BOARD OF TRUSTEES OF THE CITY PENSION FUND FOR FIREFIGHTERS & POLICE OFFICERS

In the City of Pembroke Pines
Hampton Professional Center
1951 NW 150th Avenue – Suite #104
Pembroke Pines, FL 33028

REGULAR MONTHLY MEETING – NOVEMBER 17, 2011

The three hundred and ninety-seventh meeting of the Firefighters and Police Officers Pension Fund in the City of Pembroke Pines was called to order at 2:20 p.m. by Chairman Adam Cabeza.

1. **Roll Call –**

Fire Members	Police Members	City Members
Adam Cabeza	Carl Heim *(arr. 4:05 pm)*	Vicki Minnaugh
Steve Dougherty *(arr. 3:00 pm)*	James Ryan	
Frank Musumeci	Al Xiques	

Gary Arenson was unable to attend due to being out of town and had requested an excused absence. Motion by Carl Heim, second by Frank Musumeci, to excuse Gary Arenson for this meeting. The motion carried unanimously.

Isadore Nachimson was absent.

Others Present: Greg McNeillie and Jared Kane from Dahab Associates; Jim Bates from Regions Bank (AmSouth Timber Fund); Alan Brand from TA Associates Realty; Henry Renard and Robert Maddock from Inverness Counsel, LLC; Larry Wilson from Gabriel, Roeder, Smith & Co.; Stephen H. Cypen, Esq., Attorney for the Fund; Karen H. Warner, Plan Administrator; and James Fisher, Asst. Plan Administrator.

2. **Dahab Associates – Performance Report for Q/E and FYE 9/30/2011.** Greg McNeillie and Jared Kane represented the firm this date. Mr. McNeillie reported the Fund's total gross return was (10.2)% for the quarter ended 9/30/2011, with a portfolio value of $306,931,725. The decrease in assets since June 30th totaled $32,231,026, comprised of $2,332,531 in total net contributions and net investment return of $ (34,563,560). Investment of the total portfolio was 53.9% in domestic equities, 27.5% in fixed income (including State of Israel Bonds), 6.4% in international equities, 5.5% in real estate and 6.7% in cash and equivalents. The following *gross* returns, detailed by manager, were discussed:

	Quarter Ended 9/30/2011					
	Equities	Equity Bench-mark	Fixed Income	Fixed Inc. Bench-mark	Total Portfolio	**Trailing 12 Months**
Atlanta Capital	(15.9)%	(21.9)%	---	---	(15.9)%	8.5%
Buckhead	(12.8)%	(16.2)%	---	---	(12.8)%	(1.3)%
Eaton Vance	(15.9)%	(16.2)%	---	---	(15.9)%	(4.8)%
Inverness	(16.3)%	(13.9)%	3.1%	3.6%	(5.3)%	1.1%
Lee Munder Large Cap	(13.8)%	(13.1)%	---	---	(13.8)%	0.3%
SSgA Midcap	(19.9)%	(19.9)%	---	---	(19.9)%	(1.3)%
SSgA Intl Equity	(22.2)%	(19.8)%	---	---	(22.2)%	(12.0)%

	Quarter Ended 9/30/2011			
	R.E.	R.E. Bench-mark	Total Portfolio	**Trailing 12 Months**
American Realty Adv.	3.2%	3.5%	3.2%	16.1%
AmSouth Timber Fund	0.3%	(0.3)%	0.3%	2.0%
BlackRock Granite	4.8%	3.5%	4.8%	19.4%
TA Associates Realty	0.9%	3.5%	0.9%	2.4%

Highlights from their written report:

