CITY OF FT. PIERCE POLICE OFFICERS' RETIREMENT TRUST FUND
MINUTES OF MEETING HELD
August 18, 2004

Sergeant Tony Hurtado called a meeting of the Board of Trustees to order on August 18, 2004 at 2:15 P.M.

TRUSTEES PRESENT	Chairman Antonio Hurtado Brian Humm Ken Bloomfield Gloria Johnson
OTHERS PRESENT	Helen Donahue, Montag & Caldwell Nick Schiess, Pension Resource Center Burgess Chambers, Burgess Chambers & Associates Janey Singer, City of Ft. Pierce Jay Bowman, Participant

PUBLIC COMMENTS

There were no public comments.

MINUTES

The Trustees reviewed the minutes for the meeting of July 21, 2004. A motion was made, seconded, and unanimously carried to approve the minutes of July 21, 2004.

FINANCIAL REPORT

Janey Singer provided the financial report. Contributions to the Plan were $14,336.21 for July 2004. Expenses were $5,645.61 for July 2004. The balance of assets custodied with Suntrust was $6,515,129.29. Ms. Singer was questioned whether the State contributions had been received and she responded that the contributions had not been received. The amount of the Plan's cash balance was $364,301.83. A discussion ensued regarding the cash balance. Burgess Chambers, noting that the amount of cash was excessive, questioned whether a policy existed regarding the amount of funds to maintain in the Plan's checking account. Gloria Hall noted that a policy did not exist and that contributions usually are sufficient to cover the operating expenses of the Plan. Mr. Chambers noted that a significant portion of the cash balance would be disbursed to an investment account during rebalancing. A motion was made, seconded, and unanimously carried to approve the financial report.

MONTAG & CALDWELL INVESTMENT COUNCIL

Helen Donahue appeared before the Board on behalf of Montag & Caldwell to deliver an Investment Management report. She reviewed the characteristics of the firm noting that the assets under management were $30 billion. She reported that the Plan's portfolio is managed with a team approach.

Ms. Donahue reported that the investment return for equities for the quarter ending June 30, 2004 was 2.53%, which outperformed the benchmark of 1.71% for the S&P 500. The year-to-date return was 4.51% versus the benchmark of 3.44%. She reported that the investment return for quarter ending June 30, 2004 for fixed income was –1.97% versus the index of –3.17% and attributed the outperformance to shorter duration of the bonds within the portfolio. Ms. Donahue noted that since inception, both the equity and fixed income portfolio outperformed their respective benchmarks. She discussed the asset allocation, noting an allocation of 60% equities, 37% fixed income, and 3% cash.

Ms. Donahue continued her report with a thorough review of the portfolio including sector allocations, portfolio holdings, and portfolio additions and deletions. She then discussed the investment process in great detail. Burgess Chamber questioned Ms. Donahue regarding the overall return of the equity portfolio for the past ten years and whether the portfolio's return for the past five years has exceeded the index. Ms. Donahue relied that the Plan's equity portfolio has returned –2.51% for the past five years and 13.39% for the past ten years, both of which have exceeded the index. Mr. Chambers questioned whether a 13.39% return was a reasonable projection of earnings for the next ten years. Ms. Donahue discussed market conditions and anticipated a long-term growth rate of 8-10% for the equity portfolio. Mr. Chambers then questioned whether Ms. Donahue anticipated that the long-term performance of the fixed income portfolio would deliver a minimum 4% return and Ms. Donahue responded that 4% was a reasonable projection. Mr. Chambers noted that the actuarial assumption for investment return was 7.5% and questioned the required return on equities to offset the allocation to fixed income with an anticipated return of 4% to meet the actuarial assumption. Ms. Donahue estimate that a return of 10-12% would be required to offset the lower return for bonds to meet the assumption but noted that the return might be higher due to the possibility that the return on bonds might be negative in the short-term given the existing market conditions.

Brian Humm advised the Board that many Participants eligible for a lump sum distribution of benefits were becoming eligible for benefits and that as many as ten Participants may retire within in the next year resulting in up to an estimated $1 million in benefit distributions from the Plan. Mr. Chambers questioned Ms. Donahue regarding the maturity schedule of the bond portfolio given this potential liability and requested that an estimate of the schedule of payments be prepared, which Gloria Hall agreed to prepare. Ms. Donahue advised that the bond portfolio would be adjusted accordingly but noted that the asset allocation would also need to be evaluated as well. Ms. Donahue then reviewed the maturity schedule of the bond portfolio. Mr. Humm recommended postponing the evaluation until after upcoming negotiations in October 2004. The Board decided that the State contribution, when received, should be retained as cash until the matter is resolved.

