MINUTES OF EMPLOYEES' PENSION PLAN REGULAR BOARD MEETING ON FRIDAY, MAY 30, 2008, AT 1:30 P.M. HELD IN CITY COMMISSION CHAMBERS, BOYNTON BEACH, FLORIDA

Present:

Jerry Taylor, Chair
Lisa Jensen
Sue Kruse
Michael Low
Cathy McDeavitt

Julie Klahr, Board Attorney
Barry Atwood, Finance Director

Absent:

Rob Eichorst
Kurt Bressner

I. Openings

A. Call to Order

Chair Taylor called the meeting to order at 1:30 p.m.

II. Agenda Approval

A. Additions, Deletions, Corrections

The following additions were requested:

- Item IV. Reports, E. Presentations, reverse items 1 and 2, presenting AllianceBernstein (Chris Toma) first, and Southeastern Advisory Services, Inc. (Jeff Swanson) second.
- Item VI., Old Business, A., Status Report – Insurance requirements for LaDue, Inc., address this item directly after approval of the minutes.
- Item V., Correspondence, add two items: FPTTA Membership Benefits program; and FPTTA Retirees' Association.

B. Adoption

Motion

Mr. Low moved to accept the agenda as amended. Ms. McDeavitt seconded the motion that passed unanimously.

III. Approval of Minutes

A. Special Meeting – March 28, 2008

Motion

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

B. Special Meeting – April 25, 2008

Motion

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

VI. Old Business *(taken out of order)*

A. Status Report – Insurance Requirements for LaDue, Inc.
(See memo dated May 27, 2008 to Jerry Taylor)

Chair Taylor noted Ms. LaDue requested the board reconsider the City Manager's earlier suggestion to evenly split the cost of the professional liability insurance premium. Chair Taylor inquired whether the board wished to reconsider. There was no response from the board.

Attorney Klahr did not believe any action was necessary by the board.

IV. Reports

A. Investment fund Summary, March 31, 2008 – For your review

B. Davis Hamilton Jackson & Associates, March 31, 2008 – For your review

C. Actuarial Valuation as of October 1, 2007 – Gabriel, Roeder, Smith & Co. – For your review

As Mr. Palmquist was not present, Ms. McDeavitt requested a special meeting be held in order that Mr. Palmquist could address the actuarial valuation. She noted it was the intent of the board to provide a synopsis to the members and retirees relative to the 13th check once the valuation was available. There was no objection from the board. Attorney Klahr advised she would contact Mr. Palmquist to determine dates of availability.

D. Alliance Bernstein, 1st Quarter Proxy Report – For your review

E. Presentations

2. Investment Strategy, First Quarter 2008 – AllianceBernstein Chris Toma/Joe Lawrence *(taken out of order)*

Joe Lawrence, Regional Director, advised Mr. Toma could not be present. Mr. Lawrence spoke about the company, noting more than 300 analysts were included in the AllianceBernstein team worldwide.

The housing sector made up 4% of the U.S. economy and investors were concerned with the downturn in the market. Export growth for U.S. multinational companies was three times the size of housing in relation to the overall economy, and this would offset the downturn experienced in the housing market.

The two-year treasuries returned a negative 2.5% at the end of the first quarter. A 9.3% return was anticipated for the S&P 500 for the next three to five years. The 10-year treasury yield was currently 4%. The equity risk premium, or the expected return of stocks over bonds, was down to 5.4%. Over the next three years, Mr. Lawrence believed stocks would outperform bonds by more than 5%. The average outperformance of stocks versus bonds had been 4% over the last 50 years. Stocks had exceeded bonds 68% of the time for all rolling three-year periods since 1960. When the equity risk premium was over 5%, stocks exceeded bonds 97% of the time by 10%.

S&P Financial Index gains decreased over the past ten years and in the last nine months, the market appreciation had decreased to where it was in 1998, even though assets, book value, earnings and dividends were all up significantly. Financials were selling at a price-to-book value 55% less than they were ten years ago. This sector should have the most promise for AllianceBernstein as a value manager going forward. The financial sectors replaced all of the capital written down as a result of the subprime crises. AllianceBernstein had 20.5% invested in the financials sectors, 1% more than the last quarter, with a 3% overweight relative to the market. Most of AllianceBernstein's research focus was in the financial sector.

