

GENERAL EMPLOYEES' PENSION PLAN
BOARD OF TRUSTEES
March 3, 2008 – 8:30 AM

Board Members Present:

Ray Dielman, Citizen
Ellen Leonard, Citizen (arrived at 8:42 a.m.)
Jim Freeman, City Clerk
Gracie Johnson, Employee Representative
Tanya Lukowiak, Employee Representative

Board Members Absent:

Allen Tusing, Citizen

Staff and Others Present:

Charlie Mulfinger, Smith Barney
Attorney Scott Christiansen
Mike DeGenova, Smith Barney
Sharon Jones, Human Resources Director
Deanna Roberts, Administrative Assistant

1. CALL TO ORDER

Mr. Dielman called the meeting to order at 8:35 am.

2. APPROVAL OF MINUTES

MOTION: Mrs. Lukowiak moved, Mr. Freeman seconded and motion carried 4-0 to approve the December 3, 2007 minutes.

3. INVESTMENT REVIEW

Mr. Mulfinger began the investment review with a discussion of the economy's performance for the quarter ending December 31, 2007. He lamented that it was a tough quarter. He began with a discussion of the economy, particularly the weakness in the housing sector, subprime lending and credit. The concern is that the consumer will slow down spending, and the consumer is 70 % of the economy. If that occurs, we could go into a recession. The GDP growth was less than 1 %; very slow. The fed funds rate and the discount rate were cut during this quarter.

The portfolio as of December 31, 2007 was \$8,057,546.00, a loss, net of fees of \$50,185.63, but within the policy target range, so no need to rebalance. We actually outperformed the benchmark. Mr. Mulfinger discussed each manager's performance and recommended no change at this time. This was a good relative quarter for the city; less negative. A summary of relevant facts is attached hereto and made a part of these minutes.

As of February 28, 2008 the only positive was bonds: 5.83%. Overall, the fund was down 3.92% since December 30, 2007.

Mr. Mulfinger reported that the firm had formally downgraded Lord Abbett to a three diamond during the quarter ending December 30, 2007. They had had them on watch, and they are still comfortable with this manager, but will continue to watch it. The firm is nervous about the size of Lord Abbett's assets. A Lord Abbett summary of opinion change is attached.

At a Glance, a view of the market for the next twelve – eighteen months is attached. Interest rates are very low and that is bad for bonds, and the dollar is very low versus other currencies.

Mr. Mulfinger discussed the Investment Policy. Attorney Christian had suggested that on page 4 referencing compliance and monitoring, that compliance and be deleted. Currently it appears that just the trustees and consultants are responsible for compliance; with the change everybody is still responsible for compliance.

MOTION: Mrs. Lukowiak moved, Mr. Dielman seconded and motion passed unanimously to approve the Investment Policy as revised.

Mr. Mulfinger will get the revised policy signed by the managers. He said, to summarize, for the quarter we were less negative, although it was negative, and since then the quarter was positive, so he is hopeful that next quarter we will be less negative.

Mr. Christiansen remarked that a copy of the policy will need to be sent to Charles Slavin and to the actuary with Pension Letter #3.

4. APPROVAL OF EXPENSES

- A) Gabriel Roeder Smith & Company: December 2007 billing
- B) Christiansen & Dehner, PA: November & December 2007, January 2008 billings
- C) Florida Public Pension Trustees Association
- D) Florida Municipal Insurance Trust
- E) FPPTA Trustees School Expenses (Ray Dielman)

MOTION: Mr. Dielman moved, Mrs. Lukowiak seconded and motion carried unanimously to approve the expenses as presented.

5. BENEFITS DISBURSEMENTS APPROVAL

- A) Laura Logue
- B) Eddie Ponder
- C) Ronny L. Seleska

MOTION: Mr. Freeman moved, Mr. Dielman seconded and motion passed unanimously to approve the benefit disbursement for Laura Logue as presented.

MOTION: Mr. Freeman moved, Mr. Dielman seconded and motion passed unanimously to approve the benefit disbursement for Eddie Ponder as presented.

