

**City of Delray Beach
Police and Firefighters' Retirement System**

**Minutes of
August 27, 2009**

Members: Off. Jeroloman, Chief Phillips, Sgt. Myers, Chief Giaccone, Lt. Liguori, Chief Giaccone, Lt. Tabeek, Mel Sacharow, Asst. City Manager Doug Smith

Steve Cypen, Board Counsel (via telephone)

Absent: Commissioner Adam Frankel

Guests: Mike Welker, Bogdahn Consulting; Chris Gross, ILM and Christophe Pochart, BNP Paribas

Off. Jeroloman, Chairman stated that this meeting is a continuation of the August 19, 2009 meeting of the Board of Trustees. Off. Jeroloman called the meeting to order at 1:10pm. Roll call was taken of members and guests.

1. **Reports:**

a. Mike Welker, Bogdahn Consulting – BNP Paribas is no longer affiliated with Sun Trust and the present product is now a certificate of deposit (CD) issued by Wells Fargo.

Mr. Cypen stated that he had not fully examined the Paribas documents, but felt an important issue for consideration is the relationship ILM has with Paribas and Wells Fargo. There needs to be reassurance that ILM, as well as the parties that represent them, are registered and have the opportunity to review their agreements.

i. Christophe Pochart, BNP Paribas and Chris Gross, ILM (Institutional Liability Management, third party marketer)

- 6 year Indexed linked certificate of deposit issued by Wells Fargo (rated 'AA').
- FDIC insured
- 100% Principal Protected if held to maturity
- At maturity, the depositor will receive, in addition to the principal, the greater of:

Minimum Interest of 6% (the actual minimum interest level will be determined at the trade date. It can be above or below the indicative level stated in the Preliminary Term Sheet) -or-

Index Interest: Lookback performance of the Spectrum Long/Short Style Excess Return Index – At each pre-selected observation date, the price level of the Index is recorded. The Lookback performance corresponds to

the performance measured from the maximum level observed compared to initial level.

- Allocation Process – Spectrum Long/Short Style Excess Return Index
This Index rotates through equity styles to generate returns
Styles represented are Growth, Value, Dividend and Market
Styles are accessed through S&P and Dow Jones Indices
When a new trend is detected, the Index goes long the best trend and short the worst

Mr. Gross stated that ILM is a third party marketing firm and Drexel Hamilton acts as their broker dealer, and is contracted directly with BNP Paribas. Drexel Hamilton is paid a placement fee on average of one and a half percentage of assets for anything that ILM places for BNP Paribas. BNP Paribas pays the percentage up-front and is realized as 25 basis points per annum for six (6) years. The cost is not at the expense of the client. Mr. Welker stated that the 75 basis points per year, 25 basis points are paid to ILM. Mr. Gross stated that BNP Paribas is paid through embedding the price into the product. Mr. Pochart stated that performance is reported net of fees, and the return is 1% per year for six (6) years.

Mr. Gross stated that there is one agreement between BNP Paribas Securities and Drexel Hamilton (broker dealer); and the relationship between Drexel Hamilton and ILM is that all members of ILM are registered representatives for Drexel Hamilton.

Lt. Liguori asked if it would be possible to negotiate a lower guarantee for an absolute high watermark. Mr. Pochart stated that it would be too expensive. Mr. Cypen stated that nothing over the 1% would be guaranteed.

ii. Investment Policy Statement Revisions – Mr. Welker stated that the revised document would be forward to Mr. Cypen's office before the September 16th meeting.

iii. DROP Investment Consultant – Mr. Welker stated that Bogdahn would be willing to act as the investment consultant for the DROP, and work with ICMA (DROP administrator) to streamline the funds offered to the participants.