Portfolio characteristics indicated a slightly lower price-to-earnings and price-to-book. In the first quarter, the plan underperformed. The one-year and three-year periods were down slightly. The five-year period met the benchmark. Since inception, the plan was more than 3% ahead. It was anticipated value opportunity would perform well over the next few years.

The plan underperformed in fixed income this year and for the one-year period. Prior to the last nine months, the plan was ahead of the benchmark since inception and was currently slightly behind due to exposure to the subprime sector. AllianceBernstein sent a letter to the board, which was included with the meeting materials, requesting permission to hold "AA" and "AAA" rated securities, in the event the securities were downgraded. AllianceBernstein believed the securities would provide a good return once the market was liquid. Mr. Swanson recommended the board sign the letter and return it to AllianceBernstein, as there had been a significant dislocation in the credit markets. Attorney Klahr noted, as the investment policy did not require the immediate sale upon a decline, and securities could be sold at the most beneficial time, a motion should be considered authorizing the execution and return of the letter.

Motion

Ms. McDeavitt moved to authorize the letter be signed and returned. Ms. Jensen seconded the motion that passed unanimously.

The question arose as to financial sectors, and Mr. Lawrence explained financial sectors included lending institutions, banks, insurance companies and brokerage firms.

1. **Quarterly Investment Review – Southeastern Advisory Services, Inc. - Jeff Swanson, Senior Consultant**

Jeff Swanson advised he would be reviewing the Merrill Lynch report for the period ending March 31, 2008, addressing open items in the investment program and providing an overview of real assets.

A significant correction was observed for stocks in the March quarter. The total account was down \$4.9M, with most of the damage caused by the financial sector and credit crunch. The allocation to real estate came at an opportune time. As the plan was over-allocated to equities, most of that was funded from the equity side of the portfolio prior to the correction observed in the March quarter. The plan's real estate allocation with JP Morgan comprised 9% of the assets, and the timing of the allocation was beneficial. Two quarters ago the plan was significantly over policy in stocks and had not rebalanced in some time. The allocation was made almost exclusively from the equity side of the portfolio and the time for doing so was beneficial.

The total portfolio was down 5.6% more than the target index. The plan also ranked below average in the quarter. The portfolios in general were down more than the Merrill Lynch universes. However, the bonds experienced a positive return and ranked above average. The one-year trailing period ending in March indicated a 1.3% return versus a negative .7% for the target index. However, the real estate allocated two quarters ago helped a great deal in dampening the losses on the quarter. April brought improvements, and stocks were up 5%.

With regard to the Davis Hamilton portfolio, growth had performed better than value during the last year. As a result of the current environment, Davis Hamilton's high-quality growth strategy finally worked well in the market. Davis Hamilton was down 8%, while the typical growth manager was down 11% in the fiscal-year-to-date. In the one-year period, Davis Hamilton currently ranked in the top quartile of other growth managers, negating performance concerns in the portfolio.

The international component of the portfolio included three managers. The board previously decided to delete the Boston Company's portfolio and hire Julius Baer; however, that effort was not followed through as a result of a change in consultants. Mr. Swanson would move forward with transferring the portfolio from the Boston Company to Julius Baer, effective June 1, 2008.

With regard to the JP Morgan allocation, the two quarters combined were very successful in terms of timing. The real estate allocation on the quarter underperformed bonds considerably. Real estate, as an asset class, had enjoyed remarkable returns in the past four years, earning approximately 15% on average. These returns were not anticipated going forward. While residential real estate was suffering, commercial real estate was still healthy, but slowing considerably.

Mr. Swanson suggested the portfolio invest in more than stocks and bonds. Additional investments would mitigate against market shocks and event risk. He noted real estate was the crux of real assets. Real assets provided a hedge against inflation. In times of high inflation, real assets do well. The major areas of real assets included shipping, real estate infrastructure, clean energy and commodities.

Mr. Swanson recommended real assets be considered for the portfolio, as massive economic and social transformations were underway in Asia and elsewhere. Allocations to real assets could grow to 25% over the next ten years. The plan currently invested 8% in real estate which was the core of the asset class. Other areas, specifically infrastructure and commodities, offered solid diversification benefits and higher target returns than commercial real estate at this time.

The National Council of Real Estate Investment Fiduciaries (NCREIF) was the S&P of real estate. The NCREIF outperformed the S&P 500 over the past five years, earning 15% each year, and exceeded the return of equities. Most plan sponsors had used real estate as a fixed income alternative. Currently, the yields on bonds were very low, as bonds were only earning in the 3% range. Real estate exceeded returns of stocks by 7% over the last ten years, and had been the best performing asset class in terms of risk adjusted returns.

