

Board of Trustees Minutes Page Two	April 13-14 2007	TRUSTEES	M	S	Y	N
<u>CONSIDERATION OF TRUSTEE SAMOLEWICZ'S RECOMMENDATION ON SALARY PLAN FOR THE DEPUTY ADMINISTRATOR (cont'd)</u>						
<p>MOTION: To table Agenda Item 2 until 9:30 a.m.</p>	<p>O'Connell Christophers Fletcher Lee Samolewicz</p>	<p>X</p>	<p>X</p>	<p>X X X X X</p>	<p>X X X X X</p>	<p>X X X X X</p>
<u>APPROVAL OF WARRANT NOS. 2598 THROUGH 2606</u>						
<p>Discussion was held on Warrant No. 2603. Trustee Christophers informed the Board that Collin Ross of BCOM recommended in an email that the Board wait for a final and total bill from Arvin Peltz, real estate counsel. Ms. Dalton reported that the bills we have received to date are only for services through January 23, 2007. Trustee Christophers suggested that the Board hold off further payments to Mr. Peltz until we receive one final bill that has been approved by the Board attorney and BCOM.</p>						
<p>MOTION: To remove payment to Arvin Peltz on Warrant No. 2603 in the amount of \$4,550.00 until such time as one all-inclusive final bill is received and approved by the Board Attorney and BCOM.</p>	<p>O'Connell Christophers Fletcher Lee Samolewicz</p>	<p>X</p>	<p>X</p>	<p>X X X X X</p>	<p>X X X X X</p>	<p>X X X X X</p>
<p>MOTION: To approve payment of bills set forth on Warrant Nos. 2598 through 2606 as follows: No. 2598 \$1,113.89, No. 2599 \$290.35, No. 2600 \$398.34, No. 2601 \$1,582.13, No. 2602 \$2,253.00, No. 2603 \$ 6,200.00, No. 2604 \$10,026.91, No. 2605 \$498.70 and No. 2606 \$11,664.85, as amended.</p>	<p>O'Connell Christophers Fletcher Lee Samolewicz</p>	<p>X</p>	<p>X</p>	<p>X X X X X</p>	<p>X X X X X</p>	<p>X X X X X</p>
<p>(Detailed listing of Warrants is attached)</p>						
<p>Mr. Herrera stated that he will request a detailed final billing from Mr. Peltz of all services rendered from inception.</p>						
<p>At this point, Trustees Avallone and McGinnis arrived.</p>						
<u>APPROVAL OF THE CHARLES SCHWAB TRUST COMPANY SIDE LETTER IN CONNECTION WITH THE CUSTODY AGREEMENT</u>						
<p>Mr. Herrera reported that the side letter in connection with our Custody Agreement with The Charles Schwab Trust Company (CSTC) is ready for Board approval. CSTC is the custodian for the employee-directed DROP participants. In the letter, CSTC has agreed to acknowledge that the Retirement System as a public entity may have to disclose information with respect to its service providers and they will waive prohibition against such disclosure.</p>						

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<u>CONSIDERATION OF TRUSTEE SAMOLEWICZ'S RECOMMENDATION ON SALARY PLAN FOR THE DEPUTY ADMINISTRATOR (cont'd)</u>						
<p>Chairman O'Connell said there is no question that Ms. Dalton's job description has changed dramatically and the work that Trustee Samolewicz has done is critically important in justifying any increase in her salary and benefits. He asked the Board to reconsider the 3.5% increase that was approved at the last Board meeting.</p>						
<p>Mr. Sugarman said a motion to reconsider is needed by someone from the prevailing side. If it passes, the action on the motion at the last Board meeting goes away.</p>						
<p>MOTION: To reconsider the compensation package for the Deputy Administrator as set forth in the 3.5% column on the chart presented by Trustee Samolewicz.</p>	<p>O'Connell Avallone Christophers Fletcher Lee McGinnis Samolewicz</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>Trustee Fletcher suggested that the Board determine the amount of the increase necessary to bring Ms. Dalton's base salary within in mid-range.</p>						
<p>Trustee Samolewicz said a 5% increase retroactive to October 2006 would increase Ms. Dalton's salary from \$93,600 to \$98,280 and then revert back to a 4% increase in July and for the next several years. In this manner, her salary would then be in the middle of the administrators' salaries of similar size local pension funds.</p>						
<p>MOTION: To grant the Deputy Administrator a pay raise of 5%, retroactive to October 1, 2006, to be followed by a 4% increase on her anniversary month of July 1 of each year and to be reviewed in 2010 based on a market survey to determine if any adjustments are necessary. Also, to grant a \$100 increase in the monthly car allowance and a 5% longevity increase on the completion of 19th years of service.</p>	<p>O'Connell Avallone Christophers Fletcher Lee McGinnis Samolewicz</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>Trustee Samolewicz informed the Board that he will again redo the charts to reflect the 5% salary increase.</p>						
<p>MOTION: To authorize payment of all future cell phone expenses for the Deputy Administrator as set forth on Warrants.</p>	<p>O'Connell Avallone Christophers Fletcher Lee McGinnis Samolewicz</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>

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<u>PENSION ORDINANCE AMENDMENTS PROPOSED BY THE CITY</u>						
