

# BOARD OF TRUSTEES OF THE CITY PENSION FUND FOR FIREFIGHTERS & POLICE OFFICERS

In the City of Pembroke Pines  
Hampton Professional Center  
1951 NW 150<sup>th</sup> Avenue – Suite #104  
Pembroke Pines, FL 33028

## REGULAR MONTHLY MEETING – MAY 21, 2009

The three hundred and sixty-fifth meeting of the Firefighters and Police Officers Pension Fund in the City of Pembroke Pines was called to order at 2:00 p.m. by Chairman James Ryan.

<b>1.</b>	<b>Roll Call – <u>Fire Members</u></b>	<b><u>Police Members</u></b>	<b><u>City Members</u></b>
	Adam Cabeza	Carl Heim (2:10 pm)	Gary Arenson
	Steven Dougherty (2:15 pm)	Kevin McCluskey	Vicki Minnaugh
	Richard Moss	James Ryan	

Isadore Nachimson has requested an excused absence, due to being out of town. Motion by Vicki Minnaugh, second by Gary Arenson, to excuse the absence of Isadore Nachimson. The motion carried unanimously.

**Others Present:** Greg McNeillie from Dahab Associates; Hayes Luscher from AmSouth Timber Company; Alan Brand and Nhat Nguyen from TA Associates Realty; Henry Renard, Robert Maddock and Matthew Palazzolo from Inverness Counsel, Inc.; Allison Corbally from State Street Global Advisors; Larry Wilson from Gabriel, Roeder, Smith & Co.; P/O Neil Vaughan, VP of Broward County PBA; P/O Andrew Brooks and Al Xiques; Daniel Rotstein, City HR Director; Lisa Chong, City Chief Accountant; Stephen H. Cypen, Esq., Attorney for the Fund; David Farrand from Cypen & Cypen; Karen H. Warner, Plan Administrator; and James Fisher, Asst. Plan Administrator.

**2. Dahab Associates – Performance Report for Q/E 3/31/2009.** Consultant Greg McNeillie represented the firm this date and began his report saying *things were “less worse” than they were last quarter. On a relative basis, this fund performed better than most.* The fund’s total gross return was -5.2% for the quarter ended 3/31/2009 with a portfolio value of \$214,852,834. At quarter end, investment of the total portfolio was 40.1% in domestic equities, 37.7% in fixed income (including State of Israel Bonds), 5.6% in international equities, 8.9% in real estate and 7.7% in cash and equivalents. January and February were among the worst months for equity performance in history, while March saw an improvement as investors started to see some signs of life in the economy. There was a rebound in the government-backed mortgage market as well as in the other asset-backed securities areas (credit cards and automobile loans) during the first quarter of 2009.

The asset allocation to all sectors except “domestic equities” on March 31<sup>st</sup> was in compliance with the plan’s Investment Policy and Guidelines. Domestic equities at quarter end were reported to be below the minimum. On that specific date, Inverness was heavy in cash, noting that this was not necessarily a bad thing given recent market volatility. The following *gross returns*, detailed by manager, were reported:

Quarter Ended 3/31/2009							
	Equity Benchmark	Fixed Income	Fixed Inc. Benchmark	R.E.	R.E. Benchmark	Total Portfolio	Trailing 12 Months
Atlanta Capital	-10.9%	-15.0%	---	---	---	-10.9%	-24.6%
Buckhead	-10.0%	-16.8%	---	---	---	-10.0%	-29.7%
Eaton Vance	-14.5%	-16.8%	---	---	---	-14.5%	N/A
Independence	-6.9%	-4.1%	---	---	---	-6.9%	-39.1%
Inverness	-8.9%	-11.0%	0.7%	-0.7%	---	-1.6%	-10.6%
Sawgrass	-8.4%	-15.0%	---	---	---	-8.4%	-37.2%
SSgA Midcap	-11.1%	-8.7%	---	---	---	-11.1%	-41.2%
SSgA Intl Equity	-11.1%	-10.7%	---	---	---	-11.1%	-49.1%

