

**POMPANO BEACH POLICE & FIREFIGHTERS' RETIREMENT SYSTEM**

**TEMPORARY OFFICE LOCATION  
627 E. ATLANTIC BLVD.  
POMPANO BEACH, FLORIDA**

**BOARD OF TRUSTEES MINUTES  
Quarterly Meeting  
May 15, 2006**

The Board of Trustees convened at the Pompano Beach Elks Lodge No. 1898, 700 NE 10<sup>th</sup> Street, Pompano Beach, Florida. The Chairman called the meeting to order at 3:05 p.m.

**PRESENT:** Chairman Paul D. O'Connell  
 Vice Chairman Robert W. Lynn  
 Trustee Sharra Aaronian  
 Trustee Richard E. Avallone  
 Trustee Daniel M. Christophers  
 Trustee Patrick S. Fletcher  
 Trustee Ernest J. Lee, Jr.  
 Trustee Richard H. Samolewicz  
 Trustee Jeffrey J. Valerga (arrived at 3:45 p.m.)

**ABSENT:** Vice Chairman Robert W. Lynn

**ALSO PRESENT:**  
 Lon Britton and Paul LaCoursiere  
 of Munder Capital Management  
 Robert A. Sugarman, Esq. Board Attorney  
 Pedro Herrera, Esq. Sugarman & Susskind, P.A.  
 Lindsay Dalton, Deputy Administrator

**APPROVAL OF AGENDA**

**MOTION:** To approve revised Meeting Agenda of May 15, 2006.

	M O T I O N	S E C O N D	V O T E D Y E S	V O T E D N O
O'Connell			X	
Aaronian			X	
Avallone			X	
Christophers			X	
Fletcher		X	X	
Lee, Jr.	X		X	
Samolewicz			X	

Chairman O'Connell reported that the market value of the Total Fund as of 4/30/06 was \$166.9 million, which includes \$163.6 million in the Fund and \$3.3 million in the mutual funds of the employee-directed DROP program.

**MUNDER CAPITAL MANAGEMENT**

Lon Britton introduced Paul LaCoursiere, the new portfolio manager for the Munder Capital fixed income portfolio. He replaces Tal Gunn, who left the firm in February 2006. Mr. LaCoursiere is a graduate of the University of Michigan and received his MBA from the University of Chicago. He is a certified financial analyst (CFA) and has been a member of Munder Capital for four (4) years.

Mr. Britton stated that you hire an investment firm for three (3) reasons: the people, the process and the performance. He said Munder continues

Board of Trustees Minutes Page Two	May 15, 2006	TRUSTEES	M	S	Y	N
<p><u>MUNDER CAPITAL MANAGEMENT (cont'd)</u></p> <p>to have a stable work force. Their process is intact because they employ a team approach so while faces might change time over time, the process will not.</p> <p>Mr. LaCoursiere reviewed Munder Capital's fixed income style. The fundamental point of their fixed income approach is they do not take interest rate risk versus the benchmark and they do not make interest rate calls. Munder believes interest rate forecasting is a very inefficient way to attempt to add value over the benchmark. Consequently, they focus on adding value through security selection, sector allocation and yield curve management, which is also called maturity structure.</p> <p>Mr. LaCoursiere reported that Munder's fixed income group is set up to encourage cross-pollination so every portfolio manager is also a trading specialist in a certain type of fixed income securities. He informed the Board that he specializes in trading government and mortgage-backed securities.</p> <p>Next, Mr. LaCoursiere reviewed the performance summary of the fixed income portfolio as of 3/31/06. He said because yields have been rising over the last year or so, bond returns in general have not been very exciting. For the first quarter of 2006, both the portfolio and the benchmark, which is Lehman Aggregate Bond Index, had negative total rates of return. It so happens when interest rates rise, bond prices fall. For the quarter, the portfolio did succeed in adding 23 bps in return over the benchmark, returning -0.42% in contrast to -0.65% for the benchmark. On an annualized basis for the 1-year and 2-year periods, the portfolio added 32 bps and 39 bps over the benchmark, respectively.</p> <p>Mr. LaCoursiere reviewed the average life weighting characteristics of the fixed income portfolio as of 3/31/06, which show the maturity structure of the portfolio. He noted that the portfolio has more long-term securities and short-term securities as opposed to intermediate securities. Going forward, one change we can expect is that Munder will begin to shed the portfolio's exposure to long-term and short-term securities and start to purchase more securities in the middle because they will want more intermediate-term exposure when the interest rate differential increases,</p> <p>Lastly, Mr. LaCoursiere stated that BBB securities are the lowest credit quality in the investment grade universe and the portfolio is underweighted in that area compared to the benchmark and this will not change because Munder remains conservative with respect to credit quality.</p> <p>Then, Mr. Britton gave an update on some personnel changes at Munder. He reported that Enrique Chang, President and Chief Investment Officer, resigned in March 2006 to pursue a new opportunity. John Adams, formerly Chief Investment Officer – Equities, was promoted to President and Chief Investment Officer to replace him.</p>						

