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Retirement Board Meeting 8/11/00

GENERAL EMPLOYEES RETIREMENT BOARD MEETING
FRIDAY, AUGUST 11, 2000, 9:00 a.m.

I. CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James Wearn, at 9:00 a.m., August 11, 2000 in the Town Council Chambers. Attending were Trustees James Wearn, Robert Garvy, Vernon Richards, and Acting Town Manager Thomas Bradford. Also attending were Attorney John McCracken, Finance Director Jane Skittone, and Assistant Human Resources Director Carla S. Kneipp. Due to the fact that elections for board members had not yet been held, Charles Boggs was in the audience not on the board. (Due to the length of the meeting, the remainder of the minutes will be verbatim.)

II APPROVAL OF AGENDA

Mr. Wearn: The second item on the agenda is the approval of the agenda. This is a revised agenda from what was sent out, take a moment to review it.

Mr. Bradford: I move approval.

Mr. Wearn: Motion for approval of the agenda, is there a second?

Mr. Richards: I second.

Mr. Wearn: Any discussion? All in favor, please say aye, oppose like sign. (All voted aye.) Motion carries unanimously.

III APPROVAL OF MINUTES - REGULAR MEETING OF MAY 12, 2000.

Mr. Wearn: The next item on the agenda is the approval of the minutes of May 12, 2000. You have in front of you a set of minutes which reflect two typographical corrections in them does anyone have any other corrections or additions to the minutes? Hearing none, a motion to approve would be in order.

Mr. Garvy: So made.

Mr. Bradford: Second.

Mr. Wearn: There's a motion and a second, is there any discussion. All those in favor please say aye. Opposed like sign, motion carries unanimously. The next item on the agenda is our quarterly reports and first up is Roanoke Asset Management.

IV QUARTERLY REPORTS

A. ROANOKE ASSET MANAGEMENT (Presented by Ed Vroom)

Mr. Vroom: Thank you, I'm Ed Vroom, I'm one of the partners of Roanoke Asset Management. I see a new member of the committee, I think the last time I was here I did review some firm items and I thought I'd just quickly go through that again

Mr. Wearn: The new member of the committee is Tom Bradford, who is the Acting Town Manager and I think he was in the audience the last time, unfortunately our other missing member currently Charlie Boggs is out in the audience awaiting results of election.

Mr. Vroom: So do you want me to sort of skip over the firm material, I can do it in a few minutes because I know it, it's important to just hear it again. Roanoke Asset Management is an independent asset advisor, we've been in business a little over twenty years. It is owned by my partner Adele Wiseman and I. We are the portfolio managers responsible for managing all the funds at Roanoke including the Town's. We have been partners for over twenty years. Prior to forming Roanoke we were senior portfolio managers at Bankers Trust Company. So we are obviously a stable team with a lot of experience. We're a focused firm, focusing primarily on small and mid-cap growth stock sectors of the market and our process is driven by our own in depth fundamental research on companies. If you'll look at our record from the inception of the firm, it is outstanding with a twenty-one and a half percent compounded rate of return, that's remarkably similar to the actual rate of return for the Town since we've been managing that. I'll go over those long term rates when we go through the performance section.

From an asset point of view Roanoke is responsible for managing about $600 million of assets, broken down between private and institutional clients and it's about 50-50 mix between tax exempt and taxable. Our philosophy is growth, we are the growth manager of the fund, we focus all of our research oriented around the drivers of the P & L statement. We're focused on small to mid cap growth stock segments of the market. We don't use quantitative screens, rather we're, our research is based on strict fundamentals, bottom up research. From a strategic point of view, what this means is; we look at companies with strong secular growth rates with a time horizon of 2 to 5 years so when we talk about strategic that's kind of what we're looking for in companies that we invest in. So you'll hear a lot of forward-looking types of things when we're talking about our companies. You will not see us for example trying to play the auto cycle for example which tends to be a little bit more short term oriented. That's a thumbnail sketch of the firm, I think it defines who we are and what place we fit in with Town.

Now just sort of going through the quarterly review, on page 3 you will see the status of the fund as of June 30. The total equity portfolio is \$10,868,000, we have a little bit of reserves in the fund as of June 30, about a little over 10%. Which is not a market quote in any way it's just simply more transactional. The review of the recent rates of return, you can see the first quarter very, very strong, unusually strong first quarter. We've given some of that back in the second quarter, and I'll talk about that in a sort of a later foil. For the 12 month period of time, that's 12 months ending June 30, you can see the rates of return just extraordinary up 83.8 % versus Russell at 14.2, the Callan mid cap at 29.4 and the S & P at 7.3 and when I refer to the 21% compounded rates of return, long term, you can see that on the inception to date number we've produced a 21.2% compounded rate of return in this portfolio versus 13 for Russell and 17 for the S & P 500, that's a, you can do the math that's a 400 basis point annual spread between our rate of return and the S & P, which is I think quite good.

If you look on page 5, this is just a review of the most recent rates of return on a year to date basis given second quarter we're still up 6.8% that's ahead of the Russell and S & P, lagging the Callan mid cap and again I'll talk to you about our thoughts of what is going on here in our environment In the final performance page, page 6, is the 1, the 3 the 5 the 10 and the inception rates of return. You can see that in every single degree we're substantially ahead of all of the relevant indices we are measured against and also ahead of the Callan mid cap. Which is the index of managers who are in our approximate style of managers. So we're very proud of these numbers and obviously they're real cause we've been managing this fund for that amount of time.

I wanted to make a few comments on the environment and what we see occurring and how it impacts, you know, what we're doing at least from a performance point of view. Anytime, my experience is, that anytime you have an environment where inflation is a concern, interest rate direction is a concern, the biggest impact that, that has is on the market is in the segment that we focus on. That tends to be the high growth high valuation segment of the market. Because they're the companies that are discounting out the furthest and earning strength. So obviously the second quarter and to a certain extent the first half has been particularly difficult on high growth high PE stocks, particularly small and mid cap segment and we experienced that in the second quarter.

What we see occurring now, so the bottom line here, the take away for us is that we think the Fed is going to be successful in engineering a soft landing of the economy. They've been able to do it twice in the last 10 years successfully and there have been two periods of time in the last 10 in which interest rates have been increased the economy slowed down without going into a recession. We think that's what's occurring now, there is some early anecdotal evidence of that happening. You see consumer spending begin to drop, housing is dropping, auto sales are beginning to weaken so there is enough evidence that the economy is beginning to slow down, but not so much so that we're going to have recession. The key in all of this is that throughout this period of time inflation has never become a problem despite the fact that the labor market has been relatively tight, you have a longer term more secular positive that's going on right now and that is the pay down of our national debt. The estimates on our budget surpluses are way low, there being an increase which is going to add incremental money for pay down of debt. Obviously there will be some push pull within the election time regarding tax cuts that will have some psychological impact on that. We think the Federal Reserve will be very important in that sort of discussion. You know if you've looked at the Bond markets and what's happening there you'll see an unusual development where the 30 year quote Treasury Bonds yielding 5.76% or something in that order, where as sure maturities are well above that you have a significantly inverted yield curve which is the market's way of anticipating this pay down of our debt because that's where the government will go in and buy back the debt when we get to longer maturity ranges.

The other thing that I think is very important to look at and this is longer term for the financial markets, and you hear Alan Greenspan begin to talk about it and refer to it in his testimony and that is the strong impact that spending on technologies is having on productivity of the United States. I think you see that in the productivity numbers and the history of our productivity numbers in the last 2 or 3 years. Last quarter our productivity number was up in the 5 % area, which goes a long way in offsetting the higher wages that we're beginning to have to pay. So productivity is a very important element in long term inflation in this country and we think that's going to continue and it's no the kind of thing that ought to change from one quarter to another so that's a very positive development.

Now what we see happening with the economy slowing down we think as soon as there is enough evidence that that is really occurring, we would expect that one, industrial profits will begin to slow, which is to a certain extent a mixed blessing, a lower inflationary, a lower interest rate environment than anticipated, but, corporate profits are going to be slowing. The impact on our segment of the market we think will be very positive in that we tend to focus on the high growth segment of the market that ought to be able to grow right through this kind of slowdown barring a recession, so that we would expect that when that occurs that money will begin to migrate back into the segments of the market that were the market leaders for the last couple of years. That is the higher growth mid cap segment of the stock market. We're very optimistic, we don't know when that's going to occur but we would think that by year end you're going to start to see that development so we need to stay tuned to that.

On a more portfolio focus basis, we wanted to just sort of review the telecommunications and technology segments of the portfolio for a couple of reasons, 1) I think everybody's talking about it 2) they happen to be the largest segments in the portfolio, I do remind everybody that technology now represents about 30% of the S & P 500
so, for a manager like us to be significantly invested in that area 30% is sort of where the market is. What we see going on in technology and telecommunications is probably the most profound that I have seen in 20 years. There are significant technology shifts in both underlying technology and

telecommunications that are going to have profound effect on the demand for those kinds of goods and services for a long time.

In technology there is just a massive corporate adoption of the Internet, both internally and externally, it's massive, information technology associated with the Internet is a completely new platform, it's a totally new platform. The biggest application that is being adopted by corporations today is business to business electronic commerce. You read it and I'll apologize for the alphabet soup here in our bullet points, but, basically corporations view this not as something that they want to do, but, as something they need to do for survival. So that's the kind of thrust that's going on. And it is not the high tech companies that are adopting it
it's the sort of bricks and mortar, the industrial companies Ford, GM, GE, being the biggest adopters of this whole new technology and it costs a lot of money to do this. For example I recently heard a presentation by an executive with Ford Motor Company who estimates that by the time they are completed with their conversion to this new form of procurement for producing automobiles they estimate that they will incur or experience a savings both on the production and distribution of an automobile of $3500 per car, so that's enormous, whether that ever gets to that point, that's kind of what we're looking at, so we see that going on in the software sector.

In the telecommunications sector if you look at what's happening today, and I have a lot of sort of specific bullet points. The bottom line is that what it took a hundred years to build is being replaced in ten. And that's ongoing; it's happening. The move from copper based telecommunications systems to the fiber, the amount of data that's being sent over existing networks is just enormous. You have now; wireless networks around the world that are being put in as opposed to wired networks for new phone service. We've not even seen the beginning of the kind of data over cell phones, so this kind of thing is happening at such a pace that we view the opportunity as just simply enormous going forward. If you really think about our systems that we have being completely replaced it's just a profound kind of event. From the point of view of what we see and what are important segments in the portfolio we view the six months that has occurred as kind of a little blip and as just simply that we think the growth opportunities in that segment are still enormous going forward and they will continue to be an important part of our portfolio strategy.

Now having said that; on the next page is the diversification of the fund. Despite the fact that we view technology and telecommunications as very attractive, we felt like the commitment to the area had gotten too large because of the success of the investments. We have any number of companies, you can look at them in the valuation that are up 10 times what we paid for them, so we decided in just the last week, associated with some fairly nice price action in some of these names to reduce the commitment in the technology area by 10 full percentage points, so we brought that down and we are redeploying those funds into some of the consumer segments of the market as well as healthcare which we feel is very positive long term. So what you will see on line 30 is a fairly significant reduction in the technology segment of the portfolio. We would like to bring it down a little further, not much, it will still be a significant debt to the portfolio, but, we view that level of weighting as a little bit too high for our comfort level. You can see the names that we've sold on page 10. We'll really just look at the top five holdings and that's where we've peeled back some of our commitment. JDS

UNIPHASE which probably some of you have heard of by now is a kind of leader in the fiber, building of the fiber networks, a couple of software companies, a couple of semi-conductor companies, so we reduced the position, this will result on a short term basis in our cash in the portfolio which we showed you initially as 10% our cash is built up to 20% and we will be redeploying that as quickly as we can. We are actually right now in the market buying a couple of companies that we liked. That's the equity review.

On the fixed income side. Page1, of fixed income you will see total portfolio $11.4 million, our rates are on page 2. It's been a pretty mixed environment from our point of view. The fixed income market is a very unusual environment; in that you have an inverted yield curve on the treasury side which has gotten even more inverted recently and the spreads between corporate debt and treasury debt are at historic highs. They've never been as high as they are right now which leads us to think that there is enormous opportunity in the corporate sector or the trend that has begun will continue and that the yields on the long end of the treasury bond will continue to drop anticipating again this treasury pay down. Given our philosophy here, given the long term nature of the liabilities here, we would think that adding more corporate debt in the 10-15 year maturity range is probably a pretty good bet. You're being paid over 180 basis points, a spread over the treasury on pretty decent corporate debt so we think that's probably the way to match future liabilities here as opposed to trying to, you know, play what I think is more of a trade than anything else.

The year to date numbers on the right of page 3, we're right in line with the Shearson Lehman. We'd like to be exceeding that number; it's been a hard thing to beat recently and on page 4, is the longer term rates of return for the fixed income portfolio. Obviously from the inception to now we're handsomely ahead of the Shearson Lehman and on page 5 is just simply a breakdown of where we are as far as maturity breakdown of the portfolio. And as you can see, we have a lot of room to extend our maturities. This is a relatively short term profile of maturities we have a lot of room without going way out on the risk curve to capturing some of the attractive yields that we see on the corporate side. On page 6 the breakdown between government and corporate, you can see we are still weighted heavily to the government side which gives us room to move into the corporate sector of the bond market without taking on enormous amounts of risks. That concludes my comments of the quarter.

Mr. Wearn: Thank you Mr. Vroom, I seem to recall you mentioning when you were going through the report on the equity side that you were going to touch on page 4 second quarter and the page 5 Callan year to date.

Mr. Vroom: I think part of my comments were related more to market environment as opposed to specific stocks. When you have a market environment where concern is over inflation and interest rates, which is kind of the environment that we are still in that began to intensify really in February, people were concerned about inflation the high rate of growth of the economy, what's the Federal Reserve going to do, they've already increased rates a couple of times, what are they going to do in the future. That type of environment is the most negative on the kinds of companies that we invest in which are high growth, high valuation companies. Because they're the companies where you are discounting out further in the future a stream of earnings. So we're looking at companies that we think are going to be able to grow 20 to 30% for 2-5 years in an environment where the short term becomes very cloudy people tend to move money out of that segment of the market, so from our point of view that was the contributing factor to the negative performance in the second quarter. That plus the fact that we viewed the first quarter performance as a little bit of an aberration, I mean it was really kind of an outlier as far as rates of returns that were achieved during the first quarter so part of the attraction was related to the macro environment and part was related to simply a gift pack of the first quarter rates of return. Having said that we think the fundamentals have not changed at all, and I think that is the important message, we think the fundamentals of this portfolio are as strong as they've ever been and that's the reason I sort of went through a little bit of our technology and communications outlook.

Mr. Wearn: Thank you, are there any other questions or comments?

