

**VILLAGE OF PALM SPRINGS HAZARDOUS DUTY
EMPLOYEES' PENSION FUND
MINUTES OF MEETING HELD**

May 4, 2004

Tim Conboy called the meeting to order at 4:32 P.M. at the Council Chambers in Palm Springs, Florida. Those persons present were:

TRUSTEES

Tim Conboy
Ed Lewis
Jorge Cabrera
Ed West
Bob Becak

OTHERS

Paul Nicoletti, Fund Counsel
Margie Adcock, Pension Resource Center
Bill Stewart, Invesco
Ernie Mahler, Salomon Smith Barney

MINUTES

The Board reviewed the minutes of the meeting held March 16, 2004. A motion was made, seconded and carried 5-0 to approve minutes of the meeting held March 16, 2004.

INVESTMENT MANAGER REPORT: INVESCO

Bill Stewart appeared before the Board to discuss the investment performance for the Fund for the quarter ending March 31, 2004. He provided the Board with an organizational update noting that two senior members within the portfolio group have announced their retirement effective June 30, 2004. He stated that the portfolio group will be going from 14 people to 12 and there are no plans to replace the two individuals retiring. They will continue to manage the money on a team basis. Mr. Stewart reported that they informed Smith Barney of the change right away. Ernie Mahler stated that as soon as Smith Barney has an opinion on the matter, he will provide it to the Board. It was noted that Smith Barney will be sending an analyst to Invesco for an onsite due diligence visit in the next week or so and a report will be forthcoming.

Mr. Stewart then reviewed the performance for the Fund for the quarter ending March 31, 2004. He reported that the total Fund was up .6% for the quarter while the benchmark was up 1.6%. With respect to equities for the quarter, the Fund was down 2% while the benchmark was up 1.7%. With respect to fixed income for the quarter, the Fund was up 2.3% while the benchmark was up 2.5%. Mr. Stewart reported that the asset allocation was 65% in equities; 33% in fixed income; and 2% in cash. The total market value for the Fund as of March 31, 2004 was \$4,624,091.

Mr. Stewart discussed the equity characteristics. He stated that they went from a more neutral stance between growth and value to a bias towards growth with 55% in growth versus 45% in value. They are overweight in materials, industrials and information technology. They are underweight in utilities, energy and telecomm. Mr. Stewart then

discussed the equity market outlook noting that they believe that price will follow earnings in the long run. Mr. Stewart then discussed the fixed income characteristics. He noted that the portfolio is a high quality portfolio. Duration remains slightly below that of the benchmark because they expect that over the long term interest rates should rise. There was discussion on why they are underperforming the S&P over the year. Mr. Stewart responded that there are periods where they have outperformed and periods where they have underperformed and the measurement of performance deals with an aggregate number. The reason why there is a difference in the sectors between the portfolio and the S&P is that Invesco has been positioning the portfolio for a recovery in the market. They have not changed their position and still believe the stocks they have in the portfolio will add value to the portfolio in the long term. Mr. Mahler stated that he would expect a little better performance, but stated that they are getting close but are not there yet. Mr. Mahler asked Mr. Stewart to explain the outlook. Mr. Stewart stated that they have a bias to economically sensitive names and have positioned the portfolio for a recovery. Mr. Mahler stated that he is looking to see something good happen on a consistent basis and it is good that they are making some changes.

INVESTMENT MONITOR REPORT: SMITH BARNEY

Ernie Mahler appeared before the Board to discuss the investment performance of the Fund. He reported on performance for the quarter ending March 31, 2004. He reported that the Fund was up 50% for the quarter ending March 31, 2004 while the benchmark was up 1.95%. He noted that the total market value of the Fund as of March 31, 2004 was \$4,624,000. He stated that the fiscal year to date numbers are still decent, but that Invesco is still underperforming. He noted that Invesco has picked up on the equity numbers so they did listen to the Board and reacted accordingly. They have moved the equity allocation up to 65%. Mr. Mahler reminded the Board that Invesco-NAM took over in June 2001. He stated that there is nothing major going on here, but with active management he thinks it is noteworthy of some extra attention. Mr. Mahler then provided a handout to the Board which illustrated performance versus returns in the markets. He noted that with respect to the management style of Invesco, they are where they say they are going to be and mostly in the middle with larger cap. Mr. Stewart stated that their cutoff is \$2 million and anything below that they will not consider. The Investment Policy provides that the Board wants the Manager's performance to be in the top 50% of relative managers. This does not give them credit for asset allocation which is good. They have underperformed the S&P in the last 3 years, but did exceptional prior to that. With the same people in their firm, there is hope that the performance will kick back up.

