MINUTES OF EMPLOYEES' PENSION PLAN REGULAR BOARD MEETING ON THURSDAY, FEBRUARY 28, 2008 AT 1:30 P.M. HELD IN FIRE/POLICE TRAINING ROOM, BOYNTON BEACH, FLORIDA

Present:

Jerry Taylor, Mayor
Rob Eichorst *(arrived 1:33 p.m.)*
Cathy McDeavitt
Lisa Jensen
Sue Kruse
Michael Low
Jim MacIntyre

Julie Klahr, Board Attorney
Barbara LaDue, Pension Administrator

I. Call to Order

Mayor Taylor called the meeting to order at 1:31 p.m.

II. Agenda Approval

The following additions were made:

Item V – Correspondence – Item 2. Advisory Board Agendas added to City Website.

Motion

Ms. Jensen moved to approve the agenda as amended. The motion was duly seconded and unanimously passed.

II-A. Trustee Nomination – Rob Eichorst

Mr. Eichorst was not yet present at the meeting.

III. Approval of Minutes – November 30, 2007

Motion

Mr. Low moved to approve the minutes. Ms. Jensen seconded the motion that unanimously passed.

Mr. Eichorst arrived and was welcomed to the committee.

Financial Reports:

A. Quarterly Investment Review – December 31, 2007

1. Davis Hamilton Jackson – Janna Woods, Principal
Portfolio Summary

Janna Woods, reviewed the report. She noted the market was volatile and the portfolio had approximately $28M with 54% in equities and 45% in fixed income. The return for the quarter was 1.7%. She reported this was a good quarter and growth outperformed value. For the quarter, value stocks were down 6% and the S&P was down more than 3%. The growth index was down 80 basis points and the fund was up 40 basis points, which was an outperformance of 1.2% for the quarter.

For the fixed income portion of the fund, they had added high quality bonds over the last few years and added value by moving sectors around in the portfolio. There was some overweight in fixed income and this was anticipated to change in the future.

The one year return was 8.3% from fixed and this exceeded the benchmark. Equities yielded16.1% and outperformed the growth benchmark by about 4% per year. Ms. Woods distributed the Callan Periodic Table. The three year number was still lagging and the gap was closing; they were less than 1% behind the benchmark and a few percents behind on the equity side for the five year numbers. The plan was heading back on track but the plan struggled.

The total account was down 3%. Bonds were up 1.2% versus the index of 60 basis points for the aggregate benchmark. Equities in the portfolio were down about 6.4% versus the 6.7% benchmark of the growth index. If the plan was reviewed during the lowest period of the quarter, the plan was down about 13% and they were fighting to regain lost ground. The firm believed there was an over reaction in the market. The Federal Reserve dropped rates twice and they were anticipated to do so again. The economy was struggling but there were positive opportunities if you looked at the right stocks in the market. Additionally, U.S. goods were now more sellable with the current economic conditions and they were starting to see some stabilization.

In the equity market for the fourth quarter, growth was down 77 basis points and value down almost 6%. For the trailing one-year period, value was down about 20 basis points and had a 12% spread for 2007 between growth and value. This is the group they think would outperform.

The fund had 73 stocks in the portfolio. Seventy seven percent of the stocks beat the earnings estimate for the quarter; 10% were in line and 13% missed. They are beginning to see earnings as a driving force in stocks and its momentum chasing the small-cap and mid-cap stocks. Typically, the large cap and conservative stocks performed better when the economy was slow.

Stocks that performed well were Genltye, Monsanto, and Apache. Stocks that performed poorly were NII which provides services to Latin America, JC Penney and Merrill Lynch. Ms. Woods anticipated seeing a positive reaction to the market in this area going forward.

Ms. Woods reviewed sentiments regarding the current equity market and announced companies were anticipating earning less than they have over the last few years. People were not spending and they anticipated a pull back on the pricing for oil. She advised they keep the portfolios diversified,

The Equity Top Ten Holdings were reviewed. Disney performed well and was expected to continue to do well. The total portfolio, relative to the Russell 1000 Growth Index and the S&P being large-cap, showed their market cap was bigger than the Russell Growth Index. The fund characteristics were aligned more with the Russell Growth than the S&P 500; hence their projected growth rate earnings for the stocks in their portfolio were higher than the Russell 1000 Growth Index.