<b>Board of Trustees Minutes</b> <b>Page Three</b>	<b>May 15, 2006</b>	<b>TRUSTEES</b>	<b>M</b>	<b>S</b>	<b>Y</b>	<b>N</b>
<u>MUNDER CAPITAL MANAGEMENT (cont'd)</u>						
<p>Mr. Britton again reassured the Board the fixed income team is intact. He informed them that there was a recent article in Pension Investment Age, concerning these changes at Munder Capital and speculation that Comerica, which owns 88% of Munder Capital, may sell or spinoff Munder. He said as far as he knows this is rumor. He did know that Comerica approached senior management after Mr. Chang left and Comerica agreed with senior management that the Munder employees need to have more ownership in Munder so they will have incentive to stay with some control of their future. By April 2007, there will be an employee ownership plan in place. He stated that Comerica had no comment on the news article, but he will inform the Board if and when there is more information.</p>						
<p>At this point, Mr. Britton informed the Board that Trustee Lee had asked him to do a short presentation on small and mid-cap investments. He then reviewed a Periodic Table of Investment Returns that showed the returns of various indexes from 1986 to 2005. Over this 19-year period, mid-cap and small-cap value indexes outperformed all other asset classes. He reviewed Munder's Mid-Capitalization Core Growth composite. The portfolio is managed by a solid 3-member team. For the 1-year period, the portfolio was up 27.74%, outperforming the 22.68% return for the Russell Mid-Cap Growth Index.</p>						
<p>Next, he reviewed a Mid-Cap/Small-Cap Blend composite offered by Munder, which is managed by a 6-member team. He said the target allocation is 60% mid-cap and 40% small-cap. For the 1-year period, the portfolio gained 28.86% in contrast to the 24.05% for the Russell 2500 Index.</p>						
<u>APPROVAL OF MINUTES OF MARCH 20, 2006 AND APRIL 17, 2006</u>						
<p><b>MOTION:</b> To waive reading of Minutes of March 20, 2006 and April 17, 2006 and to approve same as submitted.</p>	<p>O'Connell  Aaronian  Avallone  Christophers  Fletcher  Lee, Jr.  Samolewicz  Valerga</p>	<p>X</p>	<p>X  X  X  X  X  X  X</p>	<p>X  X  X  X  X  X  X</p>	<p>X  X  X  X  X  X  X</p>	<p>X  X  X  X  X  X  X</p>
<u>PERFORMANCE AND SALARY REVIEW FOR ADMINISTRATIVE ASSISTANT</u>						
<p>Chairman O'Connell stated that he reviewed Ms. Godfrey's annual performance evaluation, which was prepared by Ms. Dalton. The Chairman concurred with Ms. Dalton's recommendation of a 4% salary increase.</p>						

PERFORMANCE AND SALARY REVIEW FOR ADMINISTRATIVE ASSISTANT

**MOTION:** To grant a 4% salary increase to Administrative Assistant Godfrey, effective 6/1/06, based on her performance evaluation and the recommendation of Chairman O'Connell.

