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October 9, 2015

TO: Board of Trustees
Longboat Key Consolidated Retirement System

FROM: J. Scott Baur, Plan Administrator
Managing Partner, Resource Centers LLC

RE: Asset Consolidation Timeline and Action Items

This Memo briefly addresses the anticipated timeline and required actions by the Board to consolidate the plan assets based on the selection of the Investment Consultant (Graystone Consulting) and the Custodian (First State). In a more typical process, the Retirement System would first consolidate the plan assets with the selected custodian. The Board would then terminate redundant legacy managers, consolidating securities in each asset class with the new replacement manager selected by the Trustees. In this case, Graystone must consolidate the assets at Morgan Stanley as the assets move from Salem Trust. Graystone will not establish temporary manager accounts for the legacy managers from the former General Employees Retirement System and the Police Officers Retirement Systems. As a result, the Board must fund the new managers and asset allocation mandates immediately when the assets move from Salem Trust.

The Board must complete the following sequence of actions before the assets move from Salem Trust to Morgan Stanley (through First State):

- The Board already recommended to the Town the selection of the Custodian (First State) and the Investment Consultant (Graystone Consulting).
- The Board must also deliver appropriate agreements with each service provider, since the Town so far has used the Board counsel to review the agreements on behalf of the Town.
- The Town must finalize and execute the agreements.
- The Board must adopt the new Investment Policy and deliver the Investment Policy to the Town at least 30 days prior to implementation.
- The Trustees must define the process to select, retain, and evaluate the new investment managers.
- If appropriate, the Board will accept the asset allocation and initial manager selections recommended by Graystone.
- The assets will then move from Salem Trust to Morgan Stanley.
- As the assets move, the Board will terminate each legacy manager.
- Morgan Stanley will map the securities into the new accounts for the replacement managers.
- The Board will terminate Salem Trust after Salem completes making benefit payments for the former Police and Fire plans.

To complete the asset consolidation by the end of the 2015 calendar year, the Trustees must address the following items at the October 9 meeting:

- The Trustees must recommend clean agreements to the Town for execution.
- The Board will adopt the new Investment Policy.
- The Board will accept the initial asset allocation and manager selection recommended by Graystone.

The actual transfer of assets will then require 3-4 weeks of lead time, with anticipated completion during the month of November. Assets will transfer during the middle of a monthly reporting period as opposed to the month or quarter end. A mid-month transfer simplifies the reporting for production of interim plan financials and subsequent audits. A mid-month transfer also facilitates the collection of income particularly related to any mortgage securities in the fixed income portfolios. The transfer of assets will finish the consolidation of the legacy plans:

- The legacy managers will cease trading, and Salem Trust will settle all pending trades.
- Salem Trust will provide a certified list of assets to Morgan Stanley.
- Salem Trust will deliver the securities for the former General Employees and Police Officers Retirement Systems to Morgan Stanley.
- Salem Trust will close the accounts for each legacy manager.
- The Board will terminate the legacy managers.
- Morgan Stanley will map the securities to fund the new manager accounts.
- The new investment managers will then begin trading the new accounts.

To transfer the periodic benefit payments for the former General Employees and Police Officers Retirement Systems will require an additional 6-8 weeks of lead time:

- Salem Trust will transmit the benefit payment data to First State.
- First State will set up to make the periodic payments.
- In the proposed timeline, Salem Trust makes the final benefit payments on December 1 and any other required benefit payments prior to December 31.
- Salem Trust will transfer remaining cash to Morgan Stanley prior to December 31.
- First State makes the January 1 benefit payments for the Consolidated Retirement System.
- Retired members receive the 2015 Form 1099R from Salem Trust and the 2016 Form 1099R from First State.
- The Board terminates Salem Trust as of December 31.

We look forward to completing the consolidation of plan assets. Please let us know if you have any questions about the details related to the transition.

Sincerely,

J. Scott Baur
Administrator