

**PALM BAY POLICE AND FIREFIGHTERS' PENSION PLAN
BOARD OF TRUSTEES
Long Range Planning Workshop 07-07**

Held on the 17th of May 2007 at Robert J. Conlan Professional Center, 1501 R. J. Conlan Blvd., NE, Suite 260, Palm Bay, Florida.

This meeting was properly noticed pursuant to law; the minutes are on file in the Office of the City Clerk, City Hall, Palm Bay, Florida.

Richard B. Adams, Chairperson, called the meeting to order at the hour of 9:07 a.m.

ROLL CALL:

PRESENT

Richard B. Adams, Chairperson, Brd Appt
William A. Yonce, Sr., Vice Chairman, City Council Appt
James M. Havener, Secretary, Fire Elected
Timothy W. Lancaster, Trustee, Police Elected
Benjamin J. Kiszkiel, Trustee, City Council Appt

EXCUSED

Also in attendance was Kathy Adams, Board Administrator and Tarra McKnight, Clerical Temp. Mr. Jesse Suelter, Vice President, FOP, Memorial Lodge 111; Ms. Joyce Dias, Human Resources Officer, City of Palm Bay and Mr. Sidney LaDow, Police Retiree. Mr. Jeffrey Swanson, Senior Consultant, Southeastern Advisory Services, Inc. arrived at 10:36 a.m. Mr. John D. Simone, CFA, Vice President, J.P. Morgan Investment Advisors, Inc. and Mr. J.D. Sitton, CFA, Vice President Real Estate, J.P. Morgan Institutional Investments, Inc. arrived at 10:50 a.m. Ms. Laura Clawson, Human Resources Officer, arrived at 2:08 p.m.

Motion by Mr. Lancaster, seconded by Mr. Kiszkiel to excuse Mr. Yonce's delay due to a conflict of schedule and he would be able to attend by conference-call and would be attending later in the meeting. Motion carried with members voting as follows: Mr. Havener, Yea; Mr. Kiszkiel, Yea; Mr. Lancaster, Yea; and Mr. Adams, Yea.

Mr. LaDow asked that he be given an opportunity to speak to the board. Motion by Mr. Lancaster, seconded by Mr. Kiszkiel allow Mr. LaDow to speak to the board at this time. Motion carried with members voting as follows: Mr. Havener, Yea; Mr. Kiszkiel, Yea; Mr. Lancaster, Yea; and Mr. Adams, Yea. Mr. LaDow said he was employed by the city and left and went into the military. He returned working 15 years for Palm Bay Police Department. His pension is \$650.00. He spoke to other retirees about the cost-of-living allowance (COLA) and he retired without a COLA. He said his pension is being eroded and there are few retirees that retired under the old system. He wanted to know if there is any way to get a COLA for existing retirees at the same rate as the current retirees. Mr. Lancaster said he would have to go to the Fraternal Order of Police (FOP) President Robert Combs and get the union to negotiate for them. Mr. LaDow left the meeting at 9:15 a.m.

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BUSINESS:

1. Discussion of long range planning on all matters pertaining to the Palm Bay Police & Firefighters' Pension Fund.-Mr. Adams reviewed the goals accomplished by 2005. Mr. Adams stated Foster & Foster, Inc. quoted \$60.00 per quarter, per member; however, Levi, Ray & Shoup, Inc. (LRS) provided a quote to integrate it into the pension software. LRS said there would be a one-time cost, a higher up front cost, but the annual maintenance fee would increase. There was further discussion about administering the DROP, COLA processing and interest posting. Mr. Adams said if the board upgrades its computer system, then the goal should be to eventually allow members PIN access to their DROP accounts. There was discussion about drafting a DROP Beneficiary Form and having the board's attorney review any draft before presenting it to the board for approval. The board's desire is to place the old computer equipment on the pension website for bid. The board discussed obtaining quotes for equipment upgrades such as a copier; office computer and projector. There was discussion about updating forms and having certain forms on the pension computer program. LRS could create a secure area, accessing by user ID and password, for member access to forms so they could be electronically submitted. LRS could also customize an Actuarial Extract File to provide information to the actuary. Mr. Adams said it may be helpful to have a presentation by LRS. Mr. Havener said he had a concern about the data being received from the city and there previous reluctance to certify its correctness. Ms. Dias said the city's computer system is limited as to what information can be provided. Ms. Dias stated the city's audit has not been finalized and their auditors came back to look at some things. Ms. Adams said she had a concern about adjustments that were being done to employee contributions since the ABT report provided by the city for the last ten years could not be relied upon. There was discussion about having LRS upgrading the pension software to bring in more data from the city. Ms. Adams said she backs-up the pension data every two weeks, but LRS could formalize that process where they complete a routine scheduled back-up to offer basic data recovery services. LRS has not found any significant problems in its interface with MS-VISTA. The board recessed at 10:50 a.m. and reconvened at 11:02 a.m. Mr. Yonce conference-called at 11:02 a.m.