Mr. Garvy: I have a question on the use of the Callan mid-cap equity median for that subset of the Callan universe, since you have such a strong and persistent growth focus should you not be using a small or mid cap growth benchmark for a comparison?

Mr. Vroom: Yes, the reason that we use the Callan mid cap is that that is how we are being reviewed, sort of measured there, we also put in the Russell 2000 growth index which is the subset of the, you know what the Russell 2000 growth is, the reason that the Russell 2000 growth is not particularly similar is that it is a little smaller than we are, if you put in the Russell 2500 that is a little bit of a larger subset, the numbers would be relatively the same as the 2000 growth, we're happy to use whatever index the committee feels is most appropriate for us, I think ultimately it's the S & P 500 that we need to be on longer term looks, because if we didn't do that, there's no reason to have a hired gun.

Mr. Wearn: Any other questions?

Mr. Wearn: Thank you very much. Next on our agenda is the First Union.

B. FIRST UNION (Allen Smith)

Mr. Smith: Good morning. My report will be more abbreviated than Ed's, and a lot more informal. We did not prepare a written report because we would merely be supplying the quantitative data that has already been supplied by the other managers. One thing we wanted to do this morning is update the board on changes and corrections to the various accounts because of some mistakes that were made initially.

We have been working very closely with the operational folks at Roanoke and Loomis specifically Pauline Sapadas of Loomis and Irene Dixon of Roanoke. We've been asking them to fax their investing sheets to us so we can compare them to ours and we have been faxing ours to them so that we can run a comparison and see where we are. At this point on the Roanoke account on the equity side we still have about 100 shares to make adjustments on and about 100 shares to adjust with Loomis on the equity side.

We have found several diminimus interest pay down payments which we are adjusting. These have gone a little slower than they normally would have gone and would just have been an operational matter, however, I am running everything through me just to make sure it gets corrected properly. At this point all those changes have been sent through, as soon as I see the corrections on the system I am going to run corrected and revised reports and make sure that Loomis and Roanoke sign off on those and then I will release them to Callan. I supplied this basic information in writing to Bill Crouse and Jane Skittone to let them know where we were earlier this week. I think at this point once those go through we should have those accounts fully corrected and fully in sync with the investment managers.

Mr. Wearn: OK, thank you, does anyone have any questions or comments? I think under the Callan report we may have some matters come up concerning the errors and corrections you have been talking about I wonder if you might stay through their presentation?

Mr. Allen : Oh sure, I'd be delighted to address them.

Mr. Wearn: Good, thank you. Loomis Sayles.

C. LOOMIS SAYLES & CO. (David Sowerby/Kurt Wagner)

Mr. Sowerby: Good morning and thanks for the opportunity to be with you, I have with me Kurt Wagner who works with Mike Harris on the fixed income portfolio. We'd like to update you on your portfolio and recent performance and pre-background on Loomis Sayles as we are your on the equity side, which is what I would direct my comments on, we are your value manager. We're the people who for lack of a better explanation, buy our furniture on sale, we buy our cars on sale, we buy our stocks on sale, when importantly there's a catalyst for earnings improvement. When stocks are under valued for what we believe are the wrong reasons.

What I'd like to do today, for the best use of your time, is just simply update you on your portfolio and on your performance, particularly in light of the last time we were here in February. Perhaps more importantly to update you in response to some of the questions and quite frankly some of the concerns the pension board and Callan has with regard to Loomis Sayles and investment performance. I think that at the end of this conversation the most important message is that since we were last here in February your performance has meaningfully improved both against the markets, our benchmark, and our value peers. At the same time this portfolio is well positioned to move forward, to generate the kind of returns we have done over the years with the exception of a pretty tough year in 1999.

If you'll look at page 1-1, I'll update you on performance, right about the time we broke up the meeting in February we were a month away from what I would call a meaningful and structural change in the market. An inflection point where stocks in many cases that were over priced without earnings got their comeuppance and stocks that were appropriately priced relative to their profitability, rewarded portfolios as they have over the longer term. Second quarter continued to be a

tough market for stocks in general particularly in the face of rising interest rates. You see the S & P 500 down 2.7%, Value Benchmarks down 4.7% for the Russell 1000 value. Reading across the columns on page 1-1 from left to right. In your portfolio, total equity portfolio down 1.2% beating the S & P 500 and beating the value benchmarks and our value peers. The other column right next to it is I think it is perhaps more meaningful because that addresses the market from what I would say is deem this as an inflection point since the NASDAQ peaked over 5,000 and you've seen the NASDAQ fall 25%, and you've seen Internet stocks without real profits fall anywhere from 50% and at times even more. Your portfolio, your equity portfolio, including cash, was up 8.57 % out performed the S&P 500 which was up 6.9%,
the Russell 1000 value and the Barra value out performing both of those benchmarks and relative to our value peers, out performing our value peers.

With the goal on our intent to stay very disciplined in what was unquestionably the toughest market that value investors ever saw, probably will ever see again in 1999 and the first couple of months of 2000. Year to date markets continue to be weak. Our returns still have some more wood to chop, besides the last 4 months where we've picked up performance, year to date is down 5.8 % in the portfolio. One year numbers unquestionably because of 1999 and tough markets in general still lack luster compared to our value peers and what that has done, no doubt about it, particularly in the second half of 1999 and the first couple months of 2000, is relative to good long term performance that has unquestionably dragged down our long term performance. If you lay out individually the years of 1995, 1996, 1997, 1998, average, to typically above average performance results relative to our value peers 1999 a year that was below our standards below the standards you'd expect from a firm like Loomis Sayles and what that unquestionably did was it took down long term performance numbers and it came at a time which again was challenging to say the least for value investors and was a year where stocks that didn't make money went up and stocks that were profitable were flat or stayed down. Importantly we have seen an inflection point in the market and we've seen stocks that have been rewarded with real profits and the right price to pay for them your performance has responded appropriately and we are out performing our value peers.

What I'd like to do is explore that in a little more detail and highlight the portfolio for you today and discuss how it's done better and how it's positioned to keep up that recent performance going forward. Page 2-1, there are some highlights on the market in the second quarter. I would like you to focus in on a couple, bullet point #2, stocks that were particularly hard hit in this second quarter or since the NASDAQ peaked roughly five months ago now, the stocks that have been hit the hardest are those stocks without real earnings and without the right price to pay for them. Companies that for lack of better words as one of my colleagues says, take dollar bills and sell them for 95 cents. It may have worked in 1999 but in the longer term that is not how you build retirement assets I don't think that is how you build portfolios for the longer term. Bullet # 4, since the NASDAQ's peak on March 10, positive equity returns, particularly among value investors, have been produced by what I would describe as disciplined value portfolios that are structured for the longer term.

Last item that I think that's of critical importance is the market has been volatile this year about 2 times, 2 and1/2 times the long term average. It's even more appropriate that you stay disciplined in that type of marketplace looking toward the longer term and in longer terms we expect what we see in the 3rd quarter and the 2nd half of this year, is a market that's more rational, continues to be and to the absolute side is more positive for investors as interest rates stabilize and companies with good corporate earnings going forward reward returns.

Page 2-2, is particularly critical to some of the issues you no doubt will have to consider today. I describe 1999 as maybe the arguably the most unique maybe the most insane market we'll ever know as investors in our lifetimes. I would classify that even more so for value stock pickers, disciplined value stock pickers like as Loomis Sayles. The top exhibit on page 2-2, all this really says is that if you look at the best performing stocks within the value space in the last year, year and a half the best performing stocks typically had the worst long term fundamentals, or what one of my other colleagues says were really growth stocks in disguise. Prior to the NASDAQ's peak, if you look at the average for the best performing 25 stocks in the Russell value, these are quote "deemed as value stocks" you look at the total return quite impressive 373%, you look at the company's evaluation how much price are you paying relative to the earnings PE ratio on AMOR time forward earnings, 72.5, price to sales 48.5 x's sales, pretty expensive stocks for value investors, look at their return on equity, profitability that you were getting for these kinds of companies, return on equity about 8 %. Mind you in your equity portfolio return on equity today is closer to 17 or 18 %. The value managers who printed very good numbers like this, for lack of better explanation copied off their growth colleagues' paper, and it worked, it worked in the near term.

More recently if you look since March 1st and you look as fundamentals have ruled the day in the market and you look at the bottom chart on page 2-2 you say okay, in this fundamental shift that we've started to see in the market where the NASDAQ has dropped 25%, Internet stocks are down 50%, what kind of value names have rewarded investors?. Well the average return for the best performing value stocks for that four month period from the beginning of March through the end of June and this would continue on through July, the average return at 92%. Look at the characteristics for the companies, I think these are good companies and I think this is important, PE's of 13.5 more appropriate, price is relative to its profitability. Price of sales 4.5 and companies with the right return on equity, like the stocks in your portfolio, did very well. That was the market that investors had to contend with in 1999 and the first couple months of this year. Since then what I deem as a fundamental shift an inflection point of the market, within our space, within the value space have done well, but, the value stocks that are appropriately priced relative to earnings. Not like previous periods which I would deem as value stocks that were really growth stocks in disguise. I don't think those are stocks that people want their long term assets built for retirement. It's what we all had to face in the market, there's no question about it. Every value manager had to face that kind of environment. It's not to blame it on the market, but, to look and say that for the longer term we chose not to participate in these types of expensive stocks relative to profitability and there's no question about it, relative to our longer term returns prior to 1999, our performance sucked, no doubt about it. As we see the market return to more normalcy, your portfolio has responded quite well beating the value benchmarks and beating our value peers.

If you look at page 2-4, I want to go into a few more details of the portfolio itself and some of the characteristics. I think that have been instrumental in stronger performance over the last 4 to 5 months. Importantly taking that March 1st period since the last time we were with you and also the time that the NASDAQ peaked more than half of your stocks have out performed the value benchmark, but, most importantly the stocks in our portfolio with the highest weighting, for our investment conviction, did the best, within your performance. Stocks as the second bullet point states, says on valuation, price to earnings the price we're paying relative to the profitability. Those stocks have been the ones that have rewarded the portfolios the best, by sectors, by major industries relative to our value peers. Our sector selection, stocks of the sectors have done quite well. Seven out of the 10 major sectors our stocks have exceeded the value benchmarks and our value peers. Most notably I'd like to point out because we believe in technology, but, technology at the right price. Where as technology stocks were falling in that time period, your portfolio, your technology names actually were moving slightly higher, where the market was declining. Just for the fundamental belief of wanting to buy technology companies that made money, that had believable profits behind them, like a Compaq, like an IBM, like an Intel, like a Litton, which challenged us in 1999, but we believed in the fundamentals retained the stock and it has rewarded the portfolio quite well. Besides that communication services, consumer cyclicals, consumer staples where we see great opportunity today after that group languishing in 1999, have responded quite well, names like Disney, Budweiser, the broadcast media stocks besides Disney like a Clear Channel or a Viacom have done quite well and rewarded this portfolio. Energy stocks, financials have done exceptionally well since the NASDAQ peaked. And most notably in your portfolio we've had a fundamental decision in financials to overweight insurance stocks that's the group in financials that have done the best. Stocks that were hit last year, but, stocks that had the right fundamentals, the right price, the right earnings, and stocks that have meaningfully contributed to today.

The last few highlights on page 2-5, this really defines our discipline as value stock pickers. We want to buy under-valued stocks, stocks that trade at a discounted PE to the S&P 500 and to our value peers, for companies who have a catalyst or earnings momentum. Your portfolio, your PE ratio, the price of sales ratio over stocks, the price of cash flow in your portfolio. In each and every industry trades at an appropriate and meaningful discount. Not just to the S&P 500, but, to our value benchmarks. At the same time we have stocks that have the right earnings catalyst going forward, that have the right industry outlook the right positive earnings and the right management behind the company. If you'll look at 2-6, to give you a good snapshot on 2-6 and 2-7 of the portfolio at the end of the 2nd quarter, a couple of numbers I'd like to draw your attention to on 2-6 is if you look at the price to earnings ratio, relative to the Russell value, right in line with it, on 2001 earnings per share forward earnings your portfolio trades at a PE ratio of 17.8 and relative to our value peers trades at a discount. At the same time if you look at the profitability, the projected profitability of the companies going forward, the estimated long term earnings per share growth, the EPS growth, this is the earnings growth that we think is believable and superior to our peers. What type of industries are we seeing that type of better earnings growth and the right price to pay for the companies. If you look on the left hand side
consumer staples is a group that we've seen a good opportunity and more recently in the last month have been increasing our weight in, within that area, as we also have been in financial stocks which

importantly have been one of the best performing groups since the NASDAQ peaked and since we last left you in February. Technology, our weighting today is about 14-15%, we own technology stocks. Like Ed we believe in technology for the long term. The difference is we're going to pay closer attention to the price PE ratio as a value investor relative to the type of earnings that we're getting from the companies. What we might say are believable earnings going forward.

Page 2-7 gives you a snapshot of the portfolio as of June 30 and the respective names within the portfolio. Page 2-8 leaves you with this before I turn you over to Kurt to talk about the fixed income portfolio. Last time when we were here, I remember Mr. Garvy pointed out an exhibit that I had in the book that talked about the wide spread in prices that value managers had to pay for stocks versus growth managers. The longer term is usually a growth manager will pay about 30% premium for a growth stock relative to a value stock. When we were with you in February, growth managers weren't paying 30% higher price relative to value investors, it was more like 130%. As I said it was a great time to be a value investor and to be buying your stocks on sale. It was also important to be a disciplined value investor in a market that was so unique in 1999 that we didn't do our job, that being disciplined was particularly the key. Not chasing the most expensive parts of value which we described as growth stocks in disguise. And your portfolio since that time has out performed the value benchmarks, our value peers, as I said there's more wood to chop.

This is an important relationship to Loomis/Sayles unquestionably. You've had good performance in years past, but, 1999, as Callan will very succinctly point out has taken down your long term results because of 1999 a unique year. More recently as we've seen the market witness this fundamental shift, your disciplined value portfolio has done what it is supposed to do, it has beaten our peers, beaten our benchmarks more wood to chop. I would ask this, if you don't see continued better performance in the second half of this year like you've seen in the last 4-5 months we don't deserve to be on this relationship, the movie is only about half over right now. You've seen the market shift and your portfolio respond appropriately.

