

POMPANO BEACH POLICE & FIREFIGHTERS' RETIREMENT SYSTEM

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

**BOARD OF TRUSTEES MINUTES
QUARTERLY MEETING
FEBRUARY 20, 2007**

The Board of Trustees convened at the Pompano Beach Elks Lodge No. 1898, 700 NE 10th Street, Pompano Beach, Florida. The Chairman called the meeting to order at 3:01 p.m.

PRESENT: Chairman Paul D. O'Connell
Vice Chairman Richard E. Avallone
Trustee Sharra Aaronian
Trustee Daniel M. Christophers
Trustee Patrick S. Fletcher
Trustee Ernest J. Lee, Jr.
Trustee Peter McGinnis
Trustee Richard H. Samolewicz
Trustee Jeffrey J. Valerga

ALSO PRESENT:
Charles H. Mulfinger of Citigroup Institutional Consulting
Denny St. Romain and Collin Ross of BCOM Investment Advisers, LLLP
Robert A. Sugarman, Board Attorney
Pedro Herrera, Esq. Sugarman & Suskind, P.A.
Lindsay Dalton, Deputy Administrator
Daniel O. Rosenquist, Retiree

APPROVAL OF AGENDA

MOTION: To approve Agenda of February 20, 2007.

Trustee Fletcher was not present for the vote.

APPROVAL OF MINUTES

MOTION: To waive reading of the Minutes of December 18, 2007 and to approve same as submitted.

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

APPROVAL OF WARRANT NOS 2570 THROUGH 2584

MOTION: To approve payment of bills set forth on Warrant Nos. 2570 through 2584 as follows:
No. 2570 \$562.59, No. 2571 \$8,909.38, No. 2572 \$723.08,
No. 2573 \$388.87, No. 2574 \$7,015.02, No. 2575 \$2,597.50,
No. 2576 \$19,580.51, No. 2577 \$3,785.21, No. 2578
\$515.22, No. 2579 \$44,115.01, No. 2580 \$121,257.09,
No. 2581 \$853.26, No. 2582 \$60.69, No. 2583 \$262,139.14
and No. 2584 \$332,898.43.

(Detailed listing of Warrants is attached to Minutes)

ROBERT A. SUGARMAN, ESQ.

Lerach Coughlin Litigation Report on Securities Class Actions as of 12/31/06 – Mr. Sugarman gave an update on the status of the Krispy Kreme litigation. In September 2006, Lerach Coughlin informed the Board that they had reached an agreement from the Company for a \$75 million settlement in cash, stock and warrants. There was a hearing before the Court on 2/7/07 for final approval and to award lead counsel attorneys’ fees and expenses so he said we will soon know the final outcome.

In the Newmont Mining litigation case in July 2006, the parties agreed to settle for \$15 million. On 10/20/06, the parties finalized the stipulation of settlement and filed a motion for preliminary approval, which is pending.

City Lawsuit – Mr. Sugarman informed the Board that the hearing on the City’s Motion for Partial Summary Judgment has been set for 4/4/07. Also, he said that he has been trying to schedule another settlement meeting of the attorneys and representatives during the third week of March to respond to the settlement proposal that was discussed at the October 2006 settlement meeting.

Amended State General Records Schedule GS1-L – Mr. Sugarman reported that the State requires public agencies such as the Retirement System to adopt a records retention schedule and the Board adopted the State Schedule some time ago. Recently, the State amended the Schedule, which stipulates the minimum retention periods for records although he said most of his clients keep their records much longer. He recommended that the Board adopt the revised Schedule GS1-SL.

MOTION: To adopt the revised Schedule, GS1-SL, of that has been recently promulgated by the Florida Division of Library Information Services and to authorize the Chairman to sign the Resolution and forward it to the Department of State.