Ms. Donahue continued her report with a discussion on market conditions noting that small-cap and value style has outperformed large-cap and high quality in the past three years. She advised that the Board's decision to change the fixed income index had lowered the maturity of the bond portfolio, which had proved to be a wise decision since the value of thirty-year bonds had suffered significant losses. Mr. Chambers questioned the measure of risk within the fixed income portfolio and Ms. Donahue reported that the average maturity was 3.2 years. Mr. Chambers the questioned whether there were any measures that Montag & Caldwell could take to protect the fixed income portfolio from rising interest rates. Ms. Donahue responded that focus was upon total return and that the maturities were already very short, however, the average maturity rate could be shortened further upon the Board's direction. Mr. Chambers questioned whether Montag & Caldwell had taken all necessary steps to protect the principal of the fixed income portfolio and Ms. Donahue responded that all necessary steps had been taken.

Mr. Donahue continued her report with further discussion of market conditions. She stated that fundamentals should again become important and anticipated that the equity portfolio would perform well on a relative basis.

INVESTMENT MONITOR REPORT

Burgess Chambers reported on the investment performance of the Plan on behalf of Burgess Chambers & Associates. Mr. Chambers announced that he had performed a site visitation to the office of Montag & Caldwell and had become reacquainted with their investment process, which appeared to remain sound. He noted that Montag & Caldwell only invested in large cap high quality equities and there were times within the market cycle that favors this management style. He further noted that their equity returns in 2003 calendar year were poor on an absolute basis, however, the portfolio was managed very conservatively. He reported that the 1st and 2nd quarter 2004 returns had performed favorably against the benchmark. Ms. Donahue noted that for the calendar year-to-date, the equity portfolio return was -3% versus the index of -6%. Mr. Chamber questioned Ms. Donahue regarding the anticipated performance of Montag & Caldwell versus small and mid–cap equities. Ms. Donahue advised that while the growth of the United States economy was down, the equity portfolio contained many companies with an international presence that should perform well.

Mr. Chambers reviewed the compliance checklist noting that the Plan was in compliance with all items except the annualized rolling three-year total investment return of 3.2% did not exceed the 7.5% actuarial interest rate assumption. The Board reviewed the long-term performance of the total portfolio noting that the assumption had not been achieved in most years. Ms. Hall questioned the ramifications of not achieving the actuarial assumption over the long-term. A question arose whether contributions must increase if the assumption is not achieved. After further discussion, it was noted that the matter should be addressed with the Plan's Actuary who was believed was attended the next quarterly meeting.

Mr. Chambers noted that the portfolio had been recently diversified with the addition of additional asset classes and the return of 22.4% for the international portfolio helped the overall performance of the total investment portfolio. Mr. Chambers requested ADV Form Part 1 and Part 2 from Ms. Donahue, which she subsequently provided to Mr. Chambers and the Board. Mr. Chambers questioned Ms. Donahue whether Montag & Caldwell was involved with any pending litigation. Ms. Donahue explained that Montag & Caldwell was involved with litigation with a former client regarding a directed brokerage issue in which a lawsuit had been filed to compel Montag & Caldwell to provide trading records considered confidential. Mr. Chamber requested to be advised of any changes in the status of the action. Nick Schiess provided Ms. Donahue with a copy of the Plan's revised investment policy.

ATTORNEY REPORT

It was noted that the Attorney was not present.

Nick Schiess provided the Board with a draft revision of the Summary Plan Description incorporating the changes directed by the Board at the last meeting. He noted that the Statues required revision of the Summary Plan Description every two years and although the latest Summary Plan Description was labeled September 30, 2002, it contained information obtained from the 2002 Actuarial Valuation and must have been produced at a date later than September 30, 2002. Therefore, the deadline for revising the document was not in fact September 30, 2004 as had been originally believed. Mr. Schiess recommended that to maintain consistency, the revised Summary Plan Description should be produced after the 2004 Actuarial Valuation was completed and the Board agreed. The Board reviewed the draft Summary Plan Description and agreed that information regarding the provisions for the buy-back of prior military and prior service should be included therein. A question arose whether the reduction factor for early retirement was actually 5% as stated or whether the reduction factor had in fact been reduced to 3% along with an Ordinance amendment adopted several years prior that reduced the normal retirement age from fifty-seven to fifty-five. The Board directed the Administrator to research the status of the early retirement reduction factor and report back to the Board at the next meeting.

A question arose whether the State had confirmed in writing whether the minimum benefits could be met through a combination of the City Retirement and Benefit System and the Police Supplemental Plan. Mr. Schiess advised that this matter was under review by the Attorney. A telephone call was placed to the Attorney regarding the status of the written confirmation from the State wherein Mr. Ferguson reported that the confirmation had not been received.

ADMINISTRATOR'S REPORT

Nick Schiess provided the Trustees with a list of upcoming educational conferences for 2004.

Antonio Hurtado departed the meeting at 4:00 P.M.

OTHER BUSINESS

There being no further business and the next quarterly meeting having been previously scheduled for November 17, 2004 at 2:00 PM, the meeting was adjourned at 4:12 P.M.

Respectfully submitted,

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Secretary