- In the domestic equity market, there was nowhere to run and nowhere to hide – returns last quarter were simply awful. In general, every major index fell more than 10% and most indices fell far more. Growth stocks bested value stocks and large-cap names performed better than small-caps, but only on a relative basis. Traditional utility stocks resisted the rout by losing only 1.2%. Utilities fared better due because of their high, reinvested cash dividends. The consumer durable sector saw the greatest decline (26.5)% as employed and unemployed Americans pulled back on discretionary spending. Not too far behind were the basic industries, financials and energy sectors, which fell 22.5%, 20.0% and 18.1% respectively. Lower demand accounted for most of the basic industry and energy declines. Banking problems in the mortgage and underwriting areas accounted for the flight from that sector.
- International equities – Overseas diversification didn't help. Offshore markets fared just as poorly as they did at home. The MSCI EAFE Index, representing developed markets, dropped 19%. Not unexpectedly, the Eurozone countries as a group dropped 28%. The MSCI Emerging Market Index (EM) dropped even more than EAFE. EM lost 22.5% vs. EAFE's 19.0% loss. The severe drop-off among the BRIC countries best exemplifies the lack of investor confidence. The only relative safe havens in EM space were three micro-sized markets in the Far East, Middle East and South America, specifically the Philippines (6.9)%; Peru (4.7)%; and Morocco (9.2)%.
- Bond Market – The Barclays Aggregate Index advanced a healthy 3.8% last quarter. Partially hidden within the combined index return was the long Treasury bond's phenomenal return, up 29.2%, for those with 20-year-or-longer maturities. Five-year-or-longer Treasuries earned at least 6%. Given that Treasuries of all maturities constitute 34% of the Index, Treasuries were THE performance driver.
- Cash Equivalents – 1 to 3-month Treasury Bills earned 0.01% (essentially zero). The 3-month Treasury Bill is earning 2 basis points. The 6-month Treasury Bill is earning 8 basis points.

Mr. McNeillie reported that he is still considering separating the Inverness equity and bond portfolios. It would make it easier to determine the cash holdings and to keep the asset allocation more accurate.

The Inverness guidelines refer to Foreign and Yankee bonds limited to a maximum of 10% and 5% respectively. For clarification purposes, Inverness would like the guidelines revised to read *a maximum of 15% in Foreign/Yankee bonds.* Mr. McNeillie stated he has no problem with this request. <u>Motion by Frank Musumeci, second by James Ryan, to modify the Inverness guidelines as noted. The motion carried unanimously</u>. Mr. McNeillie will forward revisions for signature.

Mr. McNeillie reviewed the results of Dahab's RFP for Large-Cap Growth managers. Funding for the new manager will come from one-half of the Lee Munder Large-Cap portfolio, approximately $16 million. Following discussion, <u>motion by James Ryan, second by Vicki Minnaugh, to invite Boston Company, MFS Investment Management and Wells Capital Management to make presentations at the January meeting. The motion carried unanimously</u>. Mr. McNeillie will make the necessary notifications and scheduling arrangements.

Mr. McNeillie also noted that preparations are underway to fund the Herndon Capital account. A transition manager will not be used.

3. **<u>AmSouth / Regions</u> – <u>Investment / Market Report</u>**. Jim Bates represented the firm this date and distributed a handout for discussion. As stated in their separate report, Pembroke Pines has a 9.01% ownership in the total investment Fund.

   - Initial Investment: $5,000,000
   - Market Value: $4,977,253
   - Total Return: 1.45% (unaudited)
   - Cash Yield: $200,000, or 4% of the original equity invested

   Mr. Bates reported that the total Fund owns or leases 38,429 acres in 5 states (Alabama, Mississippi, Georgia, South Carolina and North Carolina). Objectives going forward include taking advantage of "spot market" opportunities, continuing to monitor and take advantage of retail real estate markets, and continuing to review Valley Lease exit opportunities.

4. **TA Associates Realty** – **Investment / Market Report**. Alan Brand represented the firm this date. Mr. Brand reviewed the organization overview, investment strategy, portfolio performance and debt strategy. As stated in their separate report, the firm has a proven track record of creating diversified, value-added real estate funds delivering attractive risk-adjusted returns. Property types are diversified – Warehouse Industrial, Office, Garden-style Multi-family Apartments and Grocery-anchored Retail. The Pembroke Pines portfolio reflected a market value of $3,384,029 as of 9/30/2011 and was fully invested in the firm's Fund VIII. Mr. Brand also reviewed recent acquisitions.

