GENERAL EMPLOYEES RETIREMENT BOARD MEETING
Friday, February 10, 2006, 9:00 a.m.

I. CALL TO ORDER

The regular meeting of the General Employees Retirement Board was called to order by Vice Chairman Brett Madison at 9:04 a.m. on Friday, February 10, 2006, in the Town Hall Council Chambers. Roll call was conducted. Attending were Vice Chairman Brett Madison, Trustees Jonathan Luscomb, James Karman, and Peter Elwell. Also in attendance were Board Attorney John McCracken, Jeanne Valcik from Callan Associates, Human Resources Director and Plan Administrator William Crouse, and Finance Director Jane Struder.

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

Mr. Madison called for nominations for Chairman. Nomination of Mr. Garvy to serve as Chairman was made by Mr. Karman and seconded by Mr. Madison. Mr. Madison called for further nominations and there were none. **Mr. Garvy was re-elected Chairman by acclamation.**

Mr. Madison called for nominations for Vice Chairman. Nomination of Mr. Madison to serve as Vice Chairman was made by Mr. Elwell and seconded by Mr. Luscomb. Mr. Madison called for further nominations and there were none. **Mr. Madison was re-elected Vice Chairman by acclamation.**

Mr. Madison called for nominations for Secretary. Nomination for Mr. Karman to serve as Secretary was made by Mr. Luscomb and seconded by Mr. Elwell. Mr. Madison called for further nominations and there were none. **Mr. Karman was re-elected Secretary by acclamation.**

III. APPROVAL OF AGENDA

Mr. Madison called for any changes or additions to the agenda. With no changes to report, Mr. Madison called for a motion.

Mr. Elwell moved approval and acceptance of the agenda; Mr. Luscomb seconded. There was no further discussion, and the motion carried unanimously.

IV. APPROVAL OF MINUTES OF SPECIAL MEETING OF JANUARY 11, 2006.

Mr. Madison inquired if there were any comments or changes to the minutes of the special meeting of January 11, 2006. There were no changes or comments. Mr. Madison called for a motion.

Mr. Elwell moved approval and acceptance of the minutes of the special meeting of January 11, 2006; Mr. Luscomb seconded. There was no further discussion, and the motion carried unanimously.

V. ADMINISTRATOR'S REPORT

Mr. Crouse informed the Board that Mr. Mitchell Sawyer would be retiring on March 1, 2006. He advised the Board that Mr. Sawyer had been working as an Electrician II with the Town's Public Works Department. Mr. Crouse explained that Mr. Sawyer had worked with the Town for thirteen years and seven months and had met the age and years of service requirements for retirement.

Mr. Crouse reminded the Board that in a past Board meeting, members had requested that the Plan Administrator invite ICMA, RC to present classes to employees on retirement planning. Mr. Crouse advised the Board that ICMA, RC will be presenting two courses on retirement planning on March 2 and 16 of 2006. He explained that the two courses were for both employees who were approaching retirement and employees who had recently began their career with the Town of Palm Beach. Mr. Karman inquired about the number of employees who could potentially attend each class. Mr. Crouse explained that the meetings are open to all employees and explained that if both classes are completely filled and employees inquired about more classes, there will be additional meetings scheduled. Mr. Crouse further advised that he planned on inviting ICMA to present these retirement classes at least once per year.

Mr. Crouse informed the Board that he sometimes listened through the office speakers to hear what was happening at the Police and Fire Retirement Board meetings. He explained that the Fire Board did not have their customary February meeting, , but the Police Board met on February 9, 2006 and during their meeting they discussed the General Employees Retirement Board's amendment to the Ordinance and the Statement of Investment Policy. Mr. Crouse explained that the changing of the Ordinance and the Statement of Investment Policy's 'and' to 'or' was discussed and the Police Board decided that they did not like the change and would oppose the request for change at the next regular Town Council meeting. That concluded Mr. Crouse's report. Mr. Madison thanked Mr. Crouse and inquired if there were any questions or comments from the Board. Mr. Elwell advised the Board that in his role as Town manager, when Mr. Crouse brought the Police Board's intention to his attention, he decided to remove both the Ordinance and Resolution from the consent agenda. Mr. Elwell explained that he felt that it was not a good idea for the General Board to recommend a change that the Police Board moved to oppose because that would put the Town Council in an uncomfortable position. He explained that the Board needed to address the matter and decide what needed to be done. Mr. Madison inquired if there were any other comments from the other Board members. There were no additional comments or questions at that time.

