TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
MEETING OF FEBRUARY 10, 2012

I. Call to Order

Chairman Raymond Snow called the meeting to order at 9:05 a.m. at Town Chambers, 360 South County Road, Palm Beach, FL. 33480. Roll call was called and all trustees were in attendance.

In Attendance:

TRUSTEES
Raymond Snow, Chairman
Gerald Goldsmith, Vice Chairman
Sergeant Chris Proscia, Secretary
James McC. Wearn
Officer Michael Lynch

ALSO PRESENT:
William P. Hanes, Pension Administrator
Gerri Duvall, Staff
Bob Klausner, Klausner & Kaufman
Alexia Varga, Nowlen, Holt & Miner
Sean Higman, Prime Buchholz
Fred Hess, Town employee
Peter Elwell, Town Manager
William Diamond, Town Councilman

II. Approval of Agenda

Mr. Wearn asked that Item IV be placed in front of Item III and that other Items fall in order. Mr. Hanes noted that Officer Fred Hess was present and had asked to be able to have his matter discussed early in the agenda, and Mr. Hanes asked that Item IX follow Item IV and all others be placed in successive order.

Mr. Goldsmith moved that the requested order change be adopted. Officer Lynch seconded the motion. The trustees unanimously adopted the motion.

IV. Presentation of Town Manager Peter Elwell

Town Manager Peter Elwell provided an outline of the process that will be followed to implement the Town's decisions regarding changes in the board and retirement plan. He discussed the timing of resolutions and ordinances scheduled to be enacted by Town Council. He discussed that the scheduled implementation of a new 401(a), the withdrawal from the Chapter 175 and 185 provisions applicable to the public safety plans, and the termination of the current boards and creation of one consolidated board will become effective April 1, 2012. He discussed that the new board will have jurisdiction over the three current plans until the current benefits freeze on May 1, 2012, at which time a newly created defined benefit plan will go into effect for all public employees going forward. He discussed that he had significant discussion with Mr. Hanes and Ms. Olson, Director of Human Resources, regarding implementation.

Mr. Goldsmith asked about the plans going forward, and Mr. Elwell discussed that the plan becomes a hybrid, including a 401(a) defined contribution and a defined benefit with less benefits than what is provided today. Mr. Klausner noted that there would continue to exist the three legacy systems which are in place today. Mr. Elwell agreed.

Mr. Elwell discussed a nuance that was recently decided in that any employee who is employed on May 1, 2012 and not yet in DROP, and eligible to receive a pension, will be grandfathered into the current program allowing them to continue to accrue benefits under the current benefit formula.

Mr. Goldsmith asked Mr. Elwell what the loss of Chapter 175 and 185 monies will mean for the Town. Mr. Elwell stated that it represents about $600,000 to the Town versus the ability of the Town to change the plan in a way that the Town deems appropriate. He added that there no longer will be the state strings attached.

Mr. Elwell discussed that there will be nine members serving the board, including five appointed citizen members, a Police Officer, Fire Fighter, a General Employee (each of whom would be elected) and that he, as Town Manager, will be an ex officio member of the board.

Mr. Klausner stated that he has noticed that while the board is authorized to hire a specialist it is not so as far as the attorney, and that the Town Attorney serves as lawyer for the new board of trustees or a person appointed by the Town. Mr. Elwell agreed.

Chairman Snow thanked Mr. Elwell for presenting.

IX. DROP application of Officer Fred Hess

Mr. Hanes stated that the board had discussions at the last two meetings regarding DROP participation of Officer Hess. He discussed that it was brought to the board's attention at the November meeting that Officer Hess might be in violation of his DROP status if he had transferred from a Police Officer position to civilian position after he had begun participation with DROP as a Police Officer. He stated that with much discussion, the board ultimately ratified his participation in DROP contingent on whether the administrator determines that he has transferred to a civilian position. If so, Mr.Hanes was directed to terminate Officer Hess's participation in DROP. He discussed that at a subsequent special meeting in December, the board reexamined the matter and decided to rescind the action taken at the November meeting, and at the request of Officer Hess agreed to allow him to continue to participate in DROP through the current time, and to address the issue again at this meeting of the board.