5. **Inverness Counsel** – **Investment / Market Report**. Henry Renard and Robert Maddock represented the firm this date. As stated in their separate report, the total portfolio value on 9/30/2011 was $159,652,668 with an asset allocation of 36.5% to equities, 51.8% to fixed income and 11.7% in cash and cash equivalents. The following commentary for the quarter was also provided:

During the quarter, the global markets experienced a significant increase in volatility as prospects for growth turned into fears of a global recession and a possible financial crisis in Europe. Investors quickly sold equities, with little regard to the fundamentals. As long-term investors, we view times like this as an opportunity.

The S&P 500 declined 14.4%, its worst performance for the third quarter in nearly a decade. This follows the first quarter of the year, which was the best first quarter return in over thirteen years. The range of these market movements illustrates the current increased volatility in the equity markets. Year to date, the S&P 500 return now stands in negative territory, declining 8.7%, including dividends.

Although this decline is considerable, the S&P 500 actually out-performed most global indices during the third quarter. For example, the German DAX index declines 25.4%, the MSCI Emerging Market index declined 23.1% and the MSCI All World index declined 17.6%. Outside of U.S. Treasury bonds, there were very few places in the world to hide.

From a sector perspective, the performance trends we experienced last quarter continued in the third quarter. Defensive oriented sectors (Utilities and Consumer Staples) out-performed the broader market, while growth concerns weighed on economically sensitive sectors (Industrials and Materials).

<u>Global Uncertainty Weights on Economic Growth</u> – The market's sharp decline in late summer was fueled by slowing global growth concerns coupled with renewed fears of a European sovereign debt crisis. Although the downside risks have increased, we think it is unlikely that the U.S. will experience another deep recession similar to 2008.

Through the first three quarters of the year, U.S. economic data (GDP growth, consumer confidence, and job creation) is running below the Federal Reserve's expectations. Some of this weakness can be attributed to further deleveraging by the consumer. Today, the consumer accounts for close to 70% of U.S. economic activity versus its historical average of 65%. The deleveraging process could take years and may result in slower economic growth.

Today the hundred largest companies in the S&P 500 generate nearly 45% of their revenue from emerging markets. These markets have been an important engine for growth, but have recently slowed due to higher interest rates and economic weakness. In Europe, fears of financial crises have escalated as the potential for Greece and other European nations to default on their sovereign debt has increased.

Despite these factors, we think the state of the global economy and outlook for equity markets are not as bleak as some have indicated. The U.S. economy is still expected to grow in the fourth quarter and strengthen in 2012. Resolution of the European financial crisis should begin to take shape with a possible recapitalization of European financial institutions. Furthermore, many emerging market countries have strong balance sheets and have started to take the necessary steps in order to stimulate growth.

Additionally, corporations are in much better shape financially today than they were in 2008. Balance sheets have been restructured through debt reductions and refinancings at significantly lower interest rates. Cash balances are at record highs and profit margins continue to expand as management teams shed under-performing assets.

At the same time, the dividend yield on the S&P 500 now exceeds the yield of the 10 year Treasury bond. This has only occurred twice in the past forty-one years. Equity valuations are well below *historical averages and interest rates are at record lows. Inflation has proven to be much less of an issue than originally anticipated and the Federal Reserve has vowed to keep rates low through 2013.*

While we remain constructive, we continue to monitor events closely to determine if global macro-economic conditions warrant further changes. Key items we are focusing on that could change our view include the availability of credit, unexpected changes in government policy, unforeseen changes in inflation, and significant changes in company fundamentals.

In Times of Trouble: U.S. Still Safe Haven – Today the two major political parties appear more polarized than in recent memory. This was clearly evident during July's debt ceiling debate with Democrats pushing for increased taxes while Republicans focused on cuts in entitlements. With the entire world watching, an eleventh hour compromise was reached with additional cuts to be determined by a bi-partisan subcommittee.

In the wake of the agreement, Standard & Poor's downgraded the U.S. credit rating as the deficit reduction plan fell short of its target. This set off a sharp decline of U.S. equity markets over fears that higher borrowing costs and imposed austerity measures would impact future economic growth.

