

**MINUTES OF A JOINT EMPLOYEES' RETIREMENT BOARD
AND POLICE RETIREMENT BOARD MEETING
HELD IN THE CONFERENCE ROOM AT CITY HALL ON TUESDAY,
October 29, 2008 at 2:00 PM**

I. ROLL CALL: 2:00 PM

A. Employees' Retirement Board:

A meeting was called to order at 2:00 PM.

Those persons present included:

Trustees: Valerie Hurley, Chair
Robert Lepa, Vice-Chair
Mark Bates
Mayor Jeff Clemens
Robert Kahant

Others: Ken Harrison, Sugarman & Susskind
J Scott Baur, Pension Resource Center
Tim Nash, Bogdahn Consulting
Ann Costello, Retired Member
Jill Hanson, Attorney
Members of Public

B. Police Retirement Board:

A workshop was called to order at 2:12 PM. There was not a quorum when the workshop was called to order.

Those persons present included:

Trustees: Lt. Kenneth White, Chair
Sgt. Randy Collier, Vice-Chair
Mark Bates
Mayor Jeff Clemens
Karri Kasper

Others: Ken Harrison, Sugarman & Susskind
J Scott Baur, Pension Resource Center
Tim Nash, Bogdahn Consulting
Members of Public

II. ADDITIONS/ DELETIONS/ REORDERING:

A. Employees' Retirement Board:

B. Police Retirement Board and

C. Employees' and Police Retirement Boards:

The Boards discussed reordering the Agenda. The Chairs decided to hear the manager presentations first, followed by any old business, members of the public, or appeals.

Action: A motion was made and seconded to add an item NBA-1 and to reorder NBC-1 on the Agenda by the Employees' Retirement Board.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was and seconded to reorder NBC-1 on the Agenda by the Police Retirement Board.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

IV. NEW BUSINESS:

- A. **Employees' Retirement Board:**
- B. **Police Retirement Board and**
- C. **Employees' and Police Retirement Boards:**

1. **Growth Manager Presentations:**

DSM Capital: Steve Memistrian and John Flynn

Steve Memistrian reviewed the background of the firm. DSM manages \$1.5 Billion in assets with 14 total employees and 8 members of the investment team. The firm, 100% employee owned, invests its own money in the same portfolio alongside clients. John Flynn reviewed the historical performance for the portfolio. Mr. Flynn reported that the portfolio had a return of -39% for the calendar year to date, still ahead of the benchmark. This return still ranks in the top 1/3 of the manager peer group.

Steve Memistrian explained that the portfolio tends to keep with the market on the upside, but out perform during a market downturn. The process relies on a strict valuation discipline, with typically a turnover rate of about 1 holding per month. DSM first looks for companies with new ideas, followed by intensive research regarding earnings estimates. After applying these market filters, the portfolio managers study the companies in further detail. Mr. Memistrian reviewed the current holdings in the portfolio.

In response to Trustee Bob Lepa, the representatives explained the sell discipline used by the firm. Any time a company experiences fundamental problems, the manager will sell; otherwise, the manager tends to hold onto a position. The manager will also trim a holding rapidly increasing in value. DSM does not alter this process or reposition the portfolio in response to changes in the wider market. The Board thanked the representatives from DSM.

Sawgrass Capital Management: Chris Greco and Marty LaPrade

Sawgrass Capital Management is based in Jacksonville. Chris Greco stressed the advantages of working with a local firm. Sawgrass has managed assets for 10 years, although the investment team members each average more than 20 years of experience. The company is 100% employee owned. Sawgrass as a firm after Bank of America acquired Barnett Bank.

Marty LaPrade discussed the current market environment. Sawgrass considers investment management as much of an art as a science, particularly in the current market. The manager looks for consistent and superior earnings growth coupled with the presence of a catalyst. The manager also looks for "clean" easily understood earnings. The manager uses a repeatable process that begins with a filter on the market, followed by fundamental analysis. Sawgrass sells stocks when holdings reach their targets or fundamentals deteriorate. Marty LaPrade reviewed some of the current portfolio holdings, right now concentrated in core growth companies. The holdings have higher earnings and a higher expected earnings rate compared to the benchmark. Performance for the portfolio, although -40% for the calendar year-to-date, is still ahead of the benchmark as well. Bob Lepa asked about the expected returns for the portfolio going forward.

