

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
November 28, 2006

James Shook called the meeting to order at 10:05 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

TRUSTEES

James Shook
Wes Lamb
Pat Highland
Rich Seamon
John Heiser

OTHERS

Margie Adcock, Administrator
Adam Levinson, Attorney
Steve Palmquist, Actuary
Larry Cole, Investment Monitor

ADDITIONS AND DELETIONS

There were no additions or deletions.

MINUTES

The Trustees reviewed the minutes of August 15, 2006 and October 6, 2006. A motion was made, seconded, and carried 5-0 to accept the minutes of August 15, 2006 and October 6, 2006.

ACTUARIAL REPORT

Steve Palmquist appeared before the Board. He stated that at the last Board meeting there were lengthy discussions regarding several items on the Actuarial Valuation. The items were the new Ordinance that added .75% to the multiplier; the inclusion of retained sick and vacation in the final average earnings; and possibly lowering the assumed rate of return. He stated that he was directed by the Board to provide further information on those items. Mr. Palmquist reviewed an e-mail dated October 17, 2006 on the comparison of required contributions for the 2006-2007 fiscal year. He noted that by changing the funding method, the cost would go down about 12%. He stated that including the retained leave would increase the cost about 11%. He noted that including the retained leave by only in the 3% was less costly. He added that changing the funded method pays for including the retained leave in the first 3% of the multiplier. He noted that he was very conservative in his estimates and assumed everyone would have the full leave cap amount. There was a lengthy discussion on the retained sick and vacation leave caps. Mr. Palmquist noted that under the present funding method there is a very short time span to pay off actuarial gains and losses. If the Board were to change to the alternate method, there would be less fluctuation as everything, both good and bad, would be spread over a long period of time. He stated that this alternate method was used by a majority of public pension plans. He noted that the other Lake Worth pension plans have moved to this alternate method. He stated that the only downside to the method was that in good years the Fund would not get the full effect that year because it is spread out over a longer period of time. A motion was made, seconded, and carried 5-0 to change the funding

method to early age normal and include retained leave in the first 3% of the multiplier and not the last .75%. Mr. Palmquist stated that he would revise the Valuation to incorporate the changes.

There was then discussion on the amount of money that is to be paid to Division I. Mr. Palmquist stated that the amount should be paid in this fiscal year. There was discussion on whether the state monies should be put into Division II and then paid from Division II to Division I or whether the City should split the check and put the proper amounts in Division I and Division II. The Board's preference was to have the City split the check. The Board directed the Attorney to send a letter to Division II on the amount to be paid to Division I and notify Finance to put the required portion in Division I and provide the balance to Division II.

There was further discussion on the caps for the retained leave. The Board discussed the ability to use the total of 1044 hours for both the retained sick and vacation or use a maximum of 660 hours for retained sick and a maximum of 384 for vacation. A motion was made, seconded and carried 5-0 to include the first 660 hours of retained sick and the first 384 hours of vacation in the first 3% of the multiplier in the final average earnings calculation. A motion was made, seconded and carried 5-0 to approve the Actuarial Valuation as revised.

There was discussion on the issues involving the retroactive checks. It was noted that they will probably be paid around December 15, 2006. There was discussion on the amount of contributions to be taken on the retroactive check at the last meeting and the Board stated that the 11.25% should be taken as contributions on that check. This would provide a higher benefit based on the new Ordinance as the calculation is based on when the amount is paid, not earned. Mr. Levinson stated that he notified the City of this and noted that Mr. Palmquist valued the benefit that way as well.

Steve Palmquist departed the meeting.

INVESTMENT MONITOR: MERRILL LYNCH

Larry Cole appeared before the Board. He discussed the performance for the quarter ended September 30, 2006. The total market value of the Fund as of September 30, 2006 was \$22,515,170. The asset allocation was comprised of 55.2% in domestic equities; 10.6% in international equities; 29.6% in fixed income; and 4.6% in cash. Mr. Cole reported the asset allocation per manager was comprised of 40.0% in Bernstein; 37.2% in Davis Hamilton; 5.5% in Baron; 6.7 in Advisory; and 10.6% in Oakmark. He stated that they were not recommending any changes right now. He noted that they may recommend real estate in the future.

The total Fund was up 3.5% for the quarter, while the benchmark was up 4.5%. The domestic equity portion of the portfolio was up 3.3% for the quarter while the S&P 500 was up 5.7%. The international equity portion of the portfolio was up 5.1% while the EAFE was up 4.0% for the quarter. Fixed income was up 3.7% for the quarter while the benchmark was up 3.2%.

There was discussion on the status of the revised Investment Policy Statement. It was noted that the Investment Policy Statement was adopted in May at 70% at market. However, when the Ordinance was actually passed it provided that the equity exposure would increase to 70% at cost. At a prior meeting Mr. Klausner advised that he was going to talk to the City Attorney regarding doing a technical amendment to fix the language and at the last meeting Mr. Levinson stated that he would follow up with Mr. Klausner on this matter. Mr. Levinson stated that the City has had a lot of Ordinance changes so he recommended holding off on this change until the Ordinance is changed again for another matter in the future. He advised that the Statement should be revised to conform to the Ordinance. Mr. Cole discussed the issue. He stated that there is more volatility when cost is used. It does not control risk. Changing to market, which they have done in almost all of the other pension plans they monitor, does control the risk. Mr. Levinson stated that they were suggesting waiting to make the change until there is another change to be made to the Ordinance rather than going back and forth to the City.

