

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

February 1, 2005

Tim Conboy called the meeting to order at 4:37 P.M. at the Council Chambers in Palm Springs, Florida. Those persons present were:

TRUSTEES

Tim Conboy
Ed Lewis
Bob Becak
Jorge Cabrera

OTHERS

Ernie Mahler, Salomon Smith Barney
Margie Adcock, Pension Resource Center
Bill Stewart, Invesco
Paul Nicoletti
Theora Braccialarghe, Actuary

MINUTES

The Board reviewed the minutes of the meeting held November 9, 2004. A motion was made, seconded and carried 4-0 to approve minutes of the meeting November 9, 2004.

ACTUARY REPORT

Theora Braccialarghe appeared before the Board to present the Actuarial Valuation as of September 30, 2004. She noted that the funded ratio as of September 30, 2004 was 55.2% which is partly due to the change in the benefits. She noted that the Fund uses a four year smoothing method. She stated that the total normal cost was 18.04% and the total unfunded actuarial accrued liability was 18.96%. The total calculated contribution requirement is 39.13% of which 6.6% is the Member contribution; 4.28% is from Chapter 175/185; and 28.25 is from the Village. She noted that the difference between the market and funding value is getting close which is a good thing. Ms. Braccialarghe reviewed the actuarial present value of the expected future benefit payments and reserves. The total liabilities for the benefit payments were \$11,553,575. She reviewed the summary of benefits provisions. It was noted that the Fund has a positive cash flow. A motion was made, seconded and carried 4-0 to accept the Actuarial Valuation as of September 30, 2004.

There was then a discussion on the crediting of the DROP accounts. It was noted that FRS provides interest at a rate of 6.5% for their DROP. There was a discussion on the options available. It was noted that the Board could provide a fixed interest rate; the return of the Fund and provide that it not be less than zero; or allow the Member to choose between those two options. Ms. Braccialarghe advised that as long as the Board does not provide a guarantee fixed rate higher than the assumed rate of return, there is no actuarial impact. There was a lengthy discussion on this matter. It was noted that the 10 year treasuries were at a rate of 4.2%. The Board discussed a 5% flat interest rate. Ms. Braccialarghe advised that there would be no impact to the Fund for a 5% flat interest

rate. A motion was made and seconded to credit DROP accounts with a 5% flat interest rate. There was discussion on offering two options; a flat interest rate or the actual return of the Fund. The motion was amended, seconded and carried 4-0 to offer two choices to Members entering the DROP of a 5% flat interest rate or the actual experience of the Fund with the ability to change their choice effective October 1 of every year.

Theora Braccialarghe departed the meeting.

INVESTMENT MANAGER REPORT: INVESCO

Bill Stewart appeared before the Board. He provided an organizational update noting that they have hired one new portfolio manager and one new analyst. There are twelve investment professionals in charge of their equity portfolios. Mr. Stewart then discussed the investment performance for the Fund for the quarter ending December 31, 2004. He reported that the total Fund was up 5.8% for the quarter while the benchmark was up 6.1%. With respect to equities for the quarter, the Fund was up 8.3% while the benchmark was up 9.2%. With respect to fixed income for the quarter, the Fund was up .6% while the benchmark was up 4%. He noted that they were overweight in technology which benefited the returns. Healthcare was their biggest detractor. Mr. Stewart reported that the asset allocation was 70% in equities; 28% in fixed income; and 2% in cash. The total market value for the Fund as of December 31, 2004 was \$5,059,591. Mr. Stewart discussed the equity characteristics. He stated that they were underweight in energy which hurt in the 2nd and 3rd quarters but helped in the 4th quarter. They were overweight in the market sensitive financial sector. Mr. Stewart then discussed the equity market outlook. Mr. Stewart discussed the fixed income characteristics. He noted that they are going to continue to maintain a short to neutral duration with the continued potential increase in interest rates.

INVESTMENT MONITOR REPORT: SMITH BARNEY

Ernie Mahler appeared before the Board to discuss the investment performance of the Fund for the quarter ending December 31, 2004. He reported that the Fund for the quarter was up 5.78% while the benchmark was up 6.10%. He noted that they have equity exposure at the maximum which has helped. The total market value of the Fund as of December 31, 2004 was \$5,060,000. Mr. Mahler stated that he was not thrilled with their performance but he does like where they are positioned. He noted that the equity portfolio was up 8.23% for the quarter while the benchmark was up 9.25% so they are underperforming the benchmark. He stated that it has been a bit of a tough go for an extended period of time. He did acknowledge that they are hiring new people which mean that they are addressing the situation. Mr. Stewart stated that they were adding resources. Mr. Mahler provided the Board with information on manager versus universe returns through December 2004. He noted that Invesco's performance is in the bottom quartile and this needs to be addressed in some fashion. Mr. Mahler stated that the Board needs to look at other options at least for a portion of the portfolio. He stated that the Fund has enough money to diversify to at least add another asset class but the Board also needs to look at the core portfolio. Mr. Mahler recommended that the Board set up a

special meeting within the next month to review information on other possible managers. It was noted that the Board would meet on March 1, 2005 at 4:00 p.m. for Mr. Mahler to present information on managers the Board might like to have come in and make presentations.

It was noted that international is not allowed in the current Ordinance. Mr. Mahler recommended that the Ordinance be changed to allow international up to 10% of Plan assets which is what the State Statutes allow. A motion was made, seconded and carried 4-0 to direct Paul Nicoletti to amend the Ordinance to allow what the State Statutes allow for international investing. Mr. Stewart noted that there was a question of investment grade bonds. Mr. Nicoletti noted that the Ordinance provides that for bonds, they have to be rated by one of the three highest ratings by a major rating service. Mr. Mahler stated that the State has removed this restriction but added that the safer bond portfolio the better. Mr. Mahler stated that he had no issue with the fixed income restrictions. It was determined that Mr. Mahler would look into this and come back with a recommendation.

ADMINISTRATIVE REPORT

Margie Adcock presented the Beneficiary/Enrollment Forms received from the Village. A motion was made, seconded and carried 4-0 to approve the list of Enrollment Applications.

Ms. Adcock reported that Ed Lewis was reappointed for another two year term

Ms. Adcock presented the disbursements. A motion was made, seconded and approved 4-0 to pay all listed disbursements.

Ms. Adcock provided the Board with annual employee benefit statements.

OTHER BUSINESS

There being no further business, the meeting was adjourned at 6:10 p.m.

Respectfully submitted,

Ed West, Secretary