Mr. Mahler stated that he would like to see some small/mid cap in the portfolio. He stated that he would bring some information on that to the next meeting. He likes where the portfolio is right now and noted that these are choppy times in the market. He stated that he would like to add in another asset class to get a kick to obtain the actuarial number. He feels the Fund needs some different exposure in other areas.

Mr. Mahler then provided the Board with a draft Investment Policy for the Board to review some changes he proposed at the last meeting. He reviewed the draft with the

Board. He reviewed changing the allocation to 65% equities and 35% fixed income and using the Lehman Brothers Intermediate Government/Credit Bond Index. He also stated that the equities should be at 70% at market versus 60%. Mr. Mahler stated that these changes were approved at the February meeting. Mr. Mahler stated that he would clean up the Policy and e-mail it to Mr. Nicoletti and Mr. Stewart. Mr. Mahler stated that he would like to use Invesco for small/mid cap. This would keep the costs low and keep an actively balanced portfolio. However that is not working out due to the technical restrictions for Florida public pension plans. He noted that it is worthy of looking at with another manager. Mr. Stewart stated that they do not go below \$2 million in the current portfolio so that they are essentially leaving part of the market out of the Fund's total portfolio. Mr. Mahler stated that he would bring information on small/mid cap managers for the next meeting.

ADMINISTRATIVE REPORT

Margie Adcock presented the Beneficiary/Enrollment Forms received from the Village. A motion was made, seconded and carried 5-0 to approve the list of Enrollment Applications.

Ms. Adcock presented the disbursements. A motion was made, seconded and approved 5-0 to pay all listed disbursements.

ATTORNEY REPORT

Paul Nicoletti provided the Board with a revised draft Ordinance. He noted that he made all the changes that were discussed at the last meeting. Mr. Nicoletti reviewed the changes with the Board. There was a discussion on the 13th and 14th checks and there was a concern that it might confuse Council. Mr. Nicoletti stated that he thought it might be easier to get the Ordinance through without the provision. He noted that it would not be giving up much as it is not likely to happen for several years. The Board noted that it was of no cost to the Village. Mr. Nicoletti suggested that perhaps another vote should be taken. He advised that the Actuary updated the information by letter dated April 23, 2004. Mr. Nicoletti stated that he could keep the Ordinance the way it is or take out pieces. The Board noted that it would be hard to conduct another vote of the Members unless the Village agrees to the 2%. Mr. Nicoletti stated that he was not sure how close the Village is to a contract. A counteroffer has been sent to the PBS with 2% for pension benefits. This will have a direct bearing on what goes into the Ordinance and how Council approves the pension Ordinance. Mr. Nicoletti then reviewed a letter from the Actuary dated April 16, 2004 regarding the definition of salary and partial retirement. There was further discussion on the proposed Ordinance. There was a question on the meaning of a majority vote. Mr. Nicoletti stated that a simply majority is used when it is not otherwise stated. Even if the voting requirement was changed, it could not affect these changes. The Board just wants to take everyone's opinion into consideration and is looking for guidance as to best handle the matter.

Mr. Nicoletti reported that the Governor signed HB 251 into law which redefines “extra benefits” as is used for firefighters and police to mean benefits in addition to or greater than those provided to general employees “and in addition to those in existence for either firefighters or police officers on March 12, 1999”.

There was further discussion on the proposed Ordinance and conducting another vote on the changes. Mr. Nicoletti stated that it would be a reaffirmation of what was already approved. A motion was made, seconded and carried 4-1 with Mr. Conboy dissenting to conduct another vote of the employees on the combined changes.

OTHER BUSINESS

There being no further business and the next meeting being scheduled for Tuesday, August 3, 2004 at 4:30 P.M., the meeting was adjourned at 6:20 p.m.

Respectfully submitted,

Ed West, Secretary