Mr. Cole provided a review on the individual managers. The total market value for DHJ as of September 30, 2006 was \$8,365,190. He stated that DHJ continues to give them concern. He suggested having them come to the next Board meeting. The Board noted that DHJ was recently at a meeting and did not want them to attend in February. Mr. Cole stated that the market is moving into an environment where they should be doing better. They should have done better last quarter but did not. They saw some rotation this past quarter and other similar managers were able to do better. This leads him to be a little concerned and that was why he was suggesting they attend the next meeting. There was a lengthy discussion. It was determined that if Mr. Cole sees another bad quarter he will prepare a search and bring it to the February meeting. The Board stated that they wanted to see other alternatives regardless of the performance of DHJ in the next quarter. Mr. Cole stated that he would bring other alternatives to the next meeting.

The total market value for the Fund's portfolio with Alliance Bernstein was \$9,016,920. The total market value for Oakmark was \$2,382,090. The total market value for the Fund's portfolio with Advisory Research was \$1,518,140. Mr. Cole noted that perhaps the market is in a position where small and mid cap is not the place to be but it is the right thing to do for the long term. Mr. Cole reviewed the investment policy checklist. He reviewed the trading and fee summary.

There was discussion on recapture arrangements. Mr. Levinson stated that the trading fee is currently 4 cents per share. Perhaps that could be lower with recapture arrangements. Mr. Baur noted that the Fund is receiving 67% back through Merrill Lynch so really the trading is at \$1.50 per share net. Mr. Cole stated that the net costs are under 2 cents per share and that was pretty competitive. He noted that trading costs are not hurting the Fund right now.

There was further discussion on the Investment Policy Statement and the change to 70% at cost versus Mr. Cole's recommendation to change to 70% at market. Mr. Levinson stated that the Statement should conform with the Ordinance. He stated that if it is still Mr. Cole's recommendation to change to market, it can be done when another Ordinance change is necessary. Mr. Cole stated that he would let the Board know if there is a problem. He stated that it was not a huge issue right now but could be down the road.

The Board asked Mr. Cole to see if the other Lake Worth pension plans had changed to market and if so, to write another letter of his recommendation. Mr. Cole stated that he would write another letter that it was, and still is, his recommendation that it be changed to 70% at market.

Mr. Cole stated that there was no update on the SEC investigation. They have received no direction from the SEC as of yet.

It was noted that Jeff Swanson would be departing Merrill Lynch at the end of the year. Mr. Cole noted that his departure does not affect the Fund. Mr. Cole stated that they were not anticipating any additional turnover or any additional changes.

John Heiser departed the meeting.

There was then discussion on the status of the contract with Merrill Lynch. Mr. Levinson stated that provided the Board is comfortable with the asset based fee presented at the last meeting, he is comfortable that the Board can execute the contract. It was noted that the Board already approved the basis point fee schedule at the last meeting and were just waiting on a revised contract. Mr. Levinson stated that he would provide the contract to the Chairman for signature.

A motion was made, seconded and carried 4-0 to change the Investment Policy Statement to be consistent with the Ordinance on the maximum equity exposure. A motion was made, seconded, and carried 4-0 to accept the Investment Monitor's Report.

ATTORNEY REPORT

Mr. Levinson stated that the Fund received a Notice of Levy and advised that the Fund needed to comply with it. He stated that there is a table that the IRS uses to determine how much the person can have and how much the IRS gets. It was noted that this person has a portion of his pension check paid for health insurance. Mr. Levinson stated that he spoke with an IRS Agent and he confirmed that the Fund can honor the health insurance deduction. It was noted that the Administrator is complying with the IRS Notice of Levy based on the direction of the Attorney.

Larry Cole departed the meeting.

Mr. Levinson discussed the Pension Protection Act which was signed into law. He noted that the Act provides a provision related to retiree health care. This law allows current and future retirees to designate up to \$3,000 to pay for health insurance which amount would be considered pre-tax. He provided a letter for retirees along with a form to be used. He stated that the Fund was not obligated to offer this. There was a lengthy discussion. A motion was made, seconded and carried 4-0 to allow the benefit to only those retirees who have City sponsored insurance deductions, subject to review and changes of the Administrator of the proposed paperwork and forms

Mr. Levinson stated that he would make the changes to the Summary Plan Description and provide a final version to the Board for review prior to the next meeting so it can be approved at the next meeting.

ADMINISTRATIVE REPORT

Scott Baur noted that there would be minor programming charges as they implement the Ordinance changes.

There was discussion on the issue of the 13th check. It was determined that this would be discussed at a future meeting.

Adam Levinson and Scott Baur departed the meeting.

Ms. Adcock presented the list of disbursements. A motion was made, seconded and carried 4-0 to pay the listed disbursements. Ms. Adcock noted that the renewal information for the FPPTA was just released and the 2007 fee would be \$450. She stated that she would renew the Board's membership for calendar year 2007.

Ms. Adcock presented the engagement letter from Steve Gordon to perform the audit for the fiscal year ended September 30, 2006. A motion was made, seconded and carried 4-0 to approve the engagement letter.

OTHER BUSINESS

There being no further business, the Trustees adjourned the meeting at 1:36 P.M.

Respectfully submitted,

Mark Lamb, Secretary