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

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

Board of Trustees Minutes Page Three	February 20, 2007	TRUSTEES	M	S	Y	N
<p><u>ROBERT A. SUGARMAN, ESQ.</u> (cont'd)</p> <p><u>Pension Protection Act of 2006 (PPA)</u> – Mr. Sugarman said the IRS has published some rules on the PPA which were discussed last month. He asked if any of our retirees participate in health plans sponsored by City or BSO that are self-insured and he was informed that both the City and BSO health plans are provided through an insurance carrier. Mr. Sugarman said the IRS came out with a position that self-insured health plans are not eligible for the \$3,000 tax exemption which is now being contested by the IAFF and NCPERS. But since the City and BSO have an employer sponsored group plan through an insurance carrier, our retirees who participate are eligible.</p> <p>Ms. Dalton questioned if only participants in employer group plans are eligible for the \$3,000 tax-exemption. Mr. Sugarman replied that the PPA states the insurance must be from a regulated insurance company to be used towards the \$3,000 tax exemption. However, the premiums do have to be deducted from the retirees' pension checks and cannot be paid directly by the employer. On the other hand, State law only allows the Retirement System to deduct employer-provided health insurance from retiree pension checks.</p> <p>Mr. Sugarman informed the Board that his firm prepared a checklist to assist Ms. Dalton in the process of setting up the members and a form for the retirees to elect and authorize the pension office to deduct the monthly health insurance premiums from their pension checks to take advantage of this \$3000 tax-exemption. Chairman O'Connell said that he and Ms. Dalton will draft a letter for Mr. Sugarman to review that will be sent to the retirees.</p> <p>Ms. Dalton said a firefighter who is over age 50 asked if he would be able to change his monthly or yearly distribution amounts without incurring an IRS early withdrawal penalty in light of changes brought about by the PPA. Mr. Sugarman replied as long as the member has reached age 50, there is no early distribution penalty. The former rule was age 55.</p> <p>At this point, there was discussion concerning whether police participants who have not separated service from BSO can receive distributions from the DROP upon the conclusion of the five-year DROP participation period. Ms. Dalton reported that Cherry, Bekaert & Holland (CBH) has expressed their opinion on this subject in two earlier letters that the "same desk rule" applies here and police officers cannot take their money out of the DROP Plan until they actually terminate employment with BSO. Ms. Dalton said at our January Board meeting, Mr. Sugarman recommended getting an updated opinion from CBH to see if passage of the PPA had an affect on their opinion. A letter was sent out to CBH on 2/18/07.</p> <p>Mr. Rosenquist had a question pertaining to the \$3,000 tax-exemption. He said many of the members currently have their health insurance premiums deducted from their credit union accounts and he asked if we have an agreement with the City to accept the premiums from the Retirement System. Ms. Dalton replied presently there is no agreement.</p>						

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<p data-bbox="115 268 683 300"><u>ROBERT A. SUGARMAN, ESQ. (cont'd)</u></p> <p data-bbox="115 338 1109 533">The member would have to cancel the authorization with the credit union. Mr. Sugarman said to implement this we have to get the members to elect and to authorize us to take the money out of their pension checks. In the event the City does not accept the premiums, we cannot move forward. Ms. Dalton will contact Risk Management to see if they will accept the premiums from us.</p> <p data-bbox="115 571 1109 701"><u>Securities Holdings Monitoring Services</u> – Mr. Sugarman reported that an agreement has been signed with Bernstein Litowitz Berger & Grossman LLP to act as special counsel to investigate potential claims relating to the Fund’s investment holdings.</p> <p data-bbox="115 739 1109 1068"><u>National Institute on Retirement Security</u> – Mr. Sugarman reported that he received a memo dated 2/15/07 from the Council of Institutional Investors, the National Association of State Retirement Administrators and the National Council on Teacher Retirement, announcing they will be forming a new national non-profit organization called the National Institute on Retirement Security to educate key audiences about the defined pension benefit system in the U.S. The Institute will focus on ensuring awareness that the defined benefit pension system is stable and a financially sound mechanism that provides retirement income for millions of Americans, fuels our economy and provides capital to the financial markets.</p> <p data-bbox="115 1106 1109 1302"><u>State Legislative Report</u> – Mr. Sugarman reported that the State Legislature has forwarded a proposal to increase the Fund’s exposure in foreign investments from 10% of the portfolio’s assets to 20%. Coupled with that is a local option to increase trustees’ terms from two years to four years, which would require an ordinance amendment as each City can decide on an individual basis whether they wish to pursue this.</p> <p data-bbox="115 1339 1109 1570"><u>Charles Schwab Custody Agreement Side Letter</u> – Mr. Herrera reported that Schwab’s legal department is still considering our side letter proposal concerning the custody contract and limits of insurance for the employee-directed DROP Plan. We are asking them to disclose a specific form that they file with the Department of Corporations in California. This disclosure form assures that Schwab has the proper amount of insurance to cover their total assets.</p> <p data-bbox="115 1608 1032 1640"><u>BUILDING COMMITTEE REPORT – BANK OF AMERICA BUILDING</u></p> <p data-bbox="115 1677 1109 1940"><u>Property Management and Leasing Agreement</u> – Mr. Herrera discussed the Property Management Agreement proposal that we received from Pension Asset Management. He stated that Agreement has been reviewed and accepted by Special Counsel Arvin Peltz as well as BCOM. Mr. Peltz’s only concern was the section that stated the cost of the annual audit would be borne by the owner. His recommendation was that this cost should be paid by the property manager. Pension Asset Management, however, is unwilling to do so since the potential expense of the audit in the range of</p>						

