

**VILLAGE OF PALM SPRINGS HAZARDOUS DUTY
EMPLOYEES' PENSION FUND
MINUTES OF MEETING HELD**

August 3, 2004

Tim Conboy called the meeting to order at 5:00 P.M. at the Council Chambers in Palm Springs, Florida. Those persons present were:

TRUSTEES

Tim Conboy
Ed Lewis
Ed West

OTHERS

Paul Nicoletti, Fund Counsel
Margie Adcock, Pension Resource Center
Bill Stewart and Ryland Pruett, Invesco
Ernie Mahler, Salomon Smith Barney

MINUTES

The Board reviewed the minutes of the meeting held May 4, 2004. A motion was made, seconded and carried 3-0 to approve minutes of the meeting held May 4, 2004.

INVESTMENT MANAGER REPORT: INVESCO

Bill Stewart and Ryland Pruett appeared before the Board to discuss the investment performance for the Fund for the quarter ending June 30, 2004. Mr. Stewart introduced Ryland Pruett noting that he was the marketing director for the company and was located in Tampa.

Mr. Stewart provided the Board with an organizational update. He reminded the Board that at the last meeting he advised of the retirement of two senior members within the portfolio group. He stated that as a result of those retirements and the need to strengthen the equity team there have been three internal promotions that have been made: Richard Herrmann, Andrew Shipman and Paul Morlen. It was also noted that Mark Lattis resigned rather abruptly to pursue other interests. Mr. Stewart noted that the Monitor was contacted right away on the organizational changes. Ernie Mahler stated that they have placed Invesco on watch and have dropped them from four diamonds to three. Mr. Mahler stated that they are looking into the changes and he will come back to the Board with a recommendation.

Mr. Stewart then reviewed the investment performance for the Fund for the quarter ending June 30, 2004. He reported that the total Fund was up .1% for the quarter while the benchmark was up .4%. With respect to equities for the quarter, the Fund was up 1.0% while the benchmark was up 1.7%. With respect to fixed income for the quarter, the Fund was down 2.4% while the benchmark was down 2.5%. Mr. Stewart reported that the asset allocation was 68% in equities; 31% in fixed income; and 1% in cash. The total market value for the Fund as of June 30, 2004 was \$4,751,353. Mr. Stewart then reviewed the performance of the Fund by months. He stated that in April the Fund was

down 2.5% versus the benchmark which was down 1.7%. In May the Fund was up 1.1% versus the benchmark which was up .8%. In June the Fund was up 1.3% versus the benchmark which was up 1.4%. It was noted that in April the oil price was high and came down in May. July was a tough month for equities in general which were down 3.9% versus the benchmark which was down 3.4%. Mr. Stewart noted that he did see some strength at the end of July. He stated that he thought the portfolio was positioned well.

Mr. Stewart discussed the equity characteristics. They are overweight in materials, industrials and information technology. They have no exposure in utilities, telecomm or energy. They are underweight in consumer staples which has benefited the Fund's returns. Mr. Stewart then discussed the equity market outlook noting that the market is very undervalued at this point. Mr. Stewart then discussed the fixed income characteristics. He noted that the portfolio is a high quality portfolio. He stated that they continue to maintain duration on a shorter basis. Mr. Stewart discussed the sector weightings. Mr. Mahler stated that Invesco is an active manager which he generally likes. He noted that Invesco having no exposure in energy and utilities has worked against them.

INVESTMENT MONITOR REPORT: SMITH BARNEY

Ernie Mahler appeared before the Board to discuss the investment performance of the Fund. He reported on performance for the quarter ending June 30, 2004. He provided the Board with a manager versus universe equity comparison. He noted that the Fund's portfolio has a ranking in the 72.91% and the S&P 500 median rank is 30.24%. He noted that Invesco remains below the median of all the managers of similar size that report. He stated that he would like to see their performance improve. He noted that the manager style of Invesco is a large cap core with a little tilt toward value. He noted that the asset allocation is reasonably diversified. The calendar year to date return for Invesco was .84% while the S&P 500 was 3.44%. Mr. Mahler stated that he needs to start to see something happen very soon. He was not saying that the Board needed to do a manager change right now, but it needs to be monitored rather closely. He stated that he was willing to wait a little longer because he thinks their style is about to come into play. Mr. Mahler reported that the Fund was down .10% for the quarter ending June 30, 2004 while the benchmark was down .06%.

Mr. Mahler then discussed a manager search. He stated that they are a national firm with national research capabilities. He provided an e-mail regarding Smith Barney placing Invesco on watch. He stated that by placing Invesco on watch that means that Smith Barney is reviewing Invesco and will get back to the clients with any recommendations. He noted that if a manager drops to two diamonds then they will come back with a strong recommendation to change managers.