The longer term consequences of the downgrade remain unknown. Interest rates in developed markets along with investors' appetite for risk are both exceedingly low. As markets stabilize the risk tolerance increases, we may see capital outflows from U.S. Treasuries resulting in higher interest rates. This could put added pressure on the dollar and force the Federal Reserve to act.

Inflation Concerns Appear to be Easing – Entering this year we were concerned that rising commodity prices along with the Federal Reserve's quantitative easing programs would generate higher inflation. However, in spite of the Federal Reserve's efforts, increases in the Consumer Price Index (CPI) have remained subdued. Until we begin to see a meaningful decline in unemployment coupled with wage increases, inflation has likely peaked in the near-term and should trend lower through the end of the year.

Rising commodity inputs have had the greatest impact on inflation this year. However, over the past six weeks, commodity prices have experienced sharp declines as the outlook for global demand has weakened. Corn, wheat, and soybean prices have all declined nearly 25%, while oil prices have declined 20% and are back to their September 2010 levels.

Course of Action – Since the spring, we have held larger-than-normal cash balances as we found it increasingly difficult to identify compelling investment opportunities. We have started to put this cash to work. We have selectively increased our weighting in leading global franchises that continue to execute in this challenging environment and have reduced our exposure or eliminated positions in companies that are experiencing fundamental changes in their end markets.

We remain under-weight in the financial sector and think the Federal Reserve's latest tactic, "Operation Twist", will put added pressure on banks' earnings power. We are also incrementally more cautious on companies exposed to reduced government spending.

Common characteristics among the companies in our portfolios include secular growth leaders in their respective industries, companies that are proactively utilizing cash balances either through increased dividends, share buybacks or accretive merger and acquisition activity, and companies that are able to monetize their competitive advantages. Overall, we continue to focus on identifying companies that offer compelling growth opportunities at attractive valuations.

The Board recessed at 4:25 p.m. and reconvened at 4:40 p.m.

6. **Approval of Minutes for October 20, 2011.** Chairman Cabeza presented minutes from the October 20, 2011 meeting for approval. Motion by Vicki Minnaugh, second by Carl Heim, to approve as presented. The motion carried unanimously.

7. **Approval of Warrant #530.** Chairman Cabeza presented Warrant #530 in the amount of $67,293.48 for approval and payment. Motion by Vicki Minnaugh, second by James Ryan, to approve as presented. The motion carried unanimously, authorizing the payment of:

Cypen & Cypen – Monthly Retainer for November, 2011	$3,250.00
Hampton Professional Center Condo No. 2 – Monthly Maintenance (Suite #104) for December, 2011	$407.72
LEAF – Xerox Copier Lease for November, 2011	$194.23
Twilight Industries, LLC – Office Maintenance for November, 2011	$152.00
Steve Dougherty Reimbursement FPPTA 10/2/2011-10/05/2011	$1,213.14
Atlanta Capital Mgmt Co. Mgmt Fee Q/E 9/30/2011	$51,960.00
Richard L. Ziff, P.A. – DROP Loan Processing Fees (November)	$1,050.00
Broward County Tax Collector (Non-Ad Valorem Fire Assessment)	$558.39
Computers R US (Office Computers & Server)	$8,508.00
TOTAL	**$67,293.48**

8. **Approval of DROP Benefit(s).** Motion by Vicki Minnaugh, second by Steve Dougherty, to approve the calculation of DROP Benefit(s) as presented. The motion carried unanimously to approve:

	DROP Eff. Date	DROP Term. Date	Form of Benefit
P/O Sydney McCausland	10/01/2011	9/30/2016	Joint & 25% Contingent

9. **Approval of DROP Loan(s)** – The following DROP Loan applications were presented for Board consideration:

- P/O Earl Feugill ***
- P/O France Michaud ***

*** (See Attachment A)

- F/F Bill Dearman ***
- F/F Joseph D'Onofrio ***
- F/F David Donzella ***
- F/F Thomas Kelly ***

Motion by Vicki Minnaugh, second by Frank Musumeci, to approve the DROP Loans for Earl Feugill, France Michaud, Bill Dearman, Joseph D'Onofrio, David Donzella and Thomas Kelly as presented. The motion carried unanimously.

