

WEST PALM BEACH FIREFIGHTERS PENSION FUND
MINUTES OF MEETING HELD
February 5, 2003

Tom Sheppard called the meeting to order at 1:40 P.M. at Station 2, West Palm Beach, Florida. Those persons present were:

TRUSTEES

T. Sheppard
D. Miller

OTHERS

Bonni Jensen, Hanson, Perry & Jensen, Fund Counsel
Margie Adcock and Nick Schiess, Pension Resource Center
Mike Callaway, Merrill Lynch
George Poorman and Kevin Gaughan, Strong Capital Mgt
Douglas McGuire, City Commission Candidate
Rick Roberts

It was noted that a quorum was not present and no Board action could be made.

INVESTMENT MANAGER REPORT

George Poorman and Kevin Gaughan from Strong Capital Management appeared before the Board to present the investment performance. Mr. Poorman opened the presentation with an overview on Strong Capital Management. He stated that the company managed over \$40 billion in assets and was a 100% independently owned and privately held. The company was founded in 1974 and has been around for 28 years. Mr. Poorman noted that Strong Capital Management is a highly diversified company with about 50% on the equity side and 50% on the fixed income side.

Mr. Gaughan, a portfolio manager for Strong Capital Manager, reviewed with the Board their style of management. He stated they have a team of 12 individuals and have not had any turnover in the last 10 years. He noted that 6 of the individuals have more than 20 years of experience. The company is research oriented and they generally visit about 2/3 of the companies they invest in. Mr. Gaughan then discussed their buy and sell discipline. He noted that they buy expensive stocks with high a P/E ratio and have an aggressive sell discipline. He stated that trading has added a lot of value over time and this has been done by virtue of their sell discipline. Mr. Gaughan advised that they have approximately 80 companies in the Fund's portfolio. He noted that they review the financials of the firms they are going to invest in and hire third party research for specific projects. He stated that his team just does growth management and they are totally devoted to it.

Mr. Poorman discussed their performance. He noted that the inception date with the Fund was August 1, 2001 and that the Russell 2500 Growth is their benchmark. For 2002, the Fund was down 22.59% while the benchmark was down 29.09%. Since inception, the Fund is down 19.17% while the benchmark is down 22.04%. Mr. Poorman stated that they are a true growth manager and never vary in way they make decisions. They

provide outperformance in up markets and limit risk in down markets. When they have opportunities to add value, they will do that for the portfolio. Mr. Poorman stated that he thought the Russell 2500 Growth was the appropriate benchmark to use with respect to their measurement of performance.

Mr. Gaughan then discussed the history of bear markets. He noted that the average bear market is down about 36.1% and lasts for about 19.7 months. He stated that bear markets are normal occurrences. The most recent bear market has been from about March 2000 to October 2002. During this time the market has been down 49.1% and it has lasted for 929 days. Mr. Gaughan compared this to the bear market from January 11, 1973 to October 23, 1974. The market was down 48.2% during that time and it lasted 651 days. He noted that the good news was that whenever there was a multiyear period of negative returns, there has been positive years that have followed. Mr. Gaughan stated that he thinks inflation will continue to be low and companies will need to sell more units to make money in a low inflation environment. He also noted that the third year in a Presidential cycle is usually a good year with the average return being 19.7%. Mr. Gaughan noted that they were optimistic about future earnings stating that many indicators were favorable for market recovery and growth and that the major factors holding back this growth was the looming war with Iraq and the war on terrorism. He advised that he believes if one of these matters can get resolved, then the market might turn much like it did after the Cuban missile crisis was resolved in 1962 and the S&P was up over 20% for the year.

Mr. Gaughan then discussed the Form ADV that was filed by Strong Capital Management concerning a SEC sanction. He advised that the firm was sanctioned back in 1987 to 1989 the firm did some cross trading that involved moving trades from one portfolio to another without going through a broker. He advised that no member of the 12 person growth team was there at the time. While the conduct occurred in the 1980's, the government did not settle the matter until 1994. Mr. Gaughan stated no person of the company benefited from the conduct and no one account over another benefited from the conduct. The SEC and DOL found that there was no fraud involved, but rather found that there were accounting errors. Mr. Gaughan noted that the company was much smaller back in the 1980s with only 2 portfolio managers compared to the 65 portfolio managers they have now. He noted that cross trading is allowed, but specific procedures need to be followed. The company now has a legal/compliance department with over thirty people to make sure that all of the procedures are followed.

George Poorman and Kevin Gaughan departed the meeting

INVESTMENT MONITOR REPORT

Mike Callaway appeared before the Board to report on the investment performance of the Fund. He commented that it was good news that that the Fund owned bonds as all markets were down but bonds. Mr. Callaway discussed the history of three or more consecutive negative years and the returns in the S&P 500. He noted that the S&P still averages double digit returns over various market cycle lengths. Mr. Callaway advised

that the Fund should stick with the asset allocation that is in place now and that it is a good long term strategy.

