

West Palm Beach Firefighters Pension Fund
MINUTES OF MEETING HELD
February 3, 2005

Chairman David Merrell called the meeting to order at 1:55 P.M. in the meeting room at Station 2, West Palm Beach, Florida. Those persons present were:

TRUSTEES

David Merrell, Chairman
Tom Sheppard, Secretary
Tom Harris
Dorritt Miller

OTHERS

Mike Callaway, Merrill Lynch Consulting
Nick Schiess, Pension Resource Center
Bill Krick, Participant

MINUTES

The Trustees reviewed the minutes for the meeting of December 2, 2004. Several corrections were noted and a motion was made, seconded, and passed 4-0 to approve the minutes for the meeting of December 2, 2004 as amended.

INVESTMENT MONITOR REPORT (Mike Callaway)

Mike Callaway provided the Board information regarding calendar year returns of various asset classes and quality indices noting that large cap high quality equities underperformed small cap low quality equities and that the diversification of the Plan's portfolio helped overall performance. He discussed REIT's as an alternative investment for the Plan. It was noted that the pending Special Act Amendment contained provisions that along with revisions in the Investment Policy would permit alternative asset classes.

Mr. Callaway reported that the value of the portfolio as of December 31, 2004 was \$92,870,220. Investment income for the quarter ending December 31, 2004 was \$7,682,082. The investment return for the quarter was 9% versus the index of 7.5% while the calendar year return was 10.3% versus the index of 10.2%. For the quarter ending December 31, 2004, the total domestic equity return was 13% and the international equity return was 14.6%. The fixed income return was .7% versus the index of 1.0%, which was attributable to the defensive position of the bond portfolio and the policy limitation to BBB bonds or better during a period when the lower quality bond component of the index achieved the highest return. He then reviewed the long-term performance of the portfolio noting that the investment return averaged 10.7% since inception. Mr. Callaway reviewed the asset allocation noting that the equity allocation of 68% was within the investment policy range of 65-70% at market value.

Mr. Callaway reviewed in great detail the portfolio characteristics of the large and small cap equity investment managers including sector allocations, market capitalization, and largest holdings within their respective portfolios. He continued his report with a review of the performance of the individual investment managers for the quarter ending

December 31, 2004. The investment return for Boston Company was 13.6% versus the index of 9.9%. The investment return for Davis, Hamilton, Jackson, & Associates was 10.4% versus the index of 8.5%. The investment return for DePrince, Race, & Zollo was 11.8% versus the index of 13.2%. Mr. Callaway noted that he had thoroughly analyzed the performance of DePrince, Race, & Zollo and had concluded that the underperformance was attributable to poor stock selection. Due to the firm's long-term underperformance, he recommended that the Board authorize a search for a replacement investment manager. It was noted that the dividend yielding style of DePrince, Race, & Zollo had long been out of market favor and a lengthy discussion arose regarding whether to retain the style within the Plan's portfolio. Mr. Callaway noted that the style compliments the Plan's portfolio and should benefit the Plan's portfolio in the event of an equity market downturn. He advised that because small cap had achieved exceptional relative performance, it would be difficult to locate a suitable replacement small cap manager that was still accepting new clients. Mr. Callaway was questioned regarding DePrince, Race, & Zollo's down market performance and he responded that the down market capture rate was 121% for the past six years and he agreed to research the down market capture rate further back in time. A motion was made, seconded, and passed 4-0 to authorize Mr. Callaway to research a replacement for DePrince, Race, & Zollo. Mr. Callaway continued his review of the performance of the individual investment managers reporting that the investment return for Baron Capital was an exceptional 18.1% versus the index of 13.8%. The investment return for the international equity portfolio was only 14.6% versus the index of 15.4%, however, the return had averaged 27% for the prior two consecutive years.

The Trustees discussed the scheduling of investment manager presentations to the Board and decided upon a yearly rotation of presentations starting with Baron Capital.

Mr. Callaway reviewed the performance and the characteristics of the fixed income portfolio noting that investment policy restricted the quality of the bonds within the portfolio and also ownership of foreign bonds. He noted that once the pending Special Act Amendment passes, it would be possible to move into another PIMCO product without these restrictions.

Mr. Callaway finished his report with a review of investment management fees, recapture fees, and the compliance checklist noting that all items were within compliance except meeting the performance objective of achieving an investment return of the CPI plus 4.5% for a rolling period of 3 to 5 years. A question arose regarding the origin of the performance objective and Mr. Callaway noted he had recommended the performance objective based upon the portfolio's asset allocation.

Mr. Callaway respectfully requested that the Board consider a proposed investment consulting fee increase to \$44,400 a year effective April 1, 2005. He noted that the increased amount was still a 20% discount from standard consulting fees and that fees had not increased in the past five years. He was questioned regarding the length of a rate guarantee and responded that the fee proposal included a three-year rate guarantee.

Mr. Callaway discussed recent publicity regarding allegations that Merrill Lynch Consulting Services inappropriately recommended specific investment managers or products because of direct or indirect compensation arrangements. He explained that Merrill Lynch Consulting Services does not recommend specific investment managers or products because of trading arrangements through their recapture program or for direct or indirect compensation from investment managers. Mr. Callaway was questioned whether Merrill Lynch Consulting Services was under investigation from any regulatory agency. Mr. Callaway responded that all investment consulting firms had been investigated, however, a formal report had not been issued on Merrill Lynch Consulting Services.

Mr. Callaway departed the meeting.

STATEMENT OF INCOME AND EXPENSE

Nick Schiess provided the Board with a Statement of Income and Expense through November 31, 2004. He noted that the amount of the total reserve fund on the balance sheet was in error the amount of \$98.00 as a result of the recent audit adjustments, which would be corrected in the financial statements presented to the Board at the next meeting. The Trustees received and filed the monthly financial statement.

DISBURSEMENTS

The Trustees reviewed a list of disbursements presented for approval by the Administrator. The Board discussed an invoice presented from Ellen Schaefer in the amount of \$510.00 for programming services to update the Administrator's system and questioned whether further invoices for programming charges were forthcoming. Nick Schiess agreed to research the matter and report back to the Board. A motion was made, seconded, and passed 4-0 to approve the disbursements as presented.

BENEFIT APPROVALS

The Trustees reviewed the list of benefit approvals provided by the Administrator. The Board requested that benefit approvals provided to the Board in the future contain separate signature lines for each type of benefit submitted for approval. It was noted that the Administrator commences the payment of benefits once processed and the benefit approvals are submitted to the Board after the fact. A motion was made, seconded, and passed 4-0 to approve the benefits as presented.

OTHER BUSINESS

The Board discussed Mike Callaway's proposed increase in investment consulting fees and a motion was made, seconded, and passed 4-0 to increase the investment consulting fees to \$44,000 annually for three years.

Retired Participant Bill Krick addressed the Board with questions regarding the Administrator's online account inquiry system, DROP and Share Account Statements,

and also supplemental disbursements. Nick Schiess noted that Scott Baur had scheduled a workshop for retired Participants on the date of February 17, 2005 at 7:00 P.M. located at Station 2 to explain in detail the calculation of DROP and Share Account balances and the Administrator's online account inquiry system. Mr. Krick noted that the Administrator's online account inquiry system was not available on schedule and the Board requested that the Administrator announce realistic deadlines for the completion of tasks.

There being no further business and the next meeting having been scheduled for Thursday, March 3, 2004 at 1:30 PM, the meeting was adjourned at 3:55 PM.

Respectfully submitted,

Tom Sheppard, Secretary