

West Palm Beach Firefighters Pension Fund
MINUTES OF MEETING HELD
May 5, 2005

Secretary Tom Sheppard called the meeting to order at 1:32 P.M. in the meeting room at Station 2, West Palm Beach, Florida. Those persons present were:

TRUSTEES

Tom Sheppard, Secretary
Dorritt Miller
Matt Young
Tom Harris (1:35 PM)

OTHERS

Bonni Jensen, Hanson, Perry, & Jensen
Scott Baur, Pension Resource Center
Mike Callaway, Merrill Lynch
Jack Hamilton and Janna Woods, Davis Hamilton Jackson
Richard Wells, Deprince Race Zollo

MINUTES

The Trustees reviewed the minutes for the meeting of April 7, 2005. Scott Baur noted several corrections made to the Minutes prior to the meeting. A motion was made, seconded, and passed 3-0 to approve the minutes for the meeting of April 7, 2005 as presented.

STATEMENT OF INCOME AND EXPENSE

Tom Harris joined the meeting. The Board reviewed the financial statement for the Pension Fund through March 31, 2005. Scott Baur will provide additional details regarding an amount of \$81.60 reimbursed back to the Pension Fund under Trustee Expenses. The Trustees received and filed the monthly financial statement.

DISBURSEMENTS

A motion was made, seconded, and passed 4-0 to approve the disbursements as presented by the administrator.

DAVIS HAMILTON JACKSON (Jack Hamilton and Janna Woods)

The large cap growth portfolio managed by Davis Hamilton Jackson had negative returns for the quarter ending March 31, 2005; however, the portfolio still outperformed the Russell 1000 Growth Index. For all rolling time periods, the returns for the portfolio now exceed the benchmark except for the two-year average. Jack Hamilton indicated that the manager did not change any aspect of the portfolio or management. Rather, the performance for quality stocks had improved as expected.

Mr. Hamilton then discussed the outlook for the market. The Federal Reserve Board is tightening the money supply, so growth should slow in the economy. The nation also appears to have an energy policy as well, allowing oil prices to remain high so as to

encourage exploration and conservation. Mr. Hamilton commented that the financial sector performed poorly due to the flattening of the yield curve, so the manager under weighted the financial services sector in the portfolio. The holding in AIG also hurt performance for this sector of the portfolio.

Compared to the S&P 500, the manager also under weighted energy and utilities stocks. Mr. Hamilton further reviewed other aspects of the sector allocation. Primarily, the portfolio benefited from good securities selection. Mr. Hamilton then reviewed some recent acquisitions and sales in the portfolio.

Going forward, Jack Hamilton sees some upside potential in the market following the recent negative performance so far this calendar year. The tight money supply, however, should slow growth without causing the economy to slip into a recession. While profit margins remain high for companies, the slower growth will likely bring disappointments in earnings. The allocation of the portfolio closely mirrors the current sector allocation for the Russell 1000 Growth Index. According to Mr. Hamilton, the market should end strong for the current fiscal year.

DEPRINCE RACE ZOLLO (Richard Wells and Matt Williams)

Richard Wells commented that the past couple years have been difficult for Deprince Race and Zollo. Industrial production increased and inventories decreased, but consumer sentiment appears to be waning. For the quarter ending March 31, the S&P 500 fell by 2% and the Nasdaq declined by 8%. Large cap value generally performed better for the period. Richard Wells reviewed the manage style for Deprince Race Zollo, which consists of small companies with dividend yields at least 1%, strong cash flows, and a catalyst.

Tom Sheppard noted that the manager employs a unique style, but the style does not appear to have performed well particularly on the downside. Richard Wells responded that the manager had strong long-term performance, although the recent returns were not good. For the recent quarter, the portfolio returned -2.97% compared to -4% for the Russell 2000 Value Index. The long-term returns fall under the benchmark due to the more recent performance.

For 2003, the higher yielding high quality small cap stocks under performed. In 2004, the technology holdings in the portfolio hurt performance. Mr. Wells reviewed the current technology holdings. The manager also started to under weight financials in 2004, which more recently experienced a downturn; however, DRZ appears to have made the adjustment early. Mr. Wells reviewed other portfolio holdings as well, and he discussed the sector allocation for the portfolio relative to the Russell 1000 Value Index. The manager expects better performance from the technology holdings going forward, due to low inventories and better prices for commodities.

Mr. Wells reported that neither the team nor the discipline changed at Deprince Race & Zollo. Mr. Wells also reviewed the composite returns for the firm, which differed from the returns for the Pension Fund due to restrictions placed on the portfolio. The Trustees had no further questions for Mr. Wells.

INVESTMENT CONSULTANT (Michael Callaway, Merrill Lynch)

Mr. Callaway reported that the Pension Fund had \$91,949,170 of invested assets as of March 31, 2005. Ms. Jensen suggested that the Pension Fund send a letter to Patricia Shoemaker to determine if the plan must rebalance assets, due to recent issues encountered with the proposed changes to the Special Act as the Board attempted to increase the allocation to foreign securities.

For the quarter ending March 31, 2005, the Pension Fund had returns of 1.0% compared to -1.4% for the benchmark. For the fiscal year through March 31, the Pension Fund had returns of 7.9% compared to 6.0% for the benchmark. The Pension Fund out performed the benchmark for longer periods of time as well, with lower risk or volatility.