The trustees discussed matters of Officer Hess's DROP status with advice from attorney Bob Klausner.

Mr. Elwell stated that from an employment perspective, Mr. Hess is a civilian, and is in the best position for him and the Town. He stated that the road he thought they were traveling was in everyone's best interest, and that the receipt by Officer Hess of DROP monies or retirement money would seem to have the same fiscal effect. He noted, however, that determination of the legal effect is the business of the board, and not his. He stated that the fact that Mr. Hess would prefer to be an employee and DROP participant is good for the Town as well. He stated the Town would like Mr. Hess to be happy with the situation, and the Town will be happy either way, but ultimately the Town understands there is a complexity to the matter related to the legal side and advice received, and the board will need to make whatever decision that is appropriate. He noted that the Town respects the board opinion, and will work with Mr. Hess in any way it can to allow him to continue to serve the Town.

Mr. Klausner discussed the constraints of Town Code. Mr. Elwell stated that he agrees with 100% of what Mr. Klausner states, except that they do not read the code to require that once he becomes a DROP participant as Police Officer that the board must require him to discontinue DROP and go to normal retirement because of his transfer to a civilian position. However, he stated he respects the position from the legal opinion that to do so would be violative of Chapter 185.

Mr. Wearn asked if the board could hear from Officer Hess. Mr. Hess discussed matters of his DROP status with the trustees.

Officer Hess stated he has had the opportunity to review numerous matters and discussed with numerous people. He discussed his unpleasant thoughts about the term "terminate Hess." He discussed the significant negative impact of termination and being hired back, including issues of leave time and job security. He discussed that a retired rehire becomes an at will employee with no employment protection. He stated with no reason cited by the Town he could be terminated. He discussed how Chapter 185 monies are not involved after April 1, 2012, and makes this a moot point.

Mr. Klausner discussed his opinion. He stated that if the board chooses to allow Officer Hess to "ride it out" that it is the call of the board, and that if the consequences are that you will no longer get the Chapter 185 monies, which is being repealed anyway, it is what it is. He stated that the bigger issue is that he doesn't know if there are others like Officer Hess who may have transferred with similar result, it may leave the board exposed to a claim which the board should be concerned about. He stated he did not know the answer to that issue.

Mr. Hanes discussed that attorney Stu Kaufman had stated at the previous meeting that the consequences of Officer Hess being allowed to participate further in DROP as a civilian turned on whether Department of Retirement determines there is a violation in compliance with Chapter 185. Mr. Hanes asked Mr. Klausner that since the revenue involved with Chapter 185 Share monies is collected by the state in the calendar year preceding when it is distributed, would the Town not be entitled to Share monies this year that were collected last year. Likewise, he asked whether the Town is due Chapter 185 monies in 2013 that are collected during this year? He stated that he thought the trustees needed to be aware of the payment of Chapter 185 monies in this decision since there seemed to be dollars that remain to be distributed to the Town that might be impacted if the decision by the board would result in violation of an applicable provision of Chapter 185.

Mr. Klausner stated that if the Division of Retirement knew about it, they may well withhold the distribution in 2013 for the year that ended December 31, 2012. He agreed too that the board would be entitled to a partial distribution in 2013 for the time participating this year. He stated that he cannot advise the board whether they will or will not withhold the money. He stated that he has given his opinion, but since he does not wear a black robe he cannot tell the board to follow the opinion. He stated that if the board were to defer the matter, the Town may be able to fix it in the proposed ordinances, but expressed that he does not have any heartburn over it. He stated he is worried that the board may have treated other members of the plan differently, but that he does know the answer to that issue. Mr. Hanes stated that he believed based on what he has learned that the situation is unprecedented for someone to have gone into DROP as Police Officer and then transferring to a civilian position. Mr. Elwell stated that he has never confronted this set of circumstances, but what he does not know is the degree for which there may be somebody who may have wore similar shoes, and thought about doing something, but decided not to pursue it because they understood the rules to be one way. Mr. Klausner discussed several cases from the Florida courts. He discussed that the board has legal restraints that prevents allowing Officer Hess to remain in DROP as a civilian.