The Fourth Quarter Fixed Income Market Commentary was referenced but not reviewed. The fixed income portion had a good year relative to what was predicted as far as returns in the beginning of 2007. This category was the buffer when the market performed poorly. The valuation showed a negative because of fixed income depreciation with the continued dropping in rates and value of bonds.

The portfolio, relative to the aggregate portfolio, was reviewed and showed 2007 was a good year for fixed and equity, and it was anticipated 2008 would outperform in the end. Davis Hamilton Jackson was pleased with the year's performance and since the plan's inception, performance has been good. Ms. Woods explained they were reviewing the stocks in the portfolio on an individual basis and had some concerns about inflation, but they were not making any drastic changes in the portfolio at the moment.

2. Alliance Bernstein – For your review
Investment Strategy

There was no discussion on this item.

3. The Boston Company – for your review
Quarterly Performance

There was no discussion on this item.

B. Merrill Lynch Consulting – Daniel Johnson, Plan Consultant

Kurt Mueller, Investment Consulting for Merrill Lynch, was present and announced Dan Johnson, the Plan Consultant extended his apologies for not being able to attend.

1. Investment Fund Summary for quarter 12-31-07

Mr. Mueller advised the portfolio was slightly over $89M for the quarter. There was a loss of $200K and inflows were $2.5M.

The overall asset allocation had 65% in equities, 26% in bonds and 8% in real estate allocations. The rest were frictional amounts totaling approximately 1% in cash. The fund returned a negative 2/10ths of a percent putting it at the halfway mark in percentile of public funds. The target index was 40% Russell 1000, 10% Russell 2500 (mid and small cap stocks) 15% MSCI EFEA (the International Index) and 35% in the Merrill Corporate Bond Index. That index returned 9/10ths of a percent so the portfolio outperformed by 7/10ths of a percent for the quarter.

Mr. Mueller advised the Federal Reserve was taking a huge step to avoid sliding into a recession by lowering rates, and making credit more available. When rates are lowered, inflation increases and it can stimulate a rise in prices. Recently the Consumer Price Index reached 7% which was a dramatically high number. He noted oil was a big part of the equation. The balance of stimulating the economy, job growth and keeping unemployment low was directly contradicted by inflation. Energy was very high and Mr. Mueller expressed America does well in making goods that do well overseas. He reported the U.S. economy was large and strong. The portfolio was diversified; there was good equity exposure domestically, and good international exposure as well as REIT exposure.

Mr. Mueller reviewed the portfolio as a whole. Growth outperformed value stocks dramatically. The Russell 2000 showed growth was down 2% for the quarter and the Russell 2000 Value Index was down 7% for the quarter. Internationals helped for the quarter and performed well for the portfolio. Although the dollar was weak, it made US goods less expensive and US exports more attractive, therefore, keeping jobs in the U.S. In the local currencies, international markets did not do as well, but with the dollar translations, there was a one or two percent increase in yields. There was a 12.5% exposure to that investment and if the economy and dollar continued to weaken, the fund would continue to make money on those investments. Additionally, if the international portion of the portfolio continued to do well, he suggested the board may want to consider rebalancing the fund.

The Merrill Lynch Master Bond Index was up 3% for the quarter. The corporate bonds were up 2%, mortgages were up 3% and the government bonds were up 4%.

The total fund performed at the halfway mark in the pool of similar funds. Equities did well and were in the top 42%. Fixed income lagged, the EAF Index was in the top half with a -1.7% return and the composite bond portfolio with the two managers combined, posted returns of almost 3% for the quarter when the benchmark was just over 3%.

Alliance Bernstein was down 2.4% for the quarter and their value oriented portfolio was down 5.6%. This manager leaned towards value which was under-favored and who suffered loss; however, this was to be expected with their style. On the growth side, Davis Hamilton did well which balanced the portfolio and kept the loss down.

The Alliance Bernstein bond portfolio was at 2.4% which trailed the index at 60% so the fund was slightly behind. Emerging markets had a very volatile market climate and the plan had a dedicated investment in that area. He suggested hiring international managers, keeping a small exposure in emerging markets.