<p>Mr. Sugarman asked the Board to defer this item to Agenda Item No. 7, as it will be part of his report on the City lawsuit.</p>						
<u>CONSIDERATION OF BCOM'S RECOMMENDATION ON THRESHOLDS FOR SIGNATORIES ON CHECKS FOR BANK OF AMERICA'S OPERATING ACCOUNT</u>						
<p>Mr. Herrera reported that BCOM has recommended the thresholds on signing checks for the Pompano Beach Investors, LLC operating account as follows. The property manager has the authority to sign checks up to \$15,000. BCOM has the authority to sign checks between \$15,000 to \$50,000. All checks over \$50,000 must be signed by the Retirement System. Discussion was held. Trustee Lee felt that the threshold amounts were too high for the property manager and BCOM. Trustee Christophers stated that BCOM has the fiduciary responsibility to make these decisions as that is what we had hired them to do. Also, Trustee Christophers stated that there should be two Trustees' signatures on all checks and Warrants issued for payment between Board meetings.</p>						
<p>MOTION: To follow the recommendations of BCOM in setting the threshold limits at \$15,000 for the property manager, \$15,000 to \$50,000 for BCOM and over \$50,000 a Warrant will be issued by the Retirement System.</p>	<p>O'Connell Avallone Christophers Fletcher Lee McGinnis Samolewicz</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>MOTION: To authorize any two Trustees to sign Warrants that need to be issued between Board meetings, not to exceed the limit of the Retirement System's fidelity bond which will be increased to \$750,000, subject to ratification at the next Board meeting.</p>	<p>O'Connell Avallone Christophers Fletcher Lee McGinnis Samolewicz</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>ROBERT A. SUGARMAN, ESQ.</u></p>						
<p><u>City Lawsuit</u> – Mr. Sugarman informed the Board that this is merely a report. If the Board feels there is a need to discuss strategy or give counsel direction then a meeting would have to be scheduled out of the sunshine as the law permits. He said when they last reported to the Board, the settlement discussions had been postponed pending the completion of the Florida legislative session because we wanted to find out how much money the local governments, meaning the City and BSO, would have to work with. They also wanted to find out if proposed legislation was passed that would permit a buy back of past service at 3% rather than the current 2%, which could facilitate shifting our police officers to the Florida Retirement System at some time.</p>						

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<p data-bbox="115 268 678 300"><u>ROBERT A. SUGARMAN, ESQ.</u> (cont'd)</p> <p data-bbox="115 331 1110 768"><u>City Lawsuit</u> – Mr. Sugarman reported that the hearing on the City’s Motion for Summary Judgment was scheduled for April 4, 2007 in front of Judge Eade. The City was seeking a declaration that the section of the pension ordinance that the Board must approve any changes to the Retirement System is unconstitutional. We appealed to the City to leave the hearing pending until we could have our settlement discussions. He received an email from Jim Linn, the City’s hired counsel, who said they would be interested in postponing the hearing if the Board agreed not to take any action on the two COLAs. Mr. Sugarman accepted that offer which was endorsed by the Board and then Mr. Linn wrote back advising that the hearing was scheduled. He said the hearing lasted 1½ hours and Judge Eade ruled at the hearing that the City’s Motion for Summary Judgment was denied because there was no case or controversy.</p> <p data-bbox="115 804 1110 1104">Mr. Sugarman then stated that he received an email from Ms. Dalton advising that there were two proposed pension ordinance amendments on the City Commission Agenda of April 10, 2007. One was trying to repeal the Board’s approval power and the other proposed changing the wording in the COLA ordinance from City contribution to Employer contribution. He said through team effort, the City Commission voted 5-1 in favor of tabling the proposed ordinance amendments until June, after the close of the legislative session. He said they are now working on setting up settlement and deposition dates in June, July and August.</p> <p data-bbox="115 1140 951 1171">At this point, Trustee Samolewicz left the meeting at 10:00 a.m.</p> <p data-bbox="115 1207 1110 1339">Chairman O’Connell said he would like the Board to consider scheduling a shade meeting preceding our next regular Board meeting to discuss and give our attorneys clear directions on the June settlement talks and the ongoing litigation.