On section 3-1, to give you the team that's behind you at Loomis-Sayles, both at the equity side and on the fixed income side, this is a deep firm with good, what I believe are good talented, dedicated people to their clients. Been in business since 1926, we manage roughly $70 million in assets our revenues, our business is tied to one thing, we do one thing only, like Roanoke, we just manage money. We look to hire seasoned investors that have average experience of 17 years in the investment business. Page 3-2 gives you the background on myself, Kurt Wagner, and Mike Harris. On page 3-4 more detail within the team behind us on the equity side is a very deep and independent team of research analysts, who are fundamental, good old fashioned stock pickers. If you look at the mixture combining some younger talent with seasoned talent these are people who view research and dedicated research and independent research as a life long career opportunity. When you see people with experience 17 years, 28 years, 20 years, 19 years, those I think are very seasoned individuals who work with us on the portfolio side to find good names to build your portfolio. The same speaks also to the fixed income side. With that
we can answer any and all questions and I'd also like to ask Kurt to update you on your bond portfolio. If that's appropriate.

Mr. Wearn: Let’s go ahead and have questions on the equity side first.

Mr. Garvy: David, on page 1-1, you show at the bottom of that page you show the equities only and the Callan median. The question is why equities only as opposed to the total including cash and then the Callan median, is that a value Callan median or is that just the broad equity database of Callan?

Mr. Sowerby: The first question you asked is that above that I’ve got equities including cash for the historical numbers in this case I picked equities only just to highlight stock selection. And relative to the total portfolio which would include cash, that would be pretty much the same since we usually only run 2 to 2.5% in cash. We look to usually be fully invested because we are not asset allocators, we’re not market timers. The only time you’ll see cash is either we’ve sold a stock and haven’t bought a new one. But, typically you won’t see more than 5% cash, unless we can’t find names. Then to speak to the question it is the Callan large cap value median. So what you’re seeing is 95,96,97, better performance, 98, 1998 we’re a little below median. 1999 no question about it, tough year and a year we didn’t do our job.

Mr. Garvy: It seems that looking at the characteristics of the portfolio, you’re much closer to the Russell value, Russell 1000 value than the Callan median value. I’m not sure of that as I don’t have the Callan median value statistics, but, first request I would make is that whenever we see these numbers compared to indices which would include cash, they should be including cash as opposed to just the equities only. And then if we have something like the Callan median I’d like to see it against the Russell 1000 value which is really the benchmark that appears to be appropriate to your style of management, would you concur?

Mr. Sowerby: Yes I would, our goal ultimately is to beat our value peers, beat the value benchmark, beat the S&P 500 with the discipline being a value style, the same way Roanoke will look out for the S&P 500 using a growth style and that’s been our goal. Unquestionably in the last two years in particular it’s been a tough market for people who like to buy their stocks on sale. At the same time in the last couple quarters I think we’ve seen what I feel is a very fundamental structural shift in the marketplace. Not unlike for veterans what people saw in the 1972-1973, with the nifty- fifty. We’ve had episodes of this in the past, whether it was the nifty-fifty, oil stocks in the early 80's, bio-techs in the late 80's, and the time to be the most disciplined was maybe when the pain was the most severe. And I’d like to believe that being disciplined has rewarded this portfolio well since the last time we were in front of you.

Mr. Wagner: Okay you should have a second Loomis-Sayles booklet that deals fixed income portion. This will give you just a little more paperwork to juggle around. My name is Kurt Wagner I work with Mike Harris, who you normally see at these meetings. Mike and I are together as co-leaders of the core strategy team to assess the strategies for the core portfolios, such as yours. If you’ll turn to Tab 1 fixed income booklet, the top of that page lays out the rest of our team members we do use a team approach in managing portfolios. On the middle of that page again a summary of how we approach bond investing and just to summarize that our focus on investing bond portfolios is on corporate bonds and other types of bonds that are asset backed or (unintelligible) backed bonds, where we can add value into the portfolio in other ways than guessing say on interest rates or sectors. We do have eyes open for bonds that have a significant yield advantage to improve the yield of the portfolio and also to bonds where we think there is a upgrade potential in terms of credit and quality. To help us in that goal, Dave laid out that the twenty-four credit analysts that Loomis-Sayles employs help us in our mission of picking out good bonds and corporate bonds. Finally on that page we laid out the relevant guidelines that we see in terms of investing your bond portfolio, really the one guideline that perhaps places limits on us in terms of what we might do if we had full discretion, is the single A minimum quality and my understanding is that relates to state statutes here in Florida as far as what public funds can invest in. We would make the suggestion that if you do have, or ever find yourself an opportunity to provide input on that policy that it be expanded to include Triple B bonds as well, Triple B bonds are part of the investment grade bond universe. In fact they make up about 25% of the investment grade corporate bond universe and are related to improve returns within the market and portfolio.

On Tab 3, we lay out the fixed income returns for the portfolio. For this period, the last year and in fact the last 3 years, in my experience in the bond market and that goes back 20 years, has been the most volatile in terms of how different sectors of the bond market have performed. Very normally the differences between bond performances are very subtle they're very longer term oriented. But, over the last 3 years we have seen a lot of volatility between different sectors. I'm talking about corporate bonds relative to government bonds, treasury bonds relative to mortgage bonds, long term bonds relative to intermediate or short term bonds. So it has been a volatile market in this market in the last year that year to date number there we have about matched the index, essentially on top of it. The one year period here has been one which the way quarters are broken out corporate bonds and other types of bonds like corporate's, have underperformed treasury bonds and we'll talk a little about the reasons for that. That dragged down the one year returns, so the longer periods were essentially in line with the indexes. We believe that important reasons in the marketplace right now of why the return potential of the portfolio is much greater now than it was a year or two ago. Long term numbers are starting to move back towards the type of success we've had in the past.

If you look at the next page it lays out how the portfolio is invested in the different sectors. I draw your attention to the pie charts on the bottom of 2-2, the Loomis-Sayles portfolio on the left hand side relative to the market portfolio on the right hand side. The important difference there is that blue slice of the pie those are the corporate bonds that's really our focus of the portfolio, along with the red slice, the mortgage related and the asset backed bonds. You can see the aggregate, Lehman Aggregate bond index, much more of that portfolio is represented by treasury bonds, which frankly have done very well in the last year, but, over the longer periods of time cannot perform as well as corporate bonds. Also if you look toward the top portfolio duration is a way of measuring the interest rate risk for that portfolio, you'll notice we're right in line with the index there, we're not taking any more risk in the portfolio than the index and the
average quality of the portfolio is quite high, doubling.

Turn to tab 3, that outlines some of the trends in the bond market that have been going

on. Really to summarize that we believe that three and four trends to bond managers in the marketplace some of which are changing right now. Page3-1 we lay those out. Really the important trends are first and foremost Federal Reserve policy over the past year to raise short term interest rates. The second major trend is the Treasury buy back that Ed was talking about. The surplus in the U.S. budget has been so significant that the Treasury kind of caught the market
by surprise earlier this year and also to not just restrict their sale of bonds but go into the old marketplace and repurchase treasury bonds in the marketplace. And that is certainly something new that no participant in the bond market right now has ever seen in the past. And it took the bond market a few months to kind of adjust to that new parameter. And finally our equity colleagues both eluded to the extreme volatility that we've seen in the equity market and when there's volatility in the equity market, when the Federal Reserve is tightening those are both very unsettling events for the bond market. Bond investors are never known really as wild and crazy guys to begin with, but, with these events going on they really rush into the safety of Treasury bonds and inflate the Treasury bond prices on the shorter term.

If you turn the page what we mean about Federal Reserve typing and what that has done to the bond market. And again Ed has eluded to this, we've created what we call an inverted yield curve. If you look at the top of this page, the two curved lines up at the top, that blue line is where the yield curve existed as of the end of last year. The way you read that the points on the left hand side of that chart represent short term bonds, six month, one year, two year, and on the right hand side interest rates on longer term bonds about 6.5% at the end of last year. That's how you'd expect, but, that's a normal yield curve you go to a bank and you buy a CD you'd expect to get a higher rate of interest on a one year CD then you do on a six month CD. But, with the Federal Reserve pushing up short term interest rates higher, the Treasury coming in buying longer term bonds, you see the kind of reverse lately, that redline as of 6/30
and like Ed mentioned, interest rates on long term bonds are now lower than say two year Treasury bonds. That's very unusual, it creates illiquidity in the marketplace. Brokers when they bid for bonds have a higher financing rate and they are reluctant to bid for longer term bonds. It effects the prices and illiquidity of pretty important bonds in the marketplace. Inverted yield curves like this have occurred in the past, we get used to dealing with them about once every eight or ten years or so, they usually don't last for very long, in fact this one has persisted for longer than normal. Eventually the Fed will buy his work done and allow short term interest rates to go back down.

Next page illustrates the returns on different sectors of the bond market. I'm talking about what we eluded to before, I draw your attention to the left hand side of that chart where a one year return numbers and you can see just a huge difference in returns on corporate bonds relative to treasury bonds , how much they lag treasury bonds and how does that happen. Corporate bonds carry higher rates of interest than treasury bonds, as they should because they are slightly more risky than treasury bonds. But, there is a second component to return, even short term return and that is price and what you've seen is the price of treasury bonds have moved ahead for all of these short term factors and that's inflated the near term terms of Treasury bonds.
Over the long term, virtually all return on bonds is related to interest. They haven't really invented growth bonds yet. We always get back a hundred cents on the dollar when bonds mature. So the

interest rate on bonds has a much more important factor long term and that's illustrated on the right hand side of this chart over a ten year period, even with the recent non performance of corporate bonds. They provide longer returns, long term and we think they are appropriate in a pension portfolio, and a great way to get higher rates of returns for the portfolio.

Now there's a flip side to the under performance in price and that's what that does to the yield. If you turn the next page, what we lay out here is the yield advantage in investing in corporate bonds and mortgage bonds relative to Treasury bonds. And we've used Triple B corporate bonds here as an illustration, this will hold true for any credit quality bond from Triple A corporate bonds to high yield bonds in the junk bond market. The way you read this chart is looking across for example, right now you'd see that the blue line is about 2.5% . Investing in a ten year, Triple B corporate bond right now earns you 2.5 percentage points more yield than a Treasury bond. That's virtually higher than any other time in the past except when we were in the depths of a heavy duty recession. We think that is very, very attractive. So the lagging prices have created the opportunity to buy corporate bonds and build in a lot of yield advantage. Now we're looking at five year single A bonds. Right now, we've purchased 5 year single A bonds in your portfolio at about a percent and a half more yield than 5 year treasuries. Two or three years ago we would have been happy to get half a percent more yield with these bonds. So as prices lag it has created more opportunities to invest in higher yields and higher yield advantage. The same thing has happened on the green line mortgage backed bonds also to a lesser extent, they are also very attractive right now from the yield advantage point of view.

So on the next page what does all of this mean for strategy for the portfolio, as you might have guessed it would mean take the corporate bond market which has lagged over the last year, it's just that much more attractive for investment because of the higher yields and those yields will win out over a period of time. So we're sticking with the corporate bonds, actually adding to those positions. We've added some strong financial things like C I T, Heller, Morgan Stanley, all very high quality bonds. Mortgage bonds are also very attractive, as are U.S. agency bonds and really how can all three be attractive, our feeling is that U.S. Treasury bonds are older and unattractive therefore we're hoping for lower balances of treasury bonds in the portfolio. Five to ten years because of the higher yield seem to be the best place to invest in the bond portfolio and in fact we feel that there is really no reason to own short term Treasury bonds in the portfolio at all and we're going through all the portfolios and replacing short Treasuries with short corporate and short agency bonds. And we're keeping the duration interest rate risk of the portfolio the same as that of the index, we don't think right now there are major trends in the interest rates that can be taken advantage of and realistically that's not our investment style longer term anyway. Our style is to capture the added returns of corporate bonds and asset backed bonds and mortgage backed bonds.

So you can look at the detailed portfolio on Tab 4, again the number of corporate bonds in the portfolio and all of the corporate bonds in the portfolio are very high quality, there are no problem credits or problem situations in the portfolio. That's it for the fixed income report are there any questions for me or for David.

Mr. Garvy: I have a question on page 2-1, you show the Lehman aggregate Triple B,

Mr. Wagner: Minus, less Triple B

Mr. Garvy: Less Triple B's, is that the same aggregate that is on 2-2?

Mr. Wagner: Yes.

Mr. Wearn: Any other questions or comments of Loomis-Sayles?

Mr. McCracken: I don't know if this is the appropriate time to ask this, but, I notice that the benchmark which Roanoke uses is different than the benchmark that Loomis-Sayles uses, is that because you don't subtract out Triple B, Ed?

Mr. Vroom: Yes, from the conventional.

Mr. McCracken: If you look at page 4 of Roanoke there's a big difference.

Mr. Wearn: Good point, any other questions or comments, Thank you very much. I would note that since our last meeting, pursuant to the instruction of the board I did write Loomis-Sayles and advise them of their probationary status, and I comment on that for the purpose of the quarterly reports. Next on the agenda, we have Callan Associates for the quarterly reports and I ask that we cover that and the comments that you may have about First Union. After we address those two things we will take a break before we go on to the fifth item on the agenda, which may involve the discussion of Loomis-Sayles legal status and business status at this point. Discussion of the formal process for administering investment managers, this may include a watch list and a retention termination considerations of the policy. Discussion of investment styles and discussion of search process.

V. CALLAN ASSOCIATES (Jeanne Valcik)

Ms. Valcik: Okay, first book is Town of Palm Beach General Employees, June 30, 2000, performance report. I think that Roanoke and Loomis did a great job telling us about the market, so there's not a whole lot more that I'm going to be able to tell you. Before we start we'll open the book to page 1, and look at the chart at the top of the page and that chart is designed to show us what the range of returns were to the money managers, now remember that when we look at that this rate of return, this is for all different types of money managers. So it's not one in particular. So if you look at the domestic equity on the far left hand side and you see that 2.48% positive return in a very down market, well we know from looking up on later pages that that's going to be small cap value managers, and we're so happy for them because they haven't had a good quarter forever. Down at the bottom the ninety percentile would be aggressive growth managers. And you can see from this period that the S&P 500 landing right in the middle, right at medium. We don't invest in international markets so let's not talk about that.

Domestic fixed income we finally have a positive quarter, you know that's been negative for quite some time. The benchmark, the Lehman Brothers aggregate was able to beat most domestic managers during this time period. If you look at the one year period, you can see that for one year a huge dispersion in return in the domestic equity market. In the ninetieth percentile those managers lost 10% and the top ones gained nearly 60%. Most managers were able to out perform the S&P during this time period, in fairness when we talk about most managers we're talking about growth managers, not value managers. The returns for the bond managers were very, very tight. As you can see that's a pretty darn little bar so the difference between the top and bottom managers was pretty small.

On page 2, this is domestic equity, the chart at the top shows the style group medians. You can see aggressive growth managers lost about 7% for the quarter and the small cap growth, small cap value you can see there the median manager returned about 1.3%. But, if you look down to the one year period, the returns that we've been standing here looking at for the one year period show the exact same pattern that they have for a long time. Aggressive growth small cap growth, the place to be, the value managers losing 7 to 7.5% at the place they've been shopping at.