O'Connell			X	
Aaronian			X	
Avallone	X		X	
Christophers			X	
Fletcher			X	
Lee, Jr.			X	
Samolewicz		X	X	
Valerga			X	

APPROVAL OF WARRANTS NOS. 2453 THROUGH 2478

**MOTION:** To approve payment of bills set forth on Warrant Nos. 2453 through 2478 as follows:  
 No. 2453 \$6,289.46, No. 2454 \$5,445.89,  
 No. 2455 \$3,082.30, No. 2456 \$52.31,  
 No. 2457 \$4,529.50, No. 2458 \$42,878.62,  
 No. 2459 \$825.59, No. 2460 \$805.16,  
 No. 2461 \$56,909.53, No. 2462 \$57,128.64,  
 No. 2463 \$770.00, No. 2464 \$107.56,  
 No. 2465 \$7,095.15, No. 2466 \$2,656.00,  
 No. 2467 \$748.90, No. 2468 \$267.62,  
 No. 2469 \$23,722.61, No. 2470 \$500.00,  
 No. 2471 \$4,146.23, No. 2472 \$4,324.66,  
 No. 2473 \$3,658.35, No. 2474 \$3,381.35,  
 No. 2475 \$4,739.10. No. 2476 \$3,311.11,  
 No. 2477 \$3,726.06 and No. 2478 \$2,026.92.

O'Connell				X
Aaronian				X
Avallone				X
Christophers				X
Fletcher		X		X
Lee, Jr.	X			X
Samolewicz				X
Valerga				X

(Detailed listing of Warrants is attached to Minutes)

APPLICATION FOR VESTED RETIREMENT

**MOTION:** To approve application for vested retirement benefit deferred to normal retirement date of March 15, 2010 submitted by BSO Sergeant Claudia Janka, who terminated employment on May 4, 2006.

O'Connell				X
Aaronian				X
Avallone		X		X
Christophers	X			X
Fletcher				X
Lee, Jr.				X
Samolewicz				X
Valerga				X

Board of Trustees Minutes Page Five	May 15, 2006	TRUSTEES	M	S	Y	N
<u>ROBERT A. SUGARMAN, ESQ.</u>						
<p><u>Charles Schwab Custodial Agreement</u> – Mr. Sugarman reported that we almost have a contract with The Charles Schwab Trust Company as custodian for investments held in the employee-directed DROP. He said this agreement is different than we would ideally like it to be and it is only appropriate for the employee-directed DROP program. We have agreed that the contract will be governed by California law, but any disputes between the custodian and the Retirement System will be resolved in Broward County. Also, concerning the issue on the advice of counsel, Mr. Sugarman stated that each party will jointly agree upon legal counsel. He advised the Board that he has to finish reviewing the agreement and he recommended a motion authorizing the Chairman to sign the custody agreement after he completes his review.</p>						
<p><b>MOTION:</b> To authorize Chairman to execute The Charles Schwab Trust Company Custody Agreement upon the review and approval of the Agreement by legal counsel.</p>	<p>O'Connell Aaronian Avallone Christophers Fletcher Lee, Jr. Samolewicz Valerga</p>	<p>X</p>	<p>X</p>	<p>X X X X X X X</p>	<p>X X X X X X X</p>	<p>X X X X X X X</p>
<p><u>Steven M. Gernant vs. Renee R. Coley</u> – Mr. Sugarman reported that Ms. Dalton forwarded a letter to him from John R. Sorkin, Esq., concerning a subpoena of documents in this divorce case. He responded to the letter and attached the Retirement System's "divorce kit".</p>						
<p><u>City Lawsuit</u> – Mr. Sugarman reported that our Motion for Summary Judgment against BSO is scheduled to be heard on Monday, May 22, 2006 at 10:00 a.m. by Judge Eade, Room 1030B. He advised the Board that there will be no testimony taken, it is purely legal arguments.</p>						
<p><u>Securities Litigation and Portfolio Monitoring Reports</u> – Mr. Sugarman distributed Reports prepared by Lerach Coughlin and gave an update on actions where the Retirement System is involved. He said on February 6, 2006, the Second Circuit Court affirmed the District Court's earlier dismissal of this action where the Retirement System was serving as lead plaintiff and thus the Citigroup case is over.</p>						
<p>In the Krispy Kreme securities litigation, Chairman O'Connell reported that he heard on the news that Krispy Kreme settled the lawsuit this morning. (Later in the meeting, it was determined that the suit settled was not the same action the System is involved in).</p>						
<p>In the Laboratory Corporation of America securities litigation, Mr. Sugarman reported that all the briefing on the defendant's motion to dismiss was completed and the oral argument was held in October 2005, but the Judge has yet to render a ruling.</p>						