</p> <p data-bbox="115 1375 1110 1572">Mr. Sugarman said for the record, he would like Minutes to reflect that in accordance with the Florida Statutes that he and Mr. Divers are both requesting a meeting out of the sunshine to discuss the ongoing litigation and settlement talks with the City and BSO on May 16, 2007 at 2:00 p.m. Notice will be posted. Mr. Sugarman stated that they have done everything possible to keep this case in the position where it can be settled.</p> <p data-bbox="115 1608 1110 1774"><u>Krispy Kreme Case</u> – Mr. Sugarman reported that the New York State Teachers’ Retirement System and an individual challenged the amount of the awarded attorneys’ fees incurred in the class action. The Court ruled the objections to be without merit. NYSTRS has now filed an appeal which will take some time to resolve.</p> <p data-bbox="115 1810 1110 1942"><u>BCOM Agreement</u> – Mr. Herrera reported that there has been a significant delay in getting E.C. Blackburn to finish the revisions. They are trying to refine the definitions. He said Karen Leopold our new real estate attorney has been helpful and she and Mr. Blackburn are working on the revisions.</p>						

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<p data-bbox="115 268 678 300"><u>ROBERT A. SUGARMAN, ESQ.</u> (cont'd)</p> <p data-bbox="115 331 1109 401"><u>Form 1065</u> – Mr. Herrera informed the Board that this form relates to the Pompano Beach Investors, LLC and Mr. Blackburn will file this form.</p> <p data-bbox="115 432 1109 600"><u>Leasing Agreement</u> – Mr. Herrera informed the Board that Real Estate Counsel Karen Leopold is reviewing and revising the leasing agreement. Ms. Dalton asked if we have an agreement with Leopold Korn Leopold & Snyder, PA. Mr. Sugarman replied that there will be an agreement submitted to BCOM for review and then S&S will review it.</p> <p data-bbox="115 632 1109 968"><u>Designation of Beneficiary Changes</u> - Mr. Herrera reported that he had further researched the questions Mr. Morton raised at the March Board meeting concerning beneficiary changes. Mr. Morton had asked if Florida Statutes supersede §34.058 of the pension ordinance with respect to the remarriage of a surviving spouse. Mr. Herrera said the pension ordinance is in compliance with Chapter 175 and 185, Florida Statutes. A surviving spouse of a member killed in the line of duty will not lose survivor benefits if the spouse remarries. On the other hand, if the member dies, but is not “killed” in the line of duty, the spouse will lose survivor benefits upon remarriage.</p> <p data-bbox="115 999 1109 1272">Mr. Herrera also stated that there appears to be an inconsistency in §34.052 which allows members to change the beneficiary an unlimited number of times whereas §34.060 states that a member who has elected a joint and survivor option may one time only name a new beneficiary if the designated beneficiary has died or choose the “pop up” and return to the normal form of benefit. Ms. Dalton stated that §34.052 allows an active member to can change the beneficiary from time to time, but this particular section does not apply to retired members.</p> <p data-bbox="115 1304 1109 1440">Mr. Sugarman stated that the Board needs to get an interpretation on this because both provisions say member and it is not clear if the member is active or retired. At this point, Chairman O’Connell referred this matter to the Revision Committee.</p> <p data-bbox="115 1472 459 1503"><u>COMMITTEE REPORTS</u></p> <p data-bbox="115 1535 1109 1640"><u>Building Committee</u> – Committee Chair Christophers reported that there is a new drawing of the office floor plan in the Trustees’ back up material and by the next meeting there should be more information.</p> <p data-bbox="115 1671 654 1703">There were no other Committee reports.</p> <p data-bbox="115 1734 659 1766"><u>DEPUTY ADMINISTRATOR’S REPORT</u></p> <p data-bbox="115 1797 1109 1944"><u>Comerica Bank</u> – Ms. Dalton reported that we received a 3/16/07 letter from our custodian bank announcing that it is moving its corporate headquarters from Detroit to Dallas by 9/30/07. Our Institutional Trust relationship management team will remain in Detroit and will not change.</p>						

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<p>The Board meeting was followed by the First Annual Educational Symposium at 11:05 a.m. A copy of the Symposium Agenda is attached to the Minutes.