

WEST PALM BEACH FIREFIGHTERS PENSION FUND
MINUTES OF MEETING HELD
November 6, 2002

Tom Sheppard called the meeting to order at 1:43 P.M. at Station 2, West Palm Beach, Florida. Those persons present were:

TRUSTEES

T. Sheppard
D. Miller
T. Harris
D. Allison (2:00 P.M.)
D. Merrell (2:11 P.M.)

OTHERS

Bonni Jensen, Hanson, Perry & Jensen, Fund Counsel
Scott Baur and Margie Adcock, Pension Resource Center
Mike Callaway, Merrill Lynch
Robert Conrad, Oppenheimer
Rick Roberts
Ken Plasman

MINUTES

The Board reviewed the minutes of the meeting held October 2, 2002. A motion was made, seconded and carried 3-0 to approve minutes of the meetings held October 2, 2002.

STATEMENT OF INCOME AND EXPENSE

Scott Baur presented a Statement of Income and Expense for the month of September 2002. There was a question about the liability insurance for the Fund. Mr. Baur noted that the liability insurance was prepaid to cover a three year period. There was then discussion regarding a budget for the Fund. It was noted that Mr. Baur would review the new computer system that his company is going to put in place to see if it could accommodate the Board's concern for a budget. Mr. Baur also reported on the outflow of \$700,000 on the balance sheet from August 2002. It was noted that this was a transfer of money to an investment manager earlier in the year. Mr. Baur explained that the balance sheet shows the activity of the checking account year to date. The Trustees received and filed the Statement of Income and Expense for the month of September 2002.

DISBURSEMENTS

Margie Adcock reviewed the disbursement list. Ms. Adcock pointed out that membership dues for 2003 for the FPPTA and NCPERS were on the disbursement list. Ms. Adcock also discussed the response from Brad Armstrong on their invoice for reviewing service purchase calculations for Mr. Denson. A motion was made, seconded and approved 3-0 to pay all listed disbursements.

INVESTMENT MANAGER REPORT

Robert Conrad from Oppenheimer appeared before the Board to present the investment performance. He discussed the investment objectives and guidelines. He stated that the total market value of the portfolio as of September 30, 2002 was \$26,583,259.66. Mr.

Conrad reported that the Fund was up 4.3% for the quarter ending September 30, 2002 while the index was up 4.9%. The Fund was up 7.2% for the one year period and 10.7% since inception in November 30, 1999. Mr. Conrad reviewed the underperformance of the portfolio and advised that most of the underperformance came from the corporate side and selection side. He advised that they did not hold WorldCom in the portfolio. He then discussed the current equity market factors and the strategy outlook. The Board asked Mr. Conrad various questions about the portfolio, to which Mr. Conrad responded. Mr. Conrad discussed the billing issues that happened and noted that the matter has been straightened out.

Robert Conrad departed the meeting.

TERMINATION IN THE DROP

Ken Plasman appeared before the Board and advised that he was elected Union President last night. He advised that there have been discussions in the Executive Board meetings regarding the language on termination in the DROP. He stated that he thought the language that is currently in the Special Act is not as strong as it should be. Mr. Plasman advised that he would like to see, and was asking the Board to consider, developing language that would make it more prohibitive for an employee to stay beyond the DROP period. He also requested that there be stronger consequences for an employee who might try to seek to stay beyond the DROP period and suggested they forfeit their DROP account. It was noted that currently the Special Act provides that interest will cease on the DROP balance and all future DROP deposits after the DROP period. The Board has proposed amended language that will provide that after the DROP period there will be no more DROP deposits and no interest. Mr. Plasman advised that the Union would like to see even stronger language than what is being proposed. There was a lengthy discussion regarding this matter. A motion was made, seconded and approved 5-0 to authorize Bonni Jensen to bring back recommended language that is used in other plans that will protect the Plan.