MOTION: Mr. Freeman moved, Mr. Dielman seconded and motion passed unanimously to approve the benefit disbursement for Ronny L. Seleska as presented.

Mrs. Lukowiak questioned the fact that the social security numbers were visible on each of the Authorization for Payment From Fund Forms. HR Director Sharon Jones said that, in the future, the numbers will be redacted after City Clerk Jim Freeman signs the forms and before they are copied for the Board packets.

6. DISCUSSION: PROPOSED PARTIAL LUMP-SUM OPTION PLAN ORDINANCE

Mr. Christiansen went through the proposed ordinance for the General Employees' Retirement System. The proposed amended ordinance was included in the Board packets. He explained some of the "housekeeping" changes he made in the ordinance.

Section 4 on page 4 adds the new Partial Lump Sum Option (PLOP) to the ordinance. Mr. Christiansen explained the difference between the DROP and the PLOP options. An employee can elect DROP at normal retirement age and work for an additional five years. Since the employee has retired, he is not entitled to any new benefit improvements added to the plan. The monthly retirement benefit is frozen, and even though the employee may receive raises this does not affect the monthly benefit.

The PLOP allows the employee to take a lump sum of the total retirement benefit upon actual termination of employment, a percentage up to twenty-five percent. The monthly benefit amount is adjusted to reflect the partial lump sum received. The advantage is that since the employee has continued as an active employee up to this point, he is entitled to any benefit improvements. The employee's salary presumably has been increasing right up to normal retirement age, and therefore the monthly benefit continues to grow. The five years in DROP may have been your best five years in the program, but you don't get to use those to calculate the monthly benefit since you had already "retired." Mr. Christiansen sees the PLOP as a better alternative.

Mr. Christiansen informed the Board there would be no costs associated with implementing the new ordinance. It will have to go to City Commission for approval. Mr. Freeman said the next two meetings at which this could be considered are March 17 or April 21, 2008. Mr. Christiansen will check his calendar to see which meeting he can attend.

MOTION: Mr. Freeman moved, Mr. Dielman seconded and motion passed unanimously to move forward the proposed Partial Lump Sum amendment to the ordinance to City Commission for approval.

Mrs. Leonard asked the effective date, and Mr. Christiansen said it would be the date of the adoption of the ordinance. Sharon Jones, Human Resources Director, said the information regarding the new option will be sent to employees once the ordinance is adopted.

Mr. Christiansen informed the Board that Florida Statutes were changed to require special treatment of the use of social security numbers. Basically, if social security numbers are collected from members of the plan, a statement must be provided explaining why it is being asked for and what it will be used for. The date for compliance is January 31, 2008. A separate sheet of paper, an explanation, is being attached to any form calling for a social security number. Eventually the statement will be on the form itself. The social security number will be redacted from old forms that have the number where it is not actually needed. In addition, the plan must report to up to five state agencies per year that it is actually complying with this new statute.

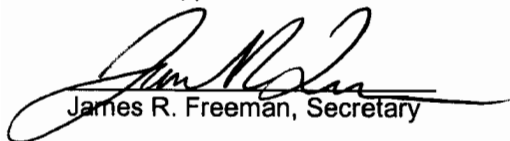
Due to a recent case, he suggested that the City request proof of "Errors and Omissions" insurance coverage each year from all vendors working for the plan, including Christiansen & Dehner, the actuary and the consultant. The requirement is actually in the contracts, but he said it is important to follow up and make sure proof is received.

Ray Dielman thanked the Board for the opportunity to attend the Florida Public Pension Trustees Association training for Board members. He thought it was important for all members to attend and as soon as possible. The knowledge he gained was invaluable. His feeling is that new members should be required to attend within the first six months. He learned that it would be to the Board's benefit to have the managers of the funds give a briefing to the Board each year, instead of always relying on the consultant. This is implementing fiduciary responsibility. The next classes will be Oct 5-8, 2008 in Orlando and February 1-4, 2009 in St. Augustine.

Mr. Christiansen informed the Board that continuing education is a legal requirement, and members need to go once a term for training which would be once every three years. New members are encouraged to go within the first six months.

