West Palm Beach Firefighters Pension Fund
MINUTES OF MEETING HELD
August 5, 2004

Secretary Tom Sheppard called the meeting to order at 1:45 P.M. in the third floor conference room at Station 1, West Palm Beach, Florida. Those persons present were:

TRUSTEES	**OTHERS**
Tom Sheppard, Secretary	Bonni Jensen, Hanson, Perry & Jensen, Fund Counsel
Tom Harris	Scott Baur & Nick Schiess, Pension Resource Center
David Merrell	Mike Callaway, Merrill Lynch Consulting
Dorritt Miller	John Race & Matthew Williams, DePrince, Race, & Zollo
	Bob Davis, Davis, Hamilton, Jackson, & Associates (2:35 PM)
	Rick Roberts, Participant
	Don Widing, Participant
	Dave Dyal, Participant
	Other Visitors

MINUTES

The Trustees reviewed the minutes for the meeting of July 1, 2004. The Board noted a correction, where the date of the minutes should be "July 1, 2004" instead of "July 3, 2003". A motion was made, seconded, and passed 4-0 to approve the minutes for the meeting of July 1, 2004 as corrected.

STATEMENT OF INCOME AND EXPENSE

Scott Baur provided the Board with a Statement of Income and Expense through May 31, 2004. The Trustees asked questions regarding an entry under miscellaneous expenses for the bank levy by the IRS and a $75 bank fee. Mr. Baur advised that he would research the bank fee further and report back to the Board at the next meeting. The Trustees received and filed the current monthly financial statement.

DISBURSEMENTS

Bonni Jensen discussed the disbursement of $4,464 issued to the City of West Palm Beach for the Plan's share of actuarial consulting services for benefits negotiated between the City and Local 1377. She advised that the State could raise issue with disbursements made by the Plan directly to the City. Mr. Baur noted that the disbursement had been recently mailed to the City and could possibly be voided and re-issued directly to the actuary if necessary. Ms. Jensen advised that this was not necessary, but future disbursements directly to the City should be avoided. Mr. Baur further explained that the administrator was authorized to issue disbursements for recurring Plan expenses between meetings of the trustees. A motion was made, seconded, and passed 4-0 to approve the disbursements presented by the Administrator.

VEBA CONTRIBUTION

Participant Don Widing appeared before the Board to request that he be allowed to voluntarily offset the difference in cost between his Level I and Level II benefits with funds from his DROP account. Bonnie Jensen advised that the anti-alienation provisions prohibit the Pension Fund from making payments for the debts of a participant. However, Florida statutes do allow the plan to issue withhold funds from a pension benefit payment, to pay for other benefits received through the employer. The provisions of the VEBA specify that the VEBA can only receive funds from the City, not the Participant. Ms. Jensen discussed the tax ramifications of the transaction, noting that any withdrawals made by Mr. Widing would be taxable to him in the year of the distribution. She concluded that the Plan would be allowed to withhold funds from a DROP distribution for remittance to the City for payment of the amount due to the VEBA, as a taxable distribution to Mr. Widing. The City could also possibly accept payment directly from an employee, although Tom Harris questioned whether a participant already separated from service in the City could purchase the additional VEBA benefits. Following some additional discussion, a motion was made, seconded, and passed 4-0 to table the issue until the VEBA Board could consider the matter at their next meeting scheduled for August 20, 2004.

Participant Dave Dyal appeared before the Board to discuss whether interim Fire Chief Jim Harmon could be permitted to serve beyond the August 28, 2004 deadline set forth by the new Special Act because his replacement had not been hired. Ms. Jensen advised that retirement without withdrawal from City employment was not permitted, and the transition benefit package mandated that a Participant would loose two years of DROP benefits if their service extended beyond the August 28, 2004 deadline. A lengthy discussion ensued regarding whether Chief Harmon might be allowed to serve under an independent contract. Ms. Jensen pointed out that such an arrangement might subvert the intent of the new pension benefit and set a dangerous precedent for the Pension Fund, the local representing the firefighters and paramedics in West Palm Beach, and the City.

Dorritt Miller recommended that the City Attorney should review the matter. The Board also directed Ms. Jensen to provide a legal opinion on behalf of the Pension Fund to the City Attorney's office as well.

INVESTMENT MONITOR REPORT (Mike Callaway)

Mike Callaway appeared before the Board and discussed alternative investment opportunities for the Plan, specifically real estate. The Special Act did not currently permit direct investment into real estate. A discussion arose to amend the Special Act to permit alternative investments. Tom Sheppard recommended that the amendment be written broadly to accommodate future opportunities or recommendations by the advisors to the Pension Fund. After further discussion, a motion was made, seconded, and passed 4-0 to direct Ms. Jensen to draft an amendment to the Special Act allowing the Board discretion to act on the recommendations of the investment consultant to the plan, within the constraints of the investment guidelines in Chapter 175.