Quarter Ended 3/31/2009							
Equities	Equity Bench-mark	Fixed Income	Fixed Inc. Bench-mark	R.E.	R.E. Bench-mark	Total Portfolio	Trailing 12 Months
Am. Realty Advisors	---	---	---	-12.9%	-13.9%	-12.9%	-18.4%
AmSouth Timber Fd.	---	---	---	-0.8%	0.7%	-0.8%	13.2%
BlackRock	---	---	---	-18.3%	-13.9%	-18.3%	-33.5%
TA Assoc Realty	---	---	---	1.2%	-13.9%	1.2%	-9.6%

This was a good quarter for Atlanta Capital, Buckhead, Sawgrass and Eaton Vance as all out-performed their respective indexes. Mr. McNeillie added he would give Buckhead an "A" grade at this point in time for the improved results in their portfolio. Sawgrass remains on the Dahab watch list for the time being, but their performance buys them another quarter. Independence under-performed for the quarter and would be graded a "C", noting that it has been a difficult market for fundamental growth managers.

With regard to the State Street Mid-cap portfolio, SSgA would receive a "failing" grade. He felt SSgA has been allowed enough time to turn things around and now recommends moving forward with a search for a new mid-cap manager. Motion by Gary Arenson, second by Vicki Minnaugh, to proceed with a Mid-cap manager search as recommended by Dahab Associates. The motion carried unanimously. Following further discussion pending the search and RFP process, motion by Gary Arenson, second by Vicki Minnaugh, to move the SSgA mid-cap proceeds into a passive, non-lending index fund at State Street. The motion carried unanimously.

3. **AmSouth Timber Fund – Investment / Market Report.** Hayes Luscher (Portfolio Manager) represented the firm this date. The portfolio reflected a Net Asset Value of \$5,594,625 as of 3/31/2009 and he reported a -0.8% return for the quarter ended 3/31/2009. This fund has a 9.01% ownership in the asset. Mr. Luscher reviewed the highlights of various investment components in the Timber Fund, reporting that it now owns over 44,000 acres in five states. The acreage breakdown is 69% in pine productive acres, 21% hardwood, 7% active and 3% non-forest. Their strategy for 2009 is to reserve harvests of mature timber until the markets recover; to continue selective thinning operations; and continuing to negotiate with land owners on lease-hold sales. Management of the Timber Fund believes these strategies will pay off in the long-term, given the current market.
4. **TA Associates Realty – Investment / Market Report.** Alan Brand and Nhat Nguyen represented their firm this date. As of 3/31/2009 the portfolio reflected a market value of \$4,413,406. Mr. Brand and Mr. Nguyen reviewed a summary of the corporate structure and philosophy, market overview, investment opportunities, and performance results for Fund VIII as of 3/31/2009. A final capital call for \$125,000 will be made during the month June, at which time the Pembroke Pines commitment will be fully invested.
5. **Inverness Counsel – Investment / Market Report.**  
**– Compliance with Fund Investment Guidelines.**

Henry Renard, Robert Maddock, and Matt Palazzolo represented the firm this date. The portfolio value on 3/31/2009 was \$126,224,052 with an asset allocation of 26.4% to equities, 61.1% to fixed income and 12.5% in cash and cash equivalents. Mr. Maddock spoke to various aspects relative to the current economic situation, and noted that Inverness is putting the money to work "cautiously" on a stock-by-stock basis. They continue to monitor the overall environment. Infrastructure and infrastructure projects are areas they feel positive about. Mr. Renard added that performance for the month of April was good at approximately 7%, and the month of May started out good but is starting to wane.