Lt. Liguori made the motion to retain Bogdahn Consulting as the investment consultant for the DROP contingent on the monitoring fee. Mr. Sacharow seconded the motion. Sgt. Myers stated that he would prefer to know what flat fee Bogdahn would charge before approving any contract. Lt. Liguori withdrew his motion. Mr. Welker was asked to provide the Board with a fee schedule prior to the September 16th meeting.

iv. Establish Investment Committee – Mr. Welker stated that the investment committee would be made up of selective trustees' who would meet on a regular basis to discuss investment strategy, policy changes, interview managers, review the Investment Policy Statement and approve necessary changes. The recommendations would be brought back to the Board for further discussion. After polling each trustee, the decision was made not to establish an investment committee, but to meet on a quarterly basis.

v. Rigel Capital, Strategy Amendment –

Molpus (Sustainable Woodlands) - Mr. Cypen stated that Molpus had provided a letter stating that there is no placement agent fee.

Rigel Capital – Mr. Cypen stated that the strategy amendment states that the median market cap in the Russell 1000 Growth went down about 1/3. Rigel is putting in place a restriction where they will not invest in any stock below a \$5 billion capitalization. By putting this restriction in place, 60% of the index is not available to them (the Russell 1000 Growth is made up of only 628 stocks). He stated that the floor of the lowest stock in the index could be \$1 billion or less; and he would be uncomfortable with giving them this range.

Mr. Welker stated that Rigel made this decision because reconstitution occurs yearly and they don't know what the future holds. He stated that he is not uncomfortable with the terms of the amendment. The characteristics of the Rigel/Delray portfolio will be consistent with the Russell 1000 Growth.

Lt. Tabeek made the motion to authorize and direct the Chairman to execute the strategy amendment letter (dated 7/24/2009). Mr. Sacharow seconded the motion. None opposed.

Mr. Cypen stated that the email (dated 8/27/2009) from Mr. Smith requested that an item be added to the agenda. He suggested that under the Sunshine Law the Board not consider adding a controversial item to agenda without sufficient notice. The Board agreed and the requested item will be placed on the agenda for the September 16th meeting. (end of conference call)

Further discussion – BNP Paribas: Mr. Gross stated that a high watermark date could be established, but it might not be a full year if the monies are not invested before September 30. Mr. Welker stated that \$3.5 million, or 3% of the portfolio, would be invested in this product. Sgt. Myers stated that he is concerned with investing in another fixed income product with only a guaranteed 1% return. After further discussion, and polling the trustees', Lt. Liguori made a motion to table this item to the September 16th meeting. Chief Phillips seconded the motion. None opposed.

Mr. Sacharow leaves the meeting at 3:15pm.

vi. Second Quarter Portfolio Performance –

Mr. Welker informed the Board that Delaware Investments had been sold to Macquarie Group. He stated that Bogdahn foresees no problems with the transaction.

Portfolio Value as of June 30, 2009: \$89,569,854

| Asset Allocation by Style: | <u>Market Value (\$)</u> | <u>Allocation (%)</u> |
|----------------------------|--------------------------|-----------------------|
| Domestic Equity | 37,712,049 | 42.1 |
| International Equity | 5,252,486 | 5.9 |
| Domestic Fixed Income | 26,659,392 | 29.8 |
| Real Estate | 6,962,646 | 7.8 |
| Timber | 3,762,385 | 4.2 |
| Cash | 9,220,896 | 10.3 |

Mr. Welker stated that the \$1.9 million in the R&D account (cash) would be used to fund Molpus; if additional monies are needed it will be taken from the ICC Fixed portfolio. The Voyageur portfolio would be increased to 5%, and WHV portfolio would remain at 3%. The value and core managers have performed above their respective benchmarks.

Mr. Welker stated that he had some concerns with the underperformance of ICC Fixed, Rigel and DG Capital (both growth managers) and has put them on the watch list. Both Rigel and DG Capital have been asked to attend the September 16th next meeting.

Lt. Liguori made the motion to adjourn the meeting at 4:00pm. Chief Phillips seconded the motion. None opposed.