Calamos performed very well in 2007 and had a positive return. Touchstone had a negative return and was down 1% when the Russell Mid cap index was down 3.6%, although the growth portion of it was down 1.7%. The total fund returned 9.4% for the year, was in the top 3rd of public samples and was up 2% over the target.

The domestic equity index was 10.2% for the year, versus 5%. The International Equity portfolio returned 11%, very close to the benchmark for the international index and the bond portfolio returned 7% and the benchmark was 7.3%. He did not anticipate those returns to continue.

The three year term of the portfolio yielded 8.6%, right on the target index. The six year return showed a 6.9% total return, underperforming the target index of 7.8% and he thought the diversification of the portfolio had paid off. Mr. Mueller reviewed the manager allocation. Calamos was considered a growth manager but was functioning more in a core capacity and Touchstone was on the growth side. International equities were spread out.

The Performance Summary was reviewed. The plan, at two years, had a 10% total fund return, at three years had a 8.6% return, at four years was at 8.3%, at five years was nearly 10%, and for the six year period was slightly behind. International equity had 11%, 19%, 19%, 19%, 22%, and 15% for years one through six, respectively.

The bond portfolio comprised about 30% of the fund and had a return of 7%, 2.5%, 5.5%, 4.5%, 4.3%, and 5.5% for years one through six, respectively. Mr. Mueller thought the portfolio performed adequately and has done okay with Julius Baer and Alathia as managers.

Richard Stone inquired what a bond insurer was and if it was affecting the portfolio. Mr. Mueller explained for this portfolio, there were core fixed income managers who were not investing in the subprime. If they did, it was a tiny percentage. The issue was when the real estate market fell, the Federal Reserve intervened because banks made bad loans causing banks to fail. The mortgage loans were bundled, packaged and sold as investments. The bond rating agencies would rate those and based them on past history. The subprime loans were rated very highly and what was under the loan was not good. The rating agency did a bad job, then Wall Street packaged and sold them to investors who were burned and much litigation was occurring. Bond insurers are in trouble and the bond holders/investors are also in bad shape.

2. Deposit of Merrill Lynch 12b -1 fees for quarter end 12-31-07 - $11,403.49
3. Merrill Lynch Brokerage Statement for November 2007
4. Julius Baer International Equity Fund II – Prospectus available for review in pension Office.

C. Gabriel, Roeder, Smith & Company

Memo of 2-21-08 – Valuation to be presented at a later date – To set Special Meeting

Steve Palmquist, Plan Actuary, was unable to attend. He did not have the financial statement for the actuarial values yet and was requesting a special meeting. They also would review the experienced study at that time. March 28th at 9:00 a.m. was set for the special meeting.

IV. Correspondence

1. Alliance Bernstein 4th Quarter 2007 Proxy Report

2. Advisory Board Agendas added to City Website

Cathy McDeavitt distributed a handout showing where the meeting notices were located and where the meeting minutes will be placed on the City's website. The minutes will be marked unapproved until approved by the board.

V. Old Business

1. RFP for consulting services with memo of 02-25-08 and listing of firms for the consulting services

Chair Taylor reviewed this was distributed to solicit interest. Merrill Lynch was requesting a package.

2. Benefit improvements – Trustee Jim MacIntyre request as to feasibility of obtaining interest of membership on enhancements to Plan – Memo of 2-20-08

Jim MacIntyre spoke with Mr. Palmquist and asked for a study of what it would cost to enhance the plan. He was asking if there would be interest from the members and which proposal would they like.

Ms. McDeavitt suggested polling employees to see what they were interested in and it was noted the electives that would be selected were irrevocable. These options pertained to changes in the benefit multiplier and/or retirement COLA benefits being increased annually based on 1%, 2% or 3% COLAs being paid immediately or payable five years after retirement. The COLA would be paid by the employee and would be irrevocable. The other option was if the employee had over 23 years, would they have to raise the minimum to 3.25%. Mr. MacIntyre was unsure how this would be handled.

Attorney Klahr did not know if Mr. Palmquist, when he did the calculations, used an actuarial determination. There was agreement to table the item until Mr. Palmquist was present.