INVESTMENT MONITOR REPORT

Mike Callaway appeared before the Board to report on the investment performance of the Fund for the quarter ending September 30, 2002. He advised that no sector did well. The more telecommunications and technology a manager held in their portfolio the worse they did. Mr. Callaway reported that this has been the worst bear market since the 1930's. This is the third time in history there has been three consecutive negative years in the equity markets. However, Mr. Conrad reminded the Board that the five years after those two other negative times have been followed by a substantial upside.

Mr. Callaway reported that the market value of the Fund as of September 30, 2002 was \$64,332,200. Quarterly earnings were down \$7,630,755. Fiscal year-to-date earnings were down \$6,279,436.

The equity portion of the portfolio was 56.6%; the bond portion of the portfolio was 41.3%; and the cash portion of the portfolio was 2.1%. Mr. Callaway advised that the total Fund for the quarter ending September 30, 2002 was down 10.6% while the target

index for that same time period was down 9.8%. For the year to date, the total Fund was down 8.9%, while the target index for the year to date was down 8.7%.

The domestic equity portion of the portfolio was down 19.1% for the quarter ending September 30, 2002 while the Russell 3000 was down 17.2%. For the year to date, the domestic equity portion of the portfolio was down 18.1%. The international equity portion of the portfolio was down 21.1% for the quarter ending September 30, 2002, while the EAFE was down 19.7%. For the year to date, the international equity portion of the portfolio was down 14.1% while the EAFE was down 15.3%. The fixed income portion of the portfolio was up 4.3% for the quarter and up 7.2% for the year to date. Mr. Callaway noted that this has been the worst quarter in equities since 1987. The Fund had an overweighting in equities so that is why the Fund is below average. He advised that rebalancing has worked for the Fund. He reviewed the risk/return analysis and noted that the Fund has more return with less risk than the target index. Mr. Callaway then discussed the equity portfolio characteristics and noted the largest holdings in the portfolio.

Mr. Callaway then reported on the performance of the individual managers. He advised that for the quarter ending September 30, 2002, The Boston Company was down 21.6%, Davis Hamilton was down 14.4%, Strong Capital was down 14.6%, and DePrince, Race & Zollo was down 23.1%. The Boston Company had \$12,071,520 as the total market value as of September 30, 2002 with 97.3% in equities and 2.7% in cash. Davis Hamilton had \$13,148,770 as the total market value as of September 30, 2002 with 95.1% in equities and 4.9% in cash. Strong Capital had \$3,161,000 as the total market value as of September 30, 2002 with 94.2% in equities and 5.8% in cash. DePrince, Race & Zollo had \$3,955,870 as the total market value as of September 30, 2002 with 94.7% in equities and 5.3% in cash. Mr. Callaway advised that the last nine months have been bad for The Boston Company. They have focused on telecommunication stocks and technology stocks. Mr. Callaway advised that there have been no other changes in the company that would explain the underperformance. He advised that Merrill Lynch is not putting them in any manager searches they are doing now. Mr. Callaway suggested that the Board continue to watch The Boston Company, but is reluctant to advise the Board to let them go now.

Mr. Callaway then discussed the investment performance of Pimco. Pimco had \$26,583,250 as of September 30, 2002. With respect to the international equity portfolio, the total market value was \$5,411,790 as of September 30, 2002. Putnam had 48.1% of the international portfolio and Templeton had 51.9% of the international portfolio as of September 30, 2002. Mr. Callaway advised that the Fund was within the guidelines required by the Investment Policy.

ATTORNEY REPORT

Bonni Jensen advised the Board that the attorney for Mildred Hubbard has requested to extend the period of time for the hearing beyond the 45 day requirement in the Special Act. The extension was requested because they want to take the deposition of Brad Armstrong and Scott Baur. A motion was made, seconded and carried 5-0 to extend the time for the hearing.

Ms. Jensen provided the Board with a revised Policy Regarding Buyback of Firefighter/Military Service. A motion was made, seconded and carried 5-0 to approve the revised Policy Regarding Buyback of Firefighter/Military Service.