VI. QUARTERLY REPORTS

A. Roanoke Asset Management

Ed Vroom of Roanoke Asset Management provided a booklet with the summary of the 2005 year. He explained that Roanoke was responsible for a little over $7.7 million of the Town's General Employees' Equity Fund. Mr. Vroom advised that the Fund had a fairly good year in 2005 and returned 17.5%. He informed the Board that the Russell 2500 Growth returned 8.2%, the Russell 2000 Growth, 4.2% and the S&P 500, 4.9%. Mr. Vroom explained that since the inception date in 1982, the Fund has been compounded at 15.2%. Referencing page three of the booklet, Mr. Vroom informed the Board of the annualized rates of return for the 1, 3, 5 and 10 years. Mr. Vroom explained that the 3-year number represented the recovery period after the rough time in the 2000 to 2003 period. The 5-year number, he advised still included the numbers from the rough period but would be shifting positively due to the first quarter numbers being eliminated and a new quarter numbers being added on. Mr. Vroom advised that the 10-year numbers remain very good, compounding at 10% which outperformed all comparison indices. He informed the Board that one of the ways that Roanoke Asset Management tries to control risk and volatility was through diversification. He explained the various sector concentrations listed on page 4 of the booklet and gave the Board more detail on Technology stocks. On page seven, Mr. Vroom listed the top twenty holding as of December 31, 2005 and advised that the column on the right represented the projected growth rate. Mr. Vroom explained the Fund's Valuation and Growth matrix which he listed on page eight. That concluded Mr. Vroom's report. Mr. Madison inquired if any Board members had any questions or comments. Mr. Karman stated that it looked like there was soon to be 26% or 28% EPS growth and a similar PE ratio, and commented that that kind of growth should be well respected in the marketplace. Mr. Vroom agreed and added that people typically tended to pay attention to the financial metric of PE and Growth even though they did not have any underlying basis for predicting the rate of return. There were no other questions from the Board.

B. Callan Associates

Jeanne Valcik of Callan Associates presented to the Board. She advised the Board that Mr. Ed. Vroom's son was hired at Roanoke Asset Management. Ms. Valcik advised that young Vroom had good credentials and attended the well respected University of Chicago and advised that his background was a definite asset to the Roanoke Asset Management.

Ms. Valcik referred the Board to the Callan booklet on page three, and explained that in the beginning of the fourth quarter, investments were still grappling with a lot of uncertainty due to the hurricanes, gas prices and rising interest rates. She advised that in general, the market returned to normal fairly quickly and the market ended up having a good quarter with reference to the S&P, which was up about 2%. Ms. Valcik advised that there were several factors that led to the market's speedy recovery including the strength of the U.S. market and the fact that energy prices declined because of a warm winter. She advised The Board that the S&P was up 4.9% for the year, with the best performing sector being energy stocks, which was up 34% for the year. Ms. Valcik then advised of the performance of a number of sectors including GM, Google, Dell and