On page 3, domestic fixed income, first thing that popped into my mind is look, finally got a positive quarter for domestic fixed income after a long time. Down at the bottom you can see that the range of returns are more in line with what we'd expect from domestic fixed income. We still lost on the principle side, but, you can see that the 5% returns are not nearly as low as what we saw in the prior books.

Page 5, asset allocation. This is a copy of asset allocation that we have in a book that is dated August 11. The portfolio is 57% equity and 43% fixed income, that's a topic that's to be discussed in August. It's the rebalancing back to nine months and that is why we have it on the agenda of course.

On page 6, you can see cumulative returns, the total fund versus the target as you can see the total of the return is above the target, very, very difficult to do because the target is made up of index funds. Index funds have been very, very difficult to beat particularly when we have a value portfolio manager, because value managers basically for the last five years have not been able out perform the S&P and the S&P is our target, but, our growth manager has held us up on the other side. You can see that we are above the target.

On page 7, this is where we compare your total fund return relative to the Callan Public Fund Universe. And this is plans of $100 million and below so it's the small Callan Universe. I can tell you there's not a great deal of disparity between the small, medium, and large. They're all really pretty close together. You can see that over this time period that's a very fine set of numbers. To be in the 27th percentile over nine and a quarter years it was very hard to do I know that you broke through periods of up and down performance but, you can see that in the long run, you've had just great returns.

On page 8, it shows how that was distributed across the managers. And we're going to discuss that also because the way this distribution is, is not the way our guidelines tell us that we should be distributed. On page 10, again the look at the public fund universe, your plan compared to the public fund universe and you're not going to see a better set of numbers than that.

Let's go to page 12, it says NTQA at the top, it's always said American National Band at the top there, Northern Trust bought American National Bank actually quite some time ago. It just took me a long time to get that name changed. But, I do have good news on Northern Trust. I was doing some work on index funds and I was asking some of the big players for the fee schedules and Northern Trust was one that I asked, plus some others and I noticed that Northern Trust was higher so I called them up and I said well listen, for the Town of Palm Beach we're not going to pay you that. We want the same fee schedules that I could get offered at State Street or Barclays. So I got an e-mail back last night that said that they'd agreed to match the Barclays fee schedule, so your fee will be cut in half. It doesn't save a lot it's an index fund, but, you know we did get that out of them.

Okay let's go and look at Loomis-Sayles. That's on page 14.

Mr. Garvy: Can I ask you a quick question, on page 10 this last quarter number the top graph, what am I looking at there? It says the total fund

Ms. Valcik: Total fund loss 3.84 versus the benchmark of 0.29, that's a true number. Basically what we have right now we're going to talk about that is that we have an over weighting in the Roanoke portfolio, this is the time period when small cap, small to mid cap managers really got whacked and so because we have a high weighting to Roanoke right now, Roanoke carried these returns for the one and two year periods. There's absolutely no doubt about it and as Ed said, this one quarter basically was a give back from the prior quarter.

Mr. Garvy: Okay. That's an accurate number?

Ms. Valcik: That's an accurate number. Looking at it at a one quarter basis we definitely got whacked, but, we need to think of it in a longer time frame.

Okay, page 14, Loomis, I want you to know that the numbers that we used here on the Loomis portfolios and Roanoke portfolios for the last year, we collected the statements from the managers and calculated the returns from theirs. Because we didn't believe that First Union statements were going to be anywhere accurate enough to be able to calculate a rate return number. The other reason why, particularly in the Loomis case we worked very closely with Loomis because you know, we are going to make a recommendation to terminate Loomis. And I didn't want to stand here and have a number that they didn't agree with. I know that David said that for the quarter that the fund was down 1.2%. And as David said they did have a very good quarter. This was a quarter when value managers, that were deeper value managers were rewarded.

One of the numbers that you all may want to jot down here, based on your question

Mr. Garvy, would be what the Russell 1000 value was for this time period. For the quarter it was down 4.7%, for the last year -8.9, for the last two years it was up 3.0, for the last three it was up 10.9, for the last four it was up 16.1, and for the last five, it was up 17.8. This is the Russell 1000 value. So you can see that actually the Callan universe over the longer period the peer group was actually easier to beat than the Russell 1000 value. We believe of course that growth and value over the longer time periods will have equal returns, otherwise we wouldn't advise you to have an equal amount of growth and value in a portfolio. So we do believe that over a five year period a value manager should be able to out perform the S&P 500. If a value manager can't over a five year period then we should buy the S&P 500. But, you're right Mr. Garvy, that over shorter periods the Russell 1000 Value certainly is a fairer index to look at for a value manager. In particular right now the S&P pretty darn good. So you can see here that the as Dave was saying the last, the more recent time periods have definitely pulled down their numbers where they are in the ninetieth percentile. However, we have plan participants that we invest this money for and although the time period that Dave was speaking of is a more recent period it has decimated the longer term returns and those returns are of course what we're looking at for plan participants.

So let's look at page 15, for the last six months you can see that the Loomis return was in the 95th percentile, for the 1999 in the 91st percentile, for 1998 it was in the 66th percentile, in the two prior years it was above median. However, you know the margin above median is no way near the margin is below median, so when we put the cumulative results together in the portfolio, we're looking at a portfolio manager ranking in the 90th percentile. And you can see at the bottom of the page that the risk adjusted numbers don't show any improvement.

Let's go on to the bond portfolio on page 17. You know that they had a good quarter and a good last year, we look out in the five year period though the number doesn't look quite as good, it's in the 72nd percentile. Now you all know from reviewing the book I sent you, that we didn't recommend terminating on the bond side, and in the book we also put the Loomis composite returns and if you look at the composite returns, the composite returns are significantly better. The reason we have such a despairing return from Loomis is that we can't buy Triple B bonds. Loomis is known as a manager who is very good at fixed income credit analysis, that's sort of where they cut their teeth and it's what they're known for in the industry and they're very good at that. When we take away one of their tools we can see that it has pulled down the performance in your account, now the question is well, now should we find a manager that credit isn't as important to or should we try to do or should we try to do what we can do to change the guidelines. And I should have called you with this question, I know I called on the equity one. I do know the guidelines for the state law, can we override them by town ordinance?

Mr. McCracken: Yes, it's been discussed by this board previously on a number of occasions.

Ms. Valcik: I wouldn't terminate Loomis because of that, I think they are a very good fixed income manger. I don't see any point in going through the portfolio characteristics, I think we've seen all of that from when the folks were standing here in front of us.

On page 21, we see Roanoke, for the quarter we know and Ed told us he got whacked pretty hard. However I would encourage you to look as Ed said to the last six months, for the last six months which is actually on page 22, their return was 6.92, I believe that ranked in the 57th percentile. You can see that over the longer time periods, they've had a fine return, one thing that you mentioned Mr. Garvy, was should we compare Roanoke to the mid cap growth index, that certainly seems to me to be something that we should at least take a look at. And also put a growth index down below instead of just a mid cap. What we can do is, we can look at two indexes right below there we can only compare one to the statistics, to the characteristics but we can always add a second index down there.

Mr. Garvy: Since they clearly have a growth focus as a key to their whole strategy and they're not going to be moving away from that it would seem to me that that would be the appropriate benchmark.

Ms. Valcik: We know, we have style maps that we're going to look at, that clearly they're a growth manager, you wouldn't touch that other stuff would you?

Let's just look at page 24, the fixed income portfolio, in the last five years they ranked in the 87th, however, in the last 6 in the 37th, so let's flip the page, we were on 24 now let's go to 25. And this is what we said behind your back, Ed, is that your portfolios tend to be first or worst and we have to live with that volatility with the long wind returns. I'll be happy to show you this page, I know you're over there and can't see it, it's just that, that's just the way your style tends to be. And I think the folks who have been on this board for a very long time certainly understand that very well. I shouldn't say first to worst, let's say first to not so good, how's that?

Mr. Garvy: What's your reaction to the information ratio, sharp ratio, and excess return ratio shown on the lower right hand corner of page 25?

Ms. Valcik: Well darn it, what I need is to say that this is relative to the Lehman Aggregate fixed income style. What I would like to see there is what the R squared is relative to that, because it is very difficult to analyze the information ratio without knowing the goodness of fit to the portfolio to the benchmark.

Mr. Garvy: Do we have that information here?

Ms. Valcik: I don't have it in front of me, but, I can certainly get it. Do you know what your R Squared is relative to that? It's like any statistical analysis if it's got a low R Squared it's not worth looking at. So do we have any questions on the performance report.

Mr. Wearn: Any questions or comments on the performance report?

Mr.Garvy: I have one more question on the fixed income side of Roanoke, this volatility and these returns on a fixed income portfolio is that something that you think we should be comfortable with?

Ms. Valcik: I think that's something that is your board's decision whether you're comfortable level with it or not. This board has had Roanoke for nine years and certainly has seen those sorts of volatility and has shown a comfort level with it. If we don't have a comfort level with those sorts of returns and we'd like a manager that looks more benchmark oriented, we can certainly do that.

Mr. Garvy: Well certainly we expect them in the fixed income arena, I mean in the equity arena perhaps we should be discussing that.

Mr. Wearn: I think it's all up for discussion later on.

Ms. Valcik: Okay, let's open the Town of Palm Beach, August 11 report. Let's go to page 2, the first item. First off I'll tell you what I'm going to talk about today, at you all's request is the manager retention.

Mr Wearn: I think though on the table of contents which cover those five items, why don't we just cover the evaluation of First Union and then take a break and come back and address the other issues.

Ms. Valcik: Okay, First Union. Page 14. I'm going to tell you custody is a bad business. Dealing with custodians has been the bane of my existence for twenty years. I'll tell you that the people that get the best service from the bank are those that stand up and scream the loudest. Now I'm sorry but that it's the truth, if you sit back you know nothing basically happens, and the people, the people that you deal with day today are very very important. You know building a relationship with someone that will go to bat with you when the bank is refusing to do something is extremely important. I think.

There has been a tremendous amount of industry consolidation. Ten years ago there were custodians all over the United States, in fact your portfolio here just a short time ago was custodied locally and that wasn't unusual. But, because of the technology demands and banks having to put more and more money into machines to do all the transactions that were coming through there's been a tremendous amount of industry consolidation. There was also industry consolidation because of fee compression. Banks started bidding very low fees just to get access to portfolios for securities lending, probably the lowest that ever came out was just about five years ago, it was a really big portfolio. A bank bid zero for custody because they wanted to be able to lend on securities, they make a lot of money off the lending side of securities, they take a portion of the money that comes into the bank. So there has been a tremendous amount of fee compression in the custody business. Fee compression and technology demands have a lot of people getting out of the business and it's really made a difference between the top tier custodians and the second tier custodians.

The way that your group is set up and it took me some time to get my hands around this too, because you were in Palm Beach and then it seemed to move to Miami. The processing is done in Charlotte but our client service and problem resolution resides in Miami. And I'm going to tell you this really hasn't worked. I have said several times to the bank, that I felt that if we could go directly to the people doing the business maybe we could get things done a bit faster. I cannot find that the management in Miami seems too darn concerned. I called and said " I'm going to a client meeting in Miami, I would like to come over and meet with you all and sit down face to face with the people that handle the business on this account" and I meant the people from Charlotte. And they said," No, if you have questions that need to be ask you issue and RFP to get them answered". I said " I don't think you really want to say that do you?" So I asked again, got the answer again that there would be no meeting and finally at the third request there was a meeting, the meeting was only with Allen. I was a little surprised that none of the higher ups even bothered to come by and express any concern.

I contacted a non Callan client with a less biased opinion who had First Union and asked them their opinion and they said that they had problems themselves. Their account is much more complex, they thought maybe with a smaller account that didn't have the complexities that it might be better, but, as we all know that's not really the case. We can't rely on the bank statements. I don't know how many, Ed, do you know how many revised statements you've gotten?

Ed Vroom: More than six, several.

Ms. Valcik: Several, Okay, but you know when we're talking about today on August 11, the statement resolutions we're talking about are December statements. We're not talking about July statements. I went within Callan and I asked, who do you know that is someone who is way up in First Union because I can't get a problem resolution and I found out that all of the people we knew in the custody business had left, so Jane and I talked and she gave me Paul Vincent's name and I talked to him and he referred it over to this gentleman James Link, who I put in the organization chart that you can see on page 15, he is the head of the southern region. And he called me and he had a lot of concern, but, I can tell you he's only been there two months himself. I do know that he's turned up the fire, is that not correct Allen?

Allen Smith: Yes

Ms. Valcik: But we thought the fire, we turned it up as high as we could get it anyway. But, obviously, the statements weren't getting done so we went to him. I talked to him a couple of times he showed a great deal of concern. My final thing is, do they value your account? You know they used to manage money for you. They probably valued you more then. It doesn't feel like they have a lot of value for it. And so I have recommended a watch list for three months, really I recommended a watch list just to see if we can ever get the corrected statements and I think we should ask for some money back.

Mr. Wearn: Before we address those two issues that you brace on you recommendation, does anyone have any question or comment at this stage. And before we address those two questions I'd like to give you (Mr. Allen) an opportunity to respond or comment.

Ms. Valcik: And I did give everything on this page (page 14) to Mr. Link.

Mr. Smith: Let me address the issue of the administration being done in Miami and the processing being done in Charlotte. As Jeanne said the custody business is changing and so is the technology for business and for that we reason we have consolidated all processing in Charlotte.
I am the, essentially just the local account contact and I've been responsible for attempting to resolve many of the issues that are outstanding as I said earlier we have now narrowed those down to where we only have at least two security issues that we have identified and we have identified a few diminimous interests and pay down payments that need to be transferred over
At that point in time we should be fully in sync. Has it been handled properly? No, no it has not been. And have I gotten the resolution that I wanted internally? I would agree with Jeanne, no I have not and I am quite frankly glad to see that we have some management impetus backing up my request to get this thing fixed once and for all.

Addressing the number of statements that we have run, we have done that simply to provide those to the investment managers to ask them to look at, to say how are we now, what do we need to do, what do we need to change. We have been essentially working internally with the operations people at Roanoke and with the operations people at Loomis in order to get this resolved. At that point and time, I think that once I get a final statement that we feel comfortable releasing it both to Callan and the investment managers as well. But until I get to that point I will continue to do revisions until I feel comfortable with it. I have been personally embarrassed by this, it does not reflect well on First Union, it does reflect well on client services that I think I'm going to bring to this account and I certainly understand the board's disappointment the disappointment of the managers and the disappointment of Callan. I commend Jeanne on working with us.