</p> <p><u>PRESENT:</u> Chairman Paul D. O'Connell Vice Chairman Richard E. Avallone Trustee Sharra Aaronian (arrived at 12:00) Trustee Daniel M. Christophers Trustee Patrick S. Fletcher Trustee Ernest J. Lee, Jr. Trustee Peter McGinnis Trustee Richard H. Samolewicz</p> <p><u>ABSENT:</u> Trustee Jeffrey J. Valerga</p> <p><u>ALSO PRESENT:</u> Robert A. Sugarman, Esq. Board Attorney Pedro Herrera, Esq. and Howard Susskind, Esq. of Sugarman & Susskind, P.A. Charles H. Mulfinger of Citigroup Institutional Consulting J. Stephen Palmquist of Gabriel, Roeder, Smith & Co. BSO Lieutenant Robert Drago Retired Police Chief Gary Morton Lindsay Dalton, Deputy Administrator Kurt Phares, Allegiance Capital April Simon and Doug Gooding of Invesco International Laler DeCosta, Invesco Real Estate Charles Hofer and Milton Ezrati, Lord Abbett & Co. Peter Root and Lon Britton, Munder Capital Management Kevin Murphy & John Freeman, Sands Capital Management James McInerney, Standish Mellon Asset Management Co. Michael Spencer, Voyageur Asset Management, Inc. William S. Schumacher, Citigroup</p> <p><u>PRESENTATION ON GOVERNMENT AGENCY TRUSTS</u></p> <p>Mr. Phares distributed presentation books to the Board and discussed how Allegiance Capital intends to seek higher returns for its clients. Allegiance has projected that the bond market will only average 2.5% to 5% returns per year through 2012. In view of this, Allegiance has developed fixed income capabilities with the potential to achieve 6% returns and higher. Mr. Phares recommended Government Agency Trust Series (IO/PO Mortgages) as a substitute for a portion of the Agency mortgage backed securities (MBS) that we currently hold in the portfolio. They believe this is a way to capture alpha in a low volatility environment. You must increase yield in a low volatility environment and they concluded that Agency Trust Series IO (interest only) and PO (principal only) mortgages have that potential. He explained that MBS are split into two components, IOs and POs, and when separated, these components have more volatility and thus provide higher yields.</p>						

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<p>Mr. Mulfinger said Allegiance Capital is a smaller firm so therefore they can market smaller assets and they have the ability to participate without moving the market. They also have expertise in Agency mortgage backed securities and he felt IO/PO Mortgages are worthwhile considering.</p> <p><u>PERFORMANCE EVALUATION AS OF 3/31/07</u></p> <p>Mr. Mulfinger distributed the performance evaluation reports for the quarter ending 3/31/07. He informed the Board that he had not received all of the information for the quarter due to the fact this is only the 13th day after the quarter-end. He did, however, have the returns for each investment manager and felt it was important to review each manager before hearing their presentations as it would give the Board an opportunity to have questions prepared if there are any concerns.</p> <p>Mr. Mulfinger presented an overview of the capital markets. He reported that most major equity benchmarks posted modestly positive returns for the quarter. The S&P 500 Index returned 0.64% bringing its gain for the 12 months ending in March to 11.83%. As of early April, Smith Barney economists estimated that the GDP expanded at a 2% rate in the first quarter and they were predicting 2.4% growth for 2007 as a whole. Mr. Mulfinger stated that there has been a lot of discussion on the housing markets and rising defaults on the so-called “sub-prime” mortgage loans.</p> <p>Mr. Mulfinger reported that during the first two months of the quarter, the Dow Jones set a new record high of 12,786.64 in late February 2007, but then experienced its biggest one-day loss in almost four years, falling more than 416 points on 2/27/07. This was due to a large one-day drop on China’s Shanghai stock exchange. At the same time, former Federal Reserve Chairman Alan Greenspan warned that an economic recession is possible and while taken out of context, this caused the market to be weak for the next couple of weeks. The equity market did improve later in March. He said small cap stocks generally outperformed large cap for the second consecutive quarter. However, for the trailing 12-month period, the large cap Russell 1000 Index outperformed, returning 11.85% versus 5.89% for the small cap Russell 2000. For the trailing 12 months, small value significantly outperformed small growth with a 10.39% return for the Russell 2000 small value Index compared to 1.56% for the Russell 2000 small growth.</p> <p>Next, Mr. Mulfinger reviewed the Summary of Relevant Facts as of 3/31/07. He reported that the market value of the Total Fund was \$168,259,988, representing a gain of \$3,295,959 from the previous quarter. He pointed out that \$4.4 million was moved to Private Real Estate for the purchase of the Bank of America building which makes this report inaccurate. The Board will need to determine how this transaction will be included in the Total Fund’s quarterly return and the net investment rate of return for purposes of the DROP quarterly earnings. There was discussion on this.</p> <p>Ms. Dalton stated that the property management company should provide</p>						

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<u>PERFORMANCE EVALUATION AS OF 3/31/07 (cont'd)</u>						
<p>statements that reflect all the transactions in the operating account. She said we need to discuss the reporting with Cherry, Bekaert & Holland, LLP and BCOM.</p>						