<b>Board of Trustees Minutes</b> <b>Page Six</b>	<b>May 15, 2006</b>	<b>TRUSTEES</b>	<b>M</b>	<b>S</b>	<b>Y</b>	<b>N</b>
<p><u>ROBERT A. SUGARMAN, ESQ. (cont'd)</u></p> <p><u>Securities Litigation and Portfolio Monitoring Reports</u> – In the Newmont Mining litigation, Mr. Sugarman reported that the Retirement System was appointed lead plaintiff together with the Retail Food Employers Joint Pension Fund and Kamel Aouidad, an individual. Lerach Coughlin is in the process of preparing the consolidated complaint.</p> <p><u>Legislative Session</u> – Mr. Herrera reported that the Florida legislative session concluded two weeks ago and there was no legislation passed relating to Chapters 175 and 185.</p> <p><u>Trustee Educational Programs</u> – Mr. Herrera reminded the Board that there are state mandated continuing educational requirements stipulated in the Statement of Investment Policy and Trustees have an obligation to attend these conferences, seminars and schools. He said the upcoming annual FPPTA conference will be held June 25-28 in Orlando.</p> <p><u>Form 1 - Statement of Financial Interests</u> – Mr. Herrera reported that each Trustee is required to file the 2005 Statement of Financial Interests form by July 1, 2006.</p> <p><u>RELOCATION COMMITTEE REPORT – PRESENTATION BY DENNY ST. ROMAIN OF BCOM INVESTMENT ADVISER, LLLP</u></p> <p>Committee Chair Dan Christophers introduced Denny St. Romain of BCOM. He advised the Board that the Committee met with Mr. St. Romain and his associate Collin Ross last week to review the lease versus own analysis prepared by BCOM and he asked Mr. St. Romain to present a summary of the report before the Board.</p> <p>Mr. Romain distributed the Investment Advisory Assignment report to the Board. He said BCOM was engaged to perform a lease versus own analysis pertaining to office space for the Retirement System. He reported that they began by gathering information on what was available for lease and for purchase in the Broward County office market which includes the Pompano Beach submarket. They also had meetings to discuss the Retirement System’s space requirements. Then, a preliminary report was presented to the Relocation Committee so they could understand what sales prices were in the office market today and what rental rates were.</p> <p>Mr. St. Romain stated they found that generally you can buy buildings today from \$200 to \$500 a square foot. Rental rates in the market are on average \$17 per square foot. They found that there is very limited office space available in the market today mainly because Pompano Beach has not seen a lot of new space added and there is also a big disconnect between Class “A” space (new to under ten years old), “B” space (10+ years old) and “C” space (very old), which is the space that the pension office currently occupies.</p>						