Mrs. Leonard reminded the Board that the next meeting will be on June 2, 2008 and adjourned the meeting at 9:50 a.m.

Minutes approved:


James R. Freeman, Secretary

SUMMARY OF RELEVANT FACTS
Palmetto General Employees' Pension Fund
As of December 31, 2007

Distribution of Assets

Equity	
-Large Cap. Value	\$1,239,885.72
-Large Cap. Growth	\$1,589,667.06
-Mid Cap. Growth	\$859,134.71
-Small Cap. Core	\$735,911.21
-International	\$959,124.75
Total Equity	\$5,383,723.45
Fixed	\$2,667,475.22
Cash (Deposit & Disbursement Acct)	\$6,347.39
Total Portfolio	\$8,057,546.06

Distribution by Percentages

Equity Breakdown	Policy	Current
-Large Cap. Value	15.00%	15.39%
-Large Cap. Growth	20.00%	19.73%
-Mid Cap. Growth	10.00%	10.66%
-Small Cap. Core	10.00%	9.13%
-International	10.00%	11.90%
Total Equity	65.00%	66.82%
Fixed	35.00%	33.11%
Cash (Deposit & Disbursement)	0.00%	0.08%
Total Portfolio	100.00%	100.00%

Other Important Facts:

Total Portfolio	\$8,057,546.06
Total Gain or (Loss) - Gross-of-Fees	(\$31,068.91)
Total Gain or (Loss) - Net-of-Fees	(\$50,185.63)
Total Fees	(\$19,116.72)

LORD ABBETT

Total Assets	100.00%	\$1,239,885.72
Equity	99.01%	\$1,227,577.71
Cash	0.99%	\$12,308.01
Fees		(\$3,110.87)
Gain or (Loss) - Gross-of-Fees		(\$56,168.76)
Gain or (Loss) - Net-of-Fees		(\$59,279.63)

GOLDEN CAPITAL

Total Assets	100.00%	\$735,911.21
Equity	98.83%	\$727,298.24
Cash	1.17%	\$6,612.97
Fees		(\$1,894.12)
Gain or (Loss) - Gross-of-Fees		(\$53,219.81)
Gain or (Loss) - Net-of-Fees		(\$55,113.93)

RENAISSANCE

Total Assets	100.00%	\$774,299.76
Equity	96.45%	\$746,843.47
Cash	3.55%	\$27,456.29
Fees		(\$3,321.88)
Gain or (Loss) - Gross-of-Fees		(\$13,270.23)
Gain or (Loss) - Net-of-Fees		(\$16,592.11)

LAZARD ASSET MANAGEMENT

Total Assets	100.00%	\$959,124.75
Equity	96.19%	\$922,603.63
Cash	3.81%	\$36,521.12
Fees		(\$2,307.20)
Gain or (Loss) - Gross-of-Fees		(\$2,102.30)
Gain or (Loss) - Net-of-Fees		(\$4,409.50)

WELLS - LG

Total Assets	100.00%	\$815,367.30
Equity	96.67%	\$788,224.02
Cash	3.33%	\$27,143.28
Fees		(\$55.80)
Gain or (Loss) - Gross-of-Fees		\$24,284.36
Gain or (Loss) - Net-of-Fees		\$24,228.56

DEPOSIT & DISBURSEMENT

Total Assets	100.00%	\$6,347.39
Equity	0.00%	\$0.00
Cash	100.00%	\$6,347.39
Fees		\$0.00
Gain or (Loss) - Gross-of-Fees		\$299.18
Gain or (Loss) - Net-of-Fees		\$299.18

WELLS - MG

Total Assets	100.00%	\$859,134.71
Equity	96.36%	\$827,833.63
Cash	3.64%	\$31,301.08
Fees		(\$2,211.77)
Gain or (Loss) - Gross-of-Fees		(\$15,517.64)
Gain or (Loss) - Net-of-Fees		(\$17,729.41)

MADISON

Total Assets	100.00%	\$2,667,475.22
Fixed	97.56%	\$2,602,427.29
Cash	2.44%	\$65,047.93
Fees		(\$6,270.88)
Gain or (Loss) - Gross-of-Fees		\$84,626.29
Gain or (Loss) - Net-of-Fees		\$78,355.41

Duration	<i>Your Portfolio</i>	<i>LB Int. G.C.</i>
Yield to Maturity	3.57 years	3.79 years
	4.21%	4.27%

The prices, quotes, or statistics contained herein have been obtained from sources believed to be reliable, however, its accuracy cannot be guaranteed. Past performance is not a guarantee of future results.

