

***West Palm Beach Firefighters Pension Fund***  
**MINUTES OF MEETING HELD**  
**August 4, 2005**

Chairperson David Merrell called the meeting to order at 1:45 P.M. in the meeting room at Station 2, West Palm Beach, Florida. Those persons present were:

**TRUSTEES**

David Merrell, Chairperson  
Tom Sheppard, Secretary  
Dorritt Miller  
Matt Young (arrived at 2:05pm)  
Tom Harris (arrived at 1:50pm)

**OTHERS**

Bonni Jensen, Hanson, Perry, & Jensen  
David Jakubiak and Scott Baur, Pension Resource Center  
Mike Callaway, Merrill Lynch  
Mr. and Mrs. Robert Brooks  
Mita Singal, Baron Capital  
Paul Ferwerda & Tracy Musser, Thomson Siegel & Walmsly  
Ed Coyne, Royce  
Edward DeArcos, NWQ

**Minutes**

The Trustees reviewed the minutes for the meeting of June 2, 2005 and provided minor revisions. A motion was made by Dorritt Miller, seconded by Tom Sheppard, and passed 3-0 to approve the minutes for the meeting of June 2, 2005 as amended.

**Trustee Election and Appointment of Secretary**

Scott Baur reported that the members reelected Tom Sheppard to the Board in an uncontested election. The Board needed to then elect a Trustee to the position of Secretary. Dorritt Miller made a motion to reappoint Tom Sheppard as Secretary. Tom Sheppard seconded the motion, approved by the Trustees 3-0.

**Investment Manager Report (Baron Capital)**

The Board heard a presentation by Meeta Singal of Baron Capital. Ms. Singal described the history of Baron and the company's philosophy on investments.

A brief summary of Ms Singal's presentation included the following: The firm has \$13 billion in assets under management, \$12 billion in mutual funds, and the firm is employee owned. Ron Barron owns 91% of the firm and Baron has a total of 60 employees. The staff includes 18 professional managers. The firm was established in 1982.

There portfolio has low turnover (10%) and Baron looks for businesses with a competitive advantage, a barrier to entry for competitors, and strong growth prospects. The firm employs quantitative and qualitative screens to identify companies that can grow by 100% in four years. The Manager holds no more than 10% of a company. Since inception on January 20, 2004, the portfolio has increased 33.83 % versus 15.68% for the benchmark.

The Board thanked Ms. Singal for her presentation.

## **Investment Manager Presentation**

The Board proceeded to review the investment manager presentations for the small cap value mandate. This manager is to replace De Prince, Race & Zollo.

### **NWQ**

Edward DeArcos, Vice President of NWQ, described the history of NWQ and the company's philosophy on investments.

A brief summary of Mr. Arcos' presentation included the following: The firm was founded in 1982; the make-up of its staff includes 27 professional investment managers and 126 employees; the firm has \$37 billion of assets under management; and the portfolio has \$650 million in mandates and approximately \$7 billion managed for public clients. The investment team meets daily at 7AM.

David Merrell asked "when were you bought and how long have you been together?"

Mr. Arcos replied that NWQ has been together since 1996 and was purchased in 2002. The firm is under contract for two years. Many of the portfolios offered by NWQ are closed to new investors.

Tom Sheppard asked Mr. DeArcos to clarify what he meant when he described the firm as under contract. Mr. Arcos responded the firm has an entire team in place. David Merrell asked Mr. DeArcos for his outlook on the market. Mr. DeArcos replied that the small caps are out performing the large caps. He anticipates that the large caps would eventually outperform the small caps. When interest rates remain low, small caps do well.

The presentation continued. Mr. DeArcos stated that the portfolio will likely close at about \$1 billion. The firm believes the Board should choose NWQ based on its focus on People, Performance and Process. Its research process includes screening for attractive valuations, downside protection, and inflection points or a catalyst to move the company forward. The firm sells positions when an issue exceeds the target valuation, fundamentals deteriorate, and the catalyst disappears. NWQ's fee of 1% is negotiable to 80 basis points.

Tom Sheppard asked Scott Baur what the Pension Fund currently pays DePrince, Race, & Zollo. Scott Baur replied that the plan pays 1% of assets or 100 basis points.