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<u>BUILDING COMMITTEE REPORT (cont'd)</u>						
<u>Property Management and Leasing Agreement (cont'd)</u> – \$8,000 will exceed their total profit, which is estimated to be approximately \$3,500 to \$4,000 per year. Mr. Herrera said this a business judgment and the Board needs to decide whether to look for a company that will accept this term or move forward with this contract that both BCOM and Mr. Peltz are essentially comfortable with. He noted that Pension Asset Management did accept all of Mr. Peltz’s revisions with the exception of the audit fee.						
Trustee Christophers reported at a meeting earlier this month that he attended with BCOM, Mr. Sugarman, Mr. Peltz and Mr. Blackburn, BCOM recommended Pension Asset Management due to the fact this company is familiar with the building since they did all the due diligence on the building. Also, it was BCOM’s position, as our fiduciary, that Pension Asset Management’s numbers are more accurate than the other companies that submitted proposals.						
<p>MOTION: To approve the Property Management Agreement between Pompano Beach Investors, LLC and Pension Asset Management and to authorize the Chairman to sign on behalf of Pompano Beach Investors, LLC, based upon the recommendations of the Building Committee, BCOM, the fiduciary, and Special Counsel Arvin Peltz.</p>	<p>O’Connell Avallone Aaronian Christophers Fletcher Lee, Jr. McGinnis Samolewicz Valerga</p>	<p>X</p>	<p>X</p>	<p>X X X X X X X X</p>	<p>X X X X X X X X</p>	
<p>MOTION: To approve the Property Leasing Agreement between Pompano Beach Investors, LLC and Grubb and Ellis and to authorize the Chairman to sign on behalf of the Pompano Beach Investors, LLC, based upon the recommendations of the Building Committee, BCOM, the fiduciary, and Special Arvin Peltz.</p>	<p>O’Connell Avallone Aaronian Christophers Fletcher Lee, Jr. McGinnis Samolewicz Valerga</p>	<p>X</p>	<p>X</p>	<p>X X X X X X X X</p>	<p>X X X X X X X X</p>	
<u>Investment Advisory Agreement with BCOM</u> – Mr. Herrera reported the majority of the contract is in place as a result of the meeting that Trustee Christophers referred to earlier. Now, they are refining the actual description of services that BCOM will provide for the Retirement System as well as the definitions. At the meeting, it was agreed that the annual management fee of 1% will be based on the fair market value of the yearly appraisal. The yearly appraisal is the one that the Retirement System’s auditor will use for the annual audit. From the closing date through 9/30/08, the appraisal will be based on the purchase price and the investment fee will be 1% of purchase price. Thereafter, there will be a new appraisal in the summer of 2008 that the auditor will rely on for the annual audit for fiscal year ending 9/30/09. Starting in October 2008, BCOM’s fee for the forthcoming year will be based on that appraisal.						

