

**VILLAGE OF PALM SPRINGS HAZARDOUS DUTY  
EMPLOYEES' PENSION FUND  
MINUTES OF MEETING HELD  
February 6, 2007**

Tim Conboy called the meeting to order at 4:30 P.M. at the Council Chambers in Palm Springs, Florida. Those persons present were:

**TRUSTEES**

Tim Conboy  
Randy Hoffer  
Phil Englert  
Jorge Cabrera  
James Gregory

**OTHERS**

Ernie Mahler, Smith Barney  
Margie Adcock, Pension Resource Center  
Bonni Jensen, Attorney  
Jennifer Cute, Investment Manager, ICC  
Larry Wilson, Actuary

**MINUTES**

The Board reviewed the minutes of the meeting held November 7, 2006. A motion was made, seconded and carried 5-0 to approve the minutes of the meeting held November 7, 2006.

**INVESTMENT MONITOR REPORT**

Ernie Mahler appeared before the Board. He reviewed the capital markets overview. He stated that he continues to recommend international exposure. He stated that the investment manager is doing a nice job right now. He stated that that was no rush to get into international investing. He noted that the Board might want to wait on a determination of the consultant issue before any decisions are made. He stated that if he was retained by the Board, he would recommend that the Board pursue international investing. Mr. Mahler stated that interest rates are still flat and may be slightly rising. He stated that all rates, short and long term, are about the same although short term rates are slightly higher than long term rates.

Mr. Mahler presented the quarterly performance for the quarter ending December 31, 2006. He reviewed the performance of the manager versus the universe of similar managers for equities. He stated that ICC has performed rather exceptionally since they took over as the manager. He reported that the Fund was up 6.31% net of fees while the benchmark was up 4.13% for the quarter. He stated that ICC was nicely outperforming the benchmark. The total market value of the Fund as of December 31, 2006 was \$6,739,000. Since the manager change on May 31, 2005, the Fund was up 13.44% on an annualized basis while the benchmark was up 8.84%. The asset allocation as of December 31, 2006 was 62% in equities; 29% in fixed income; and 9% in cash. There was a lengthy discussion on international investing. A motion was made, seconded and carried 5-0 to authorize the Attorney to prepare and amendment to the Ordinance allowing for international investments up to the allowable limits in State Law. Mr. Mahler reported that the fixed income portion of the portfolio was up 1.07% while the benchmark was up 1.03% for the quarter. The equity portion of the portfolio was up 9.64% while the S&P 500 was up 6.70% for the quarter. Mr. Mahler stated that ICC was very consistent and was doing a fine job.

**INVESTMENT MANAGER REPORT: ICC**

Jennifer Cute appeared before the Board. She discussed the investment performance for the Fund for the quarter ending December 31, 2006. She reported that the total portfolio was up 23.02% since inception (May 31, 2005 to December 31, 2006). For the quarter, the total portfolio was up 6.44% while the benchmark was up 4.67%. The total market value of the Fund as of December 31, 2006 was \$6,736,857. With respect to equities for the quarter, the Fund was up 9.63% while the benchmark was up 6.66%. With respect to fixed income for the quarter, the Fund was up 1.09% while the benchmark was up 1.03%.

Ms. Cute discussed the current market and their outlook. She noted that the market went through 2006 without any correction. She stated that their models show a different picture. Although the indexes continue to reach new highs and everything appears good in the market, she noted that beneath the surface most stocks have peaked and already rolled over. She stated that several sectors of the market have had significant corrections. She noted that 60% of stocks have peaked and corrected and gotten lower. The bull market is starting to deteriorate. As a manager, they need to scale back the risk in the portfolio. They are going to spend the next three to six months taking off the more cyclical aggressive stocks and transferring them to the more defensive areas of the portfolio. She stated that they did not think it was a prudent time to take risk in the portfolio right now. They will take the profits and put the money in defensive areas. Ms. Cute noted that there has never been five years in a row for a bull market and 2007 is the fifth year in a row. They are setting up for a down year or in the very least a correction. She stated that they need to protect what they have done so far for the last eighteen months. She stated that they think the Fed will hold on interest rates for awhile. She stated that they are seeing warning signs in the market that they just cannot ignore. They have not seen that value is over yet though. She noted that they have the ability to rotate between large, mid and small cap and between value and growth. She noted that they actively rotate cap and style in the portfolio. With respect to bonds, they are neutral to the bond market. They are managing the bulk of the portfolio on the equity side. Ms. Cute added that they have a huge position in gold to offset no exposure to energy.