Mr. Renard addressed the firm's memo dated April 29, 2009 pertaining to the downgrade of CIT 5% Notes (due 2/01/2015). After explaining events leading up to the downgrade, Mr. Renard asked the Board to consider waiving the liquidation policy of the investment guidelines. Following discussion, motion by Gary Arenson, second by Vicki Minnaugh, to approve the request by Inverness Counsel for a liquidation waiver in the matter of CIT 5% Notes (as per their memo dated 4/29/2009), and instructing Inverness Counsel to provide a written status report on a monthly basis in accordance with the fund's investment guidelines. The motion carried unanimously.

Inverness also provided the following written commentary:

*During the last month or so, pundits have been talking increasingly about Spring and "green shoots". While some of the signals from the economy and financial markets seem to support this viewpoint, we would urge caution. If we had to belabor the analogy we might talk about late frosts. The unemployment rate which has been rising every month up through March when the unadjusted number hit 9.0%, (a high since the early 1980s) pulled back at the end of April to 8.6%. Unfortunately, this included new hires for the Census and did not include pending Automobile sector layoffs. The GDP declined 6.1% in Q1 2009 after falling 6.3% in Q4 2008 and after projections in the neighborhood of 7.0%. This represents a slowdown in the GDPs decline but not an end by any means.*

*Pending home sales were up 3% in March for the second month in a row. While this does not reflect improved pricing, it does reflect a positive change in the number of contracts signed and the beginning stages of a clearing of inventories. Again, we add a cautionary note; banks have held off on putting a large number of homes into bankruptcy which they are now moving forward as they finish the process of refinancing the salvageable loans so they are now getting ready to add substantially to that inventory. Further, many of the buyers were not prospective occupants but rather opportunistic buyers who must either, turn around and rent them out at a profitable rate or eventually sell them. Home prices across the country continue to decline with home prices through February down 31% from the peak and the inventory of unsold homes at nearly 10 months (healthy conditions are 5-6 months).*

*Commercial real estate lending is likely to be the next trouble area for banks. Those properties are dependent on retail sales which increased two months in a row earlier this year but declined in March and April contrary to expectations. The numbers from previous periods keep revising downwards as well. An easing in financial reporting rules for banks along with a wider spread in the yield curve has aided a surprisingly strong earnings report from a number of financial institutions and the Institute of Supply Managers Index (which measures purchasing activity of manufacturing executives) also has increased for four consecutive months. However, it is uncertain how easily this will be replicated in the following months as commercial loans begin to run into trouble and bankruptcies which were put on hold are processed. Finally, durable goods orders (goods built to last greater than 3 years) which had improved in February versus January, reversed direction in March. Inventory numbers suggest that this may be a problem for at least another quarter.*

*Other concerns include the ability of the government to hold off inflation without causing a jump in the interest rates as witnessed in a recent Treasury auction as well as the difficulty businesses may have getting loans from scared lenders following the harsh terms imposed on the senior secured lenders to the ailing automobile industry.*

*At Inverness Counsel, our equity portfolio construction remains fairly conservative. We continue to be largely underweight financials and overweight the more traditionally defensive sectors such as Consumer Staples. This allocation benefited portfolio relative performance through March. If the market were to continue to rise at some point such a posture would be a drag on performance as growth prospects improve. Nevertheless, we remain well diversified and have generally outperformed the market across most sectors.*

*In our stock selection process, we track nineteen economic and capital markets data points that we use as leading market indicators. While the indicators do not promise to signal bright green at the market's bottom, they do help to keep us from plunging fully into aggressive positions before improvement begins to emerge and for reasons less tangible than economic fundamentals (i.e. a false rally in stocks). On the latter, recall that since the bear market began in October, 2007 there have been six false rallies. The rallies are tempting, but we have been more able to resist with palpable economic evidence to the contrary. As these indicators support a stronger valuation of the growth prospects in the companies we are looking at, you will see us pick up and increase positions in those names.*

*The United States recession has now passed its 16th month and the bear market has now extracted \$20 trillion from household wealth. Monetary and fiscal policy is working aggressively but no one initiative will be a panacea. Rest assured, though, that the economy will improve and growth will emerge. Spring will come to the economies around the world, though it may not arrive according to the traditional seasonal calendar.*

The Board recessed at 3:45 p.m. and reconvened at 4:05 p.m.

