reviewed the information that should be included with the proposed Ordinance when it was forwarded to the Town Council. Ms. Somers asked who would be responsible for the tracking and accounting for the DROP Plan. Mr. Doney replied that the Finance and Personnel Departments would be responsible. There being no further discussion, the vote was called. All voting aye, the motion carried.

IX. REPORT ON QUARTERLY EXPENDITURES BY CHERYL SOMERS, ASSISTANT FINANCE DIRECTOR

Ms. Somers presented the report on quarterly expenditures cash flow projection for the period from February 1998 through April 1998. She reported that as of February 1, 1998, the account balance was $187,885.53; actual employers' contributions for the second quarter were $6791,233; estimated employee contributions were $114,000 for public safety and $117,000 for general employees; estimated pension benefits were $885,000; estimated miscellaneous expenses and refunds were $170,000; and the balance available in the account for transfer to active managers was $55,118.53. She explained that at this time, it was recommended that no monies be transferred.

There being no comments, Mr. Frick moved to accept the report. Ms. Lane seconded the motion. All voting aye, the motion carried.

X. RETIREMENT APPLICATIONS

A. Application of Joe Ugi, Public Works Department, 21 years.

Ms. Kneipp explained that Joe Ugi, Facilities Maintenance Division Manager in the Public Works Department, had retired and been rehired as a retiree in the same position. She explained that everything was in order with his application for retirement.

Capt. DeIorio moved approval of Mr. Ugi's retirement application. Mr. Frick seconded the motion, and all voting aye, the motion carried.

B. Request by Val Williams, Retiree

Capt. DeIorio reported on a request by Val Williams regarding beneficiary pension benefits. He explained that the ordinance regarding pensions for surviving spouses had changed since Mr. Williams' retirement, and Mr. Williams was requesting that the change be made retroactive, as he had remarried and would like wife to be the recipient of his pension benefits upon his death.

Mr. Doney asked Ms. Jones to comment on this issue. Ms. Jones stated that she could not give a definitive answer until she had an opportunity to review the request. She stated that this was something the board would want to carefully review due to the financial impact it could have on the retirement system. Mr. Doney stated that changes to the ordinance were generally made prospectively, not retroactively.

Mr. Wearn asked the Plan Administrator to look into changing the ordinance, the effects the change would have, and report these to the Board via memorandum. He also asked that the attorney for the retirement system do the same, and that this matter be reported on at the next meeting.

Capt. DeIorio moved that the Board seek legal counsel regarding amending the retirement ordinance to make it retroactive regarding benefits to surviving spouses, with staff to research those issues that were taken into consideration at the time the ordinance was adopted. Mr. Frick seconded the motion. All voting aye, the motion carried.

XI. ANY OTHER MATTERS

A. Report on FPPTA Training Classes

Mr. Boggs reported that his experience at the Florida Public Pension Trustees Association training class at Ponte Vedra was one of the most rewarding and enlightening classes he had ever attended. He recommended that each trustee attend at least one class each year to become current in all aspects of doing their jobs. Capt. DeIorio agreed, and stated that it was his understanding that there would be additional classes held at the Breakers the following summer.

B. Request by Arthur Roebuck, Duty Disability Retiree

Mr. Roebuck appeared before the board stating that he had a question regarding his duty disability pension. H explained that his most recent 1099 form had reported his pension as taxable, and that previously, it had been reported as non-taxable. Mr. Roebuck asked that a new 1099 form be prepared that reported this income as non-taxable, and that it be reported as non-taxable in the future. Mr. Harvey asked Ms. Jones if she could clarify these issues.

Ms. Jones explained that the Town reported duty disability pensions as taxable income based on advice given the Town by the IRS. Mr. Boggs stated that he would like to have this advice in writing from the IRS before the board did anything further with this matter.

Mr. Roebuck then explained that the ordinance regarding the amount of duty disability pensions had changed from a minimum of 52.5% to 60%. He explained that because he had retired before the ordinance amendment, his duty disability pension was calculated at 52.5%. Mr. Roebuck stated that he would like to have the ordinance amended so that he would be able to receive a duty disability pension calculated at 60%.

Mr. Harvey asked that Mr. Roebuck put his requests in writing and submit it to the Plan Administrator, who could then investigate the matter and report the findings to the board at their May meeting.

C. Semi-Annual Rebalancing (continued)

Mr. Deane then handed out updated copies of the Palm Beach Employees Retirement System performance versus the total equity database. Mr. Frick asked how quickly the change in Roanoke's policy would affect their performance. Mr. Deane explained that the change in policy would not affect their performance as much as Mr. O'Connor had indicated.

Mr. Wearn moved that the board initiate a manager search process by requesting Callan

Associates to prepare a written proposal for the cost of the search, with such proposal to be presented at the May meeting. Mr. Frick seconded the motion. Mr. Wearn asked that any board member who would be unable to attend the May meeting submit their input regarding this in writing. There being no further discussion, the vote was called. All voting aye, the motion carried.

Mr. Doney asked that copies of the tapes of this meeting be sent to Mr. Vroom so he could familiarize himself with the issues that the board members had discussed. Ms. Kneipp indicated that she would forward this information to Mr. Vroom.

D. Date of the May Meeting.

Ms. Kneipp explained that the May meeting had originally been scheduled for May 15th, but due to a conflict, it had been re-scheduled to May 22nd. Ms. Kneipp explained that there were board members who were unavailable for each of these dates. Mr. Harvey asked all board members to check their calendars and notify the Plan Administrator of those dates they would be available to attend. He explained that it was highly possible that the May 22nd date would stand.

XII. ADJOURNMENT

There being no further business to discuss, Mr. Frick moved to adjourn the meeting. Capt. DeIorio seconded the motion. All voting aye, the meeting adjourned at 12:27 p.m.

Approved: ______________________________
John DeIorio, Secretary

Future Retirement Board Meetings:
- August 21, 1998
- November 20, 1998
- February 19, 1999