BREAKDOWN OF RETURNS
Palmetto General Employees' Pension Fund
As of December 31, 2007

ACTUARIAL ASSUMPTION = 8.50%

EQUITY						
Lord Abbett						
Large Cap. Value						
		Crude	Net			
Quarter		(4.33)	(4.57)	(5.80)	(4.22)	(3.33)
1 year		3.93	2.98	(0.18)	3.39	5.49
3 year		8.48	7.49	9.30	9.79	8.61
5 year		14.06	13.03	14.61	14.70	12.83
Since 6/30/02		10.81	9.81	10.76	10.89	9.41
Lord Abbett/Oppenheimer - Since 5/31/98		4.89	3.97	6.88	NA	4.82
Renaissance/Alliance						
Large Cap. Growth						
Quarter		(1.78)	(2.10)	(0.88)	(0.40)	(0.76)
Renaissance/Alliance - 1 year		9.38	8.55	11.39	13.17	11.82
Renaissance/Alliance - 3 year		7.17	6.25	8.64	10.05	8.69
Renaissance/Alliance - 5 year		10.47	9.51	12.42	13.57	12.11
Renaissance/Alliance - Since 12/31/99		(3.27)	(4.15)	(2.67)	1.95	(2.93)
Wells						
Large Cap. Growth						
Quarter		3.07	3.06	(0.76)	(0.40)	
Since 9/27/07		3.31	3.30			
Wells/Baird/ING Furman Setz						
Mid Cap. Growth						
Quarter		(1.78)	(2.02)	(1.70)	(0.12)	
1 year		19.63	18.80	11.42	16.49	
Since 12/31/06		19.63	18.80	11.42	16.49	
Baird/ING Furman - 3 year		11.57	10.56	11.38	12.61	
Baird/ING Furman - 5 year		14.17	13.15	17.89	17.63	
Baird/ING Furman - Since 5/31/98		4.33	3.41	6.98	NA	
Golden/Missouri Valley						
Small Cap. Core						
Quarter		(6.74)	(6.97)	(4.57)	(4.98)	
Since 3/31/07		(8.07)	(8.70)	(3.43)	(1.88)	
Golden/Miss Valley - 1 year		(4.62)	(5.48)	(1.55)	1.42	
Golden/Miss Valley - 3 year		3.47	2.53	6.80	8.38	
Golden/Miss Valley - 5 year		13.48	12.45	16.24	17.31	
Missouri Vly/Mississippi - Since 5/31/98		9.01	8.05	6.89	NA	
Lazard Asset Management						
International						
Quarter		(0.21)	(0.46)	(1.75)	(3.24)	
1 year		9.77	8.76	11.17	6.47	
3 year		14.20	13.17	16.83	16.87	
5 year		17.90	16.84	21.59	23.81	
Since 5/31/98		7.96	7.01	7.47	9.81	
FIXED INCOME						
Madison Investment Adv						
Quarter		3.24	2.99	2.91	3.10	0.84
1 year		8.21	7.23	7.40	7.25	4.40
3 year		4.66	3.73	4.32	4.44	4.18
5 year		3.88	2.95	4.06	4.44	2.98
Since 5/31/98		5.44	4.53	5.71	5.94	3.47
TOTAL RETURN						
Quarter		(0.39)	(0.62)	(0.83)		
1 year		8.17	7.26	6.95		
3 year		7.47	6.53	8.14		
5 year		10.20	9.24	11.67		
Since 5/31/98		4.67	3.78			

Index = 15% Russell 1000 Value + 20% Russell 1000 Growth + 10% Russell Midcap Growth + 10% Russell 2000 + 10% EAFE + 35% LB G/C Int. Bonds