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<u>BUILDING COMMITTEE REPORT (cont'd)</u>						
<u>Investment Management Agreement (cont'd)</u> – Mr. Herrera reported that there will also be a disposition fee which only comes in when the Retirement System is no longer the 100% owner of the property. This fee is only triggered if the internal rate of return on the investment has been 14% annually since the original closing date. If that is the case, BCOM will then be paid 25% of the excess balance above achieving an annual 14% internal rate of return.						
<p>There was a lengthy discussion on the deposition fee. Mr. Sugarman said the real test of BCOM's talent takes place when the Board sells the property or changes the nature of ownership for a lot more money than the original purchase price. BCOM may recommend that we sell all or part of it or we may go into a partnership with others which takes a lot of skill, talent and testing of the market and that is the expertise we are paying BCOM for. BCOM does all the work to develop, grow and market the investment and if their ideas work so we get more than 14% per year, then BCOM will share in that because that is what they contributed.</p>						
<p>Trustee Lee asked if the Retirement System will pay rent since we are the owner. Trustee Christophers said this was also discussed by Mr. Sugarman and Mr. Blackburn at the recent meeting. Mr. Sugarman responded because our office will occupy less than 10% of the rentable square feet of the building, it is insignificant and the appraiser is not going to adjust the value based on whether or not we are paying rent. It is the rent that the new owner could get if they bought the building that is the important factor. Trustee Avallone asked Mr. Blackburn's preference with respect to paying rent from an accounting standpoint. Mr. St. Romain replied that Mr. Blackburn did not reach a conclusion at the meeting.</p>						
<p>MOTION: To authorize the Chairman to execute the Investment Advisory Agreement between the Pompano Beach Police & Firefighters' Retirement System and BCOM Investment Advisers, LLLP, once the Agreement is finalized.</p>	<p>O'Connell Avallone Aaronian Christophers Fletcher Lee, Jr. McGinnis Samolewicz Valerga</p>	<p>X</p>			<p>X X X X X X X X X</p>	
<p>Trustee Avallone then asked if the Board could get a graph to illustrate how the disposition fee works. Mr. St. Romain replied when Mr. Herrera reduces this to writing, he will translate it into some sort of graph.</p>						
<p>Lastly, Mr. Sugarman stated that once the Board has gone through this and all the agreements are signed, these lengthy discussions are going to come to an end. As with any other investment, BCOM has been hired as a fiduciary to make prudent decisions on this real estate investment so the Trustees can step back and let them do their work.</p>						

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<p data-bbox="115 296 724 331"><u>BUILDING COMMITTEE REPORT (cont'd)</u></p> <p data-bbox="115 365 1110 464">Mr. Sugarman said the Board will still need to ask questions and will want to give BCOM fair warning if they are doing something we do not like. However, the Board should not micro-manage and override their decisions.</p> <p data-bbox="115 497 1110 663"><u>Closing on the Bank of America Building</u> – Mr. Herrera reported that the closing is scheduled for 2/23/07, subject to the closing out of the open permits. He said the cash to close will not be more than the amount stipulated by BCOM in mid-February of \$4,292,000. That amount also includes a cushion of \$60,000 for unforeseeable closing costs.</p> <p data-bbox="115 697 1110 1031">Trustee Lee questioned that the total amount transferred from the managed accounts to the Main Account was approximately \$1.6 million more than the \$4,292,000 required at closing. Ms. Dalton answered that the additional \$1.6 million is a regular monthly transfer to cover the benefit payments and administrative expenses of the Retirement System. She said the cash has been raised from the various investment managers based on the asset allocation template prepared by Mr. Mulfinger to show where to transfer the money from. The cash to cover the \$4,292.00 will be available on 2/23/07. She said Mr. Peltz informed her that we should have the final closing costs tomorrow or the following day.</p> <p data-bbox="115 1064 1110 1199">Trustee Christophers reported that there were numerous emails concerning the reimbursable due diligence costs in the amount of \$63,000 that were questioned by the Board so BCOM decided to back these out of the closing costs for now.</p> <p data-bbox="115 1232 1110 1331">At this point, Mr. Ross handed Ms. Dalton a book which contained the storage tank closure documents and storage tank closure assessment report (TCAR). These documents will remain on file at the pension office.</p> <p data-bbox="115 1365 1110 1499">Next, Mr. Peltz reviewed the mechanics of the Bank of America closing via teleconference. He said the closing will be done by fax, mail, courier etc. and will include three wire transfers to pay off the seller's first mortgage, the seller's brokerage commission and the net cash to the seller.</p> <p data-bbox="115 1533 1110 1904">Mr. Peltz said there is one concern and that is the title issue of the open building permits. His title report included a list of the open permits that need to be closed out by the applicable county and municipal authorities to confirm that they have completed the inspections. Initially, there were a dozen open permits and he received documentation recently closing most of them out. The remaining open permits go back four to five years and some of the renovations were done by Bank of America. Since this is a title issue, it is also important in the event Pompano Beach Investors wants to do some new work. If a permit is pulled, there would be a problem due to these open permits. That is why this needs to be taken care off before the closing. Mr. Peltz said the current building manager has assured him that</p>						