Chris Greco concluded by saying that Sawgrass remains focused on its mandate. He believes that the more concentrated portfolio managed by Sawgrass offers the Lake Worth plans a better fit with the current managers. Bob Lepa asked Sawgrass to explain the sell discipline, which relies on a scoring system for stocks in the portfolio. Sawgrass also has numerous agreements

with plans that use Sugarman as an attorney. The managers would aggregate the assets for the Lake Worth plans to determine fees.

Wells Capital Management: Paul Engel and Tom Myers

Paul Engle gave an overview of the firm. Wells Capital Management has multiple investment teams that operate autonomously. The approach allows each team to focus on a specific portfolio mandate. The analysts and managers for the quality growth product work as a team before recommending a new holding for the portfolio, and each new holding must have multiple sponsors. Analysts make 400 new company contacts each year. The research process “surrounds” a company to acquire an in-depth perspective of the business and operations. Managers also spend a considerable amount of time analyzing the financials for companies. The quality growth portfolio typically consists of 50-60% core growth holdings, 30-40% developing growth companies, and 5-10% valuation opportunities.

The quality growth product is down -47.2% year to date, compared to -43% for the benchmark. Wells sells a stock when the holding reaches the price target, a better opportunity comes along, or the fundamentals change. Wells does not want to hold onto winners for too long, nor does the manager want to ride a losing stock down. Wells keeps the portfolio fully invested. The portfolio has about a 100% annual turnover rate. Trustee Robert Lepa disclosed that the parent to Wells Capital is Wells Fargo, a bank in the process of acquiring his firm as well.

Discussion: Bogdahn Consulting

Tim Nash reviewed the performance for the managers making presentations. Bob Lepa noted that Sawgrass outperformed the other managers for all periods except two. Tim discussed the pairing of a manager with Rigel, recommending that the Board hire a manager with more small and mid-cap holdings. Mr. Nash then reviewed the sector allocation of the managers to balance against the Rigel portfolio. Even though the Sawgrass Best Ideas is a more concentrated portfolio, the portfolio also had the lowest risk or volatility of the three managers making presentations.

Action: A motion was made and seconded to replace Calamos, Fayeze, and Davis Hamilton Jackson with the Sawgrass Best Ideas portfolio by the Employees' Retirement Board.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded to replace Calamos, Fayeze, and Davis Hamilton Jackson with the Sawgrass Best Ideas portfolio by the Police Retirement Board.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

The Board discussed procedures to raise cash as the need arose to payment benefits and invoices.

Action: A motion was made and seconded by the Employees' Retirement Board for the Investment Consultant to directly advise the Administrator to raise cash as necessary.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded by the Police Retirement Board for the Investment Consultant to directly advise the Administrator to raise cash as necessary.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Tim Nash explained the role of a Transition Manager to the Boards. He recommended that the Boards use a transition manager to move the existing portfolios to Sawgrass. Bogdahn typically uses Lynch Jones & Ryan, now the Bank of New York, for transitions. Ken Harrison noted that a transition manager requires a separate agreement and charges an additional fee, although the transition manager can often save the plan money on trading and execution in the transition from one manager to another.

Action: A motion was made and seconded to by the Employees' Retirement Board to use Lynch Jones and Ryan for the transition at a fee not to exceed 2 ½ bp.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded to by the Employees' Retirement Board to use Lynch Jones and Ryan for the transition at a fee not to exceed 2 ½ bp.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Tim Nash will have Lynch Jones Ryan send an agreement to Ken Harrison for review.

III. UNFINISHED BUSINESS:

A. Employees' Retirement Board:

B. Police Retirement Board and

C. Employees' and Police Retirement Boards:

1. Recalculation of Pension Benefits:

The Boards discussed the method for calculating service for pension benefits. The Trustees revisited the prior direction to calculate the highest two years of service to include 104.6 weeks of payroll. Mr. Baur explained the calculation, which adds 3 working days to the final average salary calculation based on the possibility of 3 additional days in a two-year period. The Trustees discussed the service calculation at length, ultimately determining that the 3 additional possible working days should be pro-rated straight into a bi-weekly pay period. The resulting calculation of service provides a member with 104.3 weeks of payroll in a two-year final average salary calculation.