* Golden Capital replaced Missouri Valley on March 7, 2007

Palmetto General Employees' Pension Fund
Valuation & Performance
As of February 28, 2008

	Value	Fiscal YTD Return As of 2/28/08
Lord Abbett	\$1,158,873	-10.62%
Renaissance	\$723,110	-8.14%
Wells (LG)	\$747,419	-5.01%
Wells (MG)	\$781,128	-10.60%
Golden	\$708,110	-10.25%
Lazard	\$897,959	-6.35%
Madison	\$2,730,278	5.83%
Deposit & Disbursement	\$52,066	
Total Fund	\$7,798,943	-3.92%

The prices, quotes, or statistics contained herein have been obtained from sources believed to be reliable, however, its accuracy cannot be guaranteed. Past performance is not a guarantee of future results.

COMPLIANCE CHECKLIST

City of Palmetto General Employees' Pension Fund

As of December 31, 2007

GUIDELINES

19 October 2005

Equity Portfolio

Listed on recognized exchange
 Single issue not to exceed 10% at market value for each equity in each separately managed portfolio
 Total equity portfolio < 67.5% of total fund at market
 Total International (ordinance) < 20% of total fund at market
 Single issue not to exceed 5% at market value for the total portfolio

OBJECTIVES

19 October 2005

Total Portfolio

Exceed Target Index
 Exceed actuarial assumption (8.5%)*
 Exceed CPI + 4%*
 * Measured using net dollar-weighted return

Lord Abbett & Company
Large Capitalization Value Equity Portfolio
 Market Value < 17.5% of total fund
 Performance (Inception 6/5/2002)
 Rank in the Top 50% of manager universe
 Return > Russell 1000 Value

Lazard Asset Management
International Equity Portfolio
 Market Value < 12.5% of total fund
 Performance (Inception 5/8/1998)
 Return > MSCI EAFE (Net)

Renaissance
Large Capitalization Growth Equity Portfolio
 Market Value < 11.25% of total fund
 Performance (Inception 9/27/2007)
 Rank in the Top 50% of manager universe
 Return > Russell 3000 Growth

Madison Investment Advisors
Fixed Income Portfolio
 Market Value < 37.5% of total fund
 Performance (Inception 5/8/1998)
 Return > Lehman Intern. Gov't/Credit
 U.S. Government / Agency or U.S. Corporations
 Bonds rated "A" or better
 Single corporate issuer not exceed 10% of bond portfolio (except U.S. Government/Agency)

Wells
Large Capitalization Growth Equity Portfolio
 Market Value < 11.25% of total fund
 Performance (Inception 9/27/2007)
 Rank in the Top 50% of manager universe
 Return > Russell 1000 Growth

Wells Capital
Mild Capitalization Growth Equity Portfolio
 Market Value < 12.5% of total fund
 Performance (Inception 12/7/2006)
 Rank in the Top 50% of manager universe
 Return > Russell Midcap Growth

Golden Capital
Small Capitalization Core Equity Portfolio
 Market Value < 12.5% of total fund
 Performance (Inception 3/7/2007)
 Rank in the Top 50% of manager universe
 Return > Russell 2000

» AT A GLANCE

Base Case

Below is a summary of the Global Investment Committee's base case for world economies. Unless noted, estimates are for 2008.

GDP Growth

US: 1.5%, from 2.2% in 2007

Eurozone: 1.7%, from 2.6% in 2007

Japan: 1.4%, from 1.7% in 2007

UK: 1.7%, from 3.1% in 2007

Developing economies: 6.6%, from 7.2% in 2007

Inflation

US: 3.3%, from 2.9% in 2007

Eurozone: 2.1%, from 2.1% in 2007

UK: 2.4%, from 2.3% in 2007

Japan: 0.6%, from 0% in 2007

Monetary Policy

The US Federal Reserve: likely to reduce policy rates to between 2.0% and 2.5% by the summer

The Bank of Japan: likely to hold rates at 0.50% for the next several months

The European Central Bank: likely to reduce rates to 3.50% from 4.0%

The Bank of England: likely to reduce rates to 4