Mr. Wearn discussed that the situation confronted by the board is about the Town code and interpretation of the Town code. He stated his opinion that the Town is the initial determiner of what the Town code says and does. Mr. Klausner stated that the board is supposed to be the determiner of the Police part of the code. Mr. Wearn stated that he believed the Town is the determiner of what the Town code says, and in the absence of the Town taking a position on what it says, then this body would have the responsibility because it must apply the code and determine what the code says. He stated it is his view that the board should defer this matter and request the Town to take action to state its interpretation and application of the Town code either as the code currently exists or as the code will be applied in the future or in this instance retroactively. He stated that the deferral in the situation like this would be without prejudice to the Town's position because Mr. Hess has requested the deferral. He stated he is suggesting that the matter be further deferred until the board has a determination from the Town, namely the Town Council, on what the code expresses and says, as we've heard described today and previously, and for the board not to take action until that determination is expressed back to the board. He stated that the Town's determination could also be expressed back to the board by the Town codes that are going to be up for adoption being revised or otherwise address the issue, either going forward or retroactive, as the Town and its Town attorney may advise the Town Council. He stated that he believes the Town Council is the final arbiter of what the Town code says and does. He stated that he does not want to be in conflict with the Town code and what the final arbiter says the Town code means. He stated it is his feeling to refer the matter back to the Town Council for its action, either by determination of what the Town code says and does as applied to this situation, or appropriate action in the ordinances to clarify the situation. He stated that the Town could look at all the circumstances and others of similar situation.

Mr. Elwell stated that the Town would be happy to address this situation in that way if it is the desire of the board. He stated that regarding the matter of who might be similarly situated to this situation, one ambiguity that we will probably need to live with or for a decision not to and to make a more conservative decision because of it, he stated he did not think there is any way to know who might be out there who were similarly situated and decided not to pursue an opportunity one way or another because they understood the rules to apply in a certain way. He stated that he believed it to be very fair that if you want to get this definitively addressed by the Town Council that it be addressed with Town Council on March 15, 2012, and not the following week. He stated that there is sufficient time for the Town attorney and others of the Town to prepare a proper report for Town Council to review and be ready for the discussion for when Town Council has the discussion. He stated that at the time the action is to be taken on the matters moving forward with the transition of the plan, there could be a definitive decision from Town Council regarding this matter as well.

Mr. Wearn stated that if someone has not yet come forward at this time to express the same circumstances, he stated that the board can assume the silence has indicated a position. He stated that probably this is a unique circumstance. He stated that as a second circumstance, he did not put a time frame in the suggestion on when the Town Council may consider it, but was merely deferring it for Town Council consideration when the Town Council finds appropriate. He stated that the deferral he was suggesting, at the request of Mr. Hess, would be without prejudice to the Town's position ultimately to be taken. He stated that the determination time frame would be up to the Town. He stated that this board, if it exists, or the successor board will ultimately make the decision when the Town reports back. Mr. Elwell stated that it is acceptable to the Town if it is acceptable to the Board.

Mr. Wearn made the motion that without prejudice to the Town, the board will continue with the consideration of the status of Mr. Hess and refer the question of the interpretation and application of the Town code to the Town Council for it to address and become the determinant of its code, or to address the matter in upcoming ordinances and resolutions that the board has heard described earlier by Mr. Elwell. Mr. Goldsmith seconded the motion.

Officer Lynch discussed that Officer Hess at the last meeting of the board raised an issue of his un-retiring, and becoming an active Police Officer. He asked if it may be an option. Officer Hess stated that when he had reread the paperwork that it seemed his decision to DROP to be irrevocable. Mr. Hess stated that the option of going back to Captain is too late. Officer Lynch asked what will happen if the Town Council decides Officer Hess is not eligible to remain in the DROP. Officer Hess stated his understanding to be if the board terminates him as ineligible to participate in DROP that he will be terminated as an employee by the Town, and have the choice of either shaking hands and saying good bye or staying on as a rehired retiree with the lesser benefits and lesser job security that he earlier described. Mr. Klausner stated that he did not see any problem with retiring and remaining employed, without a need to rehire. He stated his opinion that there is nothing within the Town code that prohibits an in-service distribution, allowing him to continue in employment without termination.