10. **Request for DROP Account Distribution(s)** – The following DROP account distribution requests were presented for Board consideration:

- F/F Kenneth Fritz — Lump Sum ***
- F/F Edwin Link — Monthly ***
- F/F Louis Nettina — Lump Sum ***
- F/F Maurice Tola — Lump Sum ***

*** (See Attachment A)

The 415 screening tool results were provided to Actuary Larry Wilson; and, when appropriate, his office has provided the necessary letters indicating these distributions would not pose a problem with the 415 limitation at the present time. Motion by Steve Dougherty, second by Frank Musumeci, to approve the distribution requests for Kenneth Fritz, Edwin Link, Louis Nettina and Maurice Tola as presented. The motion carried unanimously.

UNFINISHED BUSINESS

None

NEW BUSINESS

11. **Review / Approve – Gross and Net Rates of Return for Q/E 9/30/2011.** Correspondence from Dahab Associates indicates the following rates of return for the quarter ended September 30, 2011:

Gross of Fees (10.20)% Net of Fees (10.11)%

Motion by Steve Dougherty, second by Vicki Minnaugh, to approve the rates of return for Q/E 9/30/2011 as presented. The motion carried unanimously.

12. Reports:

Actuary – Actuary Larry Wilson reported on the following:

- Since the last Board meeting, GRS has finished the City study for Early Retirement (Police) as well as the required Actuarial Impact Statement.
- The City has provided payroll and employee data for the year ended September 30, 2011. GRS is currently working to complete the Annual Benefit Statements.
- Mr. Wilson would like the Board to consider having GRS prepare an experience study for the Plan. Following discussion, the Board requested that GRS present an engagement letter outlining fees and services related to reviewing the plan's assumptions.

Mr. Wilson also reported that GRS has responded to questions raised by F/F Donald Hoss as it relates to his retirement / DROP options in light of recent ordinance changes. Copies of Mr. Wilson's letter dated November 10th were distributed and explained. Chairman Cabeza added that GRS has provided a list (also dated November 10th) of all Firefighters hired from June 19, 2003 – April 30, 2010 who will reach normal / late retirement date based upon the attainment of age 50 + 10 years of service prior to their completion of 20 years of service. It is the Actuary's conclusion that these Firefighters will forfeit enhanced Plan benefits if they remain employed beyond their respective late retirement dates. Enhanced benefits include:

- 4.0% / 3.5% multiplier
- 2% Cost-of-Living Adjustment
- Inclusion of accrued leave as of April 30, 2010 (if any) in pensionable pay for purposes of average monthly earnings
- Eligibility to participate in the DROP for a full five years. DROP participation is limited to five years following eligibility to enter the DROP (late retirement date)

Attorney – Attorney Cypen reported that his office has been contacted by the Plan's securities litigation counsel regarding a potential derivative claim against Ralph Lauren Corporation. The money manager has been contacted by the Pension Office regarding retention of the asset. Chairman Cabeza has been provided with paperwork for signature, and counsel would like to file right away if meeting with the Board's approval. Following discussion, motion by Vicki Minnaugh, second by Carl Heim, authorizing Chairman Cabeza to execute the documents needed to proceed with the derivative litigation noted above. The motion carried unanimously.

Chairman – Chairman Cabeza reported that the newest money manager, Herndon Capital, has requested the ability to include the name of this Plan on their marketing materials. There was no opposition from the Board so long as the management contract has been executed.

Plan Administrator – Agenda packets included, for Trustee review, the final version of DROP Rules that has been developed. Motion by Vicki Minnaugh, second by Steve Dougherty, to approve the DROP Rules as presented. The motion carried unanimously.

