

POMPANO BEACH POLICE & FIREFIGHTERS' RETIREMENT SYSTEM

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

**BOARD OF TRUSTEES MINUTES
WORKSHOP MEETING
SEPTEMBER 18, 2006**

The Board of Trustees convened at the Emma Lou Olson Civic Center 1801 NE 6th Street, Pompano Beach, Florida. The Chairman called the Workshop Meeting to order at 3:13 p.m.

PRESENT: Chairman Paul D. O'Connell
Trustee Sharra Aaronian
Trustee Richard E. Avallone
Trustee Ernest J. Lee, Jr.
Trustee Peter McGinnis (arrived at 3:20 p.m.)

ABSENT: Trustee Daniel Christophers
Trustee Patrick Fletcher
Trustee Richard Samolewicz
Trustee Jeffrey Valerga

ALSO PRESENT:
Craig Stanley of Allegiance Capital Management
Pedro Herrera, Esq., Sugarman & Susskind, P.A.
Lindsay Dalton, Deputy Administrator

Chairman O'Connell announced due to lack of a quorum no business would be conducted and no motions or votes would be taken. In view of this, newly elected Trustee Peter McGinnis could not be seated at this meeting.

Chairman O'Connell reported that the market value of the Total Fund as of 8/31/06 was \$166.6 million.

ALLEGIANCE CAPITAL MANAGEMENT

Mr. Craig Stanley distributed his presentation booklet as of 8/31/06. First, he reviewed some positive changes at Allegiance. He informed the Board that recently Allegiance hired an entire fixed income team of five portfolio managers from Evergreen Investments. These managers work at a subsidiary of Allegiance called Allegiance Capital Customized Investments and they handle clients that require very specialized portfolios. Allegiance also formed a subsidiary corporation called Allegiance Advisory that manages collateralized debt obligations.

Mr. Stanley stated that Allegiance believes the movement of interest rates cannot be accurately timed. He said historically, the strongest performance over cash comes at the end of a Federal Reserve tightening cycle. The last Federal Reserve rate increase was on 6/29/06 and since that time, the bond market is up 2.9%.

Mr. Stanley stated that Allegiance manages an AAA only portfolio. They use a top-down investment process. The Investment Committee first looks at U.S. and global economic and financial market conditions and then

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<u>ALLEGIANCE CAPITAL MANAGEMENT (cont'd)</u>						
<p>they quantitatively determine which fixed income asset classes are cheap or expensive. They also look at changes in the shape of the yield curve and changes in sector spread before making investment decisions.</p>						
<p>Next, Mr. Stanley reviewed graphs showing the 2-year and 10-year Treasury bond yields over the last three years. He said the 2-year Treasury yields have risen over 400 basis points since 2004. As yields were rising, there were incremental price losses that were not large enough to make the portfolio negative, but continued to reduce the already low yield.</p>						
<p>Mr. Stanley reported that the 10-year Treasury yields dropped even further after March 2004 and around March 2006 there was an upward movement of approximately 70 basis points. However, in the last 2 ½ months since the Federal Reserve paused raising interest rates, there has been a decline in the 10-year Treasury yield which had been up almost 3%. Mr. Stanley stated that Allegiance expects the yield curve to continue to remain flat during the third quarter of 2006 then begin a gradual steepening.</p>						
<p>Mr. Stanley reported that Allegiance adds value by trading the difference in the spread between Treasuries, Mortgages and Agencies. When the line is going up Treasuries are outperforming, when the line is flat to down, Agencies are outperforming. In the last year, there has not been much of a change and that has not afforded Allegiance what they are good at, which is trading through these volatile periods. Due to the fact there are no corporate bonds in the portfolio and no credit risk, Mr. Stanley said Allegiance should perform at its best when the equity markets get hit hard. During the second quarter of 2006, all the fixed income asset classes had negative returns relative to Treasuries.</p>						
<p>Mr. Stanley reviewed the performance history. For calendar year 2005, the portfolio was up 2.19%, outperforming the Lehman Intermediate Aggregate Index return of 2.01%. For the first quarter of 2006, the portfolio returned -0.20% versus -0.26 for the Index and for the second quarter, the portfolio was up 0.03%, underperforming the Index by 9 basis points due to an overweighting in mortgages. Year-to-date, the portfolio has returned 1.07% in comparison to 1.13% for the Index.</p>						
<p>Lastly, Mr. Stanley reviewed the holdings in the portfolio as of 8/31/06 and reported that the portfolio was well diversified with a 5.1% yield to maturity.</p>						
<p>Mr. Herrera questioned what the performance would be net of fees. Mr. Stanley replied that fees are 25 basis points and net of fees Allegiance has underperformed the Index. Mr. Herrera then asked Mr. Stanley to provide the performance results net of fees in future reports.</p>						
<p>At his point, Chairman O'Connell introduced new Trustee Peter McGinnis to the Trustees and Mr. Stanley and welcomed him to the meeting.</p>						