I would like to address the issue that she had about us maybe not being concerned about the business because of this meeting in Miami that we did not bring people down. Our trust accounting people and our processing people are in Charlotte, they have a very heavy volume of workload as might be anticipated in industry consolidation and we simply felt like it was an internal business decision that we made that we get what's wrong from Callan and that we get it fixed. Maybe that doesn't fit with how the board would like to handle it or Callan but, it was simply an internal business decision that we made. It does not reflect on our concern for this account. It certainly does not reflect on my concern for this account.

Mr. Wearn: Would you care to comment on the recommendations?

Mr. Smith: Well, I certainly have no problem with being placed on a watch list, I think maybe that might be an appropriate decision. Was it handled correctly, no it was not. And I want it fixed and if it's not fixed, then we probably don't deserve to have your business.

Mr. Wearn: What time frame do you think it should be fixed, within which it should be fixed?

Mr. Smith: All of the transfers have been put through, I have reviewed them personally. I am reviewing the system on a daily basis to see which ones go through, I anticipate, I shouldn't say anticipate, I am hopeful, that those will be completed not later than Tuesday, at which point and time I can run fully corrected statements for review for Ed's operational folks and Dave's as well.

Mr. Wearn: Those would be fully corrected statements as of what date?

Mr. Smith: As of December 31, but what we do when we run those statements we also run corrected monthly statements on a perspective basis through the most current period. Now I will say this in speaking with Irene Dixon who is the Operations Manager of Roanoke and a very capable person, she said that in looking at the December statements once she feels she has that comfort level with that for December she should be able to breeze through the remaining monthly statements.

Mr. Wearn: Do you have any comment on the second recommendation? The second recommendation was to ask for a rebate of fees?

Mr. Smith: If the board would care to make that in writing, I can certainly take it, it would carry a lot more weight for me to get that request through if I have a formal request from the board.

Mr. Wearn: But, you don't care to comment on it at this time?

Mr. Smith: Actually, I do not have the authority to comment on that at this time.

Mr. Wearn: I understand. Okay, it's appropriate for us to have some discussion on these two items. Can we go ahead and do that before taking a break?

Mr. Wearn: What's the board's pleasure?

All board members agreed.

Mr. Wearn: The first item of probationary status for the board's comments, what's your pleasure?

Mr. Garvy: I'd like to make a motion that First Union be placed on a probationary status for the next three months or quarter, until we see how these problems are resolved.

Mr. Wearn: May I suggest that instead of merely a three month period that we make it indefinite, because of course we can always remove that status at any time?

Mr. Garvy: That's fine, appropriate adjustment.

Mr. Bradford: I'll second that motion.

Mr. Wearn: Well there's a motion and a second to place First Union on a indefinite probationary status. In essence similar to the status that Loomis Sayles is currently on. Is there any discussion on the motion? Hearing none I'll call the question, all those in favor please say aye? Opposed, like sign? Motion carries unanimously.

Mr. Wearn: The second recommendation is a good recommendation I think, of making a request for a rebate of fees. Did you have a particular period of time that you were contemplating?

Ms. Valcik: The whole year, the whole eight months.

Mr. Wearn: And do you have a percentage or an amount that you have thought of?

Ms. Valcik: Yea, the whole thing.

Jane Skittone: That amount through June, I don't have the July statement yet, was $23,000, for the General Employees .

Mr. Wearn: I assume that you have considered the costs and expenses to the board and to others?

Ms. Valcik: Yea the money really should go to Roanoke and Loomis, and me. For all the conference calls we've had and the statements we've reconciled, and Jane, yes okay.

Mr. Wearn: Well that's what I'm asking is if you've looked at all those factors to come up with the quid pro quo dollar amount?

Ms. Valcik: I have not done a calculation of what we have all spent in time I think that number would scare us.

Mr. Wearn: So you think it would be in excess of that amount?

Ms. Valcik: Oh $23,000 in Irene's time alone and my time alone, I've had conference calls with Allen, systems people, Irene, Pauline, the e-mail of the day.

Mr. Wearn: I think that's what we need to understand is the extent of the imposition.

Ms. Valcik: I'd say in pricing it to the bank, yes.

Mr. Wearn: Are there any questions about the underlying basis for the request for the rebate of fees? And again I'd ask that you've heard some of the criteria that were expressed on that, do you have any comment about the criteria, I'm not looking for you to comment on the dollar amount.

Mr. Smith: Oh yes, I understand the criteria that you are speaking of in the proposal.

Mr. Wearn: Do you have any comment on the criteria, any difference of opinion about it?

Mr. Smith: We have all spent a great deal of time. I look at any custodial relationship as a team effort, I know that I spent an inordinate amount of my own time on this which I normally would never spend on a custody account in trying to get it resolved. It's simply my commitment to the client of getting it resolved.

Mr. Wearn: I understand, thank you. What's the pleasure of the board?

Mr. Bradford: Someone said earlier that the letter requesting the rebate should come from this board? Did I understand that correctly?

Mr. Wearn: I think that's correct, that if there's a request for a rebate it should come from the board.

Mr. Bradford: Okay.

Mr. Garvy: I'd like to make a motion that the chair be authorized to write the appropriate party requesting rebate of these custodial fees, because of the inexcusable, inordinate inaccuracy and complications they've caused of this board and it's suppliers. And those fees to be rebated in the amount of $23,000.

Ms. Valcik: How about through the period until we get a corrected set of statement?

Mr. Garvy: Through the period to the point that corrected statements arrive.

Mr. Bradford: Second.

Mr. Wearn: There's been a motion and a second are there any questions on the motion, is there any discussion on the motion, is there anything that First Union would want to say about the motion at this point?

Mr. Smith: No sir, not at this point in time.

Mr. Wearn: Thank you, any further comment, okay, I'll call the question, all those in favor please say aye? Opposed like sign. Motion carries unanimously. Is there anything further on First Union at this point? I appreciate your presence, please take the message back to First Union for us and we will get the appropriate letter out soon.

Mr. Smith: It will be communicated to the appropriate people. Thank you for your comments.

Mr. Wearn: Thank you. We will take a ten minute break at least.

Break 10:52 a.m. to 11:05 a.m.

Mr. Wearn: Per the agenda, we will interrupt Item 5 and go to Item 8, the presentation regarding the sunshine law, for which we will call on John C. "Skip"Randolph, the town attorney. Who I notice here at the podium.

Mr. Randolph: Thank you, Mr. Chairman. I have been asked to give a brief presentation in regards to the sunshine law, because I understand you have some new members on the board. This is an important issue for any public body. I won't take a lot of your time, I'll give a brief presentation and then I'll answer any questions you may have. Florida is somewhat unique in regard to the sunshine law, there are other states that have provisions similar to ours, but, none as strict as ours. Basically by statute, which is Florida State Statute, 286.011, it is provided that all meetings of all public bodies except for the legislature, I guess, who makes this law, are to be in the sunshine, in the public. This means that two or more of you from a particular group cannot meet together outside of a public meeting as you are having today. That meeting must be noticed the press and the public must have an opportunity to attend and there must be minutes taken of that meeting.

There have been a lot of interpretations of what that means, the statute is very short, but, the case law on it is abundant. Basically what it means is that you cannot speak of another one of the persons on this same commission about business of this commission outside of a public meeting. If you're meeting, for instance if you are an employee of the town and you meet another employee of the town who sits on this committee, you can't talk about this committee, or excuse me, the business of this board except here with that individual. You can't write communications to that particular individual, you can't speak to that individual on the telephone. Everything you do essentially needs to be done here. There are penalties for violation of the sunshine law, you can be held to a misdemeanor, you can have to pay a $500 fine if it is an intentional violation of the sunshine law, it can be a second degree misdemeanor, you can go to jail for it. You don't often see sunshine law violations prosecuted by the state attorney's office, but, it's not unheard of and I'm sure you've read in the paper from time to time, about persons being taken in front of the state attorney for violation of the sunshine law.

The worst thing that can happen, in my opinion however, is not any criminal violations which might be filed against you, it's the fact that if you take any action that's in violation of the sunshine law and the fact that that action may be declared null and void as a result of you're having violated the sunshine law.

The best example of that is right here in the Town of Palm Beach, in the landmark case which is Town of Palm Beach vs Kravis. Where when the town was initially drafting it's zoning ordinance, it established a committee of residents of the town to advise the council on what the residents wanted to see in their town, what kind of zoning would they like to see. This was early on after the adoption of the Sunshine Law, so we didn't have a lot of experience with it back then. But, what had happened was this particular committee of citizens met at each others homes and had discussions with a professional who had been hired by the town and then formed their opinions and gave their advice to the Town Council. That action was attacked as being a violation of the Sunshine Law and it was held to be a violation even though they were simply an advisory committee that made no decisions, it was held that any arm of the council, or any arm of the governing body, even though that arm may be advisory, is subject to the Sunshine Law. It went all the way to the Supreme Court. The Town of Palm Beach had adopted it's zoning code, the attack to the code went on and the council said well wait a minute we haven't violated the sunshine law. We were simply listening to the advice of our committee, and we took some of that advice and we waited, we took other advice and we finally adopted our code. The Supreme Court ruled that you cannot ratify in the Sunshine, something that has been conceived in the dark.

You have to be very careful with it. You also have to, to the extent that you can, avoid the perception of violating the Sunshine Law. It's difficult in a small town, not to meet with fellow employees, fellow residents. You may be seen together and people know that you're on the same board. It's not a violation of the Sunshine Law for you to be getting together at cocktail parties and talking about your golf game or whatever else. But, it's problematic sometimes when you're seen together and people perceive that you may be violating the sunshine law. I am not saying to you that you can't do that, but, it's something that you want to be aware of and to be careful of. Often times for instance, I have had complaints as the attorney for municipalities, where residents have come up and said that during a break they have seen the commissioners or the council members speaking and isn't that a violation of the sunshine law. Well yes, it's a violation of the sunshine law if they're speaking about the business. It's a violation of the sunshine law if one you starts whispering to another, leaning over to the person next to you and talking about the business of the board, because everything you do has to be recorded and everything you talk about has to be in the sunshine. So even though you may not be violating the sunshine law you may just be leaning over to the chairman saying can we have a restroom break.
That's another one of things you want to avoid.

There are a lot of other things to talk about that give you the occasion to violate, for instance things like can you have secret ballots, the fact is that you can do a ballot, you can do a written ballot if you don't want to have a voice vote on something, but, that ballot has to be signed and it's going to be made a part of the record so as to be part of the Sunshine Law. You don't get in, you're not a quasi judicial body, so you don't get into exparte communications so I won't go into that. But, one of the things that you have to keep in mind also is conflicts of interest. If there is an issue which you are called upon to vote on which may inure to your benefit or to the benefit of a family member or a principal of who you may be retained, you must recuse yourself from voting. When you recuse yourself from voting you have to announce publicly the reason that you area recusing yourself and you have to announce the reason you are recusing yourself. Then you have to file a conflict of interest form with the clerk. Other than conflicts of interest, you cannot abstain from voting. You have to vote on an issue. If it's uncomfortable for you to vote because you know somebody that's involved, you can't abstain. You have to have a conflict and you have to declare it. Often times you will see people to avoid declaring conflict will leave the room so that they do not have to vote. The Attorney General has opined on that and has indicated that that is not an appropriate thing to do. That if you have a conflict you should declare it and that to absent yourself from the discussion just because you don't want to declare a conflict on.

Public records that's something that sort of goes hand in hand with the sunshine law. Remember that any record that you make or that you receive in regard to business which relates to this board, is a public record and will be subject to being seen in the press or subject to being given to anybody who wants to receive it as a public record. So I think you need to keep that in mind in regards to any communications you might have. We've talked about conflicts of interest and the Sunshine Law. I've really just touched on the Sunshine Law, but, I think that for your purposes it covered what I need to cover, I'd be happy to answer any questions that you might have in regard to it.

Mr. Garvy: These discussions are limited to between members of the board?

Mr. Randolph: That's correct, that does not preclude you from discussing on a one on one basis any question you might have with staff, or discussing one on one basis with anyone else in the town a professional, on a particular matter. It just keeps you from discussing it with another member of the board.

Mr. Garvy: Okay.

Mr. Wearn: Are there any other questions or comments?

Mr. Bradford: I just wanted to clarify, primarily for Vernon's sake and the other employees, that this board has the Town Manager on it, and the Town Manager has regular dealings with the employees of the town. For example, Mr. Boggs is the purchasing agent, and there was a maintenance problem here in Town Hall, where Vernon and I had to walk the halls to examine different things. And I wanted you to just reiterate what I think he said, and that was that that is okay so long as we're not engaged in the business of this board when we're doing those kinds of activities.

Mr. Randolph: Exactly, there are two aspects to it, one is meeting together and the other is relating to business of the board. So yes, you can talk with other people on this board as long as you are not talking about business of the board. Or business that could reasonably be expected to come before the board.

Mr. Bradford: Okay, thank you.

Mr. Wearn: Are there any other questions? I would like to suggest that if during the course of our service on the board, any of us come up any questions about whether anything is governed by government of the Sunshine Law. Before acting, if there's any doubt or any question at all please speak to either Mr. McCracken or Mr. Randolph to get a clarification as to whether you should go forward because once you've done it you can't undo it.

Mr. Randolph: The same would apply to conflicts, often I'm asked about whether or not someone in a particular situation is a conflict of interest. And although I cannot tell you whether or not to recuse yourself, I can tell you what the law is and give you ethics opinions which cover similar situations and how the ethics commission may have ruled on that and that's a very important item because if you don't declare a conflict of interest when you are supposed to, someone could file an ethics complaint against you.

Mr. Wearn: Thank you very much, appreciate that.

Mr. Randolph: You're welcome.

Mr. Wearn: If we may, we'll return to item 5 and pick up at the beginning of the August 11, 2000 booklet.

Ms. Valcik: Okay, page 2, the manager retention policy. In the manager retention policy we include three standards that the managers need to beat to be retained. The first would be the absence of extraordinary events, ownership changes, key people leaving the firm, changing in strategy, material litigation or fraud, and material client servicing problems. The second is long term performance relative to the benchmark. Long term is defined as 5 years. The benchmark in the case of our managers today, would of course be today the S&P 500, over 5 years, for each of the equity managers, and the Lehman Brothers Aggregate minus the Triple B for the bond managers. And then the final one is shorter term performance. Shorter term performance is defined as 3 years, and that is performance relative to the style group median. Over a shorter time period we would expect that the manager should be able to out perform that peer group. Longer term we understand that benchmarks can take a certain direction over longer time-frames and that is why we make it over 5 years. Now we will say that over the last 5 years the benchmark of the S&P 500 has been decidedly growth. Now as far as the retention policy, the retention policy is still up to the board, so we can look at the five year performance, and say well we know that the five year performance relative to the S&P 500 is lagging, however, we know that the value median is also lagging the S&P 500 and they're beating the value median and so we're happy with that manager and we will retain them.