### **Thompson, Siegal & Walmsley, Inc.,**

Tracy Musser and Paul Ferwerda described the history of TSW and the company's philosophy on investments. Mike Calloway asked both to clarify questions regarding the performance on the small cap and the small-mid cap portfolios.

A brief summary of their presentation included the following: the make-up of its staff includes 57 associates with 28 investment professionals; the firm is located in Richmond, Virginia and has \$6 billion in assets under management; they have been in existence for 36 years; the firm has low turnover and they focuses on one business, investment management; low turnover of 40-45% reduces transaction costs; they portfolio is diversified but not overly diversified, typically with about hold 80-85 holdings; and TSW keeps the cash position under 5%. The firm closed the small cap portfolio at \$1.6 billion under management last year. They expect to close the small-mid cap portfolio at \$800 million. They are weights the sectors to 10% (+ or -) to the Russell 2000 Value Index.

Paul Ferwerda continued with the presentation. He advised the Board of sustaining positive change and explained the risk control measures. He discussed stocks such as General Maritime, which moves oil, and Carmike Cinemas. The sell discipline includes quantitative and qualitative triggers. TSW does not add to the positions of a stock in the portfolio as the price drops.

Tracy Musser continued stating that in the current quarter, the portfolio increased 8.1% compared to 5.9% in the Russell 2000 for the quarter ending June 30, and 13.2% as compared to 9.2% per the benchmark for the current calendar year to date. Ms. Musser expects the portfolio to significantly outperform the benchmark for longer periods over time. David Merrell questioned why the firm used different benchmarks. Ms. Musser explained that the firm uses two benchmarks, one for small cap and one for mid cap. A fee of 85 basis points was identified. Mike Calloway advised the Board of the track record for Thompson.

### **Royce and Associates, LLC (via teleconference)**

Edward Coyne joined the meeting by telephone and described the history of Royce and the company's philosophy on investments.

A brief summary of Mr. Coyne's presentation included the following: the staff includes 21 professionals with 15 involved with investment management; the firm has 30 years of experience; and staff invests heavily in their own products.

Royce invests in companies with less than \$2.5 billion in market cap. The micro-cap product invests in companies with a market cap of less than \$500 million, while the small cap product holds companies with a market cap between \$500 million to \$2.5 billion. The micro-cap portfolio has less liquidity and greater volatility. The firm keeps allocations to companies small in the micro-cap portfolio to limit risk. The Pennsylvania Mutual Fund allocates assets to both the small cap and micro-cap portfolios. Mr. Coyne reported that the firm looks for valuation discrepancies and invests no more than 25% of assets in one industry or 30% in any sector. The portfolio is composed from the bottom up.

Mr. Coyne explained that the firms maintain a 5% cash position and is comfortable with 7%. The portfolio currently has 12% in cash. In addition, the portfolio holds no more than 7% in foreign investments. Royce manages 18 mutual funds all dedicated to small cap assets. Mr. Coyne advised that strong performance results from not losing on the downside while participating on the upside. The portfolio wins by not losing.

Ms. Jensen asked about the form of management contract typically used by Royce. Mr. Coyne responded that the custodian normally purchases the mutual fund as an asset at the direction of the Board.

### **Summary of Presentations**

After the presentations were completed, the Trustees discussed each of the firms. Mike Calloway summarized the presentations made to the Board and offered his suggestions on how the Board should make its decision. David Merrell asked if the Board should consider any other firms. Mike Calloway responded that they heard from 3 of 4 firms identified in the manager search completed by Merrill Lynch. He further stated that Royce would not take a separate account at \$5 million but their fund has low expenses at 89 bp. He noted that the other TSW and NWQ do not invest in micro-cap stocks. Bonni Jensen advised the Pension Fund would not have a fiduciary relationship with Royce.

Mike Calloway mentioned that Thompson Segal buys shares of larger companies, with holdings up to \$5 billion. The small-mid portfolio maintains a \$2.3 billion average market cap but does not include investments in micro-cap stocks. NWQ, on the other hand, has a \$1.2 billion average market cap and the portfolio caps at \$1 billion. All of the managers are stock pickers.

