# TOWN OF JUPITER POLICE OFFICERS' RETIREMENT FUND
## MINUTES OF MEETING HELD
## AUGUST 25, 2005

Chairperson Nick Scopelitis called the meeting to order at 10:10 A.M. at the Town Council Chambers, Jupiter, Florida. Those persons present were:

| **TRUSTEES** | **OTHERS** |
|---|---|
| James Feeney | Joe Beattie, Sawgrass Asset Management |
| Peter Alfele 10:15 A.M. | Nick Schiess, Pension Resource Center |
| Marc Dobin | Burgess Chambers, Burgess Chambers & Associates |
| Nick Scopelitis | Brigid Saia & Cheryl Grieve, Town of Jupiter |
| | Other Visitors |

**PUBLIC COMMENTS**

Chairperson Nick Scopelitis invited those present to address the Board with public comments. There were no public comments.

**ATTORNEY REPORT**

Bob Sugarman joined the meeting via teleconference due to Hurricane Katrina on behalf of Sugarman & Susskind P.A.. He provided the Board with an update on the status of the lawsuit against the Plan filed by four disability retirees contending that their pensions were incorrectly calculated. He reported that the only issue remaining for the resolution of the lawsuit was the negotiation of the plaintiffs' attorney's fees. Marc Dobin reminded the Board that he had been tasked to negotiate the fees and an agreement was close on the final settlement amount. Mr. Sugarman discussed the inclusion of accrued leave payouts in the calculation of final average salary and determination of benefits. He noted that pension contributions were deducted by the Town on accrued leave payouts and therefore the accrued leave payouts must be considered pensionable compensation in these cases. Nick Schiess noted that accrued leave payouts had been considered as pensionable compensation in the determination of benefits for normal retirements.

Mr. Sugarman updated the Board on the status of the periodic review of disability benefits noting that independent medical exams were being scheduled for Katherine Berish, Raymond Montrois, and Jill Rosco.

Mr. Sugarman reported that securities monitoring reports continued to be received from the Plan's various securities monitoring firms and forwarded to the Plan's Custodian.

Mr. Sugarman reported that the Securities and Exchange Commission and Department of Labor had compiled a questionnaire regarding the business practices of Investment

Consultants to identify possible conflicts of interests. He noted that the Plan's Investment Consultant had already responded to the questionnaire and the responses would be provided to the Board at a later date.

Peter Alfele joined the meeting.

Burgess Chambers appeared before the Board and advised that a possibility existed that the Plan's custodian was revenue sharing with the Plan's money market sweep account. Bob Sugarman reported that correspondence received from the Custodian indicated that the Salem Trust Company received up to 25 basis points from mutual fund companies for sweep services performed on behalf of the mutual fund companies and that the services were of no cost to the Plan as the fees were paid directly by the mutual fund companies. Mr. Chambers suggested that the Plan was in fact bearing the cost as part of the expense ratio and the mutual funds could reduce fees in the event the cost was not present. It was noted that the Goldman Sachs Prime Obligations Fund was the one of the money market accounts proposed by the Custodian and selected by the Board as the money market sweep account for the Plan. A lengthy discussion arose regarding the matter and whether the fees were fully disclosed by the Custodian to the Plan. Mr. Sugarman explained that the Custodian could be requested to refund the fees or the perhaps the services could be performed with a lower expense ratio through an alternative sweep account. After further discussion, Mr. Chambers was directed to correspond with the Custodian to negotiate the refund of a portion or all of the revenue or locate an alternative with a lower expense ratio. A question arose regarding the amount held in the money market account. Nick Schiess reported that the account balance is monitored quarterly and the target amount to be held in the account is approximately $200,000, which is used for Plan expenses and benefit payments.

A discussion arose regarding the trading blackout period instituted by the Plan's Custodian during a systems conversion and whether the Plan suffered any damages as a result of trading restrictions placed upon the Plan's investment managers. Joe Beattie was questioned whether the imposed trading restrictions hampered the management of the fixed income portfolio and Mr. Beattie responded that no issues arose since the manager did not take direction from the Custodian and conducted business as usual. It was noted that trading most likely continued by many investment managers and the trades were settled after the blackout period expired. A discussion ensued regarding the recent issues involving the Custodian and whether to retain the Salem Trust Company as Custodian. The Board determined to further evaluate the issues involving the Custodian and requested that the Custodian be invited to a special meeting already scheduled on September 16, 2005 to explain the trading blackout matter and money market account fees.

