Police Officer Board of Trustees of the Town of Palm Beach Retirement System Meeting of November 10, 2005

I. CALL TO ORDER

Chairman George Frick called a meeting of the Police Officer Board of Trustees for the Town of Palm Beach Retirement System to order at 9:25 AM on November 10, 2005, in the Town Council Chambers. Those persons present included:

TRUSTEES	OTHERS
George Frick, Chairman (Employee Trustee)	Ramelle Heironymous, Prime Buchholz
Mike Lynch (Employee Trustee)	J. Scott Baur & Jennifer Vaughn, Administrator
Raymond Snow (Town Appointment)	Robert Klausner, Attorney
James McC. Wearn, Secretary (Town Appointment) (10:40 AM)	
Gerald Goldsmith, Vice-Chairman (Fifth Trustee) (10:05 AM)	

II. COMMENTS BY TRUSTEES

The Trustees had no comments to address to the Board.

III. APPROVAL OF AGENDA

Mr. Snow made a motion to approve the Agenda. Mike Lynch seconded the motion, passed by the Trustees 3-0.

IV. MINUTES OF AUGUST 11, 2005, AND SEPTEMBER 10, 2005

The Trustees deferred approval of the minutes for the meetings of August 11, 2005, and September 10. 2005.

V. BENEFIT IMPROVEMENTS

Chairman George Frick updated the Trustees on proposed improvements to the benefits available to the members of the Retirement System. Sgt. Frick reported that he forwarded information on possible benefit increases with cost estimates to Peter Elwell, the Town Manager. Mr. Elwell is reviewing the information.

VI. ATTORNEY REPORT

Robert Klausner reported that the Firefighter Board of Trustees proposed a coordination of benefits provision for members with service under more than one of the Town's Retirement Systems. According to the administrator, the members in question changed eligibility for pension benefits due to a corresponding change in employment status with the Town. Mr. Klausner explained that the members would receive a benefit from each plan where the member rendered service; that service rendered under the plans would combine for purposes of vesting and eligibility; and that the amount of the benefit would be determined by the provisions of the plan where the member rendered the service. Mr. Klausner indicated that the proposed ordinance for the coordination of benefits would have no impact on the Retirement Systems for the Police Officers or the Firefighters, although the ordinance could have a possible impact on the Retirement System for the General Employees.

Mr. Baur noted that the records provided by the Town showed that two members of the Retirement System for the Police Officers had prior service under the Retirement System for the General Employees. Mr. Baur also stated that the members cannot receive a benefit from the Retirement System for the Police Officers for time served as a General Employee, creating the need for a coordination of benefits. Mr. Klausner provided sample language for an ordinance, although he said that he would provide some additional samples for possible language to change the ordinance at the next meeting.

Mr. Klausner then reported that a bill passed the House Ways and Means Committee to lower the age for the 10% penalty on early distributions for public safety employees from 55 to 50, with a possible effective date in 2007 should the legislation pass both the House and the Senate without a Presidential veto. Mr. Klausner noted that the proposed legislation also contains provisions to allow retirees to take deductions from pensions for health insurance premiums pre-tax instead of post-tax.

Mr. Klausner announced that he would host his firm's annual client conference in March. His office will send each Trustee an invitation with registration materials later during the month of November. Mr. Klausner commented that the Trustees could obtain the language for the pending tax legislation through the website established by NCPERS, the National Council for Public Employee Retirement Systems. Mr. Klausner recommended that the Board should consider membership in the organization.

VII. ADMINISTRATOR REPORT

Scott Baur briefly reviewed the Disaster Recovery Procedures for the Pension Resource Center, since Hurricane Wilma passed through Palm Beach County prior to the meeting. Mr. Baur reported that his office did not sustain any damage, and he had essential systems back on line the morning following the Hurricane. The Pension Resource Center processed the normal October benefit payments in advance of the storm to avoid any possible delays making payments to retired members. He noted that retired members normally get paid at the end of each month.