Mr. Mahler provided a research bulletin on asset allocation that was prepared by Smith Barney. He stated that prospects for large cap stocks are more favorable than for small cap stocks on a six to twelve month view. He stated that he likes this area a lot right now so is comfortable with the style. He discussed the global model portfolios and noted that

they recommend active management close to Model 5. Mr. Mahler then discussed the risk and return results for stock and bond blends. He then noted that he asked Invesco to come prepared to discuss different asset classes.

Ryland Pruett provided the Board with information on their international product. He stated that the international asset class is managed out of Atlanta and has been for 10 years. It is a bottom-up value approach where they look for stocks and not countries. They want to own companies that are trading at a discount. They have 30 offices that are domiciled outside the United States that really only do research. Their goal is to capture 95% to 195% of the upside of the EAFE and only 80% to 85% of the downside. He stated that they have had great success on rolling five year periods. Two-thirds of the world's capitalization is domiciled outside the United States. Mr. Pruett stated that they were in the top 5% for the quarter; top 8% for the year; and top 15% for the three and five year periods. He noted that they are very consistent in their performance. There was then a discussion on the allowance of international investing in the Fund pursuant to the Ordinance. Paul Nicoletti stated that the Ordinance does not allow international investments. He stated that if the Board wants to allow for international investments the Ordinance will need to be modified. Mr. Mahler stated that if the Ordinance needs to be changed for international investments, he would recommend removing the requirement that stocks be in one of the top three ratings and discussed why. He noted that it would give the manager more flexibility. A motion was made, seconded and approved 3-0 to amend the Ordinance to allow for international investments and remove the requirement that stocks be in one of the top three ratings as is consistent with Florida Statutes.

Mr. Pruett then provided the Board with information on their mid cap product. He discussed mid cap versus small cap. He noted that the return statistics for both are almost identical but the volatility is much less with mid cap. He stated that their mid cap product only fell in the bottom third percentile 10% in the last 20 years. He stated that there is consistency and predictability in the mid cap asset class than in the small cap asset class. They are looking for a minimum of 50% return over 18 months. He discussed the weightings of stocks and their sell discipline. Mr. Mahler stated that there was no rush to do anything right now. He was just trying to keep the Fund ahead of the matter. Mr. Mahler discussed the risk and return for the mid cap asset class. He stated that the Board could delay any decision until the next meeting when he would have a decision on Invesco as a whole. A motion was made, seconded and approved 3-0 to accept the Investment Monitor's Report.

ADMINISTRATIVE REPORT

Margie Adcock presented the disbursements. A motion was made, seconded and approved 3-0 to pay all listed disbursements.

ATTORNEY REPORT

Paul Nicoletti provided the Board with a revised draft Ordinance and discussed the changes made. He stated that the Village Council wants to hold a workshop in late

August on both the General Employees Pension Plan and the Hazardous Duty Employees Pension Plan. Then there will have first and second readings in September with the Ordinance going into effect on October 1, 2004. A motion was made and seconded to strike the 13th and 14th checks from the draft Ordinance. It was noted that even if the 13th and 14th check provision was included in the Ordinance, it would be years until such a benefit could be paid and it is no cost to the City. Mr. Nicoletti stated that the City Manager has indicated that removing the provision of the 13th and 14th checks is the best way to get the whole Ordinance passed and Mr. Nicoletti agreed. The motion was called and it was approved 3-0.

Mr. Nicoletti stated that he received a letter from Larry Wilson with comments on the proposed Ordinance. He discussed the comments with the Board. It was noted that the salary language reflects what the practice has been. He noted that with respect to the pick up contributions, that was accidentally removed and has been added back in to the proposed Ordinance. Mr. Nicoletti stated that he will also add the language on international investing that was just approved. There was then a discussion on providing the membership with the changes. It was noted that Tim Conboy would draft a letter to the membership of the changes and recommending the changes. Mr. Nicoletti noted that the bargaining unit already voted on the collective bargaining agreement which included the increased pension contributions. He recommended sending a letter to the membership of the changes and to allow for comments. A motion was made, seconded and approved 3-0 to recommend approval of the new Ordinance changes to Village Council.

There was then question about the changes to the Investment Policy. Mr. Mahler stated that the Board approved certain changes to the Policy at the last meeting. Mr. Mahler stated that he would make the changes and send the revised Policy out for signatures

OTHER BUSINESS

There being no further business and the next meeting being scheduled for Tuesday, November 9, 2004 at 4:30 P.M., the meeting was adjourned at 6:28 p.m.

Respectfully submitted,

Ed West, Secretary