3. RFQ – Broker of Record for Insurance – Pension Trustees/Plan Administrator

   a. To set a Special Meeting to – review bids – select broker
   b. Appoint a Board member to review quotes from Broker and
   c. Set a special meeting to review and select insurance

Attorney Klahr suggested this item be discussed at the special meeting. All the materials would be in by March 11, 2008 and then there would be a meeting two weeks later on March 28, 2008. The board would develop a shortlist at that time and presentations could be made at the next regular meeting on May 30, 2008

Chuck Magazine, Director of Risk Management, was working with Ms. LaDue to obtain services for an Insurance Broker of Record to obtain policies for each of the boards and the pension administrator. One response was received from Arthur.J. Gallager of Boca Raton. He asked the board to award the bid to Arthur.J. Gallager or reject it.

Attorney Klahr explained the board has an April 10th deadline before the current insurance expired, and there was not enough time to allow deferring the item to the next regular meeting in May. The purpose of the bid was for the broker to bring back the best policies for each board. Attorney Klahr recommended if the respondent was responsible, to authorize staff to start negotiations and then add it to the agenda on March 28th. Arthur J Gallager was one of two brokers that insures the City. The broker's fee was negotiable and was usually a percentage. The actual selection could be through a joint meeting with the other boards or separate meeting. Attorney Klahr suggested one member from each pension board sit as a panel to review the information with Ms. LaDue to receive the quotes and develop a shortlist and then bring the information back to the boards. Each board would need to make the award for the broker and receive the quotes independently.

The other boards have not set their special meetings. It was thought having the broker find insurers for all the pension plans and Ms. LaDue, would be more economical.

Attorney Klahr explained the board should move forward with the option she gave and in addition, to appoint a member to review the quotes. Ms. McDeavitt agreed to serve on the panel for this review.

Motion

Mr. Low moved to appoint the Risk Manager and staff to negotiate a commission basis with the RFP Respondent, A.J. Gallagher and to instruct him to seek quotes and to award the bid to A.J. Gallagher. Ms. Jensen seconded the motion that unanimously passed.

Motion

Mr. Low moved to appoint Cathy McDeavitt to act on the General Employees' Pension Board's behalf during the negotiations. Ms. Jensen seconded the motion that unanimously passed.

VI. New Business

A. Invoices for review and approval:

1. Davis Hamilton – Quarter End 3-31-08 - $33,209.07
2. Alliance Bernstein – Quarter End 3-31-08 - $10,833.96 Fixed/$19,804.38
3. Wachovia Bank custodial fee – Nov., Dec., 2007 & Jan. 2008
   Alliance Bernstein - $2,793.35
   Davis Hamilton - $2,827.34
4. The Boston Co. – Quarter end 12-31-07 - $18,083.67
5. Gabriel, Roeder, Smith & Co. – Services November 2007 - $2,300 and Services January 2008 - $2,187

There were no questions on this item

Motion

Ms. McDeavitt moved to approve the invoices. Ms. Kruse seconded the motion that unanimously passed.

B. Verification of Retirement Benefits: Cathleen McDeavitt, Laurie Madigan, Peter Villanacci & Pedro Wallace

Motion

Mr. Low moved to verifiy. Ms. Kruse seconded the motion that unanimously passed.

C. Benefits, terminations & DROP as of 2-1-08

These were submitted for information only.

VII. Future Agenda Items

None.

VIII. Public Comments

Richard Stone, 4510 Nutmeg Tree Lane, spoke about a memo which was sent to all retirees dated November 5, 2007 about the cumulative gains and losses. He recommended there be more of an explanation as to what it was. Ms. LaDue explained the information was from the Plan Actuary, Steve Palmquist. Mr. Stone explained in his estimation, it was not adequate. Ms. McDeavitt asked Mr. Palmquist to explain the memo to them and noted it was in his reports gong forward. Mr. Palmquist does provide a nice explanation on the report.. In the interim, he would be asked for an explanation on the memo.

IX. Adjournment

There being no further business to discuss, there was consensus to adjourn. The meeting adjourned at 2:55 p.m.

Catherine Cherry

Catherine Cherry
Recording Secretary