Apple Computer. Mid-cap stocks, Ms. Valcik advised performed well for the year while the curve for the Domestic Fixed income went from a very steep to a slightly inverted yield curve. Ms. Valcik explained that historically when there was a slight yield curve, the economy was moving toward a recession, but advised that economists and Bond managers were suggesting that this time there would not be a recession. She informed the Board that external sources, including non-US buyers and non-economic buyers were affecting the long end of the curve. She explained that foreign private investors, as well as foreign governments that have a lot of US dollars were buying a lot of ten year bonds. Ms. Valcik reported that 40% of the US treasury's nine to ten year bonds are owned by foreign governments and 27.4% by foreign private investors. She explained that in term of Bonds, Callan Associates' outlook for the next five years was 5%. Mr. Kaman inquired about the thirty-year bonds. Ms. Valcik responded that the thirty-year bond had two buyers, the foreign buyers, as well as US corporate Pension plans. On page five, Ms. Valcik gave an overview of the International Equity market and advised that the best place to be within the International Equity market was Japan and emerging markets, which returned 13.34% and 7.72% respectively. Ms. Valcik explained that if the Plan had Japan for the entire year, the return would have been 30%. On page eight Ms. Valcik pointed out the actual asset versus the target asset allocation and explained that the Fund differed a little from the target. She explained that in January transition manager, State Street Global, had cash that needed to be reallocated. She advised that the extra cash was used to rebalance the Fund and by February, the fund would be very close to the target. Ms. Valcik reminded the Board of the Fund allocation of 55% in Domestic Equity, 40% in Domestic Fixed-Income and 5% in International Equity. On page nine, Ms. Valcik referred the Board to the attribution for the quarter and explained that the Fund had a strong return of 1.78%. She informed the Board that if the entire Fund was indexed, the return would have been 1.49%. The money managers in the Domestic Equity portfolio, Ms. Valcik explained, contributed 44 bases points, which was predominately due to Roanoke Asset Management. Ms. Valcik advised that the decline of 0.33% in Domestic Fixed Income might be an error. She explained that this decline seem to be more than it should be, but the only way to get a precise calculation, was to have transition manger, State Street review their day-to-day numbers for the month of December. The one year number on page ten, 7.73%, Ms. Valcik advised was short of the actuarial rate, but was still a good number. She referred the Board to page twelve of Callan's booklet which showed a comparison of the fund in relation to other funds of a similar size; and to page thirteen, which showed a compound rate of return. Ms. Valcik explained the asset distribution across money managers for the last quarter and pointed out that monies were moved from Loomis Sayles' portfolio and transferred to New York Life Investment Management's portfolio. She explained that Roanoke Asset Management was kept at the same percentage and their portfolio had a withdrawal because they did very well. Ms. Valcik advised that the small cap manager and small cap value manager were funded and Loomis Sayles was still included in the table because the ETF was a pending trade. Ms. Valcik stated that Roanoke Asset Management had been a really good long-term manager for the fund. She also handed out a memo that explained the fund's expected rate of return based upon Callan's capital market outlook for the next five years and the asset allocation as adopted. That concluded Ms. Valcik's presentation. Mr. Karman commented that it was a good report. Mr. Madison inquired if there were other comments or questions from the Board, there were none.