Real estate provided stable returns, half of which were comprised of rents paid in the portfolio. The NCREIF property index experienced only two negative years out of its

30-year history and, and had provided the highest returns over the past four years since the index's inception in 1978. Lower returns were expected for real estate in the future.

Real estate was a good diversifier, having the same diversification benefits as fixed income and bonds in the portfolio. The issue with real estate at this time was its return outlook. For example, infrastructure has the same diversification benefits, with a higher target return than core real estate. Asset classes, such as commodities had an even greater diversification benefit, but were not expected to enhance returns significantly over the longer term.

If the board was interested in taking advantage of some of the asset classes, Mr. Swanson suggested starting with infrastructure. Mr. Swanson could provide the board with a list of the managers his firm currently recommended. JP Morgan offered an infrastructure product as well as an open-ended fund. Their infrastructure fund had a target return of 10%-12%.

Attorney Klahr inquired whether it would be necessary to modify the existing investment policy in order for a determination to be made. Mr. Swanson advised he would review the policy language to ensure it was still appropriate relative to the current environment. This could then be discussed at the next meeting. With regard to the bond issue addressed earlier, Mr. Swanson believed the policy required assets below investment grade be sold at the earliest beneficial time. Funding for infrastructure could come mostly from the existing real estate allocation and would target 15% for real assets.

Mr. Swanson noted the board's earlier decision to split the Davis Hamilton portfolio with a second growth manager in regard to the plan's impending allocation with Aletheia Resource Management, Inc. Attorney Klahr advised the matter would likely be resolved next week, and would provide copies of the documents to Mr. Swanson.

V. Correspondence

A. AllianceBernstein

1. April 29, 2008, Chris Toma, Permission to Hold Downgraded Securities.

This item was previously addressed.

2. May 27, 2008, Dawn Moore, E-Mail Request to Update Authorized Signatories.

Mr. Atwood suggested the board update the signatories as neither he nor Mr. Davidson were currently authorized. Chair Taylor noted other board members could be added as authorized signatories, if they so desired. This item was further addressed in VII. New Business, A., Approved Authorized Signatories (Taylor, Bressner, Atwood, Jenkins, Davidson).

B. JP Morgan

1. May 2, 2008 Request to Update Account 2008 Questionnaire and Authorized Signatories.

This item was previously addressed.

2. "Year-to-date Consulting Services Fee" (October 1, 2007 – December 31, 2007)

There was no discussion on this item.

C. Mellon Trust of New England, April 28, 2008, Notice of Merger

There was no discussion on this item.

D. Merrill Lynch

1. May 2, 2008, Sharon Kuccera, $10,719.92 check received for 12b-1 Fees Generated by Our Account from January 1, 2008 – March 31, 2008

2 May 2, 2008 Sharon Kuccera, 30-Day Notice to Terminate Contract Effective June 2, 2008

3. May 9, 2008, Sharon Kuccera, Notice to Suspend Fees as of April 1, 2008 and Related "Year-to-date Consulting Services Fee" (October 1, 2007 – March 31, 2008)

Mr. Atwood noted a check was received from Merrill Lynch for the 12b-1 fees.

E. Florida Public Pension Trustee Association, Annual Conference, June 29 – July 2, 2008) Pension Administrator has Conference Agenda and Registration Forms)

This item was provided for the board's review in the event any member wished to attend.

F. FPTTA Membership Benefits program; and FPTTA Retirees' Association.

Ms. McDeavitt provided information relating to the Florida Public Pension Trustees Association (FPPTA) Retirees' Association. FPTTA was launching a member benefits program for employees and retirees of its member plans which would provide discounts on auto and health insurance. She would be attending the FPPTA conference in June and would ascertain further information to be brought before the board.

Chair Taylor suggested Ms. McDeavitt determine the benefits to the retirees, the costs, and who would be responsible for the costs.

VII. New Business

A. Approve Authorized Signatories (Taylor, Bressner, Atwood, Jenkins, Davidson)

See previous discussion.

Motion

Ms. McDeavitt moved to authorize the signatures to be updated to Taylor, Bressner, Atwood, Jenkins and Davidson. Mr. Low seconded the motion that passed unanimously.