Mr. Baur provided the Board with an updated list of pension conferences available to the Trustees for continuing education. Mr. Baur then updated the Trustees regarding the split of the assets for the Retirement System for the Police Officers from the custodial account for the Public Safety Retirement System. Since the Board of Trustees for the Police Officers Retirement System executed agreements with the all the necessary service providers prior to the end of the fiscal year on September 30, Mr. Baur completed the division of assets by extracting the assets belonging to the Retirement System for the Police Officers from the account for the Public Safety Retirement System terminated on October 1, 2004. The assets belonging to the Retirement System for the Firefighters remained in the account for the former Public Safety Retirement System, which will ultimately get registered to the Firefighter plan. Finally, Scott Baur reported that the Division of Retirement approved the Annual Report for 2004. Mike Lynch stated that he and George Frick planned to attend the annual Municipal Police and Fire Conference hosted by the Florida Division of Retirement, rescheduled from October to the beginning of December due to the Hurricane.

Ray Snow made a motion to approve George Frick and Mike Lynch in advance to attend the Division of Retirement Conference. Mike Lynch seconded the motion, passed by the Trustees 3-0.

VIII. REPORTING OF PLAN FINANCIALS

Mr. Baur reviewed the unaudited financial statement for the Retirement System through September 30, 2005. He then provided the disbursements for approval. The Trustees questioned the amount of payments to Cooke and Bieler for investment management services, which appeared too low. Mr. Baur will review the payments and report back to the Board.

Ray Snow made a motion to approve the disbursements subject to a review of check numbers 2072 and 2073 paid to Cooke and Bieler. Mike Lynch seconded the motion, passed by the Trustees 3-0.

Mr. Baur then presented the benefit approvals to the Trustees, which consisted of a refund of contributions to a terminated non-vested member and a refund to a retired member for a payment made to purchase the higher multiplier. Mr. Baur explained that Mr. Malec, a retired member, exercised his option to purchase the 3.25% multiplier before the Town Council retroactively extended the benefit increase to members in the DROP plan originally excluded from the benefit in 2001. Mr. Malec purchased the higher benefit in March, 2004, with money from his DROP account, while the multiplier increase took effect on October 1, 2004. Therefore, Mr. Malec received the benefit that he purchased for only 6 months.

Mr. Baur reviewed the situation for Mr. Malec with Brad Armstrong, actuary for the Retirement System. Mr. Armstrong recommended that the Retirement System should refund any amounts paid by Mr. Malec not applied to additional benefits. Mr. Armstrong further recommended that the Board refund the amounts with interest at the same rate originally credited to Mr. Malec's DROP Account, since Mr. Malec withdrew the funds from his DROP Account to purchase the benefit.

Mike Lynch made a motion to approve the refund to Mr. Malec upon certification of the precise amount by the actuary, with interest at the rate credited to the DROP Accounts. Raymond Snow seconded the motion, passed by the trustees 3-0.

IX. INVESTMENT CONSULTANT REPORT

Ramelle Heironymous announced that Jon Prime would retire from the firm in 2006. She stated that Shawn Higman, introduced to the Board at a prior meeting, would transition into the role as advisor for the account.

Ms. Heironymous then reviewed the recent performance for the market during the quarter ending September 30, 2005. She reported that mid- and small-cap issues outperformed larger cap stocks during the quarter; that the S&P 500 Index gained 3.6% for the quarter; that international markets had a particularly strong gain of 10.4% for the quarter, driven by the Japanese market; and that energy continued to show the strongest gains of any domestic sector, followed by utilities and tech stocks. Ms. Heironymous explained that the energy sector tends to be very cyclical; that the managers that did not include energy holdings in the portfolio had a very difficult time matching the returns of the benchmark; and that the fixed income securities finally started to react to the recent interest rate increases.

Ms. Heironymous stated that the CPI gained 4.7% for the preceding 12 months, mostly due to increases in energy costs. She also reported that hedge funds had a strong quarter, with the total hedge index up by 4.5%. She then reviewed the performance of the various absolute and directional hedge strategies, and she noted that real estate continued to perform well.

Mr. Goldsmith joined the meeting at 10:05 AM.

Ms. Heironymous reported that the total fund for the Retirement System had assets of $50,029,953 as of September 30, 2005. Scott Baur explained that the Investment Consultant report includes accruals, while the financial statement reports assets on a cash basis. He also explained that the financial statement included a local checking account as well. Ms. Heironymous stated that the portfolio gained 3.4% for the quarter, compared to 3.1% for the benchmark, and 10.95 for the fiscal year compared to 11.9% for the benchmark.