Then I also put language in for a watch list. Official language because we haven't done a watch list and I thought we should some official language. So the standards for putting a manager on the watch list would be the three that are on the manager retention policy. We can put them on a watch list still again up to the board, for the extraordinary events, the long term performance and the short term performance. I have also put in here that a manager should be expected to be removed from the watch list after two quarters. Basically that is saying that the manager has not been able to make if off the watch list after two quarters then the board should consider termination.

Mr. Wearn: I think it's good for us to have both of these quote "policies" end quote, in front of us, so that we attempt to insure that we consider fair and reasonable standards when we take action either on a watch or on a retention or termination. One of the concerns I had was to insure over all that from a legal stand point we do not tie our hands to a situation where we would have to show cause for any termination or for any watch or incur obligation for due process hearing procedures. Currently we have in our contracts, we have a termination on either side of the contract I believe a thirty day notice, is that correct?

Mr. McCracken: Yes, it is.

Mr. Wearn: So rather than perhaps calling these policies which carry with it an appearance of some kind of standard requirement, maybe we might change the terminology to guide or guidelines or something else our attorney may recommend.

Mr. McCracken: I think that would be a very good idea, because we do have the thirty day discharge provision in our contracts, we do for all of our professionals.

Mr. Wearn: I'd feel a lot more comfortable if we're assured that when we are looking at something like this or adopting something like this that we would not tie our hands in being able to act otherwise as we are now. The second comment that I'd like to make before we get into a discussion on this, is that I would like to have our attorney review these and perhaps make the terminology a little bit more specific where it can be and perhaps in conjunction do that in conjunction with the administrator and Callan. I'm thinking along the lines like the first one of 1A, ownership changes, we had an ownership change situation here and I'm not sure it's abundantly clear whether that would be included under this terminology or whether that would be excluded. So what I'm looking for is perhaps more definite language in this guideline that might help us along to understand what that is. Same thing for key people leaving the firm. Maybe we need to identify those key people in our contract. Managers changes the strategy I assume that's the investment style, that we're really talking about.

Ms. Valcik: Yea, if we started seeing Dave buying growth stocks.

Mr. Wearn: Right, I don't think we'd see that. Manager is involved in material litigation or fraud and material client servicing problems. I think some examples, like perhaps what we've already had with First Union can help flush that out. Those are the kinds of things that I think are important. There's a further comment that I make when we talk about long term versus short term, as I understood you mentioned long term at 5 years and short term at 3 years, and there is a gap between 3 years and 5 years. I'd like to suggest that long term be 3 years or more and short term be less than 3 years. The question of the terminology of due diligence, used second to last line of the long term item #2, I'm not really sure I fully understand what you contemplate in that area, can you elaborate?

Ms. Valcik: I stand before you and say that this manager's performance is unacceptable and these are the reasons why, that constitutes due diligence.

Mr. Wearn: Those are the comments I had on the manager retention and the watch list, does anyone else have some?

Mr. Garvy: Well, Jim, I would comment on item # 3 here, that if the short term period is less than 3 years, I think the expectation is that it would run to 3 years, but, if there was some egregious under performance exceptionally, extraordinary in a one or an eighteen month period we have the option to take action, but, that there still is an expectation of 3 years for the short term.

Mr. Wearn: Good point.

Mr. Bradford: Yes.

Mr. Wearn: Does anyone else have some comments, what I was going to suggest is that we appreciate having this before us and if there aren't any more comments, one way or another even whether we should have a guideline or something in writing. If the consensus is to have something like this then to ask our staff to go back and refine it along the lines of our discussion and bring it back to our next meeting for us to consider for approval. How do you feel about that?

Mr. Garvy: I feel it is very important for us to have established guidelines for our actions as the board changes from time to time. It gives us a very clear path in which to operate, takes out some of the subjective aspects of it. Also allows the investment management organizations to know what the standards are by which they'll be evaluated over both the short and the longer term.

Mr. Bradford: I agree.

Mr. Wearn: I'm curious, is this something that you devised just for the Town of Palm Beach? Others do not apparently have such a...

Ms. Valcik: Yes, not specifically a manager's retention policy and a watch list policy combined. Often times in the investment policy statement, and in effect you've got performance guidelines in your statement, there will be , you know, this is what we expect of the managers, and so the language of extraordinary events, long term performance, short term performance is pretty standard. But, combining everything together is newer.

Mr. Garvy: It's relatively new, it's newer yes, definitely, but, there definitely is a movement in this direction in the industry among fiduciaries to have this kind of policy, but, yea, and I see it a lot more in public funds particularly starting to emerge, so it's probably appropriate for us.

Mr. Wearn: Well if there are no objections from members of the board, I don't think we need a motion at this stage to request staff to take our comments and take your own council and flesh the manager retention termination guide and the watch list guide for us to consider next month, excuse me, next quarterly meeting. Thank you, good work, appreciate it very much, a very good start.

Ms. Valcik: Alright, evaluation of Loomis is on page 4, in this evaluation of Loomis, I used the Loomis Equity composite returns, not the actual Town of Palm Beach returns. In all cases the composite returns are better, so we are not penalizing them in any way. I used it for, the main reason I used it was for a timeliness factor, because you had all requested to have the books in advance to have time to study it. As far as doing the performance reports where having our issues trying to calculate the return for your account, I really couldn't get it done, so I said okay we're going to use composite returns. But, as I said in all cases these returns are actually higher than the ones in your account so there's absolutely no penalty to Loomis. We know that the performance has been in the 80^{th} percentile for the 1,3,5, an 7 year periods. You haven't had them as long as the 7 year period. But, their performance when you hired them of course was very good. This recent period of performance has pulled down their returns to the 80th percentile for 1,3,5, & 7. They are at the 70th percentile for 10. They've remained true to their value style, we certainly have no question that they are a value manager. They invest in large cap value stocks they have low PE's and low price earnings. So we don't have any question that they're a value manager that sticks to their knitting. We can tell you though, that often times it's said that this particular style of value investing is less risky. So what we do when we look at the report is that we look at risk adjusted return, and risk adjusting does not help the portfolio.

The fixed income composite performance in this book and again this is the composite return, which doesn't have that restriction on credit quality are much better. And they have very good long term ranking. As I said earlier, Loomis is known as a bond manager that's very good at credit analysis. And their longer term rankings are in the 20th to 30th percentiles.

Turnover at Loomis has become an issue, not necessarily in their exact shop, although they did lose the head of value at Loomis. I did put a piece in here that was out of one of the rags, where it talks about what's going on in the money management world. You can see on page 13, "Two Yankees Leave Loomis-Sayles". The doors to Loomis & Company have swung open again. At Loomis-Sayles good-bye again. And although as I said it's not necessarily in Dave's shop or in Kurt's shop, although there have been departures there, it certainly shows a sign that there are some problems going on at Loomis-Sayles when you see articles again and again about folks that are leaving.

As I said client service could be better, I can say that in dealing with the First Union issue, I relied heavily on Roanoke to get things done. And at one point I called Loomis, actually it was more than one point I called Loomis and said have you reconciled those statements and they said "again" you know we have had several sets of statements and I said yea, again and they said "we don't have time to reconcile another set of statements" and I said well, I'm sorry that's what we have to do. So that's my one complaint on client services and other than that I have no complaints on client services. But, of course trying to get that reconciled, that did become an issue. So I've recommended that we terminate Loomis for large cap and that we retain Loomis for fixed income.

If you'll look on page 6, you can see that over the time period where the returns rank that I was talking about. If you want, you can pencil in those Russell 1000 value numbers again. For the last year the Russell 1000 Value lost 8.9, for the last 3, 10.9 vs. Loomis 4.9, for the last five 17.8 vs. Loomis 13.75, for the last seven 15.7 vs. 13.69 for Loomis and so you can see we would have been better with an index fund and the numbers at the bottom of the page show the risk adjusted numbers.

Mr. Wearn: Questions?

Mr. Garvy: One of the concerns that I have is that Loomis is a deep value manager and that has been the source of this extreme under performance, what concerns do you have that we're maybe terminating them at the absolute bottom of the cycle?

Ms. Valcik: Well the question is do you really want a deep value manager also, as your only value manager in your portfolio. That's taking a position on that side of value right there, when we are balancing the growth and value. Deep value managers are going to go through deeper cycles of course, because they're buying companies that are very out of favor and unless that catalyst occurs that brings them back into favor, their performance suffers. I mean Loomis is a great firm, it's done a fine job in many aspects, unfortunately when we look at this account we have a period of under performance.

Mr. Wearn: There are two recommendations as I see it, one is to terminate Loomis for large cap value and one is to retain. My recollection is that the total of funds under administration had an effect on the initial allocation with Loomis-Sayles when we established the percentages that they would have for both equity and fixed and that Roanoke would have for both equity and fixed. What I would be getting at in my comments are that maybe we need to expand our discussion at this point. Beyond just merely the recommendation to terminate Loomis for large cap value and to retain it for fixed income, and go on through the balance of items for our consideration so that we have it all in perspective before making a decision on any of these recommendations. What's the feeling of the board?

Board: It makes sense, yes, uh huh. (All said at once.)

Mr. Wearn: At this time however, though I'd like to offer to Loomis an opportunity for brief comment on what you've heard about the evaluation, I think it's only fair to do so.

Mr. Sowerby: Thank you. This is obviously a very big decision that the board is considering and I can say unequivocally that this is an important relationship to Loomis-Sayles, both on the equity side as well as the fixed income side. Personally it is a very important relationship to myself. One of the suggestions that I had for the board was this, that since you put us on probation in essence following our appearance in front of you in February, you have witnessed meaningful returns relative to the S&P 500, the value indexes and our value peers. If you don't see that continue through year end 2000, we don't deserve your business. 1999 without a doubt was a year below our standards. It also came in a year wherein the Russell 1000 Value our bench, one of our benchmarks, the median stock was down 7% last year. It tells you just how tough 1999 was, in the value space and for us, I would describe ourselves ultimately as a disciplined value manager. And as Jeanne has accurately pointed out that has taken down our long term numbers, 1999 principally, 98 was also another tough year for value managers as we started to see this market become unique, but, prior to that 97,96,95, and even prior to our history with you through that decade of the 90's. In the Callan databases we have been consistently above median and very often top fortile, but, 99 was to be frank, enough of a bad year to pull down our long term batting average. You know a three hundred hitter, hits one eighty in a year, it's going to hurt there's no question about it. But, I think the key today is it came at a time when it was tough for disciplined value investors.

Since you have put us on probation, our portfolio has responded accordingly, appropriately, benefitted you. It's been a good compliment to your other equity manager. There have been times before when this board has faced decisions of this magnitude and your patience has been well rewarded. We have a good team behind us, we have a good portfolio behind us and just the common denominator of stock forms. Given our better performance and what I think is a great time to be a good value investor, I'd hate to be disappointed to see a stock sold on the bottom when it's in the process of recovering. So I would leave you with the suggestion, you've seen us do better since you put us on probation following 1999, if you don't see that continue to improve by year end, we don't deserve your business. We're a firm that has been around for almost seventy-five years now and we got to be seventy-five years old, and seventy billion dollars under management, by being disciplined investors, particularly on the value side and there is a good portfolio management behind you, working for you, and an equally capable deep independent equity research team also dedicated to that process. You're an important relationship and we'd like to continue that relationship with you.

Mr. Wearn: I hear what you're saying and it's important what you have said. However, it was reported to us the words that are quoted "we don't have time to deal with this", my question to you is does your view and your desire to retain the representation of the retirement board purvey throughout or below you or above you?

Mr. Sowerby: Both, above and below. And specific to that, that statement, this is the first I've heard of. Our work and effort without a doubt on this split and balancing, fixing our statements on our end and reconciling with the bank has taken a considerable amount of effort, an effort that we have put in, and at no time, absolutely no time, have we ever neglected or felt as if we weren't devoting considerable attention to the Town of Palm Beach and your statements. I know the assistant who sits outside my door who's worked on these along with my operations manager and other individuals in the office and they have without a doubt and I can say very confidently worked extremely hard with the bank and with Callan and it is very important that that message is communicated to you.

Mr. Wearn: Thank you, do you care to make any comment?

Mr. Wagner: Let me just add on the fixed income side, in terms of the turnover at Loomis that was pointed out. We put in the relevance team that fixes the strategy for the portfolio that has remained constant, there hasn't been very much turnover at all in the fixed income side. We're a big shop in bonds and there normally is turnover so I want to assure the board that that is not an issue. Especially on the fixed income side.

Mr. Wearn: Thank you, other questions?

Mr. Garvy: Yes, have there been sales of some of the Loomis offices, to individuals in those offices, or to other groups. Give me an overview of the stability of the entire Loomis organization.

Mr. Sowerby: Sure, cause that's a very important question. To expound upon that question in light of the earlier question on turnover. In the last year, we have 63 portfolio managers at Loomis-Sayles. In the last year we've seen turnover in 12 of them. Opportunities elsewhere,

opportunities to start their own firm. This is the nature of this business, particularly today, and retirement. At the same time we have looked to hire additional people and have done that on both the fixed income side as well as the equity side. And specific to the value team, the people who are assembling the stocks in your portfolio, that's a very tight well knit group of four individuals who work very hard finding the best ideas and the best stocks to go into your portfolio. The second question was offices that have been given the opportunity to buy themselves out, and that speaks specifically speaks to the office here in Palm Beach. As Loomis has been primarily concentrated in the institutional business our Palm Beach office has had a greater focus on individual or private client type relationships. Our institutional growth team is primarily located in Boston. Palm Beach with it's focus more on individuals vs. in your case institutions, went to Loomis-Sayles and there was what I would consider a very amiable parting
for the Palm Beach office to concentrate more on private client individuals. Change comes, and in our case we look back and say changes can make us stronger and changes to be devoted to the person we all work for ultimately and that's you the client.

Mr. Garvy: How many clients has Loomis lost in the value equity area over the past twelve months to eighteen months?

Mr. Sowerby: In the last twelve months we have lost roughly twenty-five percent of our business, twenty to twenty-five percent of our business. The ironic part is that the clients who were the, where they were less patient, in the case where you put us on probation, is that they did it most likely as with many value managers after the first quarter of this year. And then what, what really in my or what's the challenge is, is not that Callan isn't an exceptional consultant, but, very often the value managers that I see that have gotten our business were growth managers in disguise.
So what happened was you had a growth manager and then you went and hired a value manager who really was slipping growth in a portfolio, and then the portfolio had a growth manager and a closet growth manager, and as the markets have turned back and we've done well. Unfortunately
these types of relationships, and they go beyond Loomis-Sayles to many other bold line disciplined value managers have done what I would call the capitulation trade, they sold on the bottom. In your case, your patience combined with legitimate concern for Loomis-Sayles, in putting us on probation, your performance has done better in that time period. I would ask again, you know, the movie is half way over watch what happens the second half of the year. If you don't see performance continue that, we don't deserve your business. But I think you've seen a meaningful turn as the NASDAQ's fallen 25%, internets have gotten hit and we've responded very appropriately as what I would describe us as a disciplined good value manager.

