

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
May 8, 2006

James Shook called the meeting to order at 9:06 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

TRUSTEES

James Shook
Rich Seamon
Pat Highland (9:17 A.M.)
Wes Lamb
John Heiser (9:17 A.M.)

OTHERS

Margie Adcock, Administrator
Robert Klausner, Attorney
Jack Hamilton, Investment Manager

ADDITIONS AND DELETIONS

The Board noted that it would like to discuss conference registrations and reservations under other business.

MINUTES

The Trustees reviewed the minutes of February 16, 2006. A motion was made, seconded, and carried 3-0 to accept the minutes of February 16, 2006.

INVESTMENT MANAGER REPORT: DAVIS HAMILTON JACKSON & CO

Jack Hamilton appeared before the Board. He provided a recap of their investment philosophy. He reviewed their portfolio composite. The asset allocation as of March 31, 2006 was 56.4% in equities; 39.9% in fixed income; and 3.7% in cash. He reported on the performance for the quarter. He noted that they were behind the benchmark. He noted that growth has struggled the last three years and high quality has not been in favor like low quality has. The portfolio was up .9% for the quarter while the benchmark was up 2.1%. Equities were up 1.9% while the Russell 1000 Growth was up 3.1% for the quarter. Fixed income was down .4% while the benchmark was down the same for the quarter. Since inception of August 31, 1992 the portfolio was up on an annualized basis of 9.1% versus the benchmark of 8.6%. Equities were up on an annualized basis 11.2% versus the Russell 1000 Growth of 8.7% since inception. Fixed income was up on an annualized basis 6.2% versus the benchmark of 5.9% since inception. He stated that for the shorter period of time they have underperformed as a growth manager mainly because of the high quality of the portfolio. For the long term they have continued to outperform. Mr. Hamilton stated that he thinks the opportunities are better in growth right now versus value because of how growth has done in the past.

Pat Highland and John Heiser entered the meeting.

Mr. Hamilton provided an equity performance review. He stated that low quality companies in the S&P have been where the performance has been. He stated that they hold high quality so they have lagged somewhat. The real performance in the market has been in smaller companies. He discussed the specific stocks that worked (Starbuck Corp. and Caterpillar Inc.) and stocks that did not work (St. Jude Medical; Yahoo; and Intel Corp.). He reviewed the significant industry weights. He noted that they were

underweight in consumer discretionary and in integrated oils in the energy sector. They are also underweight in financials. They have no exposure at all in pharmaceuticals. He discussed investable themes. A motion was made, seconded, and carried 5-0 to accept the Investment Manager's Report.

INVESTMENT MONITOR: MERRILL LYNCH

It was noted that Larry Cole had contacted the Chairman and advised that he would be unable to attend the meeting. It was further noted that Michael Callaway from Merrill Lynch would be available by telephone conference if the Board needed to discuss anything. The Board was provided with a memorandum that Mr. Cole prepared on the performance for the quarter ended March 31, 2006. The Board was also provided with a draft revised Investment Policy Statement. It was noted that equities were currently at a cap of 60% at cost. At the last meeting it was proposed to keep the 60%/40% mix but allow up to 70% at market. The actual proposed Ordinance provided to the City provided that the equity exposure would increase to 70% at cost. The proposed Investment Policy Statement provides that the equity exposure will be 70% at market or 70% at cost, whichever is higher, to protect on both ends of the equity exposure. It was noted that Mr. Cole believes that the Board needs to give the managers greater flexibility. Mr. Seamon stated that the proposed Ordinance, which only referred to 70% at cost, passed second reading. Mr. Klausner noted that it was better to get the legislation passed increasing the exposure and that it can be further amended later. Mr. Klausner stated that the Board can set a limit in the investment policy as long as it does not violate the Florida Statutes. The idea was to get from 60% to 70%. He noted that it is better to fix up the Ordinance to include at market but it is not urgent. He stated that he would talk to the City Attorney today at their meeting regarding doing a technical amendment to fix the language. Mr. Klausner recommended that the Board adopt the Investment Policy Statement and review it again at the next meeting. A motion was made, seconded, and carried 5-0 to adopt the revised Investment Policy Statement.

There was then discussion on the status of the contract with Merrill Lynch. Mr. Klausner stated that Merrill Lynch provided an agreement which did not include any reference to fiduciary status. He strongly recommended against any change in the agreement and spoke with Mr. Cole regarding that. Mr. Cole clarified his position that they were not looking to change the agreement but looking to change the way they were compensated. They have now proposed going from a fixed fee to a percentage fee based on the portfolio. It was noted that this has pros and cons. The fee goes up when the market goes up. Mr. Klausner recommended that the Board have Merrill Lynch do a projection of the fee based on both options going back five years. He stated that the Board should table the matter until the next meeting when Mr. Cole would be in attendance. Mr. Klausner noted that Merrill Lynch is under investigation with the SEC as to whether they accepted undisclosed fees and whether they recommended mutual funds that paid 12b1 fees versus the mutual funds that do not. He noted that the fee itself was not illegal but the disclosure of the fee is of great concern. Mr. Klausner stated that he spoke with the SEC last week. This matter has been going on since October 2005 and is still going on. The chief counsel for the SEC said that the Board should draw no conclusions, favorable or unfavorable, just because an investigation is going on. A motion was made, seconded, and carried 5-0 to table the issues on the contract with Merrill Lynch until the next meeting.

ADMINISTRATIVE REPORT

Margie Adcock provided the unaudited financial statements through March 31, 2006. A motion was made, seconded, and carried 5-0 to accept the unaudited financial statements through March 31, 2006.

Ms. Adcock presented a list of benefit distributions. A motion was made, seconded and carried 5-0 to approve the benefit distributions listed.

Ms. Adcock presented the list of disbursements. A motion was made, seconded and carried 5-0 to pay the listed disbursements.

Ms. Adcock provided the Board with a copy of the final Ordinance 2005-22 regarding rollovers from Division II to Division I.

Ms. Adcock provided the Board with a copy of the FAQ for DROP. Mr. Klausner stated that he would review the document to see if any changes are needed. He noted that the length of the DROP and the rollover language will need to be changed.

There was then discussion on a DROP Application. It was noted that the Administrator could not find any separate irrevocable termination letter in a DROP participant's file. Mr. Klausner noted that the DROP Application itself provides the agreement for irrevocable termination. Mr. Klausner noted that the Application needs to be revised to update certain changes the Board has made (such as increasing the DROP period from 60 months to 84 months). He stated that he would make the necessary changes and provide a revised DROP Application at the next meeting. There was a lengthy discussion on the distribution of the DROP. It was noted that Mr. Klausner would revise the Administrative Policy effective October 1, 2006.

Jack Hamilton departed the meeting.

ATTORNEY REPORT

Mr. Klausner provided a draft Summary Plan Description. He stated that he is waiting for the Board to adopt it until he sees what happens with the Ordinance changes.

OTHER BUSINESS

There was discussion on conference registration and reservations. It was noted that the hotels are charging the credit cards for one night's stay rather than just using the card to hold the room until a check can be processed. The Board asked the Administrator to see if it might be possible to obtain a credit card for the Board.

There being no further business, the Trustees adjourned the meeting at 11:15 A.M.

Respectfully submitted,

Mark Lamb, Secretary