Ramelle Heironymous said that Torray finished slightly behind the benchmark for the manager during the quarter, with no energy holdings in the portfolio; that the style of the manager increased the performance, with a slight bias in the portfolio to mid-cap stocks that performed better for the quarter; and that Torray had strong securities selection, which also bolstered the performance. She indicated that Torray is going through a transition in management from Mr. Torray to Doug Eby, with an outside firm by the name of Markel taking a share of the ownership. Her firm discovered that Torray also held Markel in the portfolio, so Torray is now addressing the issue. Robert Klausner expressed concerns about the compliance issues, and Ms. Heironymous responded that Prime Buchholz would only recommend a manager change if Torray failed to divest the holding. She also explained that the transition had not yet taken place. Mr. Klausner asked Ms. Heironymous to have Torray respond in writing to the Board regarding the possible conflict, and he commended Prime Buchholz for the due diligence that identified the conflict.

Raymond Snow raised the concerns that the Board previously had with the agreement for Torray. Scott Baur clarified that Torray was a Massachusetts Investment Trust, leaving the possibility that a liability of the manager could become a liability for the Retirement System. Mr. Snow stated that he had a problem with a large cap manager that under weighted the energy sector, when energy dominated the returns for the market. Ramelle Heironymous said that Prime Buchholz included candidates to replace Torray in the report, based on the direction of the Board in August. Ms. Heironymous compared the run-up on energy to the tech bubble in the market of the late 1990's. Ms. Heironymous explained that the Board of Trustees for the Public Safety Retirement System originally selected Torray as a stock picker, to complement the holding in the S&P 500 Index. Mr. Snow responded that the Board now had three problems with the manager.

Ms. Heironymous continued her report. She stated that Cooke and Bieler also had no holdings in energy or utilities; that Geneva got funded during the quarter and exceeded the benchmark for the period, due to holdings in the materials and telecomm sectors; that Harris under weighted Japan in the international portfolio, slightly under performing the benchmark as well; that the returns by Harris exceeded the benchmark for the one year period; that Harris had a manager change during the quarter, although Prime Buchholz does not believe the change will impact the portfolio; and that Artisan, the other international manager, had a strong quarter with holdings in all the right sectors. Ray Snow noted that although the international portfolios had higher costs, the managers still had stronger performance net of fees.

Ms. Heironymous reviewed the performance for the alternative strategies. Mr. Goldsmith asked her to explain hedged credit, which she said was similar to distressed credit. Ms. Heironymous reported that Meridian performed slightly under the benchmark, with a portfolio consisting primarily of hedged equity; that Meridian also added a manager to the fund of funds during the quarter; that Richmond, the fixed income manager, slightly out performed the benchmark for the quarter with a shorter duration; and that the convertible bonds performed better than the fixed income component of the portfolio. Ms. Heironymous stated that Prime Buchholz place both Torray and Pine Grove on the watch list for the quarter. She had candidates to replace Torray at the meeting, but she did not recommend replacing Pine Grove at this time. Ramelle Heironymous also indicated that the asset allocation conformed to the guidelines contained in the investment policy.

Mr. Wearn joined the meeting at 10:40 AM. He explained that he had scheduled the meeting for the afternoon, since the agenda for the September 8 meeting indicated that this meeting would begin at 1 PM. Chairman George Frick called the meeting back to order after a brief recess. He summarized the progress of the meeting so far. Sgt. Frick explained that Mr. Elwell continued to consider the benefit changes, the Board heard the reports from the attorney and the administrator, the Trustees received the financials for the plan, and Ramelle Heironymous provided the quarterly investment report.

Ms. Heironymous presented the recommendations for a large cap value manager to replace Torray. She highlighted Legg Mason, Stralem, and Thornburg on the manager search list. She also noted that Legg Mason, with headquarters in Baltimore, maintained a local brokerage office. Ray Snow offered the Board an overview of Legg Mason from his experience, and he indicated that his only concerns regarding Legg Mason included the size of the firm and the age of Bill Miller as the lead manager. Ramelle Heironymous indicated that the Legg Mason portfolio tends to be concentrated in few holdings, typically with very low turnover. She explained that Stralem, by comparison, believes that different types of stocks perform well in different market environments; that Stralem holds a fairly concentrated portfolio with a particular tilt in response to the market environment; and that the manager has been successful with this strategy.