B. Invoices for Review and Approval:

1. AllianceBernstein – Quarterly Fees, April 1 – June 30, 2008
   (1) $10,730.90 – Account 03731698
   (2) $17,773.92 – Account 03731692
2. The Boston Company – Quarterly Fees, January 1, - March 31, 2008 - $6,842.83
3. Davis Hamilton Jackson – Quarterly Fees, January 1 – March 31, 2008 - $32,330.80
4. Gabriel Roeder Smith & Co. – Actuarial Services through April 30, 2008 - $6,379
5. Wachovia – Account 4046000161

(1) $885.55 – Fiduciary's Fee February 1-29, 2008 (Invoice 147875)

(2) $885.55 – Fiduciary's Fee March 1-31, 2008 (Invoice 148393)

(3) $900.29 – Fiduciary's Fee – April 1-30, 2008 (Invoice 149031)

6. Wachovia – Account 4046000170

(1) $885.55 – Fiduciary's Fee February 1-29, 2008 (Invoice 147876)

(2) $845.06 – Fiduciary's Fee March 1-31, 2008 (Invoice 148394)

(3) $864.35 – Fiduciary's Fee April 1-30, 2008 (Invoice 149032)

Mr. Atwood advised he reviewed the above and they appear appropriate.

Motion

Mr. Low moved to approve payment of the bills as listed. Ms. McDeavitt seconded the motion that passed unanimously.

C. Pension Administrator – Six-Month Performance Review

Attorney Klahr explained the board suspended Ms. LaDue with the understanding her review would be discussed at this meeting and a determination would be made.

Ms. McDeavitt advised she was asked to represent the board and work with the other two board chairs with regard to Ms. LaDue's 2007 review and to provide Ms. Ladue with guidelines on what was expected in 2008. The criteria used to evaluate LaDue, Inc.'s performance was reflected in items 1 through 20 and the training and development plan as reflected in the meeting materials.

In February of 2008, Ms. LaDue was directed to place her six-month review on agendas for each of the boards. That was not done. Additionally, Ms. LaDue had not provided the status reports requested. Thereafter, Ms. McDeavitt and Luke Henderson, Chair of the Firefighters' Pension Trust, agreed to evaluate Ms. LaDue independently. Ms. LaDue was to become skilled in Excel and Microsoft Outlook in order to become proficient with the City's electronic mail system. Some of the Outlook tasks had been accomplished.

Ms. LaDue was also required to implement an electronic storage system for pension records. To date, only 12 files had been forwarded to the storage company, and it appeared the task could not be accomplished by September 2008. Ms. LaDue was also to prepare RFPs for liability insurance for all three boards and LaDue, Inc. which should have been completed by April 2008; however, that task was completed by City staff.

Chair Taylor expressed his dissatisfaction, noting it was clear the Pension Administrator served as an independent contractor and should possess the requisite skills for the position. Additionally, opportunities for assistance were available. Ms. LaDue's aforementioned memo again requested the board split the cost of the professional liability insurance premium which he believed would negate her independent status. He believed the board should terminate her agreement and hire another Pension Administrator. Ms. McDeavitt and Mr. Low concurred.

Attorney Klahr advised the board should entertain a motion terminating Ms. LaDue's contract. Attorney Klahr would review the contract to ensure the board complied with all provisions, and would send out the appropriate notice. Staff should then prepare an RFP for pension administrative services. She noted the board would be terminating only the General Employees' Pension Plan portion of the contract.

Motion

Mr. Low moved to instruct staff to take all the necessary steps required in order to terminate the contract with LaDue, Inc. as Pension Administrator. Ms. Jensen seconded the motion that passed unanimously.

Mr. Atwood noted that Ms. LaDue had been paid for the month of May, and the June payment had not as yet been made. Attorney Klahr noted Ms. LaDue's services would be terminated pursuant to the motion, and she would provide notice to Ms. LaDue. The next step would be to direct staff to obtain new pension administrative services.

Motion

Ms. McDeavitt moved that staff be directed to prepare an RFP for pension administrative services for the General Employees' Pension Plan. Ms. Jensen seconded the motion that passed unanimously.

VIII. Future Agenda items

IX. Public Comments

X. Adjournment

There being no further business to discuss, the meeting properly adjourned at 2:45 p.m.

Next Regular Meeting Dates (Commission Chambers – City Hall):

- **Friday, August 29, 2008 – 1:30 p.m.**
- **Friday, December 5, 2008 – 1:30 p.m.**

Stephanie D. Kahn

Stephanie D. Kahn
Recording Secretary
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