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<u>BUILDING COMMITTEE REPORT (cont'd)</u>						
<p><u>Closing on the Bank of America Building (cont'd)</u> – all of the permits have in fact been closed, but Mr. Peltz does not have the actual paperwork and he needs something in writing from the municipalities Once that happens, we will be ready to close.</p>						
<p>Mr. Peltz stated that he will try to finalize the closing figures by tomorrow. Mr. Herrera requested that Mr. Peltz to send an email or fax of the wire instructions to Ms. Dalton.</p>						
<p>MOTION: To authorize the Chairman to do the acts necessary to close this transaction including to sign all the required documents and to approve all necessary expenditures as recommended by BCOM and Mr. Peltz.</p>		O'Connell Avallone Aaronian Christophers Fletcher Lee, Jr. McGinnis Samolewicz Valerga	X	X	X X X X X X X X	
<p><u>Signatories on the Operating Account</u> – Trustee Christophers stated that there was one last issue to discuss with regard to the operating account. Mr. Sugarman stated that the big question is who signs the day to day checks. Mr. St. Romain said that his advice is they usually put threshold amounts in place so that checks under a certain amount can be signed by the property manager. Checks over that amount would require BCOM's approval to sign and checks exceeding that amount would have to be signed by an official of Retirement System.</p>						
<p>Mr. Sugarman asked Mr. St. Romain to send him BCOM's recommendations on the thresholds. Then it would be the Board's decision on what the thresholds are and who from the Retirement System is authorized to sign. Ms. Dalton advised that the property manager is anxious to get the operating account set up with the bank.</p>						
<p><u>INVESTMENT COMMITTEE REPORT ON THE APRIL EDUCATIONAL SYMPOSIUM</u></p>						
<p>Trustee Christophers reported that he and Trustee Avallone have been working diligently on the Symposium. He stated that the Agreement and rates at the Embassy Suites has been finalized. The dinner event has been scheduled for April 13 at JB's on the Beach. He said he may be able to get complimentary bus transportation from the City of Deerfield Beach.</p>						
<p>Trustee Avallone reported that he received a call from Mr. Mulfinger informing him that Sands Capital Management will participate in the investment manager presentation on April 13, but will not be present for the roundtable discussion on April 14.</p>						

INVESTMENT COMMITTEE REPORT ON THE EDUCATIONAL ON
APRIL 13-14, 2007

Chairman O'Connell suggested printing up the program agenda for the Educational Symposium. Trustee Avallone offered to handle this since he has been working with Mr. Mulfinger on the agenda. He stated that the Symposium is coming together nicely through the hard work of many different people.

Ms. Dalton said since Symposium is being sponsored by the investment managers, some have requested documentation that this is an educational event. She was directed by the Board to send the investment managers a draft of the agenda.

SET NET INVESTMENT RATE OF RETURN FOR 12/31/06 FUND RATE
DROP EARNINGS

MOTION: To set the net investment rate of return for the quarter ended 12/31/06 at 4.03% for purposes of the Fund Rate DROP earnings in accordance with Mr. Mulfinger's 2/9/07 letter of certification.