<p>Mr. Mulfinger reiterated that in the report, the Fund's market value of \$168,259,988 is inaccurate as the value of the property has not been included. In regard to the asset allocation, the percentages are in line with the asset targets in all categories except the weighting is a bit heavy in international. One reason for this is because Sands Capital has over 4% in international stocks holdings. He said there is a proposal in the state legislation to increase the 10% limitation on foreign stocks by the end of April. If the legislation does not pass, Sands will be notified to reduce their foreign holdings to comply with the investment guidelines.</p>						
<p>Also, Standish Mellon has over a 10% weighting in BBB's securities because of split ratings and this report does not reflect the split ratings.</p>						
<p>Next, Mr. Mulfinger reviewed the performance of the individual investment managers. For the quarter, Lord Abbett returned 0.65% lagging the 1.25% return for the Russell 1000 Value Index. They have underperformed for the quarter because they are relative value, which means they do not have a heavy weighting in energy and they also buy companies that they expect to have a higher growth rate, and that value style is out of favor. They are the only manager with a negative alpha, but he did not think this was grounds for a change because they are doing what we hired them to do and their value style is out of favor. Since inception, the portfolio has returned 12.60%, underperforming the 16.22% benchmark return. Mr. Mulfinger said since we hired them they now have over \$100 billion in assets and it would be great to ask them if it is now more difficult to achieve the kind of returns they did in the past.</p>						
<p>Sands Capital has underperformed dramatically this year due to weightings in Healthcare, Information Technology and Financials, which are all sectors that underperformed. Mr. Mulfinger reported that Sands gained 2.80% for the quarter, outpacing the 1.19% return for the Russell 1000 Growth Index. Since its 5/31/03 inception, Sands has outperformed the benchmark, returning 12.05% in comparison to 9.92%. They have higher returns and higher volatility than the benchmark, but over the last year their performance was down.</p>						
<p>Mr. Mulfinger reported that Voyageur returned 1.84% for the quarter, outperforming the 0.64% S&P 500 Index return. He said their longer term returns still look poor. As Mr. Spencer has acknowledged, their lower returns are the result of moving to the growth style too early. He recommended that the Board wait for a few quarters of large cap outperformance and then it would be a good time to do a small/mid cap search and replace them. He also recommended that when cash is needed, it should be transferred out of the Voyageur portfolio. When the</p>						

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<u>PERFORMANCE EVALUATION AS OF 3/31/07 (cont'd)</u>						
<p>economist from Lord Abbett speaks tomorrow, he will tell the Board whether or not the economy is positioned to accommodate growth or value.</p>						
<p>Mr. Mulfinger said Invesco International (ADR) equity portfolio underperformed 3.37% versus the MSCI EAFE Index of 4.08%. Since its 1/31/04 inception, the portfolio has returned 19.10% compared to 19.76% for the benchmark. The portfolio has slightly lower return and lower risk.</p>						
<p>As for the fixed income managers, Mr. Mulfinger stated that Allegiance returned 1.60% versus 1.57% for the Lehman Brothers Intermediate Aggregate for the quarter. Their 1-year and 3-year returns were slightly below the benchmark so they have lower returns, but lower risk. Standish Mellon returned 1.76% versus 1.50% for the Lehman Brothers Aggregate and Munder Capital returned 1.50% versus 1.50% for the Lehman Brothers Aggregate Index for the quarter. They have added equal return with a little less risk.</p>						
<p>Next, Mr. Mulfinger reviewed the returns of the Invesco real estate funds for the quarter. The Invesco REIT Fund returned 3.75% versus 3.46% for the NAREIT Index. The Invesco Core Real Estate returned 3.59% versus 3.46% for the Lehman Brothers Aggregate Index. As stated before, he compared them against the Lehman Brothers Aggregate, but he said that is not the best benchmark, the benchmark would be the private real estate index, but the numbers are still not available for the quarter ending 3/31/07.</p>						
<p>Mr. Mulfinger reported that the Total Fund was up 1.94% for the quarter outperforming the 1.58% benchmark return. For the year, the Total Fund returned 8.06% compared to the 10.94% for the benchmark. Since 9/20/02, the dollar-weighted internal rate of return was 11.36%, beating the 8.5% investment earnings assumption.</p>						