6. **Approval of Minutes for April 16, 2009.** Chairman Ryan presented minutes from the April 16, 2009 meeting for approval. Motion by Vicki Minnaugh, second by Carl Heim, to approve as presented. The motion carried unanimously.
7. **Approval of Warrant #453.** Chairman Ryan presented Warrant #453 in the amount of \$80,226.55 for approval and payment. Motion by Gary Arenson, second by Vicki Minnaugh, to approve as presented. The motion carried unanimously, authorizing the payment of:

Cypen & Cypen – Monthly Retainer for May, 2009	\$3,250.00
Hampton Professional Center Condo No. 2 – Monthly Maintenance (Suite #104) for June, 2009	\$407.72
Karen Warner – Mo. Allowance for May, 2009 (Med/Dental/Life)	\$375.00
LEAF – Xerox Copier Lease for April, 2009	\$194.23
Twilight Industries, LLC – Office Maintenance for May, 2009	\$152.00
Pitney Bowes Purchase Power – Postage Meter Refill	\$399.61
FPL – Electric Service 3/27/2009 - 4/27/2009	\$151.30
Atlanta Capital Management Co., LLC – Mgmt. Fee for Q/E 3/31/2009	\$17,129.00
State Street Global Advisors – Mgmt. Fee for Q/E 3/31/2009 (Midcap)	\$19,398.36
State Street Global Advisors – Mgmt. Fee for Q/E 3/31/2009 (International)	\$24,511.68
Fiduciary Trust Company – Custody Fee for Q/E 4/30/2009 (Atlanta)	\$1,125.49
Fiduciary Trust Company – Custody Fee for Q/E 4/30/2009 (Inverness)	\$12,894.84
Fiduciary Trust Company – Custody Fee for Q/E 4/30/2009 (Special Assets)	\$237.32
<b>TOTAL</b>	<b>\$80,226.55</b>

8. **Approval of Buy-Back Calculation(s) – P/O Charles Keegan.** Karen Warner reported that Officer Keegan previously started a military service buy-back and subsequently asked that it be discontinued in July 2008. He now wishes to purchase an additional 1.583 years. Actuary Larry Wilson has determined the cost, including interest, and a copy of the GRS correspondence was included in the agenda packets. Motion by Vicki Minnaugh, second by Steve Dougherty, to approve the buy-back calculation for P/O Keegan as presented. The motion carried unanimously.
9. **Approval of DROP Benefit(s) – Ordinance 1443 (Fire).** Motion by Steve Dougherty, second by Gary Arenson, to approve the calculation of DROP Benefits as presented. The motion carried unanimously to approve:

	DROP Eff. Date	DROP Term. Date	Form of Benefit
F/F Douglas Block	4/01/2009	3/31/2014	Joint & 100% Contingent
F/F David Smith	5/01/2009	4/30/2014	Joint & 100% Contingent
F/F Maurice Washington	5/01/2009	4/30/2014	10-Year Certain & Life

10. **Approval of DROP Benefit(s) – Ordinance 1480 (Police).** Prior to formal Board action, it was noted that Chairman Ryan has completed Form 8B (voting conflict) – the form will be retained as a permanent part of the Board’s minutes. Chairman Ryan will abstain from voting on the matter of his own DROP benefit. Motion by Vicki Minnaugh, second by Gary Arenson, to approve the calculation of DROP Benefit as presented. With a vote of 7 for the motion and no opposition (Ryan abstaining), the motion carried to approve:

	DROP Eff. Date	DROP Term. Date	Form of Benefit
P/O James Ryan	5/01/2009	4/30/2014	10-Year Certain & Life

11. **Request for DROP Account Distribution(s)** – The following DROP account distribution request was presented for Board consideration:

- P/O Nick Naples Lump Sum \*\*\*

\*\*\* (See Attachment A)

Actuary Larry Wilson has provided the necessary letter indicating this distribution would not pose a problem with the 415 limitation at the present time. Motion by Vicki Minnaugh, second by Kevin McKluskey, to approve the distribution request for Nick Naples as presented. The motion carried unanimously.

