Liz Bloeser called the meeting to order at 10:33 A.M. in the Dale R. Smith Conference Room at the Palm Tran North Facility, 3201 Electronics Way, West Palm Beach, Florida.

TRUSTEES

Liz Bloeser
Frank Stanzione
Nancy Bolton

OTHERS PRESENT

Pedro Hererra, Sugarman & Susskind
Burgess Chambers, Burgess Chambers & Associates
Scott Baur & Nick Schiess, Pension Resource Center
Bonni Jensen, Law Office of Perry & Jensen
John Murphy, Palm Tran

APPROVAL OF THE AGENDA

The Trustees reviewed the agenda for the meeting. A motion was made by Nancy Bolton to approve the agenda. The motion was seconded and passed 3-0.

INVESTMENT MANAGER PRESENTATIONS: CONVERTIBLE SECURITIES

SSI INVESTMENT MANAGEMENT & ADVENT CAPITAL MANAGEMENT

Emily Colella and Florian Eitner on behalf of SSI Investment Management and Richard Rosen on behalf of Advent Capital Management appeared before the Board to provide proposals for investment management services for convertible securities. The Board interviewed both firms simultaneously as recommended by the Investment Consultant Burgess Chambers. Mr. Rosen discussed his firm’s qualifications and experience, noting that the firm managed over $6B in convertible security strategies. He reviewed the investment strategy and process and historical investment returns in great detail, noting that the strategy was conservatively positioned and incurred relatively low volatility. Mr. Rosen explained that convertible securities are initially issued as bonds but with an option for conversion into stock of the issuing company. The security has the usual characteristics of bonds; however, if the value of the equity price rises then the option to convert the bonds to shares of common stock can be exercised. Ms. Colella discussed her firm’s qualifications and experience, noting that the firm was 100% employee owned and managed over $900M in convertible security strategies. Mr. Eitner reviewed the investment strategy and process and historical investment returns in great detail. He explained that mid size companies are the most common issuers of convertible securities, which provide faster access to capital than other types of securities for fast growing companies.

Ms. Colella and Mr. Rosen discussed the account structure and investment management fees. The fee for Advent Capital Management is 100 basis points with a $3M account minimum and the fee for SSI Investment Management is 82.5 basis points. Representatives from both firms stated that they would acknowledge fiduciary responsibility.
Mr. Chambers discussed the presentations by Advent Capital Management and SSI Investment Management. He discussed the differences between the two firms and their respective investment strategies, noting that each had very different strategies. Mr. Chambers recommended that both firms be engaged and the proposed asset allocation be split equally. After further discussion, Frank Stanzione made a motion to engage the services of both Advent Capital Management and SSI Investment Management with equal shares of the allocation based upon the recommendation of the Investment Consultant and contingent upon the successful negotiation of agreements. The motion was seconded and passed 3-0.

INVESTMENT MANAGER PRESENTATIONS: HEDGE FUNDS

COLLINS CAPITAL MANAGEMENT

Dorothy Weaver appeared before the Board on behalf of Collins Capital Management to provide a proposal for investment management services for a fund of hedge funds. Ms. Weaver discussed the firm’s qualifications and experience, noting that the firm had been in business since the year 1994. She explained that the product contained many different hedge funds, which resulted in diversification within the fund. Ms. Weaver then discussed in great detail the investment strategy and process used to select the different funds. She then discussed the historical investment returns and risk indices of the product and hedge funds in general, noting that the risk and volatility of the product had been less than the S&P 500 and Russell 2000 Indexes over the prior ten year period. Ms. Weaver discussed the origins of the poor perception of hedge funds, which were regarded by many as mysterious and risky. She reported that in the past the investment class was unregulated and fraud had occurred like the Bernard Madoff incident. She clarified that the Madoff incident was actually a ponzi scheme but more importantly the investment class was now very regulated. Additionally, she advised that a large shakeout recently occurred within the industry and mostly just the reputable firms had survived. The investment management fee is 125 basis points plus a 5% participation fee for returns above the high water mark and the structure of the product was a choice of either a United States partnership or a non-United States corporation.

INTERCONTINENTAL CAPITAL MANAGEMENT

Leon Palandjian appeared of behalf of Intercontinental Capital Management to present and discuss the firm’s hedge fund investment product. He discussed the firm’s qualifications and experience in the management of their hedge fund product, which is a commingled fund of many different hedge funds. Mr. Palandjian discussed the individual fund selection process noting that the individual selections were very diversified and to a large extent contained unrelated investments. He thoroughly reviewed the risk measurements and long-term performance of the product noting great out performance of both the S&P
500 Index and the Barclay’s Hedge Fund of Funds Index with significantly less volatility. He advised that the fund was intentionally very conservative and defensively postured and the individual funds were leveraged relatively low in comparison to industry standards. Mr. Palandjian was questioned regarding due diligence and fraud identification and he discussed the due diligence performed on the funds within the product, which included the continuous review of independent audits performed on the individual funds. Mr. Palandjian was questioned regarding the measures used to protect against fraud and he responded that every individual fund manager has an independent third party audit of the holdings within the funds and their valuations. He advised that the management fee is 100 basis points with 10% participation above the high water mark and the structure of the product was a domestic limited partnership domiciled in Delaware.