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

Ms. Dalton advised that the Performance Summary prepared by Mr. Mulfinger is in the back-up material. She said under the Schwab Retirement Advantage Money Fund on the report, the returns for the current quarter and 3-year period are not listed. The reason for this is that we passed the January 31, 2007 deadline to get the returns from either Schwab or Citigroup's own sources. In the future, this will not be a problem since we have the new process in place.

APPLICATIONS FOR RETIREMENT

MOTION: To approve the corrected benefit commencement date of 10/31/2011 on the Application for Vested Benefit for Deputy Maurice Ackerman and also to approve application for Normal Retirement effective 2/17/2007 and DROP entry effective 3/1/2007 for BSO Deputy Johnnie C. Solomon.

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

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<u>CHARLES H. MULFINGER, II, OF CITIGROUP INSTITUTIONAL CONSULTING – PERFORMANCE EVALUATION AS OF 12/31/06</u>						
<p>Mr. Mulfinger gave a brief overview of the U.S. economy. He said that this was a good quarter for the market. He said Citigroup analysts estimate the economy grew at a 2.3% rate in the fourth quarter. The economic growth downshifted in the second half of 2006 as the Federal Reserve’s previous interest rate hikes and the higher energy prices both acted as brakes on business and consumer demand. Also, softness in the housing sector took a large toll on home construction and the expansion in manufacturing slowed to a near standstill. Despite the economic downturn, we still had a good economy and relatively low inflation.</p> <p>For the quarter ending 12/31/06, Mr. Mulfinger reported that the S&P 500 Index gained 6.70%, the Dow Jones was up 7.38% and the Nasdaq was up 6.94%. Smaller companies narrowly outperformed large companies. For the quarter, the value style continued to outperform growth, 7.99% versus 5.93%. For the year, large cap value stocks gained 22.21%, more than twice the 9.08% return of large cap growth stocks. He said so Freedom Capital continue to looked bad for the quarter and the year since value outperformed and they are invested in the growth style.</p> <p>Mr. Mulfinger said in 2006, the best sectors were Telecommunications Services and Energy. The worst sector was Healthcare and that was because there is a belief that the Democrats will put pressure on pricing in the healthcare industry in the elections. Other lagging sectors were Consumer Staples and Information Technology.</p> <p>In the bond market, Mr. Mulfinger stated that the fixed income benchmarks had modestly positive returns in the fourth quarter and for the year. Corporate bonds generally outperformed Treasuries and mortgage-backed securities.</p> <p>In the international markets, Mr. Mulfinger said the EAFE Index was up 10.40% for the quarter and 26.86% for the year. Most international equity markets performed as well or better than the S&P 500 Index in 2006. Emerging equity markets were up 17.64% for the quarter and 32.59% for the year. In 2006, it was the fourth consecutive year that the MSCI Emerging Markets Index has posted a return greater than 25%.</p> <p>Next, Mr. Mulfinger reviewed the Summary of Relevant Facts as of 12/31/06. He reported that the market value of the Total Fund was \$171,159,143. The Total Fund had a gain of \$6,662,039 from the previous quarter. The breakdown of assets is on target and the managed accounts will be rebalanced to make cash available for the upcoming purchase of the Bank of America Building. He pointed out that the Private Real Estate allocation was increased to 5% when the Investment Policy was amended to include the value of the Bank of America Building in that asset class. The purchase price of the building is \$4.4 million and the majority of the funding for this purchase came from the Freedom Capital account.</p>						