<p>Lastly, Mr. Mulfinger briefly explained the outcome of the attempted takeover of the whole team of the Invesco Worldwide Fixed Income group by Deutsche. This group includes five senior leaders and eleven other individuals. The senior leaders have given their 12-month notice under the terms of their Global Partner contracts. They will continue to report to work at Invesco and fulfill their responsibilities. He said these departures represent only a small portion of our Worldwide Fixed Income and in no way effect the Invesco Real Estate.</p>						
<u>INVESTMENT MANAGER PRESENTATIONS</u>						
<p>Next, the investment managers made their individual presentations. The investment managers also furnished presentation book which were included in the Symposium Notebooks for the Trustees. A complete Symposium Notebook is also on file at the pension office.</p>						

<p>Board of Trustees Minutes Page Thirteen</p> <p style="text-align: right;">April 13-14, 2007</p>	TRUSTEES	M	S	Y	N
<p><u>LORD ABBETT & CO. – LARGE CAP VALUE MANAGER</u></p> <p>Mr. Charles Hofer outlined his presentation to the Board. Since the October 2004 inception of our portfolio, Lord Abbett has experienced an asset growth of over \$11 million and last year assets grew by \$6.6 million. As a value manager, stock picking has become more challenging and they are focused on preserving the capital. The portfolio is positioned to participate in a more normal market and they believe the portfolio will hold and preserve value nicely. Lord Abbett has been disappointed that the portfolio has not kept pace with the benchmark. In the first half of 2005, remaining underweight in energy was a big mistake. Some of the analysts were not doing their job and they have been replaced. Financials are a huge position in the benchmark and they have not been great at stock picking, but they have brought in a new person in that area. Mr. Hofer also said they do not believe asset size has hindered them.</p> <p><u>SANDS CAPITAL MANAGEMENT – LARGE CAP GROWTH MANAGER</u></p> <p>Mr. Kevin Murphy said the portfolio returned 2.79% for the quarter ending 3/31/07 compared to 1.19% for the Russell 1000 Growth Index. He said 2006 was a difficult year and the magnitude of their underperformance was disappointing. However, their record of adding value in 61 consecutive rolling 5-year periods, with the average value added of 530 basis points over the Index, remains intact. He said they continue to buy companies with promising earnings growth. For the last quarter, the total portfolio had earnings per share growth of 46% versus 13% for the Index and the portfolio is projected to grow earnings at approximately 24% per year for the next 5 years. The revenue growth was 35%. The companies they own have excellent business results, which they believe will be rewarded over the long term.</p> <p>Next, Mr. John Freeman, who is a member of Sand's investment team and an analyst specializing in information technology stocks, reviewed several impressive companies, Broadcom, Cerner and Salesforce.com that have added value to the portfolio. He also pointed out that the portfolio is fairly inexpensive and we could get multiple expansion on top of earnings growth.</p> <p><u>VOYAGEUR ASSET MANAGEMENT– LARGE CAP ASSET ALLOCATOR</u></p> <p>Mr. Michael Spencer reported that the acquisition of Freedom Capital by Voyageur Asset Management has been completed and all the assets were transferred to Voyageur on 1/5/07. Voyageur now has over \$30 billion in assets. They are headquartered in Minneapolis, MN. and owned by the Royal Bank of Canada. Mr. Spencer and Ray Depelteau will remain in the Boston office. He reviewed the performance summary as of 12/31/06 and our portfolio returned 9.98%, underperforming the 15.8% return of the S&P 500 Index. Since August 2006, there have been two months of value style outperformance and five months of growth outperformance so they are seeing evidence of a return to the growth style and they feel growth will come back very strongly. They remain in the growth style because their economic and valuation work supports this positioning.</p>					

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<p>Traditionally, growth stocks have been more expensive than value stocks, however, today they are equal in valuation. Moreover, the flattening of the yield curve and slowing corporate profits growth are also important indicators supporting the growth style.</p>						
<p><u>INVESCO - INTERNATIONAL EQUITY (ADRs)</u></p>						
<p>Mr. Doug Gooding presented on the Invesco International portfolio. It is an ADR only portfolio. As of 3/31/07, the market value of the portfolio was \$14,989,337. In 2006, the portfolio returned 25.1% versus the 26.3% return for the MSCI EAFE Index. He said in a more speculative market is not uncommon for higher quality stocks to underperform the market. In their view, the market is not overvalued and high quality companies could be in a good position to outperform. Despite market changes, they remain consistent in their investment process. He also reviewed the top 10 holdings which comprise almost 35% of the portfolio. Mr. Sugarman asked Mr. Gooding if there were any recommendations he could make to the Board. Mr. Gooding responded that the Board may want to consider allowing a 3-4% position in emerging markets and foreign holdings as opposed to ADRs only. Invesco also offers an emerging markets commingled fund. He said year-to-date, most foreign markets are up 5%, however, expect single digit returns or low double digit returns going forward.</p>						
