

***LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND***  
**MINUTES OF MEETING HELD**  
**January 26, 2006**

James Shook called the meeting to order at 9:13 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

**TRUSTEES**

James Shook  
Rich Seamon  
Pat Highland  
Wes Lamb

**OTHERS**

Margie Adcock, Administrator  
Larry Cole, Investment Monitor

**INTRODUCTION**

Margie Adcock advised that the City appointed John Heiser to the Board on January 23, 2006. Ms. Adcock advised that she received the notice yesterday and contacted Mr. Heiser advising him of the meeting today. Mr. Heiser stated that he would most likely not be able to attend the meeting due to a prior commitment but advised that he would be at the next regular meeting.

**ADDITIONS AND DELETIONS**

Rich Seamon stated that he would like to discuss the ballot under other business.

**INVESTMENT MONITOR: MERRILL LYNCH**

Larry Cole appeared before the Board to present an investment manager search for small cap growth. He stated that in the asset allocation of the Fund the only main part missing is small cap growth. He noted that most of the return a plan gets is from asset allocation, so diversification is key. Mr. Cole stated that DePrince Race and Zollo has struck out in every which way on the small cap value side. He stated that they are not sure why they are struggling like they are. When they cannot identify why a manager is struggling it usually ends up that the answer is stock selection. DRZ has not been with the Fund all that long being only 2 ½ years. He would usually wait longer before advising a board to make a change, but he stated that they have lost confidence in DRZ. As such, he has also included in the search options to replace DRZ.

Mr. Cole reviewed the manager search process. He stated that it is done in New Jersey and the staff consists of 22 people who visit companies and do a complete review of each manager. He discussed the minimums for some of the managers and noted that another way to go is to use mutual funds. He stated that the fees for mutual fees have come down in recent years and because this is a pension plan he can get the fees down to the lowest fee available. Mr. Cole then reviewed the managers that resulted from the search. He discussed Advisory Research Inc. which would be a separately managed account and has a value tilt. He noted that they did a five year analysis and in the last five years it was primarily a value market. It has been the longest stretch value has ever had. He stated that he believes there is a good probability that growth will return to favor. He stated that

he believed Advisory would hold up okay if growth returns to favor but he does not feel that way about DRZ. He stated that while Advisory notes a \$5 million minimum, they will drop that down to a \$1 million minimum. He noted that Chase was listed on the list and was a growth manager. However, they are not available as they do not have a mutual fund and their minimum was too high. He stated that Baron was a growth manager, Janus was a value manager, Royce was a core manager with a value tilt and Touchstone was a blend. Touchstone has two separate managers (Westfield Capital Management and TCW) with one being value and one being growth. Their expense ratio is high but they are still below the industry average. Mr. Cole stated that the growth options are somewhat limited. If the Board was going to consider growth, then Baron is the choice and would compliment DRZ or Advisory fine. He stated that with respect to DRZ, this is the side of the market that they should be doing well. There is nothing with this product that says they should be doing better in another market cycle. This is the first time that he is telling plans to make a change before having three years of performance with a manager. Mr. Cole stated that Touchstone is an easy way to go in that they have both growth and value exposure but the expense ratio is high. Mr. Cole noted that they can give 12b1 credit. He stated that he thinks this would be a good option for a smaller fund that had only \$1 million to invest, but here they Board can invest \$1 million with each of two managers. Mr. Cole reviewed the risk and return analysis of each manager. He then discussed his fees and noted that he would abide by what was determined in the November meeting. A motion was made, seconded and carried 4-0 to replace DRZ with Advisory Research Inc and add Baron as the small cap growth manager. There was then discussion on where to fund the money from. It was noted that there would be an in-kind transfer from DRZ to Advisory. Mr. Cole would review the asset allocation and determine where to take the money from to fund Baron. It was noted that the target date for the transition would be March 1.

There was a discussion on timberland investments. Mr. Cole noted that timber is a replacement for bonds but there is a liquidity issue. He noted that real estate lowers volatility but does not necessarily increase the value of the portfolio. He talked about REITs and noted that they are priced 15% to 20% premium above the underlying net asset value. There is too much correlation to stocks with REITs.

There was discussion on the need for a revised Investment Policy given the Board's decision on adding small cap growth. Mr. Cole stated that he would revise the Investment Policy and provide it to the Attorney for review prior to the next meeting.

Mr. Cole discussed the ongoing SEC investigation of Merrill Lynch. He stated that there is no update as of yet. He will keep the Board apprised of any developments. He stated that no one has told them to change anything they do as of yet.

Larry Cole departed the meeting.

### **OTHER BUSINESS**

There was discussion on ballot that was revised pursuant to direction of the Board at a prior meeting. It was noted that the ballot was provided to the Actuary, Attorneys and Union Representative for review. A motion was made, seconded and carried 4-0 to approve the ballot subject to approval of the Actuary and Attorneys.

The Board discussed the finalization of certain Ordinances. The Board questioned if the Ordinance regarding the partial lump sum distribution had ever been sent to the City and passed. The Board asked the Administrator to check with the Attorney on this matter.

The Board inquired about whether the letter that they asked the Attorney to send to the City regarding the \$1 million the Auditor found had been sent. The Board asked the Administrator to check with the Attorney on this matter.

There being no further business, the Trustees adjourned the meeting at 11:0 A.M.

Respectfully submitted,

Mark Lamb, Secretary