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

Chairperson David Merrell called the meeting to order at 1:35 P.M. in the meeting room at Station 2, West Palm Beach, Florida. Those persons present were:

TRUSTEES	**OTHERS**
David Merrell, Chairperson	Bonni Jensen, Hanson, Perry, & Jensen
Matt Young	David Jakubiak and Scott Baur, Pension Resource Center
Dorritt Miller	Janet Woods and Jack Hamilton, Davis, Hamilton, Jackson & Assoc.
Tom Sheppard	Thomas Scerbo, Oppenheimer Capital
	Alan Kirchner and Mike Calloway, Merrill Lynch

Minutes

The Trustees reviewed the minutes for the meeting of August 4, 2005 and provided minor revisions. ***A motion was made by Dorritt Miller, seconded by Matt Young, and passed 3-0 to approve the minutes for the meeting of August 4, 2005 as amended.***

At this point, Tom Sheppard entered the meeting

Investment Manager Reports

Davis, Hamilton, Jackson

Janet Woods representing Davis, Hamilton and Jackson, addressed the Board. She explained that the firm invests in large growth companies with above average earnings. Ms. Woods mentioned that they had a fiscal year-to-date return of 12.7%, compared to 12.3% for the S&P 500 and 11.6% for the Russell 1000 Growth Index. The portfolio outperformed the benchmark on average for the trailing 5 years, although the 3-year average fell below the benchmark as a result of one bad year.

Jack Hamilton continued the presentation and stated that growth has outperformed value as of the third quarter of 2005. He stated that conditions are in place for growth to do well. These conditions include increases in inflation, interest rates and slow and emerging growth. He also stated that price earning ratios are some of the lowest in the past ten years and that growth stocks are selling at an attractive price earnings multiple.

Mr. Hamilton advised that energy stocks are leading the market and that there are dominant factors in earnings growth. The firm looks for strong earnings growth two to four quarters in the future rather than continued cyclical growth. Mr. Hamilton discussed the following stocks that performed well in the fund: Qualcomm, Patterson UTI Energy, and Massey Energy. He also addressed the following stocks that did not perform well: Zimmer Holdings, Countrywide Financial, and Dell.

In reference to current market conditions, Mr. Hamilton explained that for the short-term the manager looks at market sentiment, which has been bullish for a long time; the manager is therefore more cautious in response. Mr. Hamilton also stated that a rally and positive numbers are expected, since people have cash on the sidelines.

David Merrell inquired as to the decelerating earnings shown in the report. Tom Sheppard added that there have been concerns with Davis, Hamilton, Jackson and Associates. He questioned the market environment that should allow Davis Hamilton Jackson to excel relative to the firm's peers. Mr. Hamilton indicated that the market should now turn to quality growth, allowing the manager to outperform. Mr. Hamilton added that the firm has only lost clients with the manager for only two to three years. He believed that these clients have a limited history with the firm, and explained that nothing has changed with his firm. Tom Sheppard mentioned that the Board does not just look at the numbers but also looks at why a manager was hired.

Oppenheimer Capital

Tom Scerbo, representing Oppenheimer Capital, addressed the Board. He explained that he is here today on behalf of Brad Goldman, who is the Fund's representative. Mr. Scerbo stated that Pimco manages the Total Return II Fund, which is a high quality Bond Fund.

Mr. Scerbo mentioned that last year was a tough year to make money in the Bond market. He explained that PIMCO has added value through the management of the portfolio and has a done a good job relative to the market.

Mr. Scerbo discussed how the Federal Reserve Board has continued to increase interest rates. Pimco believes that rates may go up further to 4.25 %. He stated that the increase in oil prices resulted in an increase in interest rates. He advised that in the 3rd quarter, mortgage and corporate bonds have performed better than treasuries. He explained that the spread between mortgage and treasuries is small; however, he indicated that PIMCO has 61% in mortgage versus 38% to the benchmark. He referenced his report on duration and mentioned that the manager has kept duration very close to the benchmark.

Mr. Scerbo discussed the Treasury Yield Curve and mentioned that the short-term rates have crept up but the longer term rates have not yet responded. PIMCO believes the economy is not as good as originally thought, but the GNP numbers are good. Mr. Scerbo stated the yield on ten-year treasuries will range between 3.75 to 4.5 % and that it does not make sense to own long bonds.

Mr. Scerbo discussed TIPS and stated that PIMCO at one point owned or controlled 25%n of the TIPS market. He advised that the manager has pulled back, as yields were overwhelmed by prices. He explained to the Board that the manager has a defensive portfolio that is outperforming the benchmark. He further advised that Bonds do give a steady return.

Tom Sheppard asked if there were any changes with this Fund. Mr. Scerbo responded that there were not any changes. David Merrell asked if there are other products that we can get involved with besides this one. Mike Calloway answered that this will be addressed later in the meeting.