The Pension Office is in receipt of additional bills for payment and other disbursements for approval. Chairman Cabeza presented Warrant #531 for addition to the agenda and approval for payment. Motion by Steve Dougherty, second by Vicki Minnaugh, to add Warrant #531 to the agenda. The motion carried unanimously. Motion by Carl Heim, second by James Ryan, to approve the payment of Warrant #531 as presented in the amount of $326,660.07. The motion carried unanimously, authorizing the payment of:

Plan Benefits:	
F/F Kenneth Fritz – Normal Retirement Benefit Commencing 12/1/2011	***
F/F Edwin Link – Normal Retirement Benefit Commencing 12/1/2011	***
P/O Glen Parker – Normal Retirement Benefit Commencing 12/1/2011	***
DROP Withdrawals:	
F/F Kenneth Fritz– Lump Sum DROP Withdrawal	***
F/F Edwin Link-Monthly DROP Withdrawal	***
F/F Louis Nettina– Lump Sum DROP Withdrawal	***
F/F Maurice Tola - Lump Sum DROP Withdrawal	***
U.S.Treasury – FIT Withholding (Fritz, Nettina, Tola)	***
DROP Loans:	
P/O Earl Feugill – DROP Loan	***

P/O France Michaud – DROP Loan			***
F/F Bill Dearman – DROP Loan			***
F/F Joseph D'Onofrio – DROP Loan			***
F/F David Donzella – DROP Loan			***
F/F Thomas Kelly – DROP Loan			***
Documentary Stamp for DROP Loans:			
Florida Department of Revenue – Documentary Stamp (Feugill)			***
Florida Department of Revenue – Documentary Stamp (Michaud)			***
Florida Department of Revenue – Documentary Stamp (Dearman)			***
Florida Department of Revenue – Documentary Stamp (D'Onofrio)			***
Florida Department of Revenue – Documentary Stamp (Donzella)			***
Florida Department of Revenue – Documentary Stamp (Kelly)			***
Various:			
SunTrust Bank (Visa – Fisher)	Bd Mtg / Ofc Supplies	$84.98	
	Gasoline	44.02	
	Cbeyond (phones & internet)	434.85	
	DirecTV	98.45	
	Pest Control	35.00	
	Monthly Storage	104.00	
	Conferences-FPPTA- (Xiques)	702.24	
	FPPTA 2012 Membership	600.00	
		$2,103.54	$2,103.54
SunTrust Bank (Visa – Warner)	Xerox	$23.32	
	Bd Mtg / Ofc Supplies	1,280.63	
	ISP	25.90	
	FPPTA	900.00	
		$2,229.85	$2,229.85
Fiduciary Trust Co. – Custody Fee Q/E 10/31/2011 (Atlanta Capital)			$3,386.32
Fiduciary Trust Co. – Custody Fee Q/E 10/31/2011 (Special Assets)			$294.94
Fiduciary Trust Co. – Custody Fee Q/E 10/31/2011 (Inverness)			$16,507.89
SSGA – Management Fee Q/E 9/30/2011 (Midcap Index)			$5,350.99
SSGA – Management Fee Q/E 9/30/2011 (All International Allocation)			$44,726.90
Goldstein Schechter Koch (Progress Bill Audit)			$8,250.00
Dahab Associates Fee Q/E 9/30/2011			$22,759.94
Gabriel Roeder Smith & Company – Actuarial Services October 2011			$9,335.00
*** (See Attachment A)		**TOTAL**	**$326,660.07**

Karen Warner noted the recent passing of F/F David Messina. Mr. Messina retired in 1994.

An invitation was extended to all Trustees for the annual Christmas Lunch on Friday, December 9th.

13. **Input from Retirees**: None.

14. **Input from Active Members**: None.

15. **Input from Trustees**: Trustee Xiques asked about the meeting date for the Ad Hoc committee (vendor contracts). Staff will contact Trustee Arenson for details and will disseminate the information.

16. **Adjournment** – Chairman Cabeza announced that the next regular meeting would be held on **Thursday, December 15, 2011** at **4:00 p.m.** There being no further business to come before the Board, motion by Vicki Minnaugh, second by Carl Heim, to adjourn the meeting at 5:30 p.m. The motion carried unanimously.

Adam Cabeza – Chairman

Al Xiques – Secretary