### **UNFINISHED BUSINESS**

None.

### **NEW BUSINESS**

12. **SSgA All International Allocation Fund.** Agenda packets included copies of documents pertaining to the new All International Allocation Securities Lending Fund. Allison Corbally indicated that Attorney Cypen has reviewed the documentation; Mr. Cypen stated the documents are fine from a legal perspective. State Street has determined that the most efficient way to create a fund without restriction and without lending was to develop the product presented at this time for consideration; otherwise there would be significant time delays pertaining to compliance and other regulatory issues. This is a securities lending product made up of eight underlying funds, *three of which are currently non-lending sleeves*. Ms. Corbally explained that all eight of the underlying funds technically have the ability to lend securities. Notwithstanding the fund's legal authority to lend its securities, the product includes a provision requiring SSgA to give clients at least thirty days' notice of their intent to activate the securities lending feature. Clients will have the ability to terminate the relationship without restriction on liquidation. State Street would like to proceed quickly, anticipating a transition date of June 30, 2009.

Lengthy discussion followed, particularly as it relates to State Street's thirty-day notice provision and whether it would be appropriate for the Board to consider another manager for the international portfolio. Motion by Gary Arenson, second by Kevin McKluskey, to liquidate the investment in SSgA's All International Allocation Strategy and move proceeds to SSgA's All International Allocation Securities Lending Fund; to establish that it will be the Board's policy, if notice of State Street's intent to engage in securities lending is given with less than thirty days' notice and this fund does not notify State Street to the contrary, then there is to be an immediate withdrawal from the investment, with proceeds to be deposited into a passive, non-lending index fund with SSgA. The motion carried on a vote of 7 in favor, with one opposing vote (Minnaugh).

Motion by Carl Heim, second by Gary Arenson, authorizing the Chairman to execute and deliver all documents required to carry out the intention of the previous motion. The motion carried on a vote of 7 in favor, with one opposing vote (Minnaugh).

13. **Review / Approve – Net Return for Q/E 3/31/2009.** Copies of the rate of return letter from Dahab Associates were distributed. Their correspondence indicates the return has been calculated at -5.29% (net of fees). Following discussion, motion by Vicki Minnaugh, second by Steve Dougherty, to accept the rate of return for the Q/E 3/31/2009 as presented. The motion carried unanimously. A copy of the Dahab letter was provided to Actuary Larry Wilson, enabling GRS to finalize DROP statements based upon this information.
14. **Correspondence Received from State of Florida – 10/1/2007 Actuarial Valuation.** The Pension Office has received the State's letter approving all Actuarial Impact Statements and Actuarial Valuations through 10/1/2007. Also detailed were specific areas to be addressed by the Actuary for future actuarial reports. Actuary Larry Wilson distributed their comments in the form of a letter to the Trustees dated May 21<sup>st</sup>. GRS explained all of the following recommendations for future reports:
- Consider adding an explicit determination of expected administrative expense when determining the required minimum contribution.
  - Consider describing the method used to allocate the contributions to the amortization bases.

- Consider providing the reconciliation of the present value of accrued benefit from the prior year to the current year. (Change already made)
- Consider reducing the future inflation assumption of 4%. (GRS will monitor this assumption, as they do not agree with the recommendation).
- Consider reducing the 8% assumed rate of investment return. (While GRS does not necessarily agree with this, they will do so if directed by the Board in consultation with the fund's Investment Consultant).
- Consider updating the mortality assumption (1983 GAM) to a more currently published mortality assumption. GRS recommends a more currently (RP-2000) published generational mortality table with blue collar adjustment beginning with the 10/1/2009 actuarial valuation.

No formal action was required or taken by the Board of Trustees.