VII. REPORT ON VESTING TERMS FOR OTHER MUNICIPAL EMPLOYERS IN PALM BEACH COUNTY

Plan Administrator, William Crouse, referred the Board to his survey results in the form of a handout. The handout showed the vesting years for many municipal employers in Palm Beach County. The surveyed employers included the cities of Boca Raton, Boynton Beach, Delray Beach, Greenacres, Jupiter, Lake Worth, Palm Beach, Palm Beach County, Palm Beach Gardens, Riviera Beach, Royal Palm Beach, Tequesta, Wellington and West Palm Beach. After the Board members reviewed the handout, Mr. Madison inquired if there were any comments or questions. Mrs. Struder inquired whether the survey included police and fire employees or only general employees. Mr. Crouse advised that it was only for general employee group. Mr. Madison inquired what the costs would be and where the costs would come from if vesting terms for the Town of Palm Beach was changed from ten to seven years. Mr. Crouse advised that there would be more cost to the system if the term was changed to seven years because if employees left the Town on or after seven years, they could receive their contributions and any interest earned, or receive a deferred pension. Mr. Crouse advised that the only way to know exactly what the cost would be was to request an actuarial study. Mrs. Struder inquired whether Mr. Brad Armstrong of Gabriel, Roeder, Smith & Company had ever studied the topic. Mr. Crouse responded no. Mr. Karman referred to Palm Beach's current ten year vesting requirement and inquired about what happens when employees resign their position with the Town prior to ten years. Mr. Crouse advised that people, who leave within ten years, would only be able to get their contribution and interest earned back because they were not yet vested. Mr. Elwell advised that an actuarial analysis would not only show the extra cost of paying the long-term liability of pensions to people who had left after seven years, but it would also show the cost of lost financial benefit of having the Town's contribution to those employees distributed over the benefit of all the employees who became vested and receive a pension. Mr. Luscomb inquired why some of the surveyed cities chose to have lower vesting year requirement even though it was expensive. Mr. Crouse advised the Board that the survey results showed that employers with lesser years required for vesting were typically ones that had a Defined Contribution Plan, versus Palm Beach's Plan which was a Defined Benefit. Mr. Elwell added that some of the reasons why other municipal employers had lower vesting year requirements could include their need to be completive. He also stated that it could have something to do with the multiplier or some other part of their benefits package. Mr. Karman inquired whether the Town of Palm Beach's police and fire employees had the same vesting year requirement as general employees. Mr. Crouse advised that all employees at the Town had the same ten year requirement. Mr. Madison commented that employees in the Public Works department had opinioned that it might be an advantage to hire older, more experienced employees, who could train the younger employees. He explained that there were many employees who have been with the Town of over twenty years, but the reason an older, more experienced person might not want to be employed might be the ten year vesting requirement. Mr. Madison then inquired what the cost would be to have an actuarial study done. Mr. Crouse explained that typically studies ranged from between $500 and $2000. Mr. Karman inquired if there was a maximum age requirement for an employee to be given the opportunity to enter into the Town's retirement plan. Mr. Crouse advised that there was no maximum age requirement to enter into the Town's retirement plan and all employees who work over 1,040 hours would be members of the retirement system. There were no other questions or comments. Mr. Madison thanked Mr. Crouse for his report.

VIII. REQUEST FOR AUTHORIZATION TO UTILIZE DEATH RECORDS CROSS CHECK SERVICES OF PENSION BENEFIT INFORMATION

Mr. Crouse advised the Board that each year the Pension Research Services Inc. is hired to perform a death records search on the Town of Palm Beach retirees to ensure that pensions are only being paid to living retirees. He advised that the cost of the service for last year was a little less than $400.00. Mr. Crouse advised that each year the cost increased by very little and, as a result, he recommended that the Board approved the hiring of the Pension Research Services Inc. to complete a death records check for 2006. Mr. Madison called for a motion.

Mr. Karman moved approval to hire the Pension Research Services Inc. to perform a death records search on Town retirees for the year 2006; Mr. Elwell seconded. There was no further discussion, and the motion carried unanimously.

IX. REPORT ON QUARTERLY EXPENDITURES

Finance Director, Mrs. Struder handed out a memo to the Board regarding the General Employees Retirement cash flow projection and operating expenses. She advised that through April 30, 2006 there would be sufficient funds in the account to meet all the operating needs and, as a result, there would be no money transfers needed from the money managers. Mrs. Struder informed that Board that the operating expenses through January 31, 2006 were $59, 243.68. Mr. Madison inquired whether any of the Board members had any questions. Mr. Karman referred to the estimated employee contributions on page two of Mrs. Struder's memo and inquired whether the amount could be annualized so that the Board could see what the net amount was for the year. Mrs. Struder responded yes. There were no other questions from the Board.

X. UPDATE ON STATE STREET CUSTODY FEES

Mrs. Struder advised that State Street had requested a new signed documentation because the Public Safety Board had a two-way split and that changed the way they accounted for their fees. She advised that the existing fee schedule was the same, but the assumptions changed based on the size of the Plan. Mrs. Struder advised that the Chairman or Vice Chairman needed to sign the form. Ms. Valcik advised that she forwarded the information to the custody expert at Callan Associates and inquired whether the fee was reasonable. Ms. Valcik advised that given the size of the Plan, the fee was very reasonable. Mr. Madison thanked Ms. Valcik for her comments and called for a motion.