Ms. Jensen then reported that she provided the Board with a schedule of the proposed changes to the proposed revised Summary Plan Description. She noted that Tom Sheppard has requested that two changes be made. Ms. Jensen advised that she would make the additional changes and have the specific pages in the Summary Plan Description that are going to be changed reprinted for distribution to the Participants. A motion was made, seconded and carried 5-0 to authorize Bonni Jensen to make the necessary changes to the Summary Plan Description and have the specific pages of changes reprinted.

Ms. Jensen advised that she sent out letters to the investment managers asking for their current ADV. It was noted that Ms. Adcock provided the Board with a copy of the ADV submitted by Davis Hamilton. Ms. Jensen noted that she received the ADV from DePrince, Race and Zollo yesterday. It was determined that Ms. Jensen would review the ADV's from the managers and notify the Board if she saw any problems.

Ms. Jensen then reported that she spoke with Rhett Turnquest regarding his request for an additional proposed form of payment. She advised that he was asking for an option to take the DROP money on a monthly basis, but to only take the interest and not the principal. Ms. Jensen advised that this could be done through the Policy of the Board and would not require a change to the Special Act. There was a lengthy discussion regarding this matter. It was noted that they could do this by requesting a fixed amount. There was then discussion on allowing the fixed amount to be changed every year and the withholding and administrative issues that would go along with that. The Board asked Scott Baur to determine how difficult this would be if the Board were to allow the option of a fixed amount to be adjusted every year.

Ms. Jensen then discussed the issue of the fixed rate of return on the DROP and the effect of the interest on the loans allowed by the Plan. It was noted that the loans are currently at prime and that the Board will need to accelerate the interest rates on the loans. She advised that this will need to be done as part of the pending legislation. A motion was made, seconded and carried 5-0 to approve a change to the Special Act to change the interest rate on DROP loans to 8.25%.

Ms. Jensen then advised that the Board would need to discuss issues involving processing of loans. It was determined that this would be discussed at the next meeting.

Ms. Jensen reported that the auditor has presented a representation letter for the Board to sign. She will review the letter and advise the Administrator if it is acceptable. A motion was made, seconded and carried 5-0 to approve and sign the representation letter subject to the review of Bonni Jensen.

ADMINISTRATIVE REPORT

Margie Adcock reported on the status of the affidavits to the retirees. She advised that the affidavits were sent out in May. She noted that all of the affidavits were returned with the exception of one from Paul Polisena. Ms. Adcock noted that he is required to submit medical records with his affidavit every year until he reaches 50. A motion was made, seconded and carried 5-0 to have Bonni Jensen send Paul Polisena a letter to provide the documentation necessary within 30 days and stop pension payments to him if the documentation is not received within that time frame.

Ms. Adcock provided the Board with information on a company that does death searches as the Board requested at the last meeting. There was a lengthy discussion regarding such searches and affidavits. A motion was made, seconded and carried 5-0 to conduct an annual death search in conjunction with the affidavits that are sent out normally in May.

Bonni Jensen departed the meeting.

The Board then asked Mr. Baur to address their response to the Request for Proposal for Administrative Services. Mr. Baur advised that the proposal seeks an increase in their fee and discussed the fee proposal. He noted that he would not have addressed this issue at this time but the Board went through the RFP process. He noted that there was a little room for negotiation and discussed the new computer system program that his company is in the process of installing. There was then a lengthy discussion on this matter. A motion was made, seconded and carried 5-0 to increase the fee for Pension Resource Center to \$1,800 a month effective December 1, 2002 with a two year rate guarantee. It was noted that any costs associated with necessary changes to the computer system program after it has been installed with the provisions of the current Plan would be borne by the Fund.

OTHER BUSINESS

There being no further business and the next meeting being scheduled for Wednesday, December 11, 2002 at 1:30 P.M. The meeting was adjourned at 4:42 P.M.

Respectfully submitted,

Tom Sheppard, Secretary