

West Palm Beach Firefighters Pension Fund
MINUTES OF MEETING HELD
May 6, 2004

Secretary Tom Sheppard called the meeting to order at 1:38 P.M. in the meeting room at Station 2, West Palm Beach, Florida. Those persons present were:

TRUSTEES

Tom Sheppard, Secretary
Dorritt Miller
Tom Harris

OTHERS

Bonni Jensen, Hanson, Perry & Jensen, Fund Counsel
Scott Baur & Nick Scheiss, Pension Resource Center
Jeff Swanson, Merrill Lynch
Brad Armstrong, Actuary
Joni Hamilton, Assistant City Attorney
Rick Roberts, Union President

INVESTMENT CONSULTANT REPORT (Jeff Swanson, Merrill Lynch)

Jeff Swanson reported that both the fixed income and equity portfolios had gains for the quarter ending March 31. The total portfolio returned 2.2% for the quarter, versus 2.6% for the custom benchmark. The Pension Fund has a 10.6% gain for the fiscal year to date. He then reviewed the asset allocation for the plan.

Davis Hamilton Jackson continued to under perform for the quarter, due to style issues with the high quality holdings in the portfolio. The market, meanwhile, has favored lower quality issues. The small cap and international portfolios boosted the overall returns for the plan. The Board asked whether the recent sale of Davis Hamilton Jackson affected the management of the portfolio. Jeff Swanson reported that Bob Davis still managed the portfolio, although he suggested that the Board could invite DHJ to an upcoming meeting. The Trustees directed the administrator to invite a representative from Davis Hamilton Jackson to the quarterly meeting in August, also attended by Merrill Lynch.

Small cap assets under management at Deprince Race and Zollo exceed \$1 Billion, yet the manager reopened the portfolio. The Trustees expressed concerns about management and liquidity issues in the small cap universe, although Jeff Swanson noted that Deprince Race Zollo has been diligent in closing the portfolio in the past when appropriate. Jeff Swanson will request a formal response for Deprince Race and Zollo to address these concerns.

Tom Sheppard inquired about the scheduling conflicts that apparently prevented Mike Callaway from attending the meeting on behalf of Merrill Lynch.

Rick Roberts asked Jeff Swanson about possible investment alternatives to the current fixed income portfolio in a rising interest rate environment. Jeff Swanson responded that Merrill Lynch was currently reviewing direct ownership of real estate by pension plans,

in addition to real estate investment trusts. He also noted that Pimco has an alternative fixed income strategy that includes high yield and global bonds to boost the yield component. The Board expressed concerns about changing the long-term investment strategy of the Pension Fund in response to shorter-term market trends. Bonni Jensen will review the investment options permitted by the State. Merrill Lynch will then report on the additional options to the Board prior to the August meeting.

ATTORNEY REPORT (Bonni Jensen)

Bonni Jensen provided the Trustees with a copy of the proposed transition package. The 45-day clock for current DROP members to make an election for the new plan begins on the effective date of the recently passed legislation, generally 30 days after the bill goes to the governor if the governor fails to take any action. A member could choose to retire, however, once the new bill takes effect. Bonni Jensen then reviewed the transition package paperwork in detail. She will provide DROP members with preliminary copies of all the paperwork at the meeting for those participants scheduled on Friday, May 7. The Pension Fund will schedule a second meeting when the legislation becomes effective, and each DROP member will then receive a final copy of all of the paperwork at the beginning of the 45-day election period.

Brad Armstrong reviewed the list of participants that he used to cost the new benefits. The Board discussed the circumstances for Don Widing, since he separated from service on October 29, 2003. The Trustees acknowledged that Don Widing is eligible for the transition benefit based on his date of separation from service.

The Board continued the review of the proposed transition package, and the policy regarding the election by DROP members for the current benefit as opposed to the new transition benefit. The Board determined that once a DROP member rejects the transition benefit, the election is final even if the 45-day election period has not ended. The administrator will notify Joni Hamilton of all elections made by DROP members. Furthermore, the Board directed the administrator not to accept transition paperwork modified by a plan member in any manner. A motion was made, seconded, and approved 3-0 to accept the proposed transition documents and forms as revised by the Board.

ACTUARIAL VALUATION (Brad Armstrong, Gabriel Roeder Smith)

Brad Armstrong reviewed the actuarial valuation for October 1, 2003. He noted that payroll should go down following the transition to the new benefits. The City must contribute 26.13% of covered payroll for the coming year, with a total contribution requirement of 45.22%. Because of unrecognized losses, he expects the funding requirement to increase by another 2% next year assuming the Pension Fund meets actuarial assumptions in the current year. Brad reported that he did not include either the Share Account assets or the DROP Account assets in the asset smoothing.

The Board noted that the valuation reported that current DROP members had 60 days to elect the new transition benefits after the effective date of HB 1633, but DROP members

actually have only 45 days to make the election. The administrator will attach a copy of the approved minutes to the valuation to clarify that DROP members have only 45 days to elect the transition benefit package.

The Trustees discussed how the asset smoothing contributed to the funding requirements by the City, as well as the impact of the decision to remove the DROP Account assets from the smoothing calculation. The City of West Palm Beach stopped making monthly contributions to the Pension Fund in April, since the City will be able to take credit for the Chapter 175 receipts for the current year. A motion was made, seconded, and approved 3-0 to accept the actuarial valuation.

MINUTES

A motion was made, seconded, and passed 3-0 to approve the minutes for the meeting of April 9, 2004.

DISBURSEMENTS

The Trustees reviewed, received, and filed the current monthly financial statement.

A motion was made, seconded, and passed 3-0 to approve the disbursements presented by the administrator.

OTHER BUSINESS

Bonni Jensen received a letter notifying her that Milberg Weiss was splitting, but the securities monitoring arrangement with the Pension Fund will continue. Mildred Hubbard did not file an appeal regarding the decision by the Board by the deadline. Ms. Jensen also reported that HB 251 passed the legislature, creating a database to facilitate distribution of the Chapter 175 premium tax receipts. Tom Sheppard notified the administrator that he is not receiving a monthly investment report from Barron.

Tom Sheppard requested that the administrator provide updated statements reflecting the benefits as of October 1, 2003. The administrator reported that plan participants already received individual statements as of October 1, 2003, during the ratification process by the Union for the changes to the Pension Fund. Since Tom Sheppard was out of town during this time, the administrator will provide statements again to all of the plan participants even though this information has not changed. The administrator will prominently note for the active members that these statements do not reflect the new pension benefits recently enacted by the Florida Legislature.

Tom Sheppard mentioned a report provided at his request by the administrator showing all retired members receiving annual pension payments from the Pension Fund of \$12,000 or less. He expressed his dismay at the number of participants receiving small monthly benefit amounts. Tom Sheppard also reported that he would attend the FPPTA conference from June 27-30, although he has already made his own arrangements.

There being no further business and the next meetings having been previously scheduled for Thursday, June 3, 2004, at 1:30 PM at Station 2, Thursday, July 1, 2004, at 1:30 PM and Thursday, August 5, at 1:30 PM, the meeting was adjourned.

Respectfully submitted,

Tom Sheppard, Secretary