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<p><u>FREEDOM CAPITAL MANAGEMENT, LLC</u></p> <p>Chairman O'Connell reported that Michael Spencer and Jack Farland would not be present due to illness. Rather than re-scheduling their presentation, Freedom will provide a written report as of 9/30/06.</p> <p><u>SUGARMAN & SUSSKIND, P.A.</u></p> <p><u>Krispy Kreme Doughnuts Inc. Securities Litigation</u> – Mr. Herrera reported on the Krispy Kreme Doughnuts Inc. Securities Litigation. He said in a letter dated 9/6/06, Lerach Coughlin stated they believe they can negotiate a settlement of \$75 million in cash and stock combined. Krispy Kreme will contribute \$35 million in cash and PricewaterhouseCoopers will contribute \$4 million for a total of \$39 million in cash plus \$18 million in stock and another \$18 million in stock options. Mr. Herrera noted that the \$36 million in stock and stock options is freely transferable and there are no restrictions. He stated that Lerach Coughlin would like to know if the Trustees agree to the proposed settlement by 10/15/06, which is when the preliminary papers have to be filed with the District Court.</p> <p>In view of this deadline, the Chairman charged the Investment Committee to meet with Lerach Coughlin and to make a decision on whether or not to agree to the settlement proposal. A tentative Investment Committee Meeting date was set of 10/3/06 at 4:30 p.m. at the Elks Club. Ms. Dalton will confirm if Committee Chair Christophers is available and notify Mr. Herrera, who will then contact Lerach Coughlin.</p> <p><u>Bank of America Building Environmental Issue</u> – Mr. Herrera informed the Board there will be a 15-day extension on the closing because environmental reports are still being conducted by the seller due to an old underground oil storage tank found on the property. Should the due diligence discover major remediation is required, the clean-up costs would be negotiated with the seller absorbing most of the costs incurred. Also, Mr. Herrera said Mr. Peltz informed him that the Phase II environmental reports should be in by 9/22/06 and he would be filing for a 30-day extension in addition to those already built into the Purchase Agreement.</p> <p><u>Settlement Meeting</u> – Chairman O'Connell advised that the Settlement Meeting will be held on 10/3/06 at Mr. Sugarman's office. Trustee Christophers is the Board representative at the meeting. Mr. Palmquist has furnished Mr. Sugarman with the requested reports office for this meeting.</p> <p><u>COMMITTEE REPORTS</u></p> <p><u>Relocation Committee</u> – Trustee Avallone reported that Mr. Romain and Mr. Ross of BCOM are meeting with attorneys for the seller today to sort out several issues pending on the building. Also, Kravit Architectural Associates, Inc., the firm recommended by BCOM and Mr. Carroll provided a proposal for architectural services for: (1) schematic design and space planning; (2) construction documents and; (3) construction administration and on-site observation.</p>						

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<p data-bbox="120 268 589 300"><u>COMMITTEE REPORTS (cont'd)</u></p> <p data-bbox="120 333 1118 569"><u>Relocation Committee</u> – Discussion was held and Trustee Lee has some concerns on obtaining only one architectural proposal. Ms. Dalton advised that this proposal has been sent to BCOM and Mr. Carroll to insure that Mr. Kravit’s fees are reasonable. Mr. Sugarman was also emailed a copy of the proposal. Chairman O’Connell charged the Relocation Committee with reviewing the proposal and reporting back to the Board with its recommendation.</p> <p data-bbox="120 602 1118 800"><u>Labaton Sucharow & Rudoff, LLP</u> – Mr. Herrera asked if it would be possible for this firm, specializing in class actions, to make a presentation on its portfolio monitoring services concerning potential securities claims at the Investment Committee Meeting on 10/3/06. It was decided to have Labaton Sucharow present after the Lerach Coughlin presentation. Ms. Dalton will contact Ms. Salzman to see if she is available on that date.</p> <p data-bbox="120 833 659 865"><u>DEPUTY ADMINISTRATOR’S REPORT</u></p> <p data-bbox="120 898 1118 1134"><u>Stable Value Fund/Money Market Fund Election Change</u> – Ms. Dalton reported that Memo No. 2006-21 was sent to all DROP participants on 9/5/06 informing them of the Board’s decision to eliminate the Federated Capital Preservation Fund and to replace it with Schwab Retirement Advantage Money Fund, a money market fund. The change is effective 10/1/06. On or before that date, Schwab will become the new custodian of the Employee-Directed DROP funds.</p> <p data-bbox="120 1167 383 1199"><u>MISCELLANEOUS</u></p> <p data-bbox="120 1232 1118 1335"><u>Membership Letter</u> – Chairman O’Connell reported that on 9/6/06, letter was mailed to all members of the Retirement System updating them on the lawsuit filed by the City against the Board.</p> <p data-bbox="120 1369 358 1400"><u>ADJOURNMENT</u></p> <p data-bbox="120 1434 596 1465">The meeting adjourned at 4:15 p.m.</p> <p data-bbox="440 1499 745 1530" style="text-align: center;">Respectfully submitted,</p> <p data-bbox="440 1564 927 1596" style="text-align: center;">Lindsay Dalton, Deputy Administrator</p>						