Mr. Goldsmith asked about the assets reported in the tax-exempt composites as part of the information presented with the manager search. Ms. Heironymous explained that the reported returns for each manager consisted of the composite for the tax-exempt accounts managed by that firm. Ms. Heironymous stated that Thornburg looks for undiscovered companies and out-of-favor holdings; that the Thornburg portfolio consists of basic value stocks, "consistent earners", and "emerging franchises"; and that the Thornburg portfolio does not have tight investment constraints. Ramelle Heironymous said that Legg Mason offered institutional shares of a mutual fund, Stralem managed separate accounts, and Thornburg also managed an institutional fund. Raymond Snow strongly suggested that the Board replace Torray due to the under performance, the pending change in management, the Massachusetts Investment Trust issue, and the conflict in the portfolio holdings identified by Prime Buchholz. A poll of the other Trustees then confirmed that the Board favored replacing Torray.

Mr. Snow disclosed that he knows the Legg Mason principals, but he did not favor investment with the firm. He explained that not only was Bill Miller advancing in age, but also the product offered by Legg Mason had a higher Beta. Mr. Snow indicated that he favored separate accounts, and he preferred the smaller boutique type of managers. Mr. Goldsmith agreed that Legg Mason was too big, and he preferred a manager likely to provide more individual attention. Mike Lynch and George Frick also indicated a preference for Stralem.

Mr. Goldsmith made a motion to terminate Torray and engage Stralem. Ray Snow seconded the motion, approved by the Trustees 5-0. Mr. Goldsmith clarified that

the motion assumed that Stralem would manage a separate account on behalf of the Retirement System.

The Trustees discussed the timing of the manager change. Mr. Wearn requested that the Board invite Stralem to a meeting to review their approach to investment management. Robert Klausner advised that the Trustees should not formally terminate Torray until the Board has an agreement in place with Stralem. Scott Baur noted that he would review the preference of Stralem for transition management to execute the changes in the portfolio. Raymond Snow stated that he was not comfortable retaining Torray until the February meeting, so he suggested that the Trustees terminate Torray immediately and use an ETF (Exchange Traded Fund) to invest the assets in the mean time. Mr. Snow also suggested the possibility of moving the assets to the S&P 500 Index portfolio already managed for the Retirement System by SSgA. Ramelle Heironymous indicated that she would prefer to check which approach would be more cost effective for the Board. Mr. Goldsmith did not think the Board would need to be concerned about liquidity constraints for a short-term investment, but he recommended that any holding requirements should also be considered in the process.

Raymond Snow and James Wearn stated that the portfolio could get transitioned to Stralem immediately once the attorney reached an acceptable agreement, although the Board directed that the new account should not get funded until after Stralem came to the February meeting. The ETF or other alternative investment product would get funded in the interim only if the Board experienced further delays establishing the new account.

Mr. Goldsmith made a motion to fund the new account with Stralem subject to review and approval of the agreement by the attorney, but following the February quarterly meeting. Raymond Snow seconded the motion, approved by the Trustees 5-0.

X. ASSET ALLOCATION RECOMMENDATIONS

Ramelle Heironymous presented some additional modeling of the portfolio completed by Prime Buchholz. She recommended an allocation that increased the position in hedge funds by 5%, with an additional 15% allocated to real assets. She discussed the possibility of using a fund that makes a direct investment in real estate as part of the allocation to real assets, although she indicated that many such vehicles have queue to invest. Mr. Goldsmith asked if the recommended allocation to real assets also included real estate investment trusts, natural resources, or other funds investing in real assets. Raymond Snow asked Robert Klausner if other funds represented by his firm included an allocation to real assets, such as timber or other natural resources. Mr. Klausner responded that mostly the very large plans, such as the state retirement systems, included allocations to real assets. Mr. Klausner indicated that other plans, however, were now beginning to review the options to further diversify assets. Mr. Klausner also advised that even a governmental plan could have issues with unrelated income tax considerations. Ramelle Heironymous stated that some of the strategies avoid the income tax issues. Mr. Snow acknowledged the reluctance by some of the other Trustees to invest in the alternative strategies or real assets, but he suggested that the Board should still consider the additional asset classes while addressing the other issues.