Mr. Callaway then discussed recent publicity regarding “pay to play” allegations against investment consultants wherein claims had arisen that consultants had been influenced by direct or indirect compensation by Investment Managers during searches performed on the behalf of pension funds. He explained that Merrill Lynch Consulting Services does not receive direct or indirect compensation from Investment Managers in exchange for special consideration during Investment Manager searches. He stated that the factors considered in determining which investment managers to recommend was performance and consistency of investment returns. Mr. Callaway discussed Merrill Lynch’s commission recapture program, stating that this practice was commonplace among the largest investment consultants and rewards clients with a portion of the brokerage. He discussed the recent investment in the American Funds Europacific Growth Fund, noting that Merrill Lynch fully disclosed all compensation to the Board.

Mr. Callaway delivered a quarterly investment performance report for the period ending June 30, 2004. He reported that the market value of the portfolio was $85,702.70. Earnings for the quarter ending June 30, 2004 were $290,264 and $7,789,087for the fiscal-year-to-date. A question arose regarding the market value of assets reported by Merrill Lynch, which did not equal the value reported by the Administrator on the financial statement. Mr. Baur explained that the financial statements contain additional items, such as the cash balance of the Plan’s checking account and audit adjustments. Furthermore, the Merrill Lynch report also includes accruals for trades pending settlement or other income due, while the administrator reports financials strictly on a cash basis.

Mr. Callaway reviewed the asset allocation of the portfolio. He explained that rebalancing the equity portfolio only occurred when the allocation exceeded 5% of the target allocation, because any percentage less than 5% was inefficient. He noted the portfolio contained an above average allocation to equities as compared to other Plans. The investment return was -.3% for the quarter ending June 30, 2004, and 10.2% for the fiscal-year-to-date. He reviewed the performance of the asset classes and individual investment managers. Boston Company’s continued to underperformance, and Mr. Callaway advised that their future performance would be carefully monitored. Tom Sheppard recommended that all Investment Managers should make annual presentations to the Board and requested that the Boston Company be invited to the November 4, 2004 meeting.

Mr. Callaway reported that Davis, Hamilton, Jackson, & Associates also performed under their peer group, but their long-term performance has still been acceptable. Mr. Callaway provided the Board with an analysis of quality indices, noting that low quality equities outperformed high quality equities. He attributed the underperformance by Davis, Hamilton, Jackson to the fact that the portfolio contained 80% high quality equities. The style of management had been out of market favor for the past six quarters. Rick Roberts questioned whether the Board took appropriate measures to affirm that the investment manager is still focused, following the change in ownership at the firm. The change in management actually occurred in 1998. Mr. Callaway advised that the two former principals of the company were still the primary stockholders and still actively managed the company. He stated that the investment manager style is consistent with their mandate, and attributed the underperformance to the management style out of favor in the current market cycle. The Board asked Mr. Callaway if the situation warranted further diversification into high and low quality equities. Mr. Callaway recommended that such diversification would likely and he replied that this would likely result in increased volatility without enhancing longer-term performance. Mr. Callaway recommended that the Board retain Davis, Hamilton, Jackson, & Associates on the strength of their long-term performance record.

The meeting adjourned at 2:30 P.M. and reconvened at 2:40 P.M.

<u>DAVIS, HAMILTON, JACKSON, & ASSOCIATES</u> (Bob Davis)

Bob Davis appeared before the Board and reviewed the long-term performance of Davis, Hamilton, Jackson, & Associates. He discussed the restructuring of the company's ownership in 1998, when a portion of the company was sold. He reported that the firm was still growing and had recently added 6 additional principals. Mr. Davis assured the Board that the management style and stock selection process had not changed, and that he was actively involved with operations. He stated that Davis, Hamilton, Jackson, & Associates did not have any compensation arrangement with Merrill Lynch other than directed brokerage, and stated his willingness to attest to this fact in writing if requested to do so. Mr. Davis reviewed market conditions in great detail. He anticipates flat earnings by companies going forward. He then reviewed the sector allocations and weightings of the portfolio. Mr. Davis emphasized the importance of dividends paid by equities held in the portfolio, which he expects to contribute a significant portion of the future returns.

<u>INVESTMENT MONITOR REPORT (Continued)</u>

Mike Callaway discussed the performance of DePrince, Race, & Zollo reporting that performance for the quarter ending June 30, 2004 was 1.2%, versus 0.9% for the Russell 2000 Value Index and 1.9% median return for other value managers. He noted that when hired, the Investment Manager had by contract restricted their total portfolio at $500 million. The portfolio has since exceeded $1.0 billion in assets, after reopening to new investors over time. A discussion ensued as to whether this additional amount of assets under management affected performance. Mr. Callaway noted that although the additional assets could be more difficult to manage, the additional profits earned by the manager on fees might help performance if used for additional resources.

The Board discussed the appropriate portfolio size for small cap value equity manager. Mr. Callaway advised that $1 billion was still relatively manageable. He added that the demand for this style was so high that most of the superior managers were already capped on assets; therefore, DePrince, Race, & Zollo would be difficult to replace. Mr. Callaway was also questioned regarding their investment management fees, and he noted that the manager charged average fees. The Trustees considered requesting Deprince, Race, & Zollo to reduce fees, since the manager exceeded the original cap of $500 on small cap value assets under management.