Action: A motion was made and seconded to by the Employees' Retirement Board to include 104.3 weeks of payroll in a two-year final average salary period for both new benefit calculations and recalculation of current pension benefits.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded to by the Police Retirement Board to include 104.3 weeks of payroll in a two-year final average salary period for both new benefit calculations and

recalculation of current pension benefits.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

The Boards then considered the new calculations of benefits provided by the administrator, consisting of the recalculation of benefits for members with hurricane pay adjustments and a batch of new calculations for recent retired members implemented by the City earlier in the calendar year. Given the change in method to the final average salary calculation earlier in the meeting, the administrator must modify the new calculations submitted to the Boards. The Boards considered the calculation of a benefit for member Tommy Johnson, a General Employee member that appeared on separate recalculation lists provided by Mr. Baur with different amounts. Mr. Baur determined the amounts that he calculation were not different on separate occasions, but rather he made an error in recording the amounts for the new benefit calculations with hurricane pay on the summary sheets provided to the Boards.

Jill Hanson, representing retired member Anne Costello, addressed the Trustees for the Employees' Retirement Board. Ms. Hanson stated that the pension ordinance defines compensation used to determine benefits, and the compensation used to calculate the benefit for Ms. Costello fit this definition of payroll. At issue is the inclusion of severance pay in the final average salary calculation. The City withheld member pension contributions and included the severance pay in the final average salary calculation at the time that Ms. Costello originally retired as Finance Director for the City. The City later determined that the severance pay should not have been included as pensionable compensation in the final average salary calculation and attempted to refund the member contributions on the severance pay to Anne Costello. The City also provided Ms. Costello with a revised calculation of her pension benefit without the severance pay. Jill Hanson noted that the Board must make the determination of pension benefits based on the ordinance rather than the City.

Anne Costello explained that Larry Cairns made the original determination on behalf of the City that the severance pay should be included in the final average salary calculation for determination of pension benefits. Anne Costello noted that Mark Bates, the current Finance Director for the City, originally provided Ms. Costello with a benefit calculation that included the severance pay, then excluded the severance pay later. Ken Harrison, counsel for the Board, said that he had no documentation other than Emails from the City to document the issue. He requested additional time to contact Larry Cairns regarding the issue. Mr. Harrison did research the provisions of the Internal Revenue Code defining salary referenced by the pension ordinance, but he stated that the case law regarding severance pay was ambiguous. He advised that if the severance pay represented compensation for services, the amount should be included in the calculation for pension benefits. If the severance pay did not represent compensation for services, the amount should not be included. He further advised that an issue might exist since the City provided Ms. Costello with information regarding her pension benefit on which she relied. The Boards decided to defer any action while Mr. Harrison researched the matter further, since Mr. Cairns was not available for consultation at the time of the meeting.

Action: A motion was made and seconded to by the Employees' Retirement Board to defer discussion of the pension benefit for Anne Costello pending further review by counsel.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

The Board briefly revisited the new calculations of pension benefits for members with hurricane pay by the Administrator. The Trustees requested that the Administrator separate members who requested a recalculation of pension benefit with hurricane pay from those members who did not submit a written request.

2. Benefit Processing and Approvals: Sheriff's Office

Mr. Baur summarized the impact of the merger of the Police Department with the Palm Beach County Sheriff's Office on the pension plans. He reviewed detailed tracking of the benefits due to members based on ballots by affected members of the plans. The merger impacted 24 members of the Employees' Retirement Plan, although only 4 of the members opted out of the Lake Worth plan for FRS. 41 out of 90 members for the Police Retirement Plan opted to join FRS rather than remain in the Lake Worth Plan. Trustee Robert Kahant expressed concern that the actuary never considered the potential impact to the Employees' Retirement Plan prior to the merger. Ken White stated that the Sheriff's Office had yet to begin taking member contributions from payroll for members remaining in the Lake Worth plans.