### **Investment Consultant Report**

Mike Calloway of Merrill Lynch presented his investment consultant report to the Board and addressed its contents. The portfolio has \$93,845,790 of assets as of June 30, up \$1,905,028 for the quarter. The Pension Fund had gains of 2.1% compared to 2.3% for the benchmark for the quarter. For the fiscal year to date, the portfolio had investment returns of 10.1% compared to 8.4% for the benchmark. Mr. Calloway also mentioned that Bonni Jensen had recommended revisions to the investment policy. He recommended that the agenda for the November meeting should include rebalancing of the portfolio and discussion on the investment policy.

Mr. Calloway advised that July had been a good investment month for everyone. He explained the increase in up market capture ratio included in his report. He then reviewed the performance of each of the managers. Davis, Hamilton, Jackson continued to struggle with average performance. While Mr. Calloway stated that he continues to support Davis, Hamilton, Jackson based on the longer term performance. Baron, on the other hand, had exceptional performance.

He next discussed Templeton Foreign Fund versus the EuroPacific Growth Fund. PIMCO also had a good quarter with the fixed income portfolio up 3.6% compared to 3.1% for the benchmark. He reviewed the management fees, the commission recapture report, and the credits applied against the fees charged by Merrill Lynch.

After hearing from Mike Calloway, David Merrell inquired whether the Board should make a decision on a replacement for DePrince Race Zollo. Matt Young asked if any of the Trustees had a preference. Dorritt Miller suggested T.S.W.

Tom Sheppard stated that he has a problem with the presentation that TSW made. NWQ has a small cap product, similar to the portfolio presented by TSW. However, nothing in the manager search book presented by Merrill Lynch properly referenced the actual product offered by TSW. Mr. Sheppard discovered that the product reviewed by Merrill Lynch was closed to new investments when he had a conversation with the manager at a recent conference. Mr. Sheppard further stated that the Board pays Mike Calloway's firm a lot of money for the research, and the comparison should present a fair and accurate comparison of the best possible choices. He did not believe that the Trustees were comparing "apples" to "apples" between the products offered by the three managers. Tom Sheppard noted that the "small-cap" label did not seem to accurately describe all of the products offered to the Board.

Mike responded that the definition of small-cap varies from manager to manager. However, he apologized to the Board for the lack of a footnote regarding the small-cap product for TSW presented with the manager search, although the product indicated similar performance to the small-mid cap portfolio offered by TSW. Tom Harris made a motion to replace DRZ with TSW. Matt Young seconded the motion, with an amendment to try to negotiate a fee of 80 bp instead of the 85 bp fee offered by TSW. The Board approved the motion as amended 5-0.

The Trustees discussed the use of a transition manager to handle the trades. Mike Calloway recommended that the Board allow TSW to handle the transition on the small cap portfolio. Bonni Jensen will terminate DRZ once the Board has a signed contract with TSW. An attempt will be made to have the transition on October 1, 2005, with a contract for TSW by September.

### **Robert Brooks Hearing**

Scott Baur distributed the latest email from Dr. Lamelas to the Trustees, regarding the medical status of Robert Brooks. Ms. Bonni Jensen advised the Board on the steps involved in a hearing of this type. In particular, Ms. Jensen explained that the first step consists of an informal hearing, which is what the Board is doing today. If the Board denies the disability application by Mr. Brooks at the informal hearing, then the Board would go through a formal review process.

Ms. Jensen advised that the presumptive illness applies unless the contrary is shown by competent evidence. It was noted that Mr. Brooks misread the application and checked the wrong box, indicating that the disability occurred after his employment with the City had terminated. He then revised the application and initialed his correction to indicate that the disability did not occur after his employment ended, but rather occurred in the line of duty.

Bonni Jensen explained that the Pension Resource Center processes the application. Dr. Peter Lamelas conducted a medical review to provide the Board with a medical opinion. Dorrit Miller then read the letter provided by Dr. Lamelas. David Merrell questioned whether the heart condition for Mr. Brooks resulted from a pre-existing condition. Scott Baur stated that email by Dr. Lamelas clearly indicated that the

condition could not be linked to a pre-existing condition. Tom Harris confirmed the Pension Resource Center obtained all of the relevant medical records, including the worker's compensation information compiled by the City. Scott Baur stated that Dr. Lamelas reviewed all of the medical records for Mr. Brooks.

Bonni Jensen advised that the Board must make a decision based on the medical evidence. She cited a recent case in Orlando where a police officer experienced a heart attack as the result of a congenital defect and the court applied a presumption and referred the decision back to the Board. The Orlando Board then granted the pension on the basis of the presumption. After the Court referred the matter back to the Board, the Board granted

David Merrell questioned whether we could hire another doctor. Matt Young stated he read the entire package and understood that prior to the heart attack, Mr. Brook's heart was in excellent condition.