Mr. Elwell moved approval for the Vice Chairman, to sign the State Street Custody fee paperwork on behalf of the General Employees Retirement Board; Mr. Karman seconded. There was no further discussion, and the motion carried unanimously.

XI. RECOMMENDED CHANGES TO CHAPTER 82 OF THE TOWN OF PALM BEACH CODE OF ORDINANCE RELATING TO INTERNAL REVENUE SERVICE REGULATIONS

Mr. McCracken explained to the Board that the Finance Department and Plan Administrator sent the Ordinance to a Tallahassee tax counsel, Jim Linn, Esq. for review and to verify compliance with the Internal Revenue Code. Mr. McCracken explained that Mr. Linn made a few modifications that would enable the ordinance to be in compliance with the changes that occurred in the past few years to the Internal Revenue Codes. Mr. McCracken advised that he prepared a revised Ordinance which included Mr. Linn's proposed changes. Mr. McCracken advised that Board that he sent a copy of the newly revised Ordinance to the Administrator and lawyers for the Police and Fire Boards, and explained that they concurred that the changes were necessary and they supported the submission to the Town Council for approval. Mr. Madison inquired whether there was a system in place for the Board to review the Ordinance annually and make sure that the Ordinance was in compliance with the Internal Revenue Codes. Mr. McCracken advised no and explained that in the past, Mr. Linn, because he was a tax counsel, had been relied upon to review and propose changes to the Ordinance to make it compliant. Mr. McCracken further explained that Jones Foster Johnston & Stubbs, PA has tax lawyers on staff who could be asked to pay special attention to and advise the Board of any Internal Revenue Service changes. He also suggested that Mr. Linn could be asked, on an annual basis, to provide the Board with a report. Mr. Karman inquired about the reason why there was a request for a review by Mr. Linn. Mr. McCracken advised that the issue came up because the Finance Department and Plan Administrator submitted the Plan to the Internal Revenue Service (IRS) for a letter of approval. The IRS, Mr. McCracken explained, reviewed the Plan and advised that there were items that were not incorporated and, as a result, changes were needed. Mr. McCracken advised that the tax lawyers at Jones Foster Johnston & Stubbs, PA suggested that the request be withdrawn from the IRS, until the Ordinance was reviewed and put in compliance with the Internal Revenue Codes. Mr. Karman stated that it was a good practice to have the Ordinance reviewed continuously to verify compliance. Mr. McCracken advised that in the future, prior to submitting the Plan to the IRS for a letter of approval, tax lawyers should be consulted. Mr. Elwell inquired about the cost of having the Ordinance reviewed on an annual basis. Mr. McCracken advised that he did not believe the review would be very costly and explained that if it was reviewed on an annual basis, most years Mr. Linn would probably not have any required changes to suggest. Mr. Madison called for a motion.

Mr. Elwell moved approval to have the Plan Administrator, on an annual basis, have the Ordinance reviewed for compliance; Mr. Luscomb seconded. There were no further discussion and the motion carried unanimously.

Mr. Elwell explained that the Board needed to take action on the proposed Ordinance in order to move forward. He explained that he wanted the Board members to understand that the IRS Ordinance revision would not be put on the Town Council agenda until all three Boards have endorsed the Ordinance. Mr. Madison called for a motion.

Mr. Elwell moved approval to accept the changes to Chapter 82 of the Town of Palm Beach Code of Ordinance relating to the Internal Revenue Service Regulations and moved approval to have the revised Ordinance be submitted to the Town Council, subject to endorsement by the Police and Fire Boards; Mr. Karman seconded. There were no further discussion and the motion carried unanimously.