Burgess Chambers reviewed the presentations received from Collins Capital Management and Intercontinental Capital Management, noting that both firms will acknowledge fiduciary responsibility. He discussed the differences between the two firms, noting that Collins Capital Management was a larger firm; however, the investment return of the Intercontinental Capital Management product was greater. A lengthy discussion ensued regarding the performance, risk measurements, company structure and other factors including the negative sentiment against hedge funds in general. Mr. Chambers was questioned regarding the popularity of this type of product with other governmental pension plans and he responded that the product was very popular for larger plans and only now gaining in popularity for smaller plans because until now access to the product had been very limited for smaller investors. He discussed the history of hedge funds, noting that in the past fraud had been easier to perpetrate within these products because they were largely unregulated and little transparency existed on the underlying assets. Also, hedge funds in the past had been illiquid and their value was difficult to measure. Additionally, the State had always prohibited the recognition of assets that were immeasurable and therefore they were avoided by governmental pension plans in Florida. Mr. Chambers explained that now there exists regulation and greater transparency thus making these products much safer than in the past. He explained that both prospective products have achieved greater performance of major stock indexes with much less volatility. After further discussion, Mr. Chambers recommended proceeding with the engagement of Intercontinental Capital Management.

Nancy Bolton made a motion to engage the services of Intercontinental Capital Management based upon the recommendation of the Investment Consultant and contingent upon the successful negotiation of an agreement. The motion was seconded and passed 3-0.
INVESTMENT MANAGER PRESENTATIONS: REAL ESTATE

CORNERSTONE INVESTMENTS

Kevin Ryan and portfolio manager Denise Stake appeared before the Board on behalf of Cornerstone Investments to provide a proposal for investment management services for the Cornerstone Patriot Fund, a commingled private real estate fund. Mr. Ryan discussed the firm’s qualifications, experience, and long-term performance, noting that the firm managed only real estate funds. He reported that the Cornerstone Patriot Fund contained over $1.2B in assets. Ms. Stake discussed in great detail the investment strategy and process of the fund. She then thoroughly reviewed the geographical and sector allocations and the individual properties held within the fund. Mr. Ryan discussed liquidity noting that the entry cue was approximately six months. He explained that while the fund is open ended, an exit cue does exist for which the length of is dependent on pending redemption requests and also the amount of cash flow into the fund from new entrants. He further explained that the cue served to protect the viability and returns of the fund because the manager is not forced to sell properties to meet liquidity demands. Mr. Ryan discussed the appraisal process used to determine valuations performed both by the firm and confirmed by independent third parties. The management fee is 110 basis points.

UBS REALITY INVESTORS

Ronald Lanier appeared before the Board on behalf of UBS Reality Investors to provide a proposal for investment management services for the UBS Turnbull Property Fund, a commingled private real estate fund. He discussed the firm’s qualifications, experience and long-term performance, noting that the firm managed over $14B in assets. Mr. Lanier discussed in great detail the investment strategy and process of the fund. He then thoroughly reviewed the geographical and sector allocations and the individual properties held within the fund. The management fee is 95 basis points plus an incentive fee of 25 basis points. Mr. Lanier discussed liquidity noting that the entry cue was approximately six quarters. He also discussed the appraisal process used to determine valuations performed both by the firm and confirmed by independent third parties.

Burgess Chambers reviewed the presentations received from Cornerstone Investments and UBS Reality Investors. He discussed the differences between the two firms, noting that UBS Reality Investors was a larger firm; however, their investment management fee was greater and their entry cue of six quarters was too long. Mr. Chambers discussed in detail the differences between private real estate and REITs, confirming that private real estate would be within a large professionally managed commingled fund and not the outright purchase of property. He explained that the asset class was attractive because the historical investment performance was inversely related to equities, which provided
protection of capital in economic downturns. In addition to this diversification, participation in the asset class should marginally increase long-term investment returns. After further discussion, Mr. Chambers recommended proceeding with the engagement of Cornerstone Investments and split the total allocation for real estate between the new product and the existing REIT product. Frank Stanzione made a motion to engage the services of Cornerstone Investments based upon the recommendation of the Investment Consultant contingent upon the successful negotiation of an agreement. The motion was seconded and passed 3-0.

ADJOURNMENT

The meeting was adjourned at 2:30 P.M.

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Secretary