Mr. Wearn stated that the motion is for deferral, and the discussion is off the subject of that issue.

Officer Lynch stated that he has a concern that if the board allows it to occur and there continues to be Chapter 185 monies but undistributed, we could be losing the monies that should be distributed over the next year and a half because the board allows one person to benefit. He stated that he believed the decision would open up the board for liability.

Mr. Wearn reiterated that it is a discussion on the motion on deferral, and not a discussion on the merits of the decision. He stated that the motion on deferral should be limited to discussion about the deferral, and is not taking a position or action on the matter, but remains status quo for a future determination.

Chairman Snow stated as a paraphrase to Officer Lynch's question, which he stated he believed is on point, is regarding what could be the consequences of the deferral. Mr Klausner stated that he is not troubled by the deferral, but expressed that the issue that Officer Lynch raises is an issue that must be a part of the overall consideration before the board takes any action on the matter. He stated that it also should be taken into consideration by any review by Town Council. He stated that the action to defer does not put into jeopardy those issues.

The vote was 3-2 in favor, with Officer Lynch and Sergeant Proscia voting in opposition to the motion.

VIII. Fiduciary Insurance

Chairman Snow requested from the trustees if there would be an objection to placing item VIII out of order in order that Mr. Sam Ellington is able to present on behalf of Wells Fargo the bid for fiduciary insurance. The trustees agreed.

Mr. Ellington presented, and noted that the current fiduciary insurance expires on March 1, 2012. He stated that the policy premium proposal is the same as for the expiring policy, with a $10 million limit and $150,000 deductible. He discussed the intention to cover the new board with the same carrier, RLI, and the board will be able to cancel effective on April 1, 2012, and receive a return on premium reimbursement based on a pro rata basis.

Mr. Klausner stated the trustees definitely need to renew the policy. He also mentioned that tail coverage will be needed. Mr. Ellington noted that tail coverage under the policy is for 150% of the expiring premium for one year, 175% for two years, and 200% for three years. Mr. Ellington stated that the decision for tail coverage will need to be made prior to the expiration of the policy and prior to termination of the board in transition to the new board. Mr. Klausner recommended that the trustees purchase tail coverage.

Mr. Wearn made the motion to renew the policy based on representations made by Mr. Ellington. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Chairman Snow asked Mr. Ellington to discuss the market for fiduciary insurance. Mr. Ellington stated that Wells Fargo sought bids from eight carriers, and six either declined or wanted a higher premium, and the only carrier that offered a lower premium was a B rated company, and Wells Fargo is not allowed to do business with a B rated company.

III. Comments by Trustees

Mr. Wearn commented that the Klausner, Kaufman client conference was coming up on the 18th of March, and that he had signed up to attend and encouraged the other trustees to attend.

Mr. Klausner advised that the only financial conditions under the Palm Beach County Ethics provisions is that if you bring a spouse, the firm will need to bill you for the spouses for their meals.

Mr. Wearn made observations regarding the process as explained by Town Manager Peter Elwell. He stated that other Towns will be following the lead from Palm Beach in addressing the issues, and stated he commends the process with input from various stakeholders. He stated it has been a lengthy process and one that has consumed a great deal of time and energy from people who are interested in the Town of Palm Beach. He stated that he believes it is coming to a successful conclusion. He noted one factor of success was addressed with Director Blouin at a Civic Association meeting on January 19, 2012, where he indicated that on file with the Town of Palm Beach Police Department are 700 applications for Police Officer employment. He stated it signifies to him success.

Mr. Wearn noted that the day's meeting seems to be the final quarterly meeting of the board, and he wishes to express his appreciation to staff and to the other trustees for the collegial cooperation the board has been able to demonstrate in deliberation and actions. He stated that he has appreciated the opportunity to have been able to serve.

Mr. Goldsmith stated that he appreciates the comments by Mr. Wearn and that he echoes the last of those comments.

Chairman Snow stated that he too echoes the comments of Mr. Wearn, and that the board has demonstrated the best intentions on the part of its fiduciary obligations toward its employees as well as the citizens of the Town. He thanked the trustees for the good work done together. He noted that the trustees will probably meet again before the board adjourns as a board, and that he has enjoyed serving with the trustees and staff.