Board of Trustees Minutes Page Seven	May 15, 2006	TRUSTEES	M	S	Y	N
<u>RELOCATION COMMITTEE REPORT (cont'd)</u>						
<p>Mr. St. Romain stated that the analysis is an opportunity cost analysis meaning if the Retirement System leases space, it still has the money that would otherwise have been invested in securities. If the System purchases office space as an alternative investment then this investment would earn some form of return. In their analysis, they made assumptions on what that return would be based on a 6000 square foot building with the pension office occupying 2000 square feet of that space and renting out the rest of the space to other tenants.</p>						
<p>Mr. St. Romain said given the current conditions and demand in the Pompano Beach market and also the fact that the Retirement System will be an ongoing business enterprise for a long time, it was their conclusion that the System would be better served to own office space. He said at this point, however, they have not assessed what type of office space we should own, meaning new space, rehab space or ground-up development. Essentially, these are three different analyses that have different risk profiles associated with them and he would like to discuss this with our investment consultant.</p>						
<p>Committee Chair Christophers reminded the Board that this process is divided into three phases. The initial phase that BCOM was hired for was to do a lease versus own analysis with regard to office space and Mr. St. Romain has satisfied the first phase with this analysis. Chair Christophers said in the analysis, if we look at this strictly as an investment, the return on leasing office space is -9.32% a year. Alternatively, if we were to buy office space, the return would be a positive 11.35% which is almost a 30% difference. Mr. St. Romain pointed out that the -9.32% return also assumed that the money that would have been used to purchase office space earned a return of 8% return and was accounted for in the lease analysis. Obviously, there is no return when you pay out lease payments.</p>						
<p>Chairman O'Connell asked Mr. St. Romain to explain the office condo concept that we are currently seeing in Pompano Beach. Mr. St. Romain replied that the office condo is similar to what we see in the residential condo market. Instead of paying rent, smaller businesses that cannot afford to buy an office building essentially invest in office space and assume it will appreciate. Usually 80% of the investment is financed so this type of investment relies on the interest rate environment and is very interest rate sensitive. He said they have seen a lot of slow down in that market since interest rates have risen. Also, over time office condos generally do not appreciate as much as an office building.</p>						
<p>Chair Christophers said the Committee felt the BCOM analysis was outstanding and met the goal of providing the data we needed, We now have the recommendation that it is better to own office space so the Committee needs direction from the Board to see if we should move to Phase 2. He said Mr. St. Romain is also working on finding office space to lease for 1 to 2 years so we do not have to rush into finding an investment.</p>						



Board of Trustees Minutes Page Nine	May 15, 2006	TRUSTEES	M	S	Y	N																																																								
<u>MISCELLANEOUS</u>																																																														
<p><u>18<sup>th</sup> Annual City Golf Tournament</u> – Chairman O’Connell reported that the Board received a 4/27/06 letter from the Tournament Director asking the Retirement System for donations or to be an event sponsor at a cost of \$250. A portion of the proceeds goes to the Dynamos, a local charity that helps handicapped children. There was discussion and the Board decided it was not appropriate for the System to be involved.</p>																																																														
<p><u>Freedom Capital</u> – Chairman O’Connell advised that the Board received a letter dated 4/18/06 from Michael Spencer, Chief Investment Officer, informing us that because of the elimination of the S&amp;P 500 Barra Indices (value and growth), Freedom will be switching to the Russell Indices to implement their style switches. Mr. Spencer said the change should not have any material impact on the performance or management of the portfolio because in the past there has been a very strong correlation of performance between the Barra and Russell Indices.</p>																																																														
<p><u>Personnel Change at Standish Mellon</u> – Chairman O’Connell reported that in a letter dated 4/16/06, Mitchell Harris announced that Marc Seidner, Director of Active Core Strategies, has decided to leave Standish Mellon. Going forward, Ken Wosepka will be responsible for all Active Core Plus portfolios and Cathy Powers will be responsible for the Investment Grade Core portfolios. He said the Active Core Team will continue to employ the same consistent, disciplined investment process.</p>																																																														
<p><u>Healthcare Costs</u> - Trustee Avallone informed the Board that in the backup material, there is information on the rising costs of healthcare and insurance premiums that he received at the recent NCPERS Conference that he thought would be beneficial reading.</p>																																																														
<p><b>MOTION:</b> To adjourn meeting.</p>																																																														
<p>Meeting adjourned at 4:54 p.m.</p>																																																														
<p>Respectfully submitted,</p> <p>Lindsay Dalton Deputy Administrator</p>																																																														
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