XII. MODIFICATIONS TO THE PROPOSED ORDINANCE CONCERNING SUBSECTION 82-57 (b), AS REQUESTED BY THE FIREFIGHTER AND POLICE OFFICER BOARD OF TRUSTEES

Mr. McCracken explained that the proposed Ordinance had been submitted to the Town Council for approval at the next Council meeting, however, because the Police Board was not in agreement with the changes from 'and' to 'or', the item was removed from the agenda. Mr. McCracken explained that he had sent the recommended changes to the attorneys for both the Police and Fire Boards (Mr. Robert Klausner and Ms. Bonni Jensen) and inquired about their comments. He explained that they both agreed with the content, but Ms. Jensen suggested that the State statutes had specific limitations on the Statement of Investment Policy (SIP) relating to Police and Firefighters and asked him to take a look at the Ordinance as it related to the issue. Mr. McCracken advised that when he reviewed the revised Ordinance, he suggested that the sentence 'Investments should be in compliance with State Law or the Statement of Investment Policy', the words 'unless limited or restricted by state law' could be included. He advised that the attorneys agreed and he made the change on behalf of the General Employees Retirement Board and forwarded it to the Town Council for approval. Mr. McCracken explained that the Police Board had a meeting and discussed that they did not want to change the Ordinance's "and" to "or" and decided that they would attend the next Town Council meeting and oppose the change. Ms. Valcik advised that she believed that Goldman Sachs would not take the investment without the change. She explained that the risk would probably not be worth it to them. Mr. Elwell stated that the General Employees Retirement Board members could try to attempt communication with the other Board, explain the situation and see whether an agreement could be reached or rewrite the Ordinance in such a way that it would only apply to the General Employees Retirement. Ms. Valcik inquired of Mr. McCracken whether adding the words 'collective trust was a permissible investment' could solve the issue. Mr. McCracken responded yes. Mr. Elwell requested more explanation. Mr. McCracken explained that there was a provision in the State law that allowed the State to invest in unregistered collective trust, but there was not a similar provision for municipalities. He explained that that was the basis for the White and Case opinion. Mr. McCracken advised that State Law allowed the Town Council, through the Statement of Investment Policy, to expand upon State law and if the Town Council were to add flexibility to the Statement of Investment Policy and adopt a similar provision, it should be ok. Ms. Valcik explained that according to White and Case, even if the Town Council adopts the Statement of Investment Policy with a similar provision, investing in an unregistered collective trust would still not be allowed. She advised that the fact that the Ordinance says '…State Law *and* the Statement of Investment Policy', the issue would still be a problem. Mr. McCracken inquired whether it was typical, when a Board decided to make an investment in a product, to request information from a money manager which showed that the investment of a dollar was going to be in assets that were compliant with the Town's Ordinance and the Statement of Investment Policy. Ms. Valcik responded that most of her clients had done so, and the Statement of Investment Policy always referred to State or local law. The Board discussed many options including switching money managers and writing an Ordinance that solely related to the General Employees Retirement. At the end of their discussion the Board decided to first contact Goldman Sachs to see if an agreement could be reach, but, if not, to change the part of the Ordinance that related solely to the General Employees Retirement. Mr. advised that the Ordinance would be heard in March and April and the Statement of Investment Policy would be adopted in March. There were no further comments from the Board

Mr. Elwell moved approval for Mr. McCracken and/or Ms. Valcik to make one final effort to convince Goldman Sachs that they were interfering with the investment while there was compelling evidence from many sources that suggested that they are being too strict in their interpretation. He added that if Goldman Sachs still disagreed, the Mr. McCracken was authorized to modify the parts of the Resolution and Ordinance that solely related to the General Employees Retirement Board; Mr. Karman seconded. There were no further discussion and the motion carried unanimously.

XIII. ANY OTHER MATTERS

Mr. Madison inquired if there were any other matters to be discussed. There were none.

XIV. ADJOURNMENT

There being no further business, the meeting adjourned at 11:10 a.m.

Approved: ______________________
James Karman, Secretary