Chairman Snow noted the presence of Town Councilman William Diamond.

V. Approval of minutes of November 10, 2011 and December 9, 2011.

Mr. Wearn made the motion to adopt the minutes of the November 10, 2011 meeting. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Mr. Goldsmith made the motion to adopt the minutes and changes made by the administrator as handed out to the trustees for the December 9, 2011 special meeting. Mr. Wearn seconded the motion. The trustees unanimously adopted the motion.

VI. Financial Report

Ms. Alexia Varga presented the compiled financial statements for the quarter ending December 31, 2011. She noted an adjustment in $367,000 representing decrease in net assets to correct fair market value based on the monthly shareholder report for one of the alternative investments and to record a prepaid Town contributions liability based on the percentage of contributions to be paid based on the actuarial report's percentage of payroll. She stated that as of September 30, 2011, the net assets from Nowlen, Holt is a different number than what is represented in the auditors. She stated the adjustments were to record a prepaid Town contribution along with an adjustment for the lag, or difference in her statement from State Street Bank and what the actual fair market value was for the alternative investments. She stated that there was a one month lag in reporting for a hedge fund. Mr. Hanes noted the problem in reporting is with regard to valuation reports Ms. Varga gets from State Street Bank and is lagging.

He noted it was the difference in reporting as noted by Chairman Snow at the last quarterly meeting.
Ms. Varga discussed the statement of plan net assets. She reported total assets for the plan as $56,456,000. She set out the liabilities, and discussed net assets held in trust to pay benefits to be $55.8 million.

Ms. Varga discussed statement of change in plan net assets for the three months and stated that the total additions for the plan to be $2.8 million. She noted that the deductions, and concluded that for the three months the plan had a net increase of $1.7 million. She discussed the detail of plan expenses and reported total expenses of the plan to be $116,000.

VII. Audit Report

Mr. Clement Johns presented the annual audit report to the trustees. He discussed that his firm is one of the very few firms that have a practice devoted to the audit of pension firms. He stated that the firm performs audits for about 30 local plans in the state of Florida.

Mr. Johns expressed the opinion from the financial report for the year ending September 30, 2011 that his firm has issued a clean, unqualified opinion. He stated that as of September 30, 2011, the net plan assets are fairly stated and the changes in net plan assets from the previous year are fairly stated in all material respects in accordance with the generally accepted principles accepted in the United States of America. He stated that his firm noted no incidents of internal control weaknesses. He stated everything that his firm has looked at with the plan is in line with the plan's ordinances and state law that governs the plan.

He discussed the pages regarding management discussions and analysis. He discussed the financial highlights of the plan. He noted the statement of plan net assets that reflects total assets in the plan as of September 30, 2011 to be $54,763,000 in total assets of the plan. He noted the liabilities represent $609,874 and a prepayment for Town contributions in the statement of liability representing $542,000. He discuss that the reason for the prepayment of contributions is because the state of Florida now requires the payment of Town contributions based on the actuarial percentage of payroll instead of payment based on the actuaries fixed number for the year. He stated that the result of the state change has been to fund the plan at less than what would have been funded before. He stated that the total liabilities when deducted by the total assets represent the net assets held to pay pension benefits at $54,154,000. He noted that in the preceding year ending 2010 the number was $55,461,000. He noted the net decrease in plan assets.

He discussed the statement of change in net assets, or the income statement of the plan. He noted the total additions of $3,097,000 versus $6,739,000 in the preceding year. He discussed that as of September 30, 2011, the market was down substantially. He discussed that the total deductions were $4,404,000 representing basically expenses and benefit payments. He said the net assets at the end of the year held for the payment of benefits was $54,154,000 as noted previously.

Mr. Goldsmith asked about the cash flow of the plan. Mr. Klausner noted that the plan ended the year with $1.3 million less because of a $3.6 million turnaround when considering the benefits paid and market loss. He stated that the cash flow looks fine as a short answer. Mr. Hanes stated that the plan is paying a little over $1 million each quarter to benefits less the expenses. Mr. Goldsmith stated that what Mr. Hanes stated was a key thing to watch.