Mike Calloway – Merrill Lynch

Mike Calloway advised the Board that he would be addressing the following three issues:
1. Quarterly Investment Report
2. Investment Policy Revisions
3. Rebalancing Recommendations

Mike Calloway addressed the Board and discussed a handout entitled "Style and Capitalization Based Annualized Return". He explained that the value sector had good performance recently. Mr. Calloway stated that over a five-year period, the average annual rate of return for small cap value has been 14 to 15%. The returns for large cap stocks, however, were at 2 to 6% for the same period. He referred to Boston Company, who had previous approached the Board to change the way they manage the portfolio by investing in smaller companies. As a result, the portfolio managed by the Boston Company performed well and the manager increased their ranking relative to their peer universe. Mr. Calloway added that the shift in style made a major impact on performance.

<u>Quarterly Investment Report</u>

In reference to the Quarterly Investment Report, Mr. Calloway discussed the net contributions. He stated that if you took the value added since 1988 and subtracted what was taken out since that time, you have your investment earnings. For the quarter, the Fund experienced a return of $3.1 million and $11.1 million for the year. Mr. Calloway said that the return was good and better than anticipated. Mr. Calloway advised that per the Fund's policy, if the Fund reaches 70% of equities, you are forced to rebalance. He reported that the Fund currently has 68.6% in stocks and if an additional $1.3 million in funds are added, 69.9% would be allocated towards equities.

Mr. Calloway reported that since the Board rebalanced its portfolio strictly according to the Investment Policy, the Fund returned 13.5 % over a three-year period. He stated that other plans he was aware of reduced their exposure to equities and did not experience similar returns.

In reference to PIMCO, Mike Calloway advised that he would suggest a change in the Bond portfolio.

Mike Calloway continued with a discussion on risk in the portfolio. He stated that the performance results and returns are fine and the risk is reasonable, as noted in his report. He referred to Boston Company, who came to the Board and requested a change since they had concerns with their strategy and believed that they could get better results. With slightly more risk, Boston Company achieved a better return.

In reference to Davis, Hamilton, Jackson, and Smith, Mr. Calloway said that their returns over a three-year period were not good, resulting primarily from the style of management out of favor with the market.

In reference to DePrince, Mr. Calloway stated that the manger had good absolute results; however, relative to their peer group, they under-performed. Mike stated that his firm did not know the reasons for this under-performance except that the manger picked the wrong stocks.

Mike Calloway advised that Baron Capitol had a terrible quarter. He explained that home building stocks were slowed due to Hurricane Katrina and that small caps in Health Care also were responsible for the under performance. Still, the small cap manager contributed significantly to the overall performance for the fiscal year. Furthermore, the performance would not be expected to correlate very closely to the benchmark.

Mike Calloway discussed the international equities within the Fund. He advised that both Templeton and EuroPacific had better than average returns. He further explained that 10% in foreign positions and changes in the Special Act would be addressed further in the meeting.

Investment Policy

Mike Calloway advised the Board that two issues relating to the investment policy that should be considered include: the amount of real estate in the portfolio and consideration for changing the quality requirement on bonds.

Mr. Calloway identified that it is the current policy that 75% of the bond portfolio needs to be rated “A” or better and bond ratings can never go below “BBB”. He asked the Board if they are comfortable in providing the latitude for the bond manager to buy lower grade bonds than current policy allows. He stated that PIMCO has a portfolio with fewer quality restrictions that also allows investment in foreign securities. Mr. Calloway explained that 7.8% of the overall portfolio at cost is currently in foreign stocks. If the Board increased the allocation to foreign securities to 9% at cost, the Fund would still be within the 10% limit to foreign investments even after the proposed change to the bond portfolio.

Ms. Jensen advised the Board that in addition to taking advantage of real estate and bonds, there are other changes that could be made. She asked the Board if they are comfortable with the proposed changes that are being recommended to the investment policy. The Board discussed the real estate holdings and a suggestion was made whether to put 10% in real estate or to add language that states “up to 10%” in real estate”. Mike Calloway recommended to the Board that they should consider direct investment in real estate through commingled funds rather than real estate securities. Ms. Jensen stated that the Board would not adopt the section within the policy until they purchased or used that section.

In response to an inquiry about real estate and ~~item #3 in~~ the proposed policy revisions, Mike Calloway stated that real estate has a low correlation to equity returns. He stated that he expects returns on real estate to be below equities but above fixed income. Tom Sheppard confirmed that the Board is not immediately bound to comply with the guidelines contained in the Investment Policy while the Board searches for a real estate manager.

A motion was made by Tom Sheppard, seconded by Dorritt Miller, and passed 4-0 to adopt a policy with real estate provisions.

Mike Calloway will send each Board Member a clean revised copy of the policy once completed.

<u>Rebalancing</u>

Mike Calloway discussed the Fund's portfolio and suggested that the Board balance the 21% managed by Davis, Hamilton, Jackson and Associates, and the 25% managed by the Boston Company. He also referred to the Bond portfolio, which he stated is under allocated relative to the target. Mr. Calloway advised that to rebalance, a percentage could be moved from Boston Company to the bond funds.

