

MINUTES OF A SPECIAL MEETING OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM HELD IN THE CONFERENCE ROOM AT CITY HALL ON WEDNESDAY, JUNE 21, 2000 AT 1:30 PM.

I. ROLL CALL:

A. Employees' Retirement Board:

The Chairman called the meeting to order at 1:32 PM.

Trustees present were Mayor Thomas Ramiccio (Chairman), Vice Chairman John Charest, Messrs. Robert Lepa and Pat Testa; Finance Director Chuck Powers was absent. Also present was Recording Secretary Valerie Hurley, City Clerk's Office.

II. MR. MICHAEL CALLAWAY, VICE PRESIDENT, MERRILL LYNCH CONSULTING SERVICES, TO REVIEW FUND VALUATION FOR PERIOD ENDED MARCH 31, 2000.

Mr. Callaway advised that, as of March 31, 2000, the fund had a total market value of \$77,093,150, including accrued income. This represented an increase in value from the previous quarter of \$2,041,440; the fund earned \$2,041,440 and there was no cash flow.

As of March 31, 2000, 61.5% of the total fund was invested in equities, 36.4% was invested in bonds, and 2.1% in cash and equivalents. The current allocation to stocks was more aggressive than the average fund in Merrill Lynch's (ML's) balanced fund sample which had 57.2% of its assets invested in stocks.

The total fund earned a 2.7% return for the quarter, which ranked in the top 34% of other funds in ML's sample. For the March 2000 quarter, major stock indexes posted moderate gains, resulting once again from the good returns of a limited set of favored growth stocks (mostly technology and communications). For much of the quarter the overall market was underwater, even while technology and small caps were doing well. But the bluechips started to rally in mid-March and, in the last week of the quarter, investors began rotating from technology into the "Old Economy" stocks. The S&P 500 returned 2.3%, while the Russell 2000 small cap indexes advanced 7.1%. Thanks to the continued investor preference for the technology sectors, which are mostly classified as "growth", the performance gap between growth and value continued to widen in the March quarter.

In foreign equity markets, the MSCI EAFE index returned -0.1% for the March 2000 quarter, in US dollars. The Japanese market seemed to stall, returning just +0.9%, in contrast to its return of 61.8% for the year 1999. Most of the developed markets earned modest returns for the quarter.

Bond prices remained under pressure during most of the March quarter, but the ML Domestic Master index advanced +2.3% for the quarter, due largely to the price gains enjoyed by longer term Treasury bonds.

The total fund was up considerably more than the target index of 1.9% this quarter, attributable to the greater than 50% allocation to the equity portfolio in a strong equity market. The domestic equity portfolio return of 3.5% beat the S&P 500 of 2.3%, while the bond portfolio slightly bettered the ML Intermediate Bond index of 1.5% with a 1.6% return.

The Davis Hamilton equity portfolio had another successful quarter, returning 8.7%, up substantially more than the S&P 500 of 2.3%, thanks to their heavy allocation to the technology sector, representing 40.7% of the equity portfolio at the end of the quarter. Davis Hamilton's stock selection within the technology sector also contributed significantly to their strong return. The S&P/BARRA Growth index earned 4.1% for the quarter. Coupled with an aggressive equity allocation and modest bond portfolio return, the Davis Hamilton total portfolio returned 5.8% to rank in the top 8% of the sample.

STI's total portfolio return of -1.6% ranked in the bottom 5%. The High Grade Equity Income Fund continued its slide. The fund's return of -3.7% vastly underperformed the S&P/BARRA Value of 0.2%. The fund continued to emphasize "Old Economy" sectors like capital goods and financials. Consumer staples were particularly hard hit in the portfolio. Only 5% of the portfolio was in technology stocks at the end of the quarter. STI's Small Cap Value Equity Fund also had a very disappointing quarter, returning -4.1% vs. 7.1% for the Russell 2000 and 3.8% for the Russell 2000 Value index. During the quarter, STI switched out of the International Equity Fund and into the International Equity Index Fund; neither fund beat the EAFE return of -0.1% for the quarter.

For the year ended March 31, 2000, the total return of 9.6% ranked in the top 43% of ML's balanced fund sample. The target index returned 10.1%. Davis Hamilton's strong return of 18.3% in the last year offset STI's performance deficit to some extent, (total return of -1.1%) and allowed the total fund to rank above average.

For the three-year period ended March 31, the annualized return of 16.8% ranked in the top 31% and met the target index. The composite equity portfolio trailed the S&P 500 by a 2.4% margin due to poor performance by STI in the last 2.5 years. In the five-year period, the investment performance was average, in the 50th percentile, but trailed the target of 16.6%.

Mr. Lepa questioned why there was not more diversification in the fund, suggesting four managers rather than two. Mr. Callaway explained that the fund consisted of growth and value, but there was no exposure from Core Large Cap or Small Cap participation.

Mr. Ralph Schenck (former Mayor and Board member) stated that the Board had hired three different managers after the crash in October 1987, noting that the value of all three boards (Employee, Police, and Fire) was \$28 million.

Mr. Lepa proposed allocating 10% to 15% of the fund to an International Manager and splitting the remaining 85% to 90% between four managers, specializing in value, growth at a reasonable price, small to mid-cap, and mid to large-cap.

After a period of questions and answers, the Trustees agreed to accept and file the Performance Monitor's report.

Mr. Callaway distributed a booklet with information regarding international managers using co-mingled funds.

III. ADJOURNMENT:

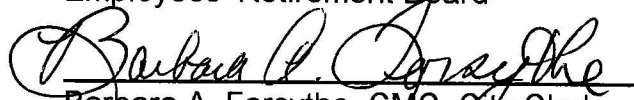
A. Employees' Retirement Board:

The meeting adjourned at 2:33 PM by unanimous vote of those members present, on a motion by Mr. Lepa, seconded by Mr. Testa.

MINUTES APPROVED: 7/19/00



Mayor Thomas M. Ramiccio, Chair
Employees' Retirement Board



Barbara A. Forsythe, CMC, City Clerk
Secretary, Employees' Retirement Board

A tape recording of this meeting will be available in the Office of the City Clerk for two years after approval of these minutes.

pdocs\le&prb\mins00\0621SM.erb