Chairman Snow made an observation and raised a question to the administrator. He noted that the benefits went from $3.6 million to $4.1 million and asked if there has been an abundance of retirements. Mr. Hanes and Mr. Johns answered in the affirmative. Mr. Hanes referred to the DROP report, and noted that a couple of years earlier there had been no more than a handful of DROP participants. He stated there has been a myriad of DROP participants added since then. Chairman Snow stated that Mr. Goldsmith consistently asks the right question about cash flow, and that the plan took a hit from a flat result in investment return and from the additional retirees that goosing the number well above inflation. Officer Lynch noted that there are less employee contributions being made as well due to headcount reduction.

Sergeant Proscia asked Mr. Johns about the funding ratio. Mr. Hanes stated that the actuarial report for the year ending 2011 will not be submitted until the May, 2012 board meeting. Mr. Johns agreed and stated that the 2010 funding ratio is at 83% and it represents one of the highest rated of all the plans they audit. He noted that the average funding for plans they audit are in the high 60's. Mr. Johns made note that in every year the Town of Palm Beach has made the actuarial recommended contributions.

Officer Lynch made note that the schedule of projected contributions was reduced from the preceding year to the 2011 year. Mr. Johns explained that it was primarily a result of a state law change that required reporting from actual projection to the actual percentage of payroll from the percentage provided by the actuarial report.

Chairman Snow made note that there is a management letter that he has reviewed, and noted it has been reviewed by legal counsel and that he and the administrator have signed it. Mr. Hanes stated that there had been one change that basically disclosed that the Town was in the process of changing the plan and that current member benefits will be frozen.

X. Quarterly Investment Report

Mr. Higman gave the investment report to the trustees. He discussed that he will be discussing from the December quarterly book as well as the handout that includes the January numbers.

Mr. Higman discussed that the portfolio ended up for the quarter ending December 31, 2011 at 4.8% versus the index at 3.8, but down for the calendar year ending December 31, 2011 by 1.3%, and behind the target index. He reminded the board that the target verses the actual performance over the short run is probably transient, and reflective of the facts regarding the asset allocation and probably a reflection of the fact of rebalancing activity and other activity during the year that happen over short periods of time. He stated that over time the target and the actual will converge to be close to each other if we are rebalancing relatively frequently over longer time periods.

He stated there was good performance across the board with one exception, and noted that CRM was being watched. He noted difficulty in the recent period of time with an acquisition and that CRM is 50% owned by Wilmington Trust. He discussed the relationship between CRM and Wilmington Trust.

He discussed that there was generally strong performance in the International space with Harris experiencing an underperformance over the short period of time, and noted that Harris's performance over the calendar year was somewhat below the benchmark. He noted that in order to be reminded of their skill, the trustees should look at the three and five year numbers doing well on a relative basis.

He discussed the Flexible Capital asset class and noted that as a team they have done very nicely relative to their peers over time.

Mr. Higman stated as to the fixed income portfolio that for the quarter it was a little bit behind the benchmarks. He noted that during the financial crisis, Richmond Capital fell behind the benchmark, but have since rebounded.

Mr. Higman discussed the Inflation Hedging area and noted the class was a little behind the benchmark, primarily due to Wellington which for the quarter was a little behind, and light on energy. He stated that overall Prime Buchholz does not recommend any changes.

He noted that Guggenheim should soon be providing the board the remainder of its cash from liquidation.

Mr. Higman stated that the overall portfolio is working as expected, and that the January performance continued to perform well and was above its benchmark over the quarter.

Mr. Wearn asked Mr. Higman if there were any comments about a watch list. Mr. Higman stated there are no watch list comments other than they are watching CRM.

Mr. Goldsmith made a point about a book he has read that indicates that bonds have outperformed stocks, and that it was an interesting book.