<p><u>INVESCO REAL ESTATE – REITs and CORE REAL ESTATE FUND</u></p>						
<p>Mr. Laler DeCosta first briefly reviewed the performance of Invesco Equity Real Estate Securities Trust Fund (REITs). As of 12/31/06, the rolling 1-year return was 37.48%. compared to 9.47%. At this early date, they did not have the returns for the quarter ending 3/31/07. They expect the 2007 total return for REITs to be between 5-10% due to real estate valuation uncertainties. Mr. Mulfinger asked Mr. DeCosta if they recommend a global product for REITs. He replied that a global product would have more risk, but it would add more diversification.</p>						
<p>Mr. DeCosta said Invesco Real Estate has \$28.7 billion under management and 194 employees worldwide. He then reviewed our Invesco Core Real Estate USA – LLC. The flagship fund is 2½ years old. The portfolio strategy calls for 30% maximum leverage. It is a diversified Fund of institutional quality properties and the objective is to exceed the NCREIF over a 3 and 5-year rolling basis. There are 44 investments. The Fund’s occupancy is a solid 93%. The performance for the quarter ending 12/31/06 was 3.32%. The annualized return since the Fund’s 9/30/04 inception was 20.27%. There are 48 investors.</p>						
<p><u>MUNDER CAPITAL MANAGEMENT – FIXED INCOME</u></p>						
<p>Mr. Peter Root discussed the resignations first of Fixed Income Portfolio Manager Tal Gunn and more recently Paul LaCoursiere. Recognizing that the Board may be frustrated by another change, Mr. Root, who is the Managing Director and CIO of Fixed Income, said he has assumed the</p>						

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<p>responsibility of our portfolio. He then proceeded with the presentation. He reviewed the performance. As of 3/31/07, the portfolio's one year return was 6.48%, the 3-year annualized return was 3.53% and the 5-year annualized return was 5.63%. Munder's strategy is to optimize yields along the yield curve. Because the yield curve is flat, they look for opportunities to enhance yields that have not been bid up in price. They also feel that mortgages will provide higher returns without adding credit risk. Mr. Root recommended removing the prohibition on investing in private placements.</p>						
<p><u>STANDISH MELLON ASSET MANAGEMENT – FIXED INCOME</u></p>						
<p>Mr. James McInerney proceeded with his presentation. He said Standish Mellon has \$162 billion in fixed income assets under management. Our portfolio is an active core strategy. As of 2/28/07, the market value of the portfolio was \$17,458,672 and for the 12-month period the return was 5.47%. He said our investment guidelines restrict certain investments that are in the Lehman Aggregate Index and he highlighted areas on a chart where the Board may want to consider broadening the guidelines to add extra return. Investing in lower grade bonds, which are more volatile, has the potential of adding on average 30 basis points. Most of their clients allocate 15% to lower grade bonds, but they would recommend 3-4% for our portfolio. Preferreds could add value. Private placements are prohibited in the guidelines, but expanding them to allow only Rule 144A placements could add 10-15 basis points. Also, there are foreign-related fixed income investments such as Yankee bonds non-dollar and emerging markets that could add value. Derivatives such as futures, options and SWAPS could add 10 basis points after transaction costs.</p>						
<p><u>ALLEGIANCE CAPITAL – FIXED INCOME</u></p>						
<p>Mr. Kurt Phares began his presentation by stating that inverted yield curves are 100% accurate in forecasting slower economic growth and they have an 83% correct track record forecasting recessions. He said the portfolio targets the Lehman Intermediate Aggregate Index. The quality is AAA only. There are no corporate bonds in the portfolio. Allegiance's style is to adjust maturities to capture yield curve shifts and rotate among the AAA quality sectors. Their AAA quality portfolio is one of the most negative correlated fixed income programs to the S&P 500 so it offers excellent diversification and risk reduction. Although corporate bonds performed well in 2006 and are 16% of the benchmark, the portfolio still had strong performance and was only three basis point behind the benchmark.</p>						
<p>The session ended at 6:00 p.m. and continued the following morning at 9:00 a.m.</p>						
<p><u>PRESENTATION ON THE ECONOMIC OUTLOOK BY MILTON EZRATI</u></p>						
