PALM TRAN ATU LOCAL 1577
MINUTES OF MEETING HELD
FEBRUARY 2, 2011

Chairperson Dwight Mattingly called the meeting to order at 10:31 A.M. in the Dale R. Smith Conference Room at the Palm Tran North Facility, 3201 Electronics Way, West Palm Beach, Florida.

TRUSTEES	**OTHERS PRESENT**
Dwight Mattingly	Chad Little, Freiman Little Actuaries
Frank Stanzione	Burgess Chambers, Burgess Chambers & Associates
Nancy Bolton	Ken Harrison, Sugarman & Susskind
Liz Bloeser	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 Frank Stanzione to approve the agenda. The motion was seconded and passed 4-0.**

INVESTMENT CONSULTANT REPORT: BURGESS CHAMBERS

Burgess Chambers provided a macroeconomic review of market and economic conditions. He thoroughly reviewed every different type of asset class and discussed their respective risk and anticipated returns over the near feature.

Mr. Chambers then discussed and thoroughly reviewed hedge funds as a potential class of investment for the Plan. He reviewed in great detail the history, long-term performance and risk measurements of this asset class. Mr. Chambers provided indices of performance for all asset classes noting that while hedge funds were more volatile, they had outperformed every other asset class over the long-term. He advised that a small allocation to hedge funds would further diversify the portfolio and should result in enhanced investment performance of the total portfolio.

The Board noted that the perception of hedge funds was poor and regarded as risky and people were generally distrustful of the investment especially after the Bernard Madoff fraud incident. Mr. Chambers clarified that the Madoff incident was a ponzi scheme. Mr. Chambers was questioned why they were not more popular if such a worthwhile investment. He explained that the asset class itself had not been in existence very long in comparison to other types of investments. Also in the past, hedge funds had been illiquid and their value was difficult to measure. Additionally, the funds were non-transparent and hosted in offshore countries. And the State had always prohibited the recognition of assets that were immeasurable and therefore they were avoided by governmental pension plans. Mr. Chambers advised that now the products were measurable and greater transparency existed. He was questioned regarding risk and responded that that risk was reduced by engaging an investment manager with a fund of many different hedge funds, which resulted in diversification within the fund. He advised that due diligence was performed by the investment mangers themselves on the funds that they selected for their fund of funds.

The Board noted that the investment management fees were higher than other asset classes. Mr. Chambers discussed the usual and customary fee structures were typically 1% plus a 20% of the net performance of the investment. He explained that hurdle points also existed that provided relief on the fees in the event of a market downturn. Mr. Chambers advised that the overall return had historically been higher than other asset classes, which warranted the higher fees. Liz Bloeser expressed reluctance to proceed with the addition of hedge funds and expressed concerns over the perception of hedge funds as exceptionally risky. Mr. Chambers explained that the recent market downturn affected nearly every asset class, especially hedge funds, and the ones that had survived were sound. He advised that the transparency had been dramatically improved and they were even regulated by the Securities and Exchange Commission. Mr. Chambers was questioned whether the asset class was popular among other governmental pension plans within Florida and he responded that the asset class was more popular in other states but gaining in popularity in Florida. A discussion arose regarding the liquidity of hedge funds and Mr. Chambers advised that liquidity had improved since the past and was sufficient. A very lengthy and careful discussion ensued and ultimately Mr. Chambers recommended a 5% allocation to hedge funds as an asset class. **Dwight Mattingly passed the gavel to Liz Bloeser and made a motion to accept the recommendation of the Investment Consultant to proceed with a 5% allocation to hedge funds. The motion was seconded and passed 3-1 with Liz Bloeser dissenting**.

Mr. Chambers reviewed in great detail the alternative asset class of convertible bonds. He explained that the asset was purchased as bonds, but with an option for conversion into equities. Mr. Chambers advised that the product featured the safety of bonds with a potential higher equity return, but without the volatility of equities. He explained that the addition of the asset class would increase diversification of the entire portfolio thereby reducing risk. Additionally, he recommended that the allocation to convertible bonds be taken from equities, which would reduce risk even further. A lengthy and careful discussion ensued regarding convertible bonds as an asset class and Mr. Chambers ultimately recommended a 10% allocation of the total portfolio to convertible bonds. **Liz Bloeser made a motion to approve a 10% allocation of the total portfolio to convertible bonds based upon the recommendation of the Investment Consultant. The motion was seconded and passed 4-0.**

Mr. Chambers discussed in great detail the differences between private real estate funds and REITs. He explained private real estate funds were large professionally managed commingled funds comprised of commercial office buildings, hotels, and shopping centers and the Board would not be involved with the outright purchase of property. He discussed the valuation process of the funds which involves the continuous appraisals on properties within the fund on a staggered basis, which resulted in less volatile valuations of the fund. In contrast, REITs were daily valued like other equities and are therefore subject to volitility due to the noise within the market. A lengthy and careful discussion ensued and ultimately Burgess Chambers recommended 5% allocation to private real estate. **Liz Bloeser made a motion to approve a 5% allocation of the total portfolio to private real estate based upon the recommendation of the Investment Consultant. The motion was seconded and passed 4-0.**

Mr. Chambers presented a revised Investment Policy Statement containing the additional asset classes approved by the Board. **Liz Bloeser made a motion to approve and adopt the revised Investment Policy Statement as recommended by the Investment Consultant. The motion was seconded and passed 4-0.** The Board decided to delay execution of the revised Investment Policy Statement until after the interviews of prospective investment managers had been completed .

Mr. Chambers was directed to conduct manager searches and schedule presentations for a special meeting.

ADJOURNMENT

The meeting was adjourned at 12:35 P.M.

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Secretary