The Board inquired as to its options relating to placing more money into international or in transferring money from the small caps. Mike Calloway advised that the pension plan is in a co-mingled fund. While small caps would only represent 12%, he believed it was possible to transfer from small caps but he recommended the Board transfer from Boston Company. He also stated that if the Fund did not have a 175 restriction, he would recommend more money be placed in the EuroPacific Growth Fund.

The Board discussed the percentage that should be allocated to real estate and inquired as to the time frame upon which these changes would take effect. Bonni Jensen advised that the language is already in the ordinance and that the allocation change for real estate does not have to be put into the policy. Tom Sheppard suggested that 35% should be in fixed and up to 10% in real estate. ***A motion was made by Tom Sheppard, seconded by Dorritt Miller, and passed 4-0 to amend the language to allocate 35% in fixed and up to 10% in real estate.***

The Board continued the discussion about the amount that should be allocated to bonds. ***A motion was made by Matt Young, seconded by Dorritt Miller, and passed 3-1 to transfer $3.8 million from Boston Company to PIMCO. Tom Sheppard Opposed.*** Scott Baur inquired as to when the money should be moved and whether there should be a date certain, due to the changes to the Investment Policy. Bonni Jensen advised that the reallocations could not be completed until 31 days after the change to the Investment Policy took effect. ***A motion was made by Tom Sheppard, seconded by Dorritt Miller, and passed 4-0 to move the money from PIMCO Total Return II to PIMCO Total Return Fund with both of the stated transactions to occur simultaneously on December 5, 2005.***

Reporting On Plan Financials

Scott Baur advised that we had cash due to the disbursements and explained that the storage fee of $70 per month was removed from the financial statement and grouped under administrative service fees. An inquiry was made as to why the legal and administrative services fees were not paid in September. Scott Baur explained that the September meeting was cancelled and that the disbursements were made in October. The expenses will be shown as accrued but not paid. As addressed by the Board, Mr. Baur also agreed to send an email on the account 2010 for the audit adjustment. The Trustees received and filed the financial statement.

The Board reviewed the disbursements. ***A motion was made by Dorritt Miller, seconded by Tom Sheppard, and passed 4-0 to approve the disbursements.***

Benefit Approvals

A motion was made by Dorritt Miller, seconded by Tom Sheppard, and passed 4-0 to approve the benefit approvals as presented by the Administrator.

Attorney Report (Bonni Jensen)

Bonni Jensen updated the Board about the waiver of recourse premium. The City wants the pension board to pay the waiver of recourse. Mr. Baur stated that his firm would pay the amount and submit an invoice for reimbursement.

Ms. Jensen reported that the process with new hires has improved with the new clinic of Dr. Lamelas.

Ms. Jensen advised that LaRoche Conlin reported on the Krispy Kreme litigation, although no changes were reported. Ms. Jensen also mentioned that the Pension Fund was named the lead plaintiff on the Star Tech litigation.

Ms. Jensen advised that a directed brokerage account agreement is ready for execution by the Board as amended by Ms. Jensen. ***A motion was made by Tom Sheppard, seconded by Dorritt Miller, and passed 4-0 to execute the agreement, as amended.***

Ms. Jensen addressed HB 1159 and advised the Board that she spoke with the Attorney for the Town of Mangonia Park. To date, she has not heard back from Frank Spence, the Town Manager.

Administrative Report (Scott Baur)

Scott Baur notified the Board that in regards to the Chapter 175 monies, the Pension Fund received the supplemental distribution in October but not the regular distribution normally received in August. Apparently, the check was missing and never received by the City. Mr. Baur explained that the Comptroller sent an affidavit to the City for reissue of the check, which the City failed to complete. His office ultimately obtained permission to complete and return the affidavit on behalf of the Pension Fund. The

Board inquired as to who is going to pay the lost interest to the members, since the money did not get deposited to the Share Accounts in a timely manner as a result. Mr. Baur recommended that he would like to close the Share Account on September 30th and post the new contributions on October 1, 2005.

A motion was made by Tom Sheppard, seconded by Dorrit Miller, and passed 4-0 to allow Mr. Baur to close the Share Account on September 30th and post the contributions on October 1, 2005.

The Board discussed the possibility of getting a 13th check distribution. Ms. Jensen advised that the Fund still has a $500,000 loss to make up, so next year there may be a chance for a 13th check depending on Fund performance.

Mr. Baur updated the Board on the earnings election and annual distributions available to the members of the plan. He sent out a letter to the active members and a separate letter to the retirees, explaining their options to them.

<u>OTHER BUSINESS</u>

Mr. Baur discussed the upcoming audit. The auditor requested to deliver the audited financial statement at the January meeting, but the City requires final year-end numbers before January. Therefore, the auditor would like to deliver the draft financial statement to the City in December prior to final presentation to the Board. The Board concurred that the financials can go to the City prior to Board approval, and that the final audit will be considered at the January meeting.

There being no further business and the next meeting having been scheduled for December 1, 2005, the meeting was adjourned at 3:16 PM.

Respectfully submitted,

Tom Sheppard, Secretary