**15. Reports:**

**Actuary** – None.

**Attorney** – Copies of Attorney Cypen's memo to the Trustees dated May 18<sup>th</sup> were distributed for discussion. Mr. Cypen explained a new CalPERS policy requiring the disclosure of placement agents who seek CalPERS business, as well as the amount of fees paid to those agents. His office will prepare a similar policy for this Board review, and he hopes the Board will consider its adoption.

Attorney Cypen also addressed various provisions of SB 538. Gov. Crist has fifteen days from May 18<sup>th</sup> (June 2<sup>nd</sup>) to sign the legislation, noting that it will automatically become law if not signed.

**Chairman** – None.

**Plan Administrator** – Karen Warner – For informational purposes only, copies of the State's APPROVAL letter for the 9/30/2008 Annual Report were distributed. Discussed briefly was the matter of when (or if) the Chapter funds would be released, given the claim alleged by F/F Kenneth Fritz and the State's position regarding the Fritz matter. Trustee Dougherty advised that he spoke with F/F Fritz following the April 16<sup>th</sup> meeting as it pertains to the extent of his public records request. F/F Fritz agreed to narrow the scope of his request. The Pension Office has received nothing further in this regard.

The Pension Office is in receipt of additional bills for payment and other benefit disbursements for approval. Chairman Ryan presented Warrant #454 for addition to the agenda and approval for payment. Motion by Vicki Minnaugh, second by Gary Arenson, to add Warrant #454 to the agenda. The motion carried unanimously. Motion by Gary Arenson, second by Carl Heim, to approve the payment of Warrant #454 as presented in the amount of \$63,529.44. The motion carried unanimously, authorizing the payment of:

P/O Nick Naples – Lump Sum DROP Withdrawal		***
U.S. Treasury – FIT Withholding (DROP Withdrawal)		***
Goldstein Schechter Koch – Final billing for 9/30/2008 Pension Fund Audit		\$725.00
Dahab Associates – Consulting Fee for Q/E 3/31/2009		\$18,242.64
SunTrust Bank (Visa – Fisher)	Bd Mtg / Ofc Supplies	\$100.58
	Gasoline	37.37
	AT&T	370.75
	Bellsouth	396.23
	Postage Machine Lease	149.81
	Monthly Storage	104.00
	DirecTV (2 mo.)	181.06
		<u>\$1,339.80</u>
		\$1,339.80
SunTrust Bank (Visa – Warner)	Xerox (lease + copies)	\$20.00
	Bd Mtg / Ofc Supplies	172.42
	ISP (2 mo.)	49.90
	Conf. Registration (Dougherty)	175.00
		<u>\$417.32</u>
		\$417.32
Adam Cabeza – Reimb. Conf. Expenses (Division of Retirement)		\$912.68
Gabriel, Roeder, Smith & Co. – Prof. Services for April, 2009		\$35,392.00
*** (See Attachment A)		
<b>TOTAL</b>		<b>\$63,529.44</b>

It was also noted that agenda packets included an "FYI" copy of the revised 2010 Contribution Study (including DROP) previously requested by the City.

Board Members were reminded of:

- The upcoming annual FPPTA conference in Boca Raton at the end of June. Trustees are encouraged to contact the Pension Office as soon as possible if interested in attending.
- The annual client dinner hosted by Inverness Counsel on Friday, May 22<sup>nd</sup>, at Ft. Lauderdale Yacht Club. All should have received invitations and RSVP'd directly to Inverness.

Jim Fisher – None.

**16. Input from Retirees:** None.

**17. Input from Active Members:** None.

**18. Adjournment** – Chairman Ryan announced that the next regular meeting would be held on Thursday, June 18, 2009 at 4:00 pm. There being no further business before the Board, motion by Vicki Minnaugh, second by Gary Arenson, to adjourn the meeting at 5:25 pm. The motion carried unanimously.

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James Ryan – Chairman

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Carl Heim – Secretary