Mr. Callaway reported that the market value of the Fund as of December 31, 2002 was \$68,613,840. The quarterly earnings were \$3,492,491. He noted that it was a good quarter for everyone because stocks went up. The equity portion of the portfolio was 58.0%; the bond portion of the portfolio was 39.6%; and the cash portion of the portfolio was 2.4%. Mr. Callaway advised that the target allocation of 65.0% for equities was a bit off. He reminded the Board that the allocation was required to be rebalanced if it was more than 5% off the target of 65%. He stated that he would provide the Administrator with instructions on rebalancing the portfolio. Mr. Callaway advised that for the quarter ending December 31, 2002, The Boston Company managed 20.2% of the Fund's portfolio while Davis Hamilton managed 20.3%, Strong Capital managed 4.7%, DePrince, Race & Zollo managed 6.2%, Pimco managed 39.6%, Putnam managed 4.6%, and Templeton managed 4.4%.

Mr. Callaway advised that the total Fund for the quarter ending December 31, 2002 was up 5.4% while the target index for that same time period was up 5.6%. He noted that the first 2/3 of the quarter was particularly good but December was the worst December since 1931. The domestic equity portion of the portfolio was up 7.9% while the Russell 3000 was up 8.0. The international equity portion of the portfolio was up 7.8% while the EAFE was up 6.5%. The fixed income portion of the portfolio was up 2.2% for the quarter while the benchmark was up 1.6%. Mr. Callaway emphasized that the Fund's performance was below average in recent years because of the Fund's above average allocation in stocks.

Mr. Callaway discussed the large cap and small cap equity portfolio characteristics and largest holdings. He noted that healthcare did not help this quarter as it did not do well. He stated that Strong Capital had 24% in healthcare at the end of the quarter and started the quarter with 33% in healthcare.

Mr. Callaway then reported on the performance of the individual managers. He advised that for the quarter ending December 31, 2002, The Boston Company was up 10.3%, Davis Hamilton was up 6.2%, Strong Capital was up 1.6%, and DePrince, Race & Zollo was up 8.2%. As of December 31, 2002, the total market value of The Boston Company's portfolio was \$13,853,500 with 94.9% in equities and 5.1% in cash. Mr. Callaway noted that The Boston Company bought some telecom and technology stocks too early and that caused severe deterioration in their performance for the year. The total market value for the portfolio of Davis Hamilton was \$13,961,160 with 94.8% in equities and 5.2% in cash. The total market value of DePrince, Race & Zollo's portfolio as of December 31, 2002 was \$4,277,450 with 96.4% in equities and 3.8% in cash. The total market value for the portfolio of Strong Capital was \$3,206,290 with 97.9% in equities and 2.1% in cash. There was an inquiry as to whether the managers are holding too much in cash. Mr. Callaway responded that the average cash position for the Fund was 3.8% and he was not concerned with that percentage.

Mr. Callaway then discussed the investment performance of Pimco. Pimco had \$27,158,840 as of December 31, 2002. With respect to the international equity portfolio, the total market value was \$6,156,600 as of December 31, 2002. Putnam had 51% of the international portfolio and Templeton had 49% of the international portfolio. Mr. Callaway advised that the Fund was within the guidelines required by the Investment Policy with the exception of not being on target with one objective of beating the CPI by 4.5% for the 3 to 5 year time period. Mr. Callaway stated that no other fund is on target with that objective either. Mr. Callaway concluded that there are reasons to be optimistic and many signs are indicating that market is ready for an upswing once the issue with Iraq is resolved.

ATTORNEY REPORT

Bonni Jensen advised the Board that she had attended a meeting addressing the League of Cities' position on the issue of extra benefits. She noted that the League is advocating whether the issue of extra benefits is an ongoing analysis. She advised that this is not an issue that impacts this Fund because this Fund uses all of the money for extra benefits. She noted that the Division of Retirement is going to promulgate rules which should be done within 30 days from the January 14th meeting.

OTHER BUSINESS

Tom Sheppard stated that he has a scheduling conflict for future meetings as the Fire Department is going to have mandatory training on Monday, Tuesday and Wednesday afternoons. Since Mike Callaway would be affected if the meetings were changed, the Board wanted to discuss other possible meeting times. It was noted that the first Thursday of the month at 1:30 PM would work for the people in attendance at the meeting. The Administrator was asked to check with the other Trustees to see if the meetings could be moved to the first Thursday of each month at 1:30 PM.

There being no further business, the meeting was adjourned at 3:05 P.M.

Respectfully submitted,

Tom Sheppard, Secretary