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<u>PERFORMANCE EVALUATION AS OF 12/31/06 (cont'd)</u>						
<p>Mr. Mulfinger then reviewed the performance of the individual investment managers. For the quarter, Lord Abbett returned 6.19% versus 7.99% for the Russell 1000 Value Index. Since its 10/31/04 inception, the portfolio returned 13.81%, lagging the 17.58% return of the benchmark. He stated that Lord Abbett's performance will be a good discussion point at our April Symposium.</p> <p>Sands Capital returned 3.14% for the quarter, underperforming the 5.93% return of the Russell 1000 Growth Index. For the year, Sands was down 5.06%, underperforming the 9.08% return for benchmark. Since its 5/31/03 inception, Sands gained 12.08% compared to 10.28% for the benchmark. Mr. Mulfinger said their 1-year performance is very disturbing.</p> <p>In the last quarter, Freedom Capital posted a return of 5.72%, underperforming the 6.70% return for the S&P 500 Index. Mr. Mulfinger stated that this is a waiting game in hopes that the growth style comes back into favor. He said the recent merger with Voyageur has not affected the returns as the same investment team is in place.</p> <p>Discussion was held on why we continue to retain Freedom Capital. Trustee Christophers was concerned and disappointed that we continue to keep them. He questioned if this is a liability issue and if the Board is fulfilling its fiduciary responsibility by keeping them. Mr. Herrera replied that the Board is fulfilling its fiduciary responsibilities by discussing the problem, monitoring Freedom's performance and listening to our consultant. He said this could be another discussion point at the April Symposium.</p> <p>Next, Mr. Mulfinger reviewed the returns of Invesco, our international manager. For the quarter, Invesco returned 8.48%, lagging the 10.35% return for the EAFE Index. He said the reason for this underperformance is our portfolio has higher quality and larger cap stocks than the Index.</p> <p>As for the fixed income managers, Mr. Mulfinger stated that Allegiance returned 1.25% for the quarter similar to the 1.26% return for the Lehman Bros. Intermediate Aggregate Index. Standish Mellon returned 0.95% compared to 1.24% for the Lehman Aggregate Index for the quarter. He said the merger with the Bank of New York did not affect the investment team in place.</p> <p>Mr. Mulfinger reported that Munder Capital returned 1.12% versus 1.24% for the Lehman Aggregate Index for the quarter. He said Portfolio Manager Paul LaCoursiere accepted a position with another firm and has left Munder. Peter Root, the CIO of Fixed Income and a member of senior management, has assumed the responsibility for our portfolio.</p> <p>At this point, Chairman O'Connell distributed an article called "It's A Low, Low, Low-Rate World. He said the article talks about the economic benefits created by cheap money and some of the unexpected problems and is well worth reading.</p>						

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<u>PERFORMANCE EVALUATION AS OF 12/31/06 (cont'd)</u>						
<p>At 5:20 p.m., the Chairman turned the gavel over to Vice Chairman Avallone and left for the rest of the meeting.</p>						
<p>Next, Mr. Mulfinger reviewed the returns of the Invesco Real Estate funds for the quarter. The Invesco REIT fund returned 10.31%, outpacing the 9.47% return for the NAREIT Index. Since inception on 6/1/06, this fund returned 24.2%. The Invesco Core Real Estate fund returned 2.32% versus 1.24% for the Lehman Aggregate Index, but he said this is not the best benchmark for the fund. The best benchmark would be the Private Real Estate Index.</p>						
<p>Mr. Mulfinger reported that the Total Fund gained 4.03% for the quarter, underperforming the 5.24% benchmark return. This was mainly because of the underperformance of Sands Capital and Freedom Capital. For the year, the Total Fund returned 8.06% compared to the 12.58% for the benchmark. Since 9/30/02, the dollar-weighted rate of return was 11.43%.</p>						
<u>DISCUSSION ON FIXED RATE OF RETURN ON DROP ACCOUNTS AND DROP PAY OUT OPTIONS</u>						
<p>Vice Chairman Avallone said currently DROP participants have two investment options for their DROP Plan. The first option is to elect to have the DROP account invested in the Pension Fund where it earns the same net investment rate of return as the Fund. The second option is to elect to have the DROP account invested in the employee-directed mutual fund program. He proposed an additional investment option of a "fixed rate" of interest return for our DROP participants. He said this is not a new concept. Quite a few pension funds, in fact, offer a fixed rate of return including the City of Pompano Beach GERS. He said our actuary recommended setting the fixed rate at 1% below our assumption rate should the Board decide to offer this option.</p>						
<p>Discussion was held. Mr. Mulfinger said there is risk involved with this option since DROP participants have the flexibility to move their money in and out of the various options. As an example, if participants elect the fixed rate and then the market collapses, the Fund may have to come up with money at the worst possible time. This option deserves Board consideration, but there are concerns that also need to be addressed.</p>						
<p>Next, Vice Chair Avallone reviewed the DROP Payout Options form. He said some members would like the ability to change the form of pay out option elected at the time they terminated employment. They would like to be able to change their payments for example from monthly to annual and vice versa. Ms. Dalton said the pay out options were initially established to comply with IRS regulations where those under age 55 were required to take substantially equal monthly or annual installments. With the passage of the Pension Protection Act, these rules have changed, but she was not</p>						