2. Presentations-Mr. Swanson said he wanted to do a presentation to the board on consulting services and invited J.P. Morgan representatives. He introduced Mr. Simone and Mr. Sitton. He said the previous outlook for fixed income was grim. The board went with real estate which helped the allocation. Looking forward bonds are grim. He's recommending his clients get out of bonds and into alternative investments. The return potential is similar to equities. He's recommending seven investments to clients, one is J.P. Morgan Infrastructure. Mr. Sitton said Mr. Simone is a national sales manager for the pension group in Chicago. Mr. Sitton is a generalist in the real estate group. Mr. Yonce ended his telephone call at 11:08 a.m. stating he would be at the office within a half an hour. Mr. Sitton said infrastructure is essential to the development of a community dealing with transportation and related areas. He distributed a booklet on their infrastructure investment fund and reviewed it with the board. He said it is a long duration cash flow and can be a substitute for fixed income. There was discussion about the Skyway (Chicago) concession agreement. There was further discussion of the technology bust in California and the impact on employment and travel on tolls. California increased their tolls by 66% over the Golden Gate Bridge. There was further discussion about risks involved. Mr. Sitton said it is an open-ended fund like the current

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real estate investment, only in infrastructure in developing countries. He said one-half is in Europe and one third of that is in Asia. Further discussion of fees. They would waive down the initial investment to \$5 Million, with a management fee of 200 basis points and a one time subscription service fee equal to 2%. It has a different liquidity, semi-annual with a 90 day notice. The first four years it is locked up with a 6% penalty if you want the money out. It is discouraging short term investors. It is an open-end fund. Mr. Swanson said J.P. Morgan is the only firm with an open-end for liquidity required by the State. Mr. Adams asked about the fees and Mr. Simone said they ask for one-half up front, when the money is called, and then the other fees begin. Mr. Sitton said basically they are charging a one time acquisition fee, 3% penalty based on the dollar amount when you get out. The fees are taken out of the investments, not invoiced. In an open-end you do not have to get out if you want to stay in the investment. Mr. Adams asked what would happen in the event of natural disasters. Mr. Sitton said we have a good robust insurance industry and could work it in the contract stating the tax payers may be obligated to pay any insurance. He said you can mitigate the risk. He said he's comfortable with toll roads in Texas because J.P. Morgan owns property around State Highway 121. The queue is six to nine months. The deal in the infrastructure is a large \$1 Billion fund with 4-5 transactions. They would probably call the money all at once in the first queue. J.P. Morgan wants fully executed documents prior to any money going into the queue. They are looking at natural gas distribution (propane to natural gas conversion) that is consumer based in Colorado and Missouri. They have fifteen people dedicated to this and are hiring another eleven. The asset class matches well for pension plans and the fees are very attractive. Mr. Havener asked about how many. Mr. Sitton said Colorado Natural Gas is pending; Highway 121 in Texas is done; about \$200 Million in equity. Six others out of these two will hit one or two, but not all six. The infrastructure group has been with J.P. Morgan for two years. The investment kicked off in June. Mr. Adams discussed adverse publicity and whether J.P. Morgan has a team to address situations like what happened at Midway Airport in Chicago. Mr. Sitton said they address it by bringing in all the parties associated with the property or investment. Their primary concern; however, is the return on the investment. Mr. Adams brought up cities and the League of Cities objectives, stating the board's loyalty is to the fund and they did not want split loyalty from J.P. Morgan involving an investment. Mr. Sitton said J.P. Morgan's loyalty is to their client. If they have to choose a client over an investment opportunity, they will choose the client. They said they have over a trillion in assets and they take their fiduciary responsibility and any conflicts very seriously. Mr. Sitton and Mr. Simone left the meeting at 11:55 a.m. and did not return. The board recessed at 11:55 a.m. and reconvened at 12:02 p.m.