Mr. Callaway then reviewed the market capitalization for the holdings in the Davis Hamilton Jackson and the Boston Company portfolios. He noted that the Boston Company increased the allocation to smaller and mid-cap holdings. Furthermore, the recent performance by the Boston Company had considerably improved in light of the management changes.

Mr. Callaway stated that Deprince Race Zollo had strong absolute performance, but the manager performed poorly relative to their peer group. The recent poor performance by Deprince Race Zollo also made the longer-term results for the manager appear less favorable. Baron, on the other hand, had strong results on both an absolute and a relative basis.

The Trustees discussed the limitation placed on managers to invest in foreign securities, since Deprince Race Zollo attributed some of the performance to the Investment Policy restrictions. Mike Callaway advised the Trustees that the Pension Fund should continue to invest the entire allocation to foreign securities to a dedicated international manager, to maintain the maximum possible exposure to the asset class. The Board also discussed the impact of the foreign restrictions and credit quality limitations on the fixed income portfolio, since Pimco has other bond funds that performed better than the Pimco Total Return II Fund used by the plan.

Finally, Mike Callaway indicated that the Board might need to rebalance the assets. He will advise the Trustees if the Pension Fund must rebalance to remain within the Investment Policy guidelines. The Pension Fund complied with the Investment Policy in all other respects. Mr. Callaway reviewed the schedule of commissions and fees paid by the Pension Fund to Merrill Lynch.

Mike Callaway reported on the options available to the Trustees regarding Deprince Race Zollo. The portfolio for the Pension Fund trailed the DRZ composite, and the manager significantly performed under the benchmark for two years. Mr. Callaway suggested that the Trustees remain patient, since the style for a manager with better recent result might rotate out of favor in the market. Furthermore, the better small cap managers tend to cap the portfolio to new investments, leaving fewer good managers available to the plan as

alternatives. Mr. Callaway provided the results for a small cap manager search to replace Deprince Race Zollo.

Mr. Sheppard indicated that he would like to review the results of the manager search over the next quarter. To save time in the event that the Board decides to terminate the relationship with Deprince Race Zollo, the Board directed Mike Callaway to have NWQ, Royce, and Thompson Segal make presentations at the August meeting. The Board will have another current manager for the Pension Fund at the August meeting as well.

BENEFIT APPROVALS

Scott Baur noted the correction on the benefit approval list for the refund of contributions to Mr. Strong from the last meeting. A motion was made, seconded, and passed 4-0 to accept the benefit approvals as presented.

ATTORNEY REPORT (Bonni Jensen)

Ms. Jensen reported that HB 777 passed in the legislature during the course of the meeting. She also has the new Summary Plan Descriptions available for distribution to members of the plan. Scott Baur will attempt to schedule workshops for the members during the month of June, although Tom Sheppard noted that he would not be available the week of June 6.

Dorritt Miller departed the meeting.

Bonni Jensen presented the escalator clause benefits for the three surviving beneficiaries receiving Plan A benefits. The highest pay grade for a firefighter increased to \$4,608. Ms. Jensen reviewed the new benefit amounts for the three retired members. A motion was made, seconded, and passed 3-0 to approve the new escalator clause benefit amounts.

Ms. Jensen presented the agreement for Milberg Weiss to monitor the securities in the portfolio for execution. She also discussed the recent issues in California after the governor tried to terminate the defined benefit plans. The Pension Fund has issues where five members who took the transition benefit and worked past August 28, 2004, did not have the correct pension contribution amount. Mr. Baur reported that the Pension Fund and the VEBA both received the correct contributions, just not in the correct manner. Mr. Sheppard expressed concerns that members of the plan do not always get paid the correct amounts with the proper deductions taken. The Pension Fund has no mechanism currently to check the status of codes for pension payroll. A meeting has already been scheduled with the members from the Finance Department, HR, Information Systems, Bonni Jensen, and Scott Baur to address the concerns.

ADMINISTRATIVE REPORT (Scott Baur)

Mr. Brooks made an application for a duty disability pension benefit. The Board discussed the time required to process a disability application and the possibility that the City might terminate Robert Brooks as an employee before the Board completed the process. The Trustees also considered the possible effective date for a benefit, if approved.

Scott Baur reported that he has not yet received the Annual Report to submit to the Division of Retirement, although the schedules attached to the report required revisions following discussions

between the Division, the auditor, and the administrator in March and April. A motion was made, seconded, and passed 3-0 to approve the Annual Report for execution prior to the next regular meeting subject to review by the administrator.

OTHER BUSINESS

Tom Sheppard provided a refund check from the retirement dinner. He also had an invoice for reimbursement. He reported that new members of the plan did not return the medical acknowledgements provided by Ms. Jensen in a timely manner, since the acknowledgement required a notary. He requested that the form be simplified to expedite response by the members in the future. Finally, Mr. Sheppard received an overpayment for a reimbursement of conference expenses. Mr. Baur explained the error.

Mr. Baur agreed to Email a current list of upcoming conferences to all the Trustees. The prior list appeared to incorrectly note the dates for the upcoming FPPTA conference at the end of June in Boca Raton. The Trustees briefly discussed the conferences.

Mr. Sheppard wants to analyze the retirement dinner expenses, so that the Board can establish procedures or guidelines for future dinners.

There being no further business and the next meeting having been scheduled for Thursday, June 2, 2005 at 1:30 PM, the meeting was adjourned at 5:04 PM.

Respectfully submitted,

Tom Sheppard, Secretary