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<p><u>DISCUSSION ON FIXED RATE OF RETURN ON DROP ACCOUNTS AND DROP PAY OUT OPTIONS (cont'd)</u></p> <p>certain of the affect on this provision. Aside from that, Ms. Dalton said switching back and forth could also be a problem administratively especially for our custodian bank. Mr. Herrera said he will check into the IRS ruling.</p> <p>Trustee Christophers left the meeting at 6:00 p.m.</p> <p><u>SALARY REVIEW FOR DEPUTY ADMINISTRATOR</u></p> <p>Trustee Samolewicz informed the Board that due to the fact that two Trustees are not present, he would like to postpone the salary review until the March Board meeting.</p> <p>MOTION: To table the salary review for the Deputy Administrator until the March 19, 2007 Board meeting.</p> <p><u>OLD BUSINESS</u> – No discussion.</p> <p><u>OTHER COMMITTEE REPORTS</u> – No reports.</p> <p><u>DEPUTY ADMINISTRATOR’S REPORT</u></p> <p><u>Retiree Gary Morton</u> – Ms. Dalton reported that on 2/9/07, we received a call from Mr. Morton, requesting permission to address the Board at today’s meeting on retiree issues. Due to the full schedule today, an email was sent to him explaining that he needs to submit his request in writing a least 4 business days prior to the next scheduled Board meeting.</p> <p><u>MISCELLANEOUS</u></p> <p><u>Draft of “Your Pension Matters” Newsletter for Quarter Ending 12/31/06</u> – Ms. Dalton reported that in the backup is a draft of Chairman O’Connell’s quarterly newsletter. Trustees were asked to review the newsletter and advise of any changes.</p> <p><u>Lord Abbett & Co. LLC</u> – Ms. Dalton reported that in the backup is an invitation from Lord Abbett for their 2007 Institutional Client Conference which will be held May 10-11, 2007 at Lord Abbett’s headquarters in Jersey City, New Jersey.</p>	<p>Avallone Aaronian Fletcher Lee, Jr. McGinnis Samolewicz Valerga</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>	<p>X X X X X X X</p>

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<u>MISCELLANEOUS (cont'd)</u>						
<u>NCPERS 2007 Annual Conference and Exhibition</u> – Ms. Dalton reported that the NCPERS Annual Conference will be held May 8-14, 2007 at the Hilton Hawaiian Village, Honolulu, Hawaii. Trustee Lee asked for permission to attend and he advised that the Retirement System will not have to reimburse him for airfare.						
<p>MOTION: To allow Trustee Lee, Jr. to attend the NCPERS 2007 Annual Conference in Honolulu, Hawaii.</p>	<p>Avallone Aaronian Fletcher Lee, Jr. McGinnis 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>
<u>53rd Annual International Foundation of Employee Benefits Plan (IFEBP) Conference</u> – Ms. Dalton reported that the IFEBP will be holding its 53 rd Annual Conference on November 4-7, 2007 at the Anaheim Convention Center, Anaheim, CA.						
<p>MOTION: To allow Trustees and the Deputy Administrator to attend the 53rd Annual IFEBP Conference in Anaheim, CA.</p>	<p>Avallone Aaronian Fletcher Lee, Jr. McGinnis 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>
<u>ADJOURNMENT</u>						
<p>MOTION: To adjourn meeting.</p> <p>Meeting adjourned at 6:20 p.m.</p>	<p>Avallone Aaronian Fletcher Lee, Jr. McGinnis 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>Respectfully submitted,</p> <p>Lindsay Dalton, Deputy Administrator</p>						