James Feeney discussed the status of the recent bargaining between the Town and the Union. He noted that the Town was researching the possibility of entering the Florida Retirement System. Mr. Sugarman discussed in great detail the Florida Retirement System Plan and discussed the many options with regards to a transition to that system and the ramifications of a transition to the members. Mr. Feeney reported that the negotiations did not yield the implementation of a desired COLA and the only pension benefit improvement approved by the Town was the adoption of the outstanding minimum benefits. The discussion of the Florida Retirement System continued and it was noted that the appeal of the transition to the Town was likely a reduction in funding. It was noted that the investment losses of prior years for institutional investors did increase the short-term funding requirements, however, the Plan itself was financially sound.

The meeting adjourned at 11:20 A.M. and reconvened at 11:35 A.M.

**INVESTMENT MANAGER REPORT**

Joe Beattie appeared before the Board on behalf of Sawgrass Asset Management to provide the Board with a report on the investment performance of the fixed income portfolio for the period ending June 30, 2005. Mr. Beattie reported that the return for the quarter ending June 30, 2005 was –2.1% versus –2.4% for the Lehman Intermediate Aggregate Index and 4.5% versus 5.4% versus the index for the trailing one year period. He explained that underperformance was attributable to the defensive posture of the portfolio and the exclusion of BBB bonds in the portfolio pursuant to the investment policy, which were a component of the index itself. Mr. Beattie explained that overweighting in corporate bonds and the flattening of the yield cure enhanced returns while a shorter average maturity rate and underweight in mortgage backed securities detracted from performance. Mr. Beattie was questioned regarding the underweight in mortgage backed securities and he responded that this sector was more sensitive to rising interest rates and therefore intentionally underweighted as a matter of investment strategy. Mr. Beattie was then questioned regarding the discrepancy between the performance figures contained in the Sawgrass Asset Management report versus the Investment Consultant report and Mr. Chambers explained that the figures within the Sawgrass Asset Management report were gross of fees while the figures in the Investment Consultant report were net of fees. He discussed market conditions and anticipated a further rise in interest rates and advised that the portfolio was properly positioned for a rising interest rate environment. Mr. Chambers commented that the management of the bond portfolio had resulted in the long-term outperformance of the index while reducing risk. It was noted that the portfolio contained a cash allocation of 3%, which Mr. Beattie advised was transitional.

**INVESTMENT CONULTANT REPORT**

Burgess Chambers appeared before the Board to discuss the investment performance of the portfolio for the quarter ending June 30, 2005. The investment return for the quarter was 2.4% and for the fiscal year-to-date was 9.0%. The market value of the portfolio was $17,583,2818. Mr. Chambers then discussed the performance of the individual investment managers for the quarter ending June 30, 2005. The best performance was achieved in the REIT allocation with a return of 15.9% while the worst performance was in the international equity allocation with a –3.2% return primarily attributable to currency valuations. The return for Private Capital Management was 2.4% versus 2.2% for the index. The C.S. McKee international equity portfolio performance was –3.2%

versus -0.8% for the index. Mr. Chambers was questioned regarding the underperformance on the international equity allocation and he responded that while the underperformance for the quarter alone was not of an immediate concern it was be important to monitor future performance closely and the long-term performance was of much greater importance than any short-term gains or losses.

Mr. Chambers reviewed the compliance checklist noting that all items were in compliance with the Plan's investment objectives with the exception that the Plan has not achieved a three-year rolling return of 8.5%. Mr. Chambers was questioned whether any concerns existed regarding the portfolio and he responded that his only concern was the under allocation of only 5.4% to the REIT portfolio, however, it was not prudent to increase the allocation because of the high valuations of the equities within this asset class at this date.

Mr. Chambers provided the Board with a memorandum dated August 23, 2005 regarding recommendations to revise the asset allocation. He discussed the addition of a large cap growth mandate noting that the domestic equity portfolio contained a value bias, which had helped overall performance given the unusually long duration of market favor to the value style. He anticipated that the market would soon favor a growth style and thus recommended the Plan's participation in this style. He then recommended the fulfillment of the mandate with iShares of the Russell 1000 Growth Index Fund and reviewed the sector allocations and top holdings within the index. He recommended that 10% of the total portfolio be allocated to this style and advised than the diversification attained with the addition of this style should diminish the overall risk of the total portfolio. Mr. Chambers was questioned regarding an overlap of holdings and sector allocations with the Private Capital Management portfolio. Mr. Chambers responded that the overlap was minimal and the allocation to the technology sector might increase slightly but the allocation to this style would decrease overall risk. Mr. Chambers reviewed the additional allocation changes. A lengthy discussion ensued to the additional mandate and the allocation recommendations. James Feeney made a motion to allocate 10% of the total portfolio to the Russell 1000 Growth Index Fund. Marc Dobin seconded the motion, approved by the Trustees 3-1 with Nick Scopelitis dissenting. The Board discussed Mr. Chambers' recommendation to increase the allocation to international equities. Mr. Chambers was questioned regarding the prudence of increasing the allocation given the international Investment Managers' gross underperformance and Mr. Chambers responded that the long-term performance of the manager was excellent and participation in this asset class was important. The importance of remaining disciplined in rebalancing was noted. Marc Dobin made a motion to adopt the balance of Burgess Chambers' recommendations on asset allocation. Peter Alfele seconded the motion, accepted by the Trustees 4-0.