Mr. Wearn: Thank you, any other questions or comments?

Ms. Valcik: I have one, tell me about this guy that left, this value guy, there's a value guy that left that I want David to comment on.

Mr. Sowerby: Sure, Isaac Green was the managing partner of our value equity group and one of Isaacs main focuses in the last two years was putting together as Loomis has looked to consolidate value equity platforms. A difficult task but, one which he accomplished and once he accomplished it that the firm and he decided amiably that he would look for other opportunities outside the firm. Hence, as the result our associate managing partner, an individual named David Cook, who I've worked with not just at Loomis but at Comerica Manufacturers Bank in Detroit. Who I think was very responsible for reinvigorating our investment process. We got together and asked him to be our managing partner, I think that has been positive in terms of allowing good investors to be good investors and for your portfolio to respond appropriately with that decision that was made in the springtime of this year. So that's why Isaac has left Loomis-Sayles and why Dave Cook who was the associate managing partner and has worked for Loomis-Sayles since the early 1990's and has been in investment business over twenty-five years is now our managing partner.

Mr. Wearn: As the new managing partner will that deep value strategy be altered?

Mr. Sowerby: I would prefer to kind of classify us as just a disciplined value manager, with the belief that the real deep, with the Russell 1000, the median stock down 7%, that's really where the deep deep value managers were hunting and fishing last year. I think we would be what I'd describe as a disciplined value manager, who in 1999 when, particularly when the markets were so stretched between what was expensive and what was not, we looked and said this is a market that has gotten very stretched and we probably got a little deeper than normal. Where we looked more at the valuation then the other, the earnings catalyst. In the market, we know that in 1999 the market only cared if the stocks were going up and didn't care if these companies were profitable.

We have been and will always be a disciplined value manger who looks for stocks that trade as a discount to our value peers, but, at the same time there's a catalyst for earnings improvement, so you will also see names like, when we own CBS, Viacom, which definitely has more of an earnings catalyst behind it. A name closer to, I think that Floridians would know, like Disney which had some tough times, but, we saw earnings potential, we saw a new CFO come in who's going to right the ship, we certainly were benefitted by Millionaire, the show, which is like worth six Cosby's and these are, I don't know, if they're quite deep value names, but, I think they're disciplined value names that have rewarded this portfolio. Anheuser-Busch and along with that a meaningful weight in the financials, particularly in the insurance stocks. This is a disciplined value portfolio that has rewarded you in the past and more recently as the market has maybe reassessed the valuation of the NASDAQ that's rewarded you recently and I believe firmly will continue to reward you going forward, given your desire to allow us to maintain that relationship and watch and see and if we don't, we don't deserve your business, it's as simple as that. But, this turn, I think has certainly meaningfully helped out your results.

Mr. Wearn: Thank you.

Mr. Sowerby: Thank you for your time.

Mr. Wearn: I think it would be meaningful at this point, would there be anything further you'd like to comment on? Good. For us to have some discussion on investment styles and before we do that though, let me ask Mr. McCracken, we have some changes in ownership and changes in management from Loomis-Sayles, do any of those present a legal situation vis-a-vis, their current contract with the board?

Mr. McCracken: Well, I haven't had a chance to speak with anyone at Loomis-Sayles, but, the letter that they sent, indicates that they are requesting the approval of this board of an assignment of their contract and I'm frankly unsure as to whether they are requesting an assignment. According to what they sent to us the only change that would be relevant is their parent has been purchased by another public corporation. We're still dealing with Loomis-Sayles, who is a subsidiary, will be a subsidiary of a different public corporation in the future then it has been in the past. We've never dealt with that public corporation anyway, we've always just dealt with the subsidiary Loomis-Sayles and it appears to me that we will continue to deal with Loomis-Sayles. I'm a little bit confused as to why they want the assignment.

Mr. Wearn: Would you please come up to the microphone, that's so that the tape recording can pick up.

Mr. Sowerby: Absolutely, I'm happy to speak if there are any additional questions about CDC buying NVEST, which is the companies that are parent of Loomis-Sayles, that the board may have. Specific to Mr. McCracken's question, the reason that letter was sent out was primarily informational to the board that you would know that Metropolitan Life which was a part owner of NVEST and hence, Loomis-Sayles, sold that interest as well as our publicly traded interest to CDC Asset Management. That is our informational service to provide that to you and that was the main content of that letter was that the board know that we are no longer owned by Metropolitan Life but, now CDC Asset Management. And I'm happy to answer any questions that the board may have on our acquisition which we think is very positive.

Mr. Wearn: Just for the record that is a July 24, 2000 letter from Loomis-Sayles on the stationary and over the signature of David G. Sowerby, Vice-President, and the executive provision is "therefore at this time we are requesting that you indicate your consent by signing this letter in the space provided below". What I'd like to suggest for this board, and not to be discourteous or not responsive but to perhaps authorize either the administrator or the chairman of the board to sign a letter responding that at this time we decline to indicate the consent and include whatever additional language on that declination that the attorney might recommend, because it does not directly apparently effect our contract.

Mr. McCracken: I think that would be appropriate unless, I'm not sure if Mr. Sowerby isn't now telling us that he is actually removing that request that we consent. Is that, do you

Mr. Sowerby: I'm not an attorney so

Mr. McCracken: We don't, I don't see any reason that you would have requested our consent, but, you have done that and Mr. Wearn is suggesting that we're in visual, we have to respond. If there's some legal reason that you want us to consent, our respond, we will respond, but, if you're removing that consent, then we'll just take it under advisement the fact that your parent has been changed and that's just a factor, just like the fact that some employee came or went.

Mr. Wagner: We should consult
Mr. Sowerby: with our attorney, but, I, I'd rather if I could

Mr. McCracken: I would suggest that it might be appropriate just to table this particular request at this time, until they are able to consult and get back to us as to whether they expect us to consent or not.

Mr. Wearn: I don't have a problem in deferring it to the next meeting, however, I do think something should go out over the administrators signature then, indicating that we're waiting for clarification on whether or not they really need a consent.

Mr. McCracken: I think that would be appropriate.

Mr. Sowerby: We will very promptly have any and all answers to your questions.

Mr. Wearn: Good, thank you. Investment styles?

Ms. Valcik: The first thing that I wanted to talk about, and we can go through it quickly, is the re-balancing recommendation. The city ordinance says that we are to do this in August and so right now we are over the weight. I'd hate to let that opportunity go by.

Mr. Wearn: The re-balancing is supposed to occur, of course within the policy and what you are raising for consideration is a change in the policy. A concern I have about discussing at this meeting a change in the policy is twofold, first of all I think the policy is right and shouldn't be changed, but, that's irrelevant to what this board's action might be on this subject. We are one person short on the board, one of the two representatives of the general employees will be standing election soon and I'd rather defer the policy consideration until there is a full board present to discuss it, but, that's a decision the board can make at this point. Other than if it would be without objection then we would defer that consideration, that is a change in the policy until the November meeting.

Mr. Bradford: It's acceptable to me, but, Mr. McCracken looked like he wanted to say something.

Mr. McCracken: No, no, I think that is a good idea, particularly if Mr. Boggs is re-elected he has strong feelings on this very issue.

Mr. Wearn: Then without objection we will defer the question of changing the policy until the November meeting. The question of re-balancing then is rather automatic I think.

Ms. Valcik: Back to the 47%, from 57?

Mr. Wearn: Yes.

Ms. Valcik: Then let's go back to the style map on page 18 and this deals specifically with the equity portion of the portfolio. Right now in the guidelines we, in your investment policy statement, we do have guidelines for the target for equities, we have 40% S&P, 40% Value, and 20% small cap. As of the end of June we had 25% Large and 40% small cap and 35% S&P 500. So you can see that within the equity guidelines we need to also re-balance. Before we looked at this re-balancing issue, we also wanted to take a look at whether the 40-40-20 split was still appropriate. The goal in positioning the equity portfolio is to have it take not a large cap(unintelligible) or small or a growth or a value. In fact we want to look very much like a Russell 3000, we want to look very much as a fund like the total market. On the style chart the Russell 3000 is the very tiny one, right there. We say that the teal ellipse, but, when I look at this it looks dark green now, when I looked at it the first time, trust me, it was teal. The dark green one that shows right in the middle shows that if we have a 40% large cap value, 40% S&P, 20% Roanoke it looks exactly like we want it to look. So the policy that was adopted was appropriate and I would recommend that we would balance back to that particular target.

Mr. Wearn: Is there any discussion on that, question or issue?

Mr. Bradford: Do we need a motion on that?

Mr. Wearn: I think that we probably, I don't know if we need a motion.

Mr. McCracken: I'm not sure, is there a recommendation?

Ms. Valcik: In the investment policy statement it actually says what the targets are supposed to be and the range that they're allowed to be. So in the case of Roanoke we are decidedly outside of the range, 15 to 25% of the portfolio.

Mr. Wearn: I think we have to fulfill the policy until the policy is changed, and consequently I don't think we need a motion for the re-balance to occur, I think it needs to occur.

Ms. Valcik: You know that from our work, we still agree that the target as stated in the policy is appropriate.

Mr. Wearn: Yes.

Mr. Garvy: There may be times at which we check outside the policy. What is the impact on each of the mangers to re-balance this back to the policy. In terms of dollars.

Ms. Valcik: Right here in my hand, cause I'm an accountant first and we gotta talk dollars. It's the 47% equity number. So that shows what it would take to re-balance between equity and fixed income would be the first dollars. So the re-balancing between stocks and bonds would be $5.4 million and then you can see the numbers within amongst the managers.

Mr. Garvy: So Loomis would go up?

Ms.Valcik: That's correct, because the Loomis portfolio is only 25% of the fund right now, 25% of the equity and the target's say that it's to be 40% of the equity.

Mr. Garvy: I don't seem to see that Jeanne.

Ms. Valcik: Oh you mean what the relationship is of 19,19, is to 47, it's 20, cause I have the formula under there. Now where we see it is in the policy, the investment policy statement clearly says 40-40-20.

Mr. Garvy: Ok. So large cap values need 40.

Ms. Valcik: Forty percent of the total equity, and I put the investment policy in the appendix, because I knew we would speaking of it, it's on page 2 of the investment policy statement. And I just divided, 19 is indeed 20% of 47.

Mr. Wearn: Alright.

Mr. Garvy: Well if we re-balance and we're going to be considering the termination of Loomis it would be inappropriate to increase the allocation and then have them be terminated, turn it around and reverse it.

Mr. Wearn: But, is it necessary for the re-balance to go to Loomis?

Mr. Garvy: No, large cap value is 40% of the portfolio according to policy it could go into an index presumably of large cap value.

Ms. Valcik: And Northern Trust does have a Russell 1000 index for pension plans. Northern Trust being where we have our S&P fund.

Mr. Garvy: Yes, they have a large cap value?

Ms. Valcik: They have a Russell 1000 value.

Mr. Garvy: A Russell 1000 value.

Ms. Valcik: I think the other option would be those Barclay's I shares, but, I'm not sure that your law would allow that to be done. Because those are a very good way to get the exposure without actually moving the stocks. Are you all familiar with S&P 500 Spiders? Barclay's has come out with a product that is a spiders type product that is available for just about every index there is and it has a low holding cost.

Mr. Garvy: Well should we not decide Loomis and then make this (unintelligible)

Mr. Wearn: Well I think we have to perform the policy, I think that even the, our responsibility now at most or our ability at most dealing with the policy is to recommend a change. The policy has been adopted by the Town Council and it's within their province to make a change in it and it is only within ours to make a recommendation. And at this point we are duty bound to perform the policy, so I think that we have to go and do the re-balance. It has to occur, the question is to where the funds go in the re-balancing and I think that's really the only question that we're able to to address today. So that really comes back to the question of styles and whether or what we should do with Loomis-Sayles.

Mr. Garvy: We could adopt this re-balance and then determine even if we can't determine on Loomis particularly today, the difference between where they are now and that amount could go to temporary spider holding or an index holding in value which would put us in compliance with the policy.

Mr. Wearn: I think that's absolutely correct, that we can do that and personally that's my feeling the way that we should be leaning at this point and the direction we should probably go. But, I think it is important to hear it from the other members also.

Mr. Bradford: Well, this is my first meeting so I don't have the benefit of the experience that you have dealing with concern, relative to Loomis, but, if you all as a group feel more comfortable with this excess in the re-balance going elsewhere, then I would be happy to go along with that.

Mr. Wearn: We have the alternatives of where the funds go so long as they are invested under the policy. Our choices are whether they would go under the management of Loomis-Sayles where we have a problem, and the performance has been less than the median within that style or whether we go to a median in that style essentially by going to an index. I think for safety at this point, for the time being anyway until we have made a determination as to what we're going to do with Loomis-Sayles that we should lean in the direction and go in the direction of indexing it for the time being.

Mr. Bradford: Do you feel that way even if the decision is not terminate Loomis and leave them on probation?

Mr. Wearn: I personally do yes.

Mr. Bradford: Okay.

Mr. Garvy: I would concur with that, because even if we don't terminate they are on probation they may be terminated three months from now or at the next meeting. If they come off of probation and if they are retained on probation, they come off, that's a different matter, but, to allocate money to them while they are under probation would seem to be in conflict.

Mr. Wearn: Perhaps even not prudent.

Mr. Bradford: Fine with me.

Mr. Garvy: So do you have a motion, Mr. Chairman?

Mr. Wearn: I think we just have to do the re-balance, and yes a motion would be in order for where the re-balance funds, approximately $5.4 million would be managed.

Mr. Garvy: Well, I'll make a motion then that the re-balancing as outlined by Callan Associates bringing us to our policy standards of 47% in equity, be accomplished and that that allocation follow the recommendations as outlined by the Callan calculations with the exception that the $1.8 million that would normally be accrued to Loomis-Sayles be allocated to the value index or passive option most appropriate and efficient for this transfer. That would be a Northern Trust 1000 or a spider, do we know which of those two Jeanne?

Ms. Valcik: It's not actually a spider, so if it's for the record it's Barclays I shares. And what I want to look at is holding cost relative to the two. I'm going to believe that for a shorter time-frame, that the Barclay's I shares are cheaper

Mr. Garvy: Okay.

Mr. Wearn: I think you're probably right.

Mr. McCracken: I'd like to interrupt, just for one moment. I'm not sure that we may lawfully invest in this vehicle that she describes, I know that we can lawfully invest in the Northern Trust index, I would suggest for that reason, at this point that you stick with the Northern Trust index.

Ms. Valcik, Mr. Wearn, Mr. Garvy all concurred at once.

