

# **LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND**

## **MINUTES OF MEETING HELD**

**September 23, 2002**

James Shook called the meeting to order at 9:35 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

### **TRUSTEES**

James Shook  
Rich Seamon  
Mark Lamb

### **OTHERS**

Margie Adcock, Administrator  
Larry Cole, Monitor  
Adam Levinson, Attorney

### **ADDITIONS AND DELETIONS**

Rich Seamon asked that a few items be added to the agenda: DROP calculations for Keith McIntyre; Disability tax consequences; and health insurance supplement.

### **MINUTES**

The Trustees discussed the minutes of July 22, 2002. It was noted that the second line of the last page should read "retained sick and vacation leave" as opposed to accumulated leave. A motion was made, seconded, and carried 3-0 to accept the minutes of July 22, 2002 as corrected.

### **INVESTMENT MONITOR: MERRILL LYNCH**

Larry Cole appeared before the Board to discuss the performance of the Fund for the period ending June 30, 2002. The total market value of the Fund as of June 30, 2002 was \$17,215,230. Mr. Cole noted that the fiscal year to date earnings were \$264,003. He advised that July was a horrible month, but August came back a little. The asset allocation was comprised of 49.6% in domestic equities; 6.2% in international equities; 39.8% in fixed income; and 4.4% in cash. The total market value for the Fund's portfolio with Sanford Bernstein as of June 30, 2002 was \$8,016,430. The total market value for the Fund's portfolio with Davis Hamilton as of June 30, 2002 was \$8,134,330.

The total Fund was down 5.0% for the quarter, while the benchmark was down 5.5%. The domestic equity portion of the portfolio was down 11.9% for the quarter while the S&P 500 was down 13.4%. The international equity portion of the portfolio was down 4.8% while the EAFE was down 1.9% for the quarter. Fixed income was up 0.42% for the quarter while the benchmark was up 3.5%. Davis Hamilton was down 6.4% for the quarter and Sanford Bernstein was down 3.4% for the quarter. The asset allocation for Davis Hamilton was comprised of 54.6% in equities; 40% in fixed income; and 5.4% in cash. The asset allocation for Sanford Bernstein was comprised of 51% in equities; 44.9% in fixed income; and 4.1% in cash. The total market value for the international equities as of June 30, 2002 was \$1,064,470.

Mr. Cole then reviewed the Investment Policy checklist and noted that everything is in compliance. Mr. Cole advised that the Fund ranks number 30 in their Florida fund ranking, which is ranked on the last 12 months.

### **PRESENTATIONS BY SMALL CAP INVESTMENT MANAGERS**

#### **DEPRINCE, RACE & ZOLLO, INC.**

Richard Wells appeared before the Board. He advised that his firm is a Florida based firm that was started 7 years ago. The partners of the firm were previously with Sun Bank Capital for many years. Mr. Wells noted that they have \$2.2 billion in assets under management and have four products they offer: large cap value, small cap value, micro cap and international. Mr. Wells advised that, since 1995, there has been 33 negative months in the Russell 2000 index and their firm outperformed the index in 30 of those months or 91% of the time. He discussed their equity philosophy and their buy/sell discipline. He noted that the portfolio hold about 70 stocks and turnover is about 100%. Mr. Wells discussed the equity characteristics and advised that their discipline does not change at all. He reviewed the top 10 holdings as of June 30, 2002. There was then a discussion regarding a review by the SEC over an administrative error. Mr. Wells discussed their Florida public sector pension clients. He advised that they have solid numbers in the short term and have earned over 7% for a longer term 7 year period. He noted that they have been through a number of market cycles and still have strong investment returns. The Trustees then asked Mr. Wells various questions that Mr. Wells responded to accordingly.

Richard Wells departed the meeting.

#### **BUCKHEAD CAPITAL**

Michael Harhai and Matt Reams appeared before the Board. Mr. Harhai discussed the background of the firm. He advised that the firm was founded in 1994 and has 9 professionals in the business with an average of 22 years of experience. He noted that they have \$375 million under management and \$43 million in the small cap product. Mr. Reams discussed the investment philosophy of the firm. He noted that they hold approximately 30 to 50 securities in the portfolio. He then discussed the investment process, the stock selection process and their buy/sell discipline. Mr. Harhai advised that they have a disciplined approach to investing and have a turnover of about 30%-40%. Mr. Harhai advised that they currently have no Florida public sector pension funds. They have two clients that represent the composite for small cap. The Trustees then asked Mr. Harhai and Mr. Reams various questions that they responded to accordingly.

Michael Harhai and Matt Reams departed the meeting.