**REQUST FOR PROPOSAL- AUDIT SERVICES**

Nick Schiess reported that pursuant to the Board's direction at the last meeting, a request for proposal for audit services had been performed and that Mr. Alfele had reviewed all the responses and selected three prospective finalists to deliver a presentation to the

Board at the special meeting already scheduled for September 19, 2005. Mr. Alfele reported that after review of the Town's 2004 audit inclusive of the Plan, he had determined that the audit would suffice for the 2004 fiscal year and recommended that the audits be conducted only prospectively.

## MINUTES

The Board reviewed the minutes of the meeting held May 26, 2005 and a correction was noted. Peter Alfele made a motion to approve the minutes of the meeting held May 26, 2005 as corrected. Marc Dobin seconded the motion, approved by the Trustees 4-0.

## DISBURSEMENTS

The Trustees reviewed the disbursements presented for approval by the Administrator. Mr. Schiess reported that the invoice from the Town in the amount of $1,500 for the Plan's share of services performed in conjunction with the Town's 2004 audit that was tabled at the last meeting had been presented again for the Board's consideration. He noted that the Board had tabled the invoice until the issuance of a separate opinion letter to the Plan from the Town's auditor, however, the request for the letter was denied. Peter Alfele made a motion to approve disbursements as presented. Marc Dobin seconded the motion, approved by the Trustees 4-0.

## ADMINISTRATIVE REPORT

Nick Schiess reported that the Trustees' subscription to the Pension and Investments publication was expiring and questioned whether the Trustees desired to renew the subscription at a rate of $229 yearly per Trustee. The Board decided to renew the subscription for all Trustees except for James Feeney who volunteered to share with another Trustee.

Mr. Schiess provided the Board with an update on the status of the enhancements to Administrative services to the Plan. He noted that the additional services were contingent upon the receipt of historical payroll data from the Town, which had been only recently received. He explained the delay in the receipt of the data was due to difficulties encountered by the in reconfiguring payroll systems to export the required data. Mr. Schiess advised that a preliminary review of the data received indicated that the data was useable, however, much additional programming and testing was required before the Administrator's systems would become functional.

Mr. Schiess provided the Board with the quote for the renewal of the fiduciary liability insurance through the National Union Fire Insurance Company noting a modest increase from $10,983 yearly to $11,659 yearly. He reported that the market for this coverage was very small and the premium was comparable to similar coverage purchased by other Plans. He advised that he was unsuccessful in the removal of the elimination of recourse provision within the policy due to the inflexibility of the parent company AIG to remove the applicable language and noted that a separate premium of $125 was required to eliminate the insurer's right to attempt to recover damages from the Trustees individually. He also noted that the separate premium must be paid from assets other than the Plan and in many instances sponsor Cities had issued payment of the separate premium as consideration of the Trustees' service to the Plan. Marc Dobin made a motion to renew the fiduciary liability insurance with the National Union Fire Insurance Company. Peter Alfele seconded the motion, approved by the Trustees 4-0. The Board directed the Administrator to correspond with the Town to request the payment of the separate premium for the elimination of recourse endorsement and also to attain a quote from the insurer ULICO on the next renewal anniversary.

A discussion arose regarding the organization NCPERS and the benefits offered to Boards of public pension plans. It was noted that the membership fee was the amount of $100 yearly. James Feeney made a motion to for the Board to become a member of the NCPERS organization. Marc Dobin seconded the motion, approved by the Trustees 4-0.

Mr. Schiess reported that Nick Scopelitis had requested copies of the monthly custodial statements from the Salem Trust Company and advised the remaining Trustees that the statement were available to all the Trustees upon request.

**OTHER BUSINESS**

There being no further business and the next special meeting scheduled for September 19, 2005 and the next quarterly meeting scheduled for November 17, 2005, the meeting was adjourned at 12:55 P.M.

Respectfully submitted,

James Feeney, Secretary