Bonni Jensen explained that Long QT syndrome is considered a hereditary disorder. She also advised the Board that first, if the disability is in the line of duty, the Board should make a determination here, and secondly, if it is not in the line of duty, they should continue.

***A motion was made by Dorritt Miller, seconded by Matt Young to accept Dr' Lamelas' opinion. Further discussion ensued.***

Tom Sheppard asked if the disability pension can be made date specific? Bonni Jensen stated the disability is prorated as of the date the Board says the participant is entitled to the pension. She further stipulated that he can't get it paid while he is also being paid by the City. Scott Baur advised that the September 1, 2005 paycheck would include a retroactive payment to part of August. Bonni Jensen further advised that the salary payment for disability would be 65% of his average salary or 2% per year. Tom Sheppard asked if it would be tax free? Bonni Jensen stated that this would be between Mr. Brooks and the Internal Revenue Service.

***A date of August 13, 2005 was established by the Board and a letter to the Chief with a copy to Human Resources would be prepared. The administrator will confirm that his payroll stops before we commence a benefit of 65% of his final average salary. The prior motion passed 5-0.***

## **Other Business**

Tom Sheppard readdressed the Merrill Lynch proposal and stated that he was disappointed with the presentation and that it was misleading. Additional discussion ensued.

## **Reporting of Plan Financials**

The Board reviewed the financial statement through June. The Trustees questioned the records storage fee paid by the plan in March. Scott Baur agreed to clarify the expense and report back to the Board. The Trustees received and filed the financial statement.

Tom Sheppard made a motion to approve the disbursements. Dorritt Miller seconded the motion, approved by the Trustees 5-0.

## **Benefit Approvals**

A brief discussion occurred about Wendy Budzinski regarding the processing of her death benefit.

***A motion was made, seconded, and passed 5-0 to approve the benefit approvals as presented by the Administrator.***

### **Attorney Report (Bonni Jensen)**

Bonni Jensen reported that there are five new hires and seven on the original list. Two of the seven started somewhere else. Bonni Jensen does not have a review from Dr. Lamelas and will be meeting at the City on August 12 at 9am to resolve medical records. New hires will start on August 15, 2005

Ms. Jensen reported that HB 1159 passed the Florida legislature. HB 1159 provides that municipal pension funds can receive benefit of the Chapter 175 money collected by another municipality if the first municipality provides all of the fire services to the second municipality through and interlocal agreement. The West Palm Beach Fire Department provides all of the fire services for Mangonia Park. After a brief discussion on HB 1159, *a motion was made by David Merrell, seconded by Matt Young to go after 175 money through the Town of Mangonia Park. The motion passed 5-0.*

All Trustees were reminded to file Form-1 regarding financial disclosure.

Bonni Jensen discussed two income deduction orders that meet the requirements of the Pension Plan.

She also mentioned that the Board received a retainer letter on the Krispy Kreme litigation from Lerach Coughlin. It was agreed that the Board would become a lead plaintiff if the complaint is amended. *A motion was made by Tom Sheppard, seconded by Tom Harris, to execute the retainer agreement. The motion passed 5-0.*

### **Administrative Report (Scott Baur)**

Scott Baur presented the renewal for the Fiduciary Liability Insurance. The premium remained virtually unchanged from the prior year. The policy with Travelers has a limit of \$3,000,000. with an annual deductible of \$1,000. The Trustees must each separately write a check for \$25 to Acordia for the premium on the waiver of recourse rider. Tom Sheppard made a motion to approve the renewal of the fiduciary liability policy. Tom Harris seconded the motion, passed by the Trustees 5-0.

Scott Baur will work on scheduling workshops for active members of the plan.

### **OTHER BUSINESS**

The Trustees briefly discussed some pending conferences. The IFEBP has an annual conference in Hawaii, although this conference is one of the premier pension and benefit conferences. Dave Merrell indicated that he might like to attend, although he stated that he was willing to pay his own air fare.

There being no further business and the next meeting having been scheduled for September 1, 2005, the meeting was adjourned at 3:47 PM.

Respectfully submitted,

Tom Sheppard, Secretary