

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND

MINUTES OF MEETING HELD

November 25, 2002

James Shook called the meeting to order at 9:32 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 and Scott Baur, Administrator
Larry Cole, Monitor
Adam Levinson, Attorney

ADDITIONS AND DELETIONS

It was noted that there were three items that the Board wanted to add to the agenda. The items concerned a health insurance supplement; purchase of military and fire service time with Division II monies; and the job description of the Fund professionals.

MINUTES

The Trustees discussed the minutes of September 23, 2002. It was noted that under the discussion concerning Mr. McIntyre it stated that the Administrator received pensionable pay and contributions from the City, but not a breakdown of the additional items. It was discussed that the minutes should be changed to read that the Administrator did not receive a breakdown of the additional items to include, but not limited to, sick and vacation. A motion was made, seconded, and carried 3-0 to accept the minutes of September 23, 2002 as amended.

INVESTMENT MONITOR: MERRILL LYNCH

Larry Cole appeared before the Board to discuss the performance of the Fund for the period ending September 30, 2002. Mr. Cole first advised that everything is in place with DePrince, Race & Zollo. He noted that although he tried to negotiate a lower fee, DePrince, Race & Zollo would not take a fee concession because of their other accounts. The account was funded on November 15 with \$800,000. Mr. Cole also advised that he drafted Addendums to the Investment Policy for DRZ and Sanford Bernstein. He noted that the Addendum for DRZ has already been signed. Margie Adcock provided the Trustees with a copy of the Addendum. Mr. Cole provided the Board with a copy of the draft Addendum to the Investment Policy for Bernstein. He advised that the Board does not want too much equity in the total portfolio. As such, Mr. Cole changed the total market value maximum equity exposure from 60% to 55%. He also changed the maximum exposure for publicly traded equities of less than one year from 15% to 5% and he changed the target from 55%/45% to 50%/50%.

ACTION: A motion was made, seconded, and carried 3-0 to approve the Addendums to the Investment Policy for DePrince, Race & Zollo and Bernstein based on the recommendation of the Investment Monitor.

Mr. Cole advised that the overall risk of the portfolio is very low and is very well diversified. If the managers do their job, the portfolio is very solid. Mr. Cole advised that the market is up substantially since September 30, 2002. The total market value of the Fund as of September 30, 2002 was \$15,698,550. Mr. Cole noted that the quarterly earnings were down \$1,315,477. The asset allocation was comprised of 47.8% in domestic equities; 5.4% in international equities; 43.1% in fixed income; and 3.7% in cash. The total market value for the Fund's portfolio with Sanford Bernstein as of September 30, 2002 was \$7,376,700. The total market value for the Fund's portfolio with Davis Hamilton as of September 30, 2002 was \$7,477,710. .

The total Fund was down 7.7% for the quarter, while the benchmark was down 8.8%. The domestic equity portion of the portfolio was down 16.8% for the quarter while the S&P 500 was down 17.3%. The international equity portion of the portfolio was down 20.7% while the EAFE was down 19.7% for the quarter. Fixed income was up 5.7% for the quarter while the benchmark was up 4.6%. The asset allocation for Davis Hamilton was comprised of 52% in equities; 41% in fixed income; and 7% in cash. The asset allocation for Sanford Bernstein was comprised of 49% in equities; 50.2% in fixed income; and .8% in cash. The total market value for the international equities as of September 30, 2002 was \$844,140.

Mr. Cole noted that the Actuary uses a 4 year smoothing method which will help now. Adam Levinson pointed out though that these negative numbers will be used in the smoothing method for awhile and will affect the 13th Check. Mr. Cole stated that he still thinks international equities will help the Fund. He noted that 45% of the Fund's assets are invested in bonds and bonds have been a great place to be. For a two year period, bonds have been up 9.7% and have helped offset the bad stock market.

Mr. Cole then reviewed the Investment Policy checklist and noted that everything is in compliance. Mr. Cole advised that the Fund ranks number 42 in their Florida fund ranking, which is ranked on the last 12 months. He noted that he believes the Fund should be settled for awhile now and does not expect any manager changes in the near future.

ATTORNEY REPORT

ADDITIONAL REPORTING BY INVESTMENT MANAGERS

Adam Levinson reminded the Board that at the last meeting he advised that due to these recent situations in the market, they are proposing an amendment to the investment policy to insert some red flags. He noted that it was still a work in progress, but provided the Board with a draft of their proposal for Additional Diligence Required by Managers. He stated that the Plan and Trustees would benefit from having additional reporting provided to them. He noted that the proposed language is far from being ready to be approved. Mr. Levinson added that they do not want to tie the hands of the managers, but it would help the Trustees if they had more information. His office is working with other managers and monitors to come up with the final language. Larry Cole stated that Merrill Lynch thinks it is a good idea on the surface, but if it is in the Policy then it needs to be able to be measured in some way. Merrill Lynch thinks that the Board should ask the managers the questions, but whether it is incorporated into the Policy is a different matter. It was noted that perhaps it could be requested by letter, but that it should be

somehow reported to the Board. Adam Levinson stated that he would continue to keep the Board updated on the progress of the proposed language.