Mr. Goldsmith stated that the Board should revisit the 8% return assumption. Robert Klausner advised that the discussion of the earnings assumption should include the actuary. Mr. Snow indicated that he was not very comfortable with the 8% assumption, even though the rate seems to have fairly wide acceptance among the institutional plans. Mr. Snow stated that 8% could be fairly difficult to achieve as a return in the current market environment, and Mr. Goldsmith agreed. George Frick wanted some additional information to consider the investment in real assets at the next meeting, which Ramelle Heironymous will provide.

XI. DROP ACCOUNT INVESTMENT OPTIONS

Ramelle Heironymous compiled information on the DROP Account investment options offered through ICMA. She provided the Board with an overview of the options, which include core funds, index funds, and lifestyle portfolios. She reported that the managed portfolios generally include allocations to between 5 and 6 separate managers, and then ICMA offers some individual mutual funds. ICMA hired outside managers for all the funds, except for the index funds.

Mr. Goldsmith questioned the responsibility that the Trustees have for the investment choices made by the members of the plan. Robert Klausner advised that, other than insuring that the Retirement System provides an adequate selection of choices, the Trustees should leave ICMA to determine the appropriate options to offer to the members of the plan. In this manner, Mr. Klausner indicated the Board filled the responsibility that the Trustees have to provide oversight. Mr. Klausner further advised that the Board should make certain that none of the choices available through ICMA contain significant flaws, security, or management issues that would cause the Retirement System not to offer a particular choice. Ramelle Heironymous noted that ICMA replaces the mangers that under perform. She stated that the equity funds appeared to have adequate performance, although the international funds and fixed income choices seemed a little weak. Robert Klausner stated that the Board should assign the responsibility for management of the assets to ICMA.

George Frick explained that the former Board of Trustees for the Public Safety Retirement System selected the current options to provide members with a more conservative range of choices, since prior to ICMA, the members had access to a fixed guaranteed rate through the Retirement System. Mr. Klausner stated that the Board only had the responsibility to determine if a particular fund was not appropriate to offer to the members. Mr. Goldsmith suggested that the Retirement System could then allow the members to have access to additional choices based on the review completed by Prime

Buchholz. Mr. Klausner indicated that Prime Buchholz should handle the communication with the ICMA regarding the investment choices available to the members.

Ramelle Heironymous noted that ICMA charged higher than average fees on the index funds. Mike Lynch responded that the members of the plan have difficulty knowing how to best use the funds through ICMA. Robert Klausner suggested that a letter get sent to all the DROP members indicating the extent of the review conducted by Prime Buchholz and noting that the consultant determined that fees on certain of the investment choices were higher than the market rate. Mr. Klausner also suggested that ICMA should provide ongoing education for the members. Mr. Goldsmith appreciated the disclosure regarding the fees.

George Frick considered two possible avenues open to the Board: allowing ICMA to extend the current selection of funding options, or considering a replacement for ICMA. Ramelle Heironymous recommended that too many choices can confuse the members of the plan, but the current selection did not include enough mutual fund offerings. Mr. Klausner stated that he would rather leave the decision regarding the choices to ICMA, since the Board increased the liability of the plan by taking on the responsibility. Ramelle Heironymous noted that the plan sponsor has a significant responsibility to select the options available to members in the private sector, but Mr. Klausner responded that the DROP Plan represents a deferred receipt of benefit payments.

The Trustees agreed that the Board should not take the responsibility to choose the investment options. Mr. Wearn added that, when the Board begins to identify deficiencies in the options, then the plan takes more responsibility if the disclosure to the members is not complete. Mr. Klausner suggested that each member going into the DROP should sign a release of liability. Since the Retirement System currently does not have such a release, Mr. Klausner stated that he would provide a form for consideration by the Board.

XII. ADJOURNMENT

There being no further business and the next quarterly meeting having been previously set for Thursday, February 9, at 9 AM, a motion was made, seconded, and approved by the Trustees to adjourn the meeting.

Approved: ______________________________

Mr. James McC. Wearn, Secretary