There was then a lengthy discussion on the presentations by the investment managers. Mr. Cole noted that one had a longer track record than the other and one is larger than the other. He advised that there really is no wrong decision to make here; it is more a matter of which one the Board was more comfortable with. The Board then discussed the pros and cons of each manager.

**ACTION:** A motion was made, seconded, and carried 3-0 to enter into an agreement with DePrince, Race & Zollo, Inc as the small cap investment manager. Adam Levinson advised that he would send them their standard contract.

## **ATTORNEY REPORT**

### **INVESTMENT POLICY**

Adam Levinson discussed stock purchases by investment managers. He advised that the Board needs to be aware of situations like Enron and WorldCom where a manager might keep buying stock as it goes down. Mr. Levinson advised that due to these recent situations in the market, they are proposing an amendment to the investment policy to insert some red flags. Mr. Levinson then discussed some of the language and red flags they are proposing to add to the investment policy. He advised that the Board does not want to be in a position of telling managers what to buy or sell or tie their hands at all, but the Board needs to be aware if any of the red flags go up. Mr. Cole noted that he would get with Mike Callaway and Jeff Swanson to see if they have any issues with it. Mr. Cole thinks it is a good approach but wants to be able to review it first. Mr. Levinson will work on the language with Merrill Lynch.

Larry Cole departed the meeting

### **PENSION CALCULATIONS**

Keith McIntyre appeared before the Board. He advised that he has been in the DROP for one year and has some concern with the numbers that the City used. He noted that he believed that the City was missing a portion of his longevity. Mr. Levinson noted that the City previously agreed that longevity should be added, so we should be sure that longevity was included in Mr. McIntyre's calculation. Additionally it was noted that the City used the last two years in determining the final average salary as opposed to the looking at the last five years. It was acknowledged that normally the last two years are the highest two years out of the last five years, but that all five years should be looked at to be sure. Mr. McIntyre advised that Lyn Ludtke advised him that longevity and EMT incentive pay were included in his pension calculation. Margie Adcock advised that they received pensionable pay and contributions from the City, but not a breakdown of the additional items to include, but not limited to, sick and vacation. Ms. Ludtke advised the Administrator that she would get that additional information to her as soon as possible. Mr. Levinson advised that once we get the back up, then the numbers can be checked.

### **ORDINANCE CHANGE**

Mr. Levinson advised that the Ordinance changes for Division I and Division II have been combined into one document. He stated that he received an impact statement from Steve Palmquist advising that there will be no cost to this change.

**ACTION:** A motion was made, seconded, and carried 3-0 to authorize Adam Levinson to send the Ordinance change to the City.

## **DISABILITY CONVERSION**

Mr. Levinson discussed disability conversions. It was noted that if a person is granted disability, when they become eligible for normal retirement, their disability converts to a normal retirement. Mr. Levinson advised that someone would lose their tax-free benefit. This could possibly be disadvantageous to someone and some courts have found that these conversion provisions could violate the ADA and ADEA. Mr. Levinson advised that he would recommend that this be changed. He will prepare an Ordinance and send it to the city with an impact statement and explain why it should be changed.

**ACTION:** A motion was made, seconded, and carried 3-0 to authorize the Actuary to do a study to delete the conversion provisions and authorize Adam Levinson to prepare the Ordinance deleting the conversion provisions and forward it to the City.

## **RETIREE HEALTH INSURANCE**

Tim Sipe appeared before the Board to request that the Board authorize the actuary to do a study for some options for retiree health insurance. There was a lengthy discussion regarding this matter. Mr. Levinson advised that this was a reasonable and appropriate expense.

**ACTION:** A motion was made, seconded, and carried 3-0 to authorize the Actuary to do a study on three options to be further worked out between Tim Sipe and Rich Seamon. It was determined that once the options are determined, they would be provided to Mr. Levinson for review and he would forward them on to the Actuary.

## **ADMINISTRATIVE REPORT**

### **TRUSTEE POSITIONS**

Margie Adcock reported that the City has not yet appointed anyone to replace Sam Brandsma or George Schurter. Ms. Adcock advised that the City was holding a workshop on October 23 at 6:00 p.m. to discuss filling Trustee positions on all of the boards.

### **DISBURSEMENTS**

Ms. Adcock presented a list of disbursements to be made. A motion was made, seconded and carried 3-0 to approve the disbursements listed.

## **OTHER BUSINESS**

There being no further business and the next meeting scheduled for November 25, 2002 at 9:30 A.M., the meeting was adjourned at 1:05 P.M.

Respectfully submitted,

Mark Lamb, Secretary