RETIREE HEALTH INSURANCE

It was reported that Adam Levinson reviewed the proposed three options provided by Rich Seamon and Tim Sipe for retiree health insurance. He advised that the three options appeared to be fine. It was questioned whether the benefit would apply to spouses or just retirees. It was determined that it would go only to the retiree with no spousal benefit. There will be other issues that will need to be decided later, but right now this will be enough for determining the cost of the options. The Board directed the Administrator to forward the proposed retiree health insurance options to the Actuary to do a cost study.

EARLY RETIREMENT INCENTIVE PROGRAM

Mr. Levinson reported that he received information that the City offered an early retirement incentive option to certain employees. It was noted that one Participant in the Fund is taking advantage of the option. Mr. Levinson advised that he was concerned when he first received the information on the option. He noted that the option can not be done without an Ordinance change and it would need to be done so there is no cost to the Plan. Under Chapter 175 an individual can not be given unearned time. The only way the option would work is if it is done by increasing the multiplier. Mr. Levinson reported that he spoke with Bob Sugarman, the attorney working with the City on the option. Mr. Sugarman told Mr. Levinson that he thought the City was only in the planning stage with the option and did not know the City was sending certain employees the information to select the option. The City Manager apparently thought an Ordinance had already been prepared. Mr. Levinson stated that an Ordinance has now been drafted and he should be receiving it very shortly.

PENSION CALCULATIONS

There was then a discussion on how pensionable earnings are being treated. It was noted that longevity pay, step-up pay, incentive pay and holiday pay are being included as pensionable pay. Vacation time and retained sick are counted as pensionable pay before October 1, 1979 and not as pensionable pay after October 1, 1979. Accumulated leave and comp time are not counted as pensionable pay. It was stated that the Board's position is that mandatory overtime, retained sick and vacation time should be counted as pensionable pay. Scott Baur reported that he received additional information from the City and noted that, using Keith McIntyre as an example, how his calculation compared to the one the City did. Mr. Baur discussed at length with the Board the various ways the average final salary could be calculated. He stated that it appeared the City used one year increments back from the date of retirement which is the most typical way. Mr. Baur took out overtime and comp time as they are excluded under the Ordinance. He stated that his calculation matches up to the City's with the exception of the lump sum sick and vacation pay paid out to Mr. McIntyre in August 2001. If the lump sum sick and vacation pay is included in determining the final average salary then Mr. McIntyre's figure would increase about \$9,000. It was noted that regular vacation and sick are being treated as pensionable, but the payout at retirement is not. The Board directed the Attorney to send a letter to the City advising that the payout for lump sum sick and vacation were not treated as pensionable and asking the City to recalculate his DROP and

pension accordingly. It was noted that this might also affect Mr. Cline, Mr. Metcalf and Ms. Underwood.

ADMINISTRATIVE REPORT

EMPLOYEE BENEFIT STATEMENTS

Mr. Baur provided the Board with draft employee benefit statements prepared from the information he received from the City. Rich Seamon reviewed his statement and noticed that his did not included longevity, holiday, step up, incentives or vacation pay. Mr. Baur noted that it appeared that Mr. Seamon and 3 others were shown as non Union on the reports by the City. The Board asked Mr. Baur to contact the City regarding this matter.

TRUSTEE POSITIONS

Margie Adcock reported that the City has still not appointed anyone to replace Sam Brandsma or George Schurter. Ms. Adcock advised that the term for Rich Seamon as the Fifth Trustee expired on September 30, 2002. Mr. Levinson advised that Mr. Seamon's term will carry over until the City appoints the two citizen positions.

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

It was noted that when some of the Participants received the Early Buyout Package, it stated that the Actuary and the Plan Administrator would come up with the numbers. However, Finance is the one that actually provides the pension benefit amounts to the Participants. So if a Participant contacts the Administrator, they will be directed to Finance for their pension benefit amounts. The Board asked what would be needed to fill the gap. Mr. Baur advised that they would need at least 5 years of historical detailed payroll from the City in an electronic data file and would need payroll reported on an ongoing basis. There was a very lengthy discussion regarding the options available to the Board.

There being no further business and the next meeting scheduled for January 27, 2003 at 9:30 A.M., the meeting was adjourned at 12:30 P.M.

Respectfully submitted,

Mark Lamb, Secretary