**ACTUARY REPORT**

Larry Wilson appeared before the Board to present the Actuarial Valuation as of September 30, 2006. He noted that the Valuation determines the contributions for the fiscal year beginning October 1, 2007. He stated that the Village contribution requirement for the fiscal year beginning October 1, 2007 is \$875,369 less the Chapter 185 frozen amount of \$90,996. He noted that there was an 8.0% recognized net rate of return on investments versus the 8% expected which had a neutral effect. The average pay increase was 4.7% versus the 5.6% expected which was favorable. The net effect of the experience factors was an experience loss of \$309,699 or 2.78%. Mr. Wilson reviewed the development of the funding value of assets and the sources and financing of unfunded actuarial accrued liability. He stated that the Plan is actuarial solvent to the extent contributions are made. He reviewed the supplementary information. He noted that the funded ratio as of September 30, 2006 was 55.6%. He noted that they amortize each gain and loss over a fifteen year period. He reviewed the age and service information for the active Participants. He reviewed the rates of mortality and recommended that the Board revise this assumption next year and update the mortality table. He stated that he could do an experience study for this. However, that is costly and he is not sure it is necessary. He recommended that the Board use the UP 1994 mortality

table projected to the present. He stated that they found that female life expectations do not change much but the male life expectations have increased materially. Mr. Wilson recommended that the Board change to the UP 1994 mortality table projected to 2006 or 2007, absent any changes in the year. A motion was made, seconded and carried 5-0 to update the mortality table based on the recommendation of the Actuary. There was then further discussion on the funded ratio. Mr. Wilson stated that the Board could not really do much to increase the funded ratio except by investment returns. He stated that the benefits are set and he feels the other assumptions continue to be appropriate. He noted that the Plan had major changes two to three years ago and they are looking at the Valuation for September 30, 2006 for the contribution that will not be made in full until September 30, 2008. A motion was made, seconded and carried 5-0 to accept the Actuarial Valuation as of September 30, 2006.

Jennifer Cute departed the meeting.

### **ATTORNEY REPORT**

Ms. Jensen discussed the issue under the Pension Protection Act of 2006 regarding allowance to exclude \$3,000 annually from a retiree's pension if it is used to pay for qualified health insurance premiums. She stated that the Village does not take deductions for health insurance for retirees. She stated that the Village is concerned with allowing deductions from a retiree's pension and the impact of making deductions on their liability on the financial statements. There was a lengthy discussion. The Board stated that they would like to be able to offer such deductions to the retirees as it is a benefit. The Board directed Ms. Jensen to talk to the Village about allowing the deductions.

Ms. Jensen then discussed the issue involving the definition of salary and the impact of meeting the minimum benefit of using the highest salary and not limiting it to the fiscal year or calendar year earnings. Mr. Wilson stated that he has a couple other clients that report salary in much the same manner as the Village. He stated that if they are not able to obtain the payroll information from the Village on a bi-weekly basis, they could do a pro ration of the final average salary. He stated that it would not be exact but might be close. Ms. Jensen stated that she would ask the Village to report the payroll on a bi-weekly basis or work on developing a calculation that would come close enough. A motion was made, seconded and carried 5-0 to authorize the Attorney to contact the Village, either through the Village Manager and/or Finance Director, to see about the ability to receive payroll data necessary to comply with the Florida Statutes.

Ms. Jensen provided the Board with the responses to the Request for Proposal for Investment Consulting. She stated that she received five responses. She stated that she knows Smith Barney is not willing to acknowledge a fiduciary duty to this Fund or any other fund. She did note that Smith Barney would accept fiduciary duty only for the managers that are in the rating system of Smith Barney Consulting Group. She noted that Smith Barney has not bid on the last four RFP's that her firm has done, including these two in Palm Springs. She stated that Smith Barney was aware of the RFP but did not respond. Ms. Jensen reviewed the responses from the Schott Group; Southeastern Advisory Services, Burgess Chambers & Associates, Dahab Associates and Fiduciary Investment Advisors. She noted that all are independent firms, not affiliated with brokerage firms. She stated that Southeastern does offer some brokerage services to their clients but not the public at large. She noted that the Schott Group is affiliated with Wachovia. The Board discussed Smith Barney. Ms. Jensen recommended that the Board

not go with Smith Barney as the SEC has said that the monitor must be a fiduciary. She also noted that there is a problem with big brokerage firms in that there may be conflicts that the Board is not aware of and can not determine what they are. Ms. Jensen recommended that the Board short list the monitors and determine who to have come in and make a presentation. A motion was made, seconded and carried 5-0 to invite Burgess Chambers & Associates, Southeastern Advisory Services, Ernie Mahler and either Dahab Associates or the Schott Group, whomever the General Employees Board elects to have present.

### **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 carried 5-0 to pay all listed disbursements.

### **OTHER BUSINESS**

There being no further business, the meeting was adjourned.

Respectfully submitted,

Tim Conboy, Chairman