<u>DEPRINCE, RACE, & ZOLLO</u> (John Race & Matthew Williams)

John Race and Matthew Williams appeared before the Board on behalf of DePrince, Race, & Zollo. Mr. Race reported that performance for the prior year was good on an absolute basis at 33%, but not on a relative basis as compared to the index return of 35%. He attributed the underperformance to the investment policy, which limits DePrince, Race, & Zollo to domestic equities. The international component of their total portfolio achieved relatively higher returns. Furthermore, DePrince, Race, & Zollo's discipline of purchasing equities with higher dividends has been out of market favor in the current market, as equities with lower dividends achieved higher returns. He noted that over the long-term, equities issuing dividends outperformed equities that do not pay dividends. A discussion ensued as to the 10% limit on international equities, and whether the limitation affects the overall performance of the Plan's portfolio.

Mr. Race discussed the increase of assets under management from $500 million from the date the Investment Manager was hired, to the present level of $1.0 billion. He attributed the increase to market value appreciation, and he reported that the number of clients remained static during this time. He stated that the manager had not violated the agreement to maintain assets at the $500 million level, since the manager merely added assets to account for attrition of clients on a dollar for dollar basis.

Mr. Race discussed market conditions, and predicted that the style of management by DePrince, Race, & Zollo would come in favor and therefore outperform the index. Mike Callaway agreed that the dividend style should help performance over the long-term.

<u>INVESTMENT MONITOR REPORT</u> (Continued)

Mike Callaway continued his report on the performance of the individual Investment Managers. He reported that as a result of an inquiry by a Trustee, he had questioned Baron Capital regarding a 13% allocation in cash and they had responded that current market conditions had dictated caution on their part. Mr. Callaway discussed the performance of the international equity portfolio, reporting a 0.0% return for the quarter and a 22.0% fiscal-year-to-date return for Templeton. He advised that attractive alternatives existed within PIMCO on fixed income portfolio, if the restriction on foreign ownership was removed.

Mr. Callaway reviewed the compliance checklist, noting that all items were in compliance with the exception of the total portfolio return did not exceed the CPI + 4.5% for 3 to 5 years. He concluded his report with report of the trading and investment management fees for the quarter ending June 30, 2004.

Mr. Callaway departed the meeting.

ATTORNEY REPORT (Bonni Jensen)

Bonni Jensen provided the Board with a draft Special Act and discussed the revisions therein. The Board directed Ms. Jensen to define earnings separately under definitions. A lengthy discussion of the limitation of the allocation of real state arose and the Board determined that the limitation should be specified at 15%. Ms. Jensen recommended that the language pertaining to DROP loan provisions should be incorporated into the Back-DROP provisions, and the Board agreed.

Ms. Jensen reported that the Pension Fund could now change the Special Act to honor a Qualified Domestic Relations Order. Current retired participants do not have the ability to provide for a divorced spouse through the plan, since the Special Act requires a participant to be married at both retirement and death in order to receive a survivor benefit from the plan. Since the actuary does not likely assume that retired members will divorce following retirement and does not incorporate marital status in the annual valuation, such a change would not impact the funding for the plan. The Trustees indicated that they were not inclined to change the Special Act at this time to pay survivor benefits to former spouses of retired members.

Ms. Jensen reported that the State had calculated the initial Chapter 175 distribution to be the amount of $814,591.72.

Ms. Jensen presented an agreement received from Lerach, Coughlin, Stoia, & Robbins LLP regarding a derivative action lawsuit against Career Education Corporation, a security held in the Plan's portfolio. She noted that the Plan could participate in the lawsuit for a contingency fee, and she discussed the circumstances behind the action. The amount of the investment loss on the security was estimated at $18,000 but the contingency fee payable to the Attorney and other simultaneous actions brought against the company might affect the amount of the actual recovery. A motion was made to participate in the lawsuit. Ms. Jensen noted that the agreement required that the Pension Fund not to sell the security during the pending litigation, and the motion was then withdrawn.

ADMINISTRATIVE REPORT (Scott Baur)

Scott Baur reported that David Merrell's term as Trustee was expiring at the end of September, and the Administrator would commence the election process. Mr. Baur notified the Board that the annual Earnings Election Forms must also be distributed to the Participants, and a discussion ensued as to the appropriate method of distribution. Rick Roberts agreed to personally distribute the forms at each station, and the forms would be sent via registered mail to the remaining Participants. Mr. Baur advised that the online share and DROP account inquiry system would not be implemented until after the transition benefits resulting from the new Special Act had been processed, to avoid allowing members to access dated information during the transition process.

OTHER BUSINESS

There being no further business and the next meeting having been scheduled for Thursday, September 2, 2004 at 1:30 PM, the meeting was adjourned at 5:10 PM.

Respectfully submitted,

Tom Sheppard, Secretary