<p>Mr. Milton Ezrati, Partner and Senior Economic Strategist for Lord Abbett & Co., has over 33 years of experience in the financial services industry and has been widely published. He said the ongoing weakness in housing has been a drag on the economy and has slowed overall economic expansion.</p>						

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<p>At present, unemployment at 4.4% is very low and inflation remains in check which suggests that the Fed policy should remain steady. There is no pressure on the Fed to raise rates. He still thinks there is room for a rally in the equity market and the relative stability in the bond market should make for a favorable stock market environment.</p>						
<p><u>ROUNDTABLE DISCUSSION</u></p>						
<p>All the investment managers, with the exception of Mr. Murphy and Mr. Freeman of Sands Capital Management who had to leave, participated in a roundtable discussion on investment strategies for the future. Mr. Ezrati also participated and Mr. Mulfinger moderated the discussion. Mr. Gooding felt the valuation was still reasonable in the foreign markets, but the pace over the last 4 years was not sustainable. Mr. Ezrati felt equities would probably return more than fixed income in emerging markets and if currency goes against us, equities would stand up better. Mr. DeCosta said they are looking at 7-9% returns in core real estate. Mr. Hofer said it will be a challenge to get 7.5-8% returns in equities and 8.5% is tough. Mr. McInerney said they expect fixed income returns to be in the range of 5.25%. The consensus was you have to take more risk to get the necessary return. Mr. Gooding said he would not encourage taking on more risk in the international market at this point. At the conclusion of the roundtable discussion, the investment managers and Mr. Ezrati departed.</p>						
<p><u>PRESENTATION ON ALTERNATIVE INVESTMENTS</u></p>						
<p>Mr. William Schumacher, Senior Vice President and Director of Alternative Investments for Citigroup, distributed presentation books and presented an informative introduction on alternative investments. He said alternative investments have a low to moderate correlation with traditional stocks and bonds. They are not listed on an exchange and they have reduced liquidity. The major alternative asset classes are private equity, hedge funds, real estate, structured products and managed futures. Alternative investment managers generally have increased investment flexibility, however, added flexibility comes with increased risks. Historically, adding alternative investments to traditional portfolios has enhanced risk adjusted returns and provided good diversification. He said large college endowments are heavily invested in alternatives. Mr. David Swensen, the Chief Investment Officer for Yale University Investment Fund allocates 65% in alternatives and 35% in traditional asset classes. The Fund has returned on average 17-18% per year and it has never had a negative year.</p>						
<p><u>ATTORNEYS' ROUNDTABLE</u></p>						
<p>A working lunch for the hosted by Sugarman & Susskind, P.A. Mr. Sugarman introduced Mr. Howard Susskind. Mr. Sugarman and Mr. Susskind have worked together for 35 years and have been partners in the law firm of Sugarman & Susskind, P.A. for 22 years. Mr. Sugarman provides legal services to public sector pension plans and Mr. Susskind works with private sector plans. They discussed legal issues that have had an affect on this Retirement System and other pension plans in general.</p>						

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<p><u>DISCUSSION ON ASSET ALLOCATION AND FUND ASSUMPTION RATE</u></p> <p>Mr. Mulfinger and Mr. Palmquist discussed the Fund's asset allocation and the investment earnings assumption. The Fund's assumption rate is 8.5%, but Mr. Mulfinger said it is really 9% when expenses are included. Changes can be made to the asset classes and various combinations of investments can be selected to help the probability of achieving the assumption rate. Mr. Mulfinger said he would be more comfortable with a lower assumption rate. Mr. Palmquist said our assumption rate is 8.25%, net of expenses, and he felt the probability of meeting that is getting more and challenging over time. He suggested changing the smoothing method to the same method utilized by Florida Retirement System (FRS) because there would be less fluctuation. We need a higher probability of meeting our target in conjunction with adding other types of investments such as alternatives and small/mid cap stocks. He said FRS has 30% in alternatives and a 7.75% assumption rate.</p> <p>Mr. Mulfinger said for next year's Educational Symposium, there should be more concentration on alternatives and equities and less time spent on fixed income.</p> <p>The Educational Symposium adjourned at 2:45 p.m.</p> <p style="text-align: center;">Respectfully submitted,</p> <p style="text-align: center;">Lindsay Dalton, Deputy Administrator</p>						