Mr. Higman discussed matters of the Prime Buchholz annual January meeting and the board's asset allocation strategy. He stated that there is one message to take away from the meeting. He stated that the meeting was in January for about a day and one-half with the different Prime Buchholz departments together with the research personnel. He stated that the purpose of the retreat is to reach opinion about forward assumptions covering a ten to fifteen year period based on current return expectations. He reviewed a page from the book to review different models with the trustees. He stated he has asked his staff to recast from the model in effect from last spring. He stated that inflation is pricing at around 2.5%, and that based on our current policy the expected annual average real return is 4.9%. He stated that compared to a year ago, that it was at 5.3%. He said there is nothing different other than Prime Buchholz has recast the future primarily based on bonds. He stated that it did impact the Flexible Capital assumption down very slightly, but that the recasting for the most part was about the bonds territory. He stated that it does not say the 8% return assumption is no longer valid. He stated that it argues that it has become more difficult based on interest rates alone to achieve an 8% return.

Mr. Goldsmith stated that based on the comments made by Chairman Snow and the information he receives from Mr. Hanes, it continues to give him pause for reflection.

Chairman Snow noted that Mr. Higman stated Prime Buchholz had reduced assumptions for Flexible Capital as an asset class, and that last year the real return was increased. He reminded the trustees that the numbers reflect real return, less inflation. He stated that it is becoming tougher and tougher to get the alpha. Mr. Higman stated that it is going to require a paradigm shift with people and the way they use bonds in the portfolio, and understanding how risky bonds are going forward. He stated that bonds have a role, but you will need to increase risk. He stated that people are just now beginning to figure it out.

Mr. Goldsmith noted that through 2014 the government is saying there will be very low interest rates. Mr. Higman stated that he believes that we will experience more volatility, and maybe even more than what we have of late.

Mr. Higman reported on scrutinized companies and stated that there was one respondent, Artisan International, that reported a Russian oil company that is listed by the state as a scrutinized company.

Mr. Klausner stated to Mr. Higman that the there will need to be the appropriate forms for transfer of ownership from the current plan to the newly created plan. Mr. Hanes stated that he has been in discussions with Mr. Elwell, Mr. Higman and Mr. Klausner, and that he has prepared resolution of authorizations for the new board's trustees and himself to sign at its first meeting on April 2, 2012, but that the issue of transfer of the assets does cause him concern. He discussed that the contracts will need to be amended to recognize the correct parties, and Mr. Klausner stated he could help Mr. Hanes. Mr. Hanes asked Mr. Higman to help with the managers.

X. Attorney Report

Mr. Klausner discussed the Klausner and Kaufman client conference that was previously referred to by Mr. Wearn, and that 25 different states will be represented.

Mr. Klausner stated that the firm has enjoyed serving as the board's attorney, and looks forward to more service with the successor board, but that will be the Town's decision.

XI. Administrator's Report

Mr. Hanes discussed that Ms. Ellen Schaffer, who maintains the software program, has requested a fee increase for programming from $105 to $115 per hour. He discussed that an additional request is made for an annual support fee due for September, 2012, but that he recommended deferral of that fee increase to the newly created board.

Mr. Wearn moved that the trustees accept the recommendation of the administrator for a program fee increase from $105 to $115. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Mr. Hanes discussed that his office had been working to provide data to the actuary for him to perform the 2011 annual report. He stated that he believed all the information has been provided.

Mr. Hanes stated that his office has been working with GSK over the audit and state Chapter 185 report. He stated he believed that the auditor has everything needed in order to finalize the audit, but that there remains work to be done on the Chapter 185 report.

Mr. Hanes discussed that his office has worked with Pension Benefit Information (PBI), and that a search was recently completed by that firm to audit deaths that may have occurred of members and unknown to the board. He stated that PBI provides that service on a quarterly basis.

XII. Retirement Benefit Payments

There were no retirement benefit payments to be ratified.

TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
MEETING OF FEBRUARY 10, 2012

XIII. Disbursements

Mr. Wearn moved to accept and file for audit the report on disbursements. Mr. Goldsmith seconded the motion. The trustees adopted the motion unanimously.

XIV. Other business

Chairman Snow noted the DROP memo prepared by Mr. Hanes that did not require action by the board.

XV. Adjournment

Mr. Goldsmith moved to adjourn. Officer Lynch seconded the motion. The trustees unanimously adopted the motion.

NEXT MEETING:
March 27, 2012

Raymond Snow	3/27/12
~~**Secretary**~~ CHAIRMAN	**Date**

William Hanes	3-21-2012
Attested by:	**Date**