Mr. Garvy Okay, we'll specify then that that investment be in the Northern Trust Value Index option as opposed to the I shares.

Ms. Valcik: Although the I shares are legal, I do believe that is the best step.

Mr. Wearn: Could we research that and find out if they're legal for us?

Mr. McCracken: I can if you want, you can excuse me or take an adjournment of the meeting. It's Barclay's is not a domestic bank, that's the first consideration, I frankly don't know what I shares are, so I'd have to come up to speed on that. I know we cannot invest in international stocks, we cannot invest in depository receipts so I would be surprised if we could invest in this.

Ms. Valcik: They're not ADR's. They don't have anything to do with foreign. They're actually an exchange traded vehicle which says there is one share representing all the underlying shares. It's a trust that's set up holding all the shares, and then you buy shares in that trust. They trade on the New York Stock Exchange.

Mr. McCracken: Where is the trust set up?

Ms. Valcik: Well, the Barclay's bank although it implies Barclay's was the original Wells Fargo out of San Francisco, I don't know what state the trust has been set up in.

Mr. Wearn: I think there are too many concerns at this point and we can always make an adjustment in November if we gain new information that can come to the administrator and achieve a level of comfort of legality in the interim period of time. But, I think that during this period of time it's better to be safe instead of (couldn't make out).

Mr. Garvy: I concur. So I'll specify that that $1.8 would be invested in the existing index fund option for value at Northern. Now do they typically do, when are we going to do this, would it be a month end, is it a month end Jeanne?

Ms. Valcik: It's a monthly opening fund

Mr. Garvy: It's a monthly opening fund, when we could do it with no cost going in or very little.

Ms. Valcik: Not necessarily at no cost, but, yea.

Mr. Garvy: Okay.

Mr. Wearn: But, we know that we'll get the same benefit of your negotiating power.

Ms. Valcik: I was already standing here thinking about it I didn't have a quote that fee, but, I do have everyone else.

Mr. Wearn: Is everyone clear on that motion.

Mr. Richards: I'm not sure.

Mr. Wearn: Okay, would you mind restating the motion?

Mr. Garvy: Okay, I'll try restating the motion it then. That the motion is to adopt the recommendation of Callan Associates for the re-balancing of the fund specifically to the 47% equity component. With the exception of the $1.8 million that would normally move to Loomis Value portfolio instead be invested in Northern Trust Value index option.

Mr. Wearn: Thank you, is there a second?

Mr. Bradford: Second.

Mr. Wearn: Is there any discussion on the motion, hearing none, all those in favor please say aye, opposed like sign. Motion carries unanimously. Thank you. I think the last item, discussion of investment styles.

Ms. Valcik: Investment styles, that's the very last item that we did.

Mr. Wearn: Any further comments then on Loomis-Sayles position or the discussion of the search process?

Mr. Garvy: I would like to have some more discussion on the Loomis situation, whenever you prefer to have that.

Mr. Wearn: I think now is probably the time.

Mr. Garvy: Okay, I think that in my experience, changing managers is one of the most expensive things you can do in a fund. To sell the securities, old manager going off, new one coming in, buying securities have been estimated by the Plexis Group to typically be not less than 1%, depending on the nature of the stocks to be as high as 3% or higher. That's an expensive proposition. There's no doubt that the Loomis numbers are very disappointing and have been for some considerable period of time. However, it is true that the growth value dichotomy that is existing in this market is quite extreme and has reached levels pretty much unprecedented in the modern era. If we are comfortable that the personnel changes and structural changes in Loomis-Sayles is not an over-riding factor, does not give us such concern that the organization itself may be unstable, then I would suggest that we seriously consider accepting the recommendation of continuing this observation over the next quarter or so as we begin to see third quarter numbers and the remainder of this year. To determine whether or not this change in performance relative to their peers and relative to other options in the market for value investing is more than just a blip on the horizon. There's been a substantial change in the second quarter and I know in the second quarter of 1999 there was a similar blip that turned around again. I think it's been a long standing relationship with Loomis and I certainly would have no objection anyway if the rest of the board felt that we might wait a few months in making that termination. They are on probation now which will also allow us during that period of time to discuss the other investment options or structural focuses of the fund going forward.

Mr. Wearn: I happen to concur with what was said. Mr. Bradford.

Mr. Bradford: Yes sir, I have worked with Loomis-Sayles since I believe 1993 in another job that I held and I've been satisfied with their performance and I believe in a long term, mutually beneficial relationship for these types of purposes. However, the numbers that I've looked at, do speak for themselves and I wasn't aware of the types of costs that were mentioned here just a moment ago. But, I, taking all of this into account, I'd be willing to continue with the probationary status to see if Loomis is able to be true to their promises and perhaps turn it around to our satisfaction.

Mr. Wearn: Any other questions or comments at this time, I don't think that we need to take any action if that's the consensus of the board. And therefore I think that the consensus is that we will continue with the probationary status for the period between now and our next regular meeting in November, November 17th I believe. I think we should consider that status again specifically on our agenda for discussion.

We appreciate your recommendation for the termination, you didn't say when though.

Ms. Valcik: Now. It's very difficult to make a recommendation like that and I certainly understand the board's position, Loomis is a great firm.

Mr. Wearn: We would hope in the interim that we would see substantial continuation of improvement.

Mr. Sowerby: Yes sir. And I would be happy to be back here in November to talk about that.

Mr. Wearn: It would be appreciated. (Very low voice) Do we need to have a discussion on that.

Mr. Garvy: I don't think we need to discuss that right now, we're eligible to call special meetings from time to time, that are perhaps educational in nature among ourselves and the press as long as they are public meetings. That's maybe something we'll want to do.

Mr. Wearn: That's correct. I think maybe we'll hold for any further discussion on the search process at this stage. If that's agreeable with the board?

Mr. Bradford, Mr. Garvy: Yes.

Mr. Wearn: In that event it looks like we've covered all of your items is there anything further that you feel that we should consider?

Ms. Valcik: No sir.

Mr. Wearn: I for one want to express my appreciation and I hope that of the board's for all of the time and thought and patience that you've had to display and that you've exhibited not only to us, but, to the managers and First Union and the situation, thank you very much.

Ms. Valcik: I appreciate that very much.

Entire board says thank you.

Mr. Wearn: We'll then move to the next item on the agenda which is the report on quarterly expenditures.

Ms. Skittone: Good afternoon. You should have my handout in your packet that was on the desk this morning. Page 1 shows the cash flow projection for the next quarter from August through October. As you will notice the estimated balance that we're showing for October 31st is going to be negative $97,000 and I'm recommending a transfer from the money managers of approximately $200,000 to cover that deficit as well as give us an extra cushion of one payroll. We've had a tendency lately to be tight when it comes to payroll so I would like extra. The payroll is about $117,000 a month.

Mr. Wearn: And page 2?

Ms. Skittone: Page 2 shows the operating expenses from January 1st when the board split through July 31st, 2000. Those total $153,043.42. If you have any questions I'll be happy to answer them.

Mr. Wearn: Are there any questions or comments? If not I believe a motion would be in order to accept the report and the recommendation and file it for audit.

Mr. Garvy: So moved.

Mr. Bradford: Second.

Mr. Wearn: With the motion and a second is there any discussion? All those in favor please say aye, opposed like sign, motion carries unanimously.

Ms. Skittone: I've one other comment I'd like to make, the audit has been for the most part complete. The December 31st audit, however, he is unwilling to release the report until he has a final statement from First Union. So I just wanted to let you know that it is in process, but, it won't be complete until.

Mr. Wearn: I understand, so we should receive it in the interim between now and next regular meeting?

Ms. Skittone: Yes.

Mr. Wearn: Good, thank you. The next item on the agenda is the approval of retirement applications, the first is Robert J. Doney, 26 years, 6 months, application for disability retirement you have the paperwork, with the paperwork you have correspondence from two physicians including the town's physician. Do you have anything to fill us in?

Ms. Kneipp: No, we have both memos saying they agree disability retirement for Mr. Doney is necessary at this time.

Mr. Wearn: Am I correct that everything is in order from the administrative standpoint?

Ms. Kneipp: He meets all of the minimum requirements and all paperwork has been signed.

Mr. Wearn: I believe that a motion to approve the retirement application would be in order.

Mr. Bradford: I make that motion to approve Mr. Doney's disability retirement application.

Mr. Wearn: We have a motion to approve Mr. Doney's application for retirement is there a second?

Mr. Garvy: Second.

Mr. Wearn: We have a motion and a second any discussion? All those in favor please say aye opposed like sign, motion carries unanimously. Additionally we have application from Marie A, Crozier, 22 years, 4 months, application for early retirement age 50. Any comments from the administrator.

Ms. Kneipp: She meets all requirements and the paperwork has been sent off.

Mr. Wearn: Any questions or comments from the board? A motion would be in order to approve the retirement application of Marie Crozier.

Mr. Garvy: So moved.

Mr. Bradford: Second.

Mr. Wearn: There's a motion and a second, is there any discussion ? Hearing none, all those in favor please say aye, opposed like sign, motion carries unanimously. We've had item 8 so we would move to item 9 presentation regarding revised retirement ordinance, Mr. McCracken.

Mr. McCracken: You have in your package, an amendment to our ordinance which was approved by the Town Council. I'll just give you a couple of the highlights of what, how it came about. As you are aware last year the Florida legislature substantially changed Chapter 175 and 185 of the Florida statutes which relate to the firefighter's pensions and the police officer's pensions. Those changes were what resulted in the two boards having to separate. And the Town Council passed a lengthy ordinance last year which affected that separation. The new ordinance was then submitted to the state for approval and the state, specifically the division of retirement, came back to the town with a number of other issues that it thought should be considered by the Town and the ordinance. We had a little bit of discussion with the state about what was required under the new statute and what wasn't required under the new statute. And eventually worked out some modifications that were proposed to Town Council to the ordinance that governs this board as well as the public safety board.

Basically there were a couple of changes in verbiage to make sure that it was clear, in particular, to the public safety board that the terms and conditions of Chapter 175 and 185 control the public safety board where those chapters might be different then the ordinance of the Town of Palm Beach. Additionally there were three items that came up in this review that probably should have come up years ago that relate to changes in the state statutes that we had never modernized our ordinance to reflect. They are, that our ordinance provided that an employee who left for military service because of a declaration of war or a national emergency could remain a member of the retirement system while he or she was away at military service. A number of years ago the state statute was changed to delete the requirement declaration of war or a national emergency. Rather, if you leave for military service you have that right. So we changed our ordinance now to comply with the state statute which does not require a declaration of war or a national emergency in order to have that right. Additionally there was a provision in the state statute 175, 185, that required that to be a firefighter or a police officer you needed to be certified under certification provisions set forth in the Florida state statutes. We did not have that provision in our ordinance, so we now have modified that to be sure that firefighters and police officers need to be certified to be so considered under our plan as well.

Finally we had a medical committee to consider disabilities of three physicians. The state statute sets forth that the disability consideration be made by a physician not a committee of physicians. So we have streamlined our ordinance by eliminating the medical committee and falling back on the state requirement, which is merely that we have one physician. I think the other changes in the ordinance were merely cosmetic to be, and a couple which relate to the public safety board, which perhaps would not be of interest, but, I will mention. They require us to clarify that the public safety board has the ability to hire it's own auditor, the public safety board has the ability to hire it's own plan administrator, and it already provided that it had the ability to hire it's own lawyer. If there are any questions on that ordinance I'd be happy to take them.

Mr. Bradford: Quick question, primarily, I think I know the answer but, it would be to the administrator's benefit. From time to time the Town hires persons in police and fire positions who are in the process of getting certified, in those cases does this ordinance mean that we would not or should not deduct pension payments from persons until such time as they become certified?

Mr. McCracken: I think what it means is that those people would be part of the general employee plan/board until such time as they become certified. Then they become part of the police officers.

Mr. Bradford: Okay, another complication. Thank you.

Mr. Wearn: Any other questions or comments? As I understand it, this ordinance 16-00 has been adopted? It is in effect currently?

Mr. McCracken: Yes sir, it was adopted second reading this past Tuesday.

Mr. Wearn: Any other questions or comments on that? Thank you very much for that presentation. We have one other item on the agenda, under item 10, in the other matters. We have a request from Mr. Boggs of August 9, 2000, for approval to attend the FPPTA Trustees School, to be held in Key West from October 2, 2000 to October 4. The cost to the fund is approximately $815, and as his term on the board has expired and he his standing for re-election. This request is contingent upon his re-election to the board at the election to be held early next month. Approval is appropriate by a motion.

Mr. Garvy: I think it is very appropriate for members of this board to avail themselves of opportunities to further enhance their understanding of these issues and that the board should support such efforts that are reasonable in cost and expense. This appears to be such a circumstance and I am pleased to make a motion to support the attendance of Mr. Boggs to the FPPTA Trustees School.

Mr. Wearn: As I understand it, the motion is to approve the request contingent upon re-election.

Mr. Garvy: Yes contingent upon re-election.

Mr. Wearn: Is there a second?

Mr. Bradford: I'll second that.

Mr. Wearn: Is there any discussion? Mr. Boggs? Any other discussion? Hearing none, I'll call the question, all those in favor please say aye, opposed like sign. Motion carries unanimously. Is there, are there any other matters to come before the board?

Mr. Bradford: Quick question for Mr. McCracken, I believe. When we had Mr. Randolph's presentation earlier today he mentioned in passing that we were not a quasi judicial body and for the most part, I agree with that. But, from time to time this board will have contentious hearings relevant to, for example, disability retirement applications. Is it not true that in such cases that we would then come under the umbrella of being quasi judicial?

Mr. McCracken: I think it would sir.

Mr. Bradford: Okay, I thought that that was important we be aware of that if we ever get any contentious disability retirements it could be more judicious. That's all I had.

Mr. Wearn: It's possible the law is not completely settled on that issue but probably the wiser course of action would be to treat it as such. Should we ever get into that kind of situation I am sure that our attorney will properly and appropriately guide us.

Mr. McCracken: Mr. Wearn, one issue that I don't think we have resolution on. Do you want me to check on this Barclay's situation or is that unnecessary.

Mr. Wearn: What I understood is that Callan was going to give whatever additional information was available on it to our plan administrator. Who could then, you know, consider whether there is a problem or whether your consultation is needed on it. Any other questions or comments or comments, any other business to come before the board? If not I think it's been a very productive meeting, appreciate the participation of everyone, I know we've spilled over our twelve noon target expiration or adjournment. I'd entertain a motion to adjourn.

Mr. Garvy: So moved.

Mr. Bradford: Second.

Mr. Wearn: Subject to discussion all those in favor please say aye, opposed like sign, motion carries unanimously. Thanks very much.

Approved:

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Vernon Richards, Secretary