Mr. Swanson said the board has to look at all the factors. He distributed a handout on the alternatives strategic rationale. He discussed bonds and feels the low yield bond environment will continue. The last four years the fund earned 2-4% in bonds, taking out inflation, the fund has lost money in the last four years. Some plans use the core plus and he previously recommend PIMCO. The good times for the core plus is less now. He said there are a lot of plans looking at hedge funds, but he is not in agreement with that because the returns are better in stocks. Hedge funds have an enormous fiduciary risk, liquidity, transparency, complexity, fees and selection risks. You earn less for more risk. He was recommending Core Real Estate (American, JP Morgan or Principal); J.P. Morgan Infrastructure (commingled); PIMCO All Asset Fund (PAA1X); or PIMCO Pars IV (LLP). Mr. Havener said the fund has about \$20 Million in bonds. Mr. Swanson said he recommended a full \$10 Million commitment, if he were the board's consultant. He

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reviewed a video on absolute return strategies. Mr. Adams explained Mr. Swanson wanted to do a presentation to the board on consulting services. Mr. Adams said he spoke to Mr. Callaway and told him Mr. Swanson was attending the meeting with J.P. Morgan to do a presentation. Mr. Swanson said he is not the board's consultant, but wanted to attend the meeting to discuss their options. Mr. Swanson showed another clip on the West Virginia Investment Board concerning hiring a consultant. The board recessed for lunch at 12:38 p.m. and reconvened at 2:08 p.m. Mr. Swanson and Ms. Dias did not return to the meeting. Ms. Clawson arrived at 2:08 p.m.


Mr. Adams reviewed the gains from the 1970's through the 1990's. He said J.P. Morgan is going to e-mail a copy of the contract. This investment could be recommended by Mr. Callaway, Merrill Lynch Consulting Services, and if so the investment policy would have to be changed. Mr. Adams recommended having Mr. Callaway give his opinion about the investment at the June meeting.

The board reviewed its investment strategy with 8% in alternatives up to 15% and revisit. The performance review was discussed concerning the Russell 3000 versus the S&P 500 and the Wilshire. There was further discussion on the investment policy and asset allocation. The board asked Mr. Adams to check with Mr. Myton on the small and mid-cap to see how they are doing. The board discussed legislative issues relative to 415 Limitations; Pension Protection Act and communicating that information or providing a link on the pension website.

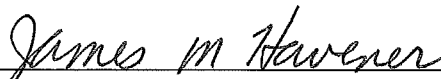
In the area of member communication, the Summary Plan Descriptions are scheduled to be redone this year; however they cannot be done until new benefits under negotiation are implemented. Rather than have an annual membership meeting this year, the board will mail the Summary Plan Descriptions to members. There was agreement in conducting retirement workshops for firefighters when their negotiations are completed as was done for police plan members. Mr. Lancaster suggested having some board meetings at the police department. There was also discussion about having some at the fire departments, but Mr. Kiszkiel said that had been attempted previously and it would be difficult for firefighters from various stations to attend. There was discussion about some books previously purchased and distributed to the membership on retirement planning. It was believed members are savvier about retirement planning now than they were seven years ago. The board is OK with the current office location. It was agreed they should revisit this item two years before the current lease expires. There was discussion about theft insurance. There was discussion about records retention, offsite and backup requirements. A few companies had been researched. Mr. Havener recommended one that met strict fire codes. There was discussion about staffing, salary versus hourly, and various payroll companies that could handle that for the board. Ms. Adams said she had several job descriptions. The board stated they were looking for a clerk typist. Mr. Havener provided the name of an individual that might be interested in the position as a part time employee. Payroll companies need to be researched further. Mr. Yonce asked Ms. Adams to provide a quote for a procedure manual.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 3:55 p.m.


Richard B. Adams, Chairperson

ATTEST:


James M. Havener, Secretary