Ken Harrison reviewed issues that arose in the merger process with members in the DROP. Because members cannot participate in FRS if they continue to accrue any benefits in the Lake Worth plans, the Police members cannot join FRS while they remain in the DROP due to the Division II Pension Benefit. Since the Employees' Retirement Plan members do not have this additional benefit, members of the Employees' Plan could potentially participate in the DROP in Lake Worth while they also join FRS. The Sheriff's Office is still waiting for final direction on the matter from FRS.

The Boards directed the Administrator to place the experience study recommended by the actuary on the agenda for the next meeting for discussion.

IV. NEW BUSINESS:

C. Employees' and Police Retirement Boards:

2. Actuary Letter Regarding Annual Valuation Data:

The Chair requested discussion of a letter from the actuary regarding the format of data submitted for the annual valuation. The Actuary requested that the plan submit data in a specific format, else additional hourly processing charges may apply to the valuation. The Administrator acknowledged that he received a copy of the letter and already intended to provide data in the requested format if possible.

The Board added discussion of the individual employee benefit statements provided by the actuary to the agenda for discussion. The 2004 benefit statements provided by the actuary do not show member contributions, but some discrepancies appear to exist on later statements provided by the actuary. Mr. Kahant will forward a list of possible members to Mr. Baur to research with Steve Palmquist, the actuary.

The Trustees briefly considered an update on the recalculation of benefits for member Donald Webb, who retired and then returned to active service with the City as a member of the Employees' Pension Plan. Ken Harrison advised that Mr. Webb that the original benefit calculated for Mr. Webb should remain frozen, while an additional benefit increment should be calculated for

his additional service at the current plan multiplier. Mr. Baur stated that he had calculated the new benefit for Mr. Webb in this manner.

The Trustees discussed the next meeting date.

Action: A motion was made and seconded to by the Employees' Retirement Board to schedule the next meeting for Tuesday, December 9 at 2 PM.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded to by the Police Retirement Board to schedule the next meeting for Tuesday, December 9 at 2 PM.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

V. CONSENT AGENDA:

A. Employees' Retirement Board: and

B. Police Retirement Board: and

C. Employees' and Police Retirement Boards:

Action: A motion was made and seconded to by the Employees' Retirement Board to approve the Consent Agenda, which included a Warrant for invoices and minutes from the meetings of August 26 and September 23, 2008.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded to by the Police Retirement Board to approve the Consent Agenda, which included a Warrant for invoices and minutes from the meetings of August 26 and September 23, 2008.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

IV. NEW BUSINESS:

D. Board Attorney Report:

Ken Harrison reported that he reviewed agreements for the new international portfolio manager.

Mr. Harrison then reported on rule changes proposed by the Division of Retirement. The proposed rule changes would have a significant impact on the plans in terms of reporting requirements and actuarial methods, giving the Division broad new powers. The local municipal systems, as well as the public safety groups in the state, unanimously oppose the rule changes. After a recent workshop, the Division agreed not to implement any rule changes without much further consideration.

Ken Harrison said that the IRS is reconsidering the previous position that the agency under served the public plans. Sugarman will delay the process to file updated determination letters on behalf of the plans as a result. Finally, Mr. Harrison indicated that changes to USERRA might

require the plans to implement some new benefit mandates.

E. Administrator Report:

The Trustees receive and filed the unaudited financial statements for September 30, 2009. Mark Bates reported that the City cannot transfer payments made to retired members from the City Tax ID to the EIN's for the plans, so the City would have to file separate 1099R Reports to the retired members for 2008 for the months before the Pension Resource Center began making benefit payments. He stated that the City would need some pension benefit payment reports from the administrator.

Since the Police did not have a quorum on September 23, the Board still needed to take action regarding the expected returns on assets. Scott Baur has already forwarded the necessary correspondence to the Division of Retirement on behalf of the plans.

Action: A motion was made and seconded by the Police Retirement Board that the plan expected to returns on assets of 8.5% over the next several years and the long-term.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

VI. ADJOURNMENT:

There being no other business and the next meeting having been previously scheduled for Tuesday, December 9 at 2:00 PM, the Trustees adjourned the meeting at 5:25 p.m.

MINUTES APPROVED: December 9, 2008

Valerie Hurley, Chair
Employees' Retirement Board

Kenneth White, Chairman
Police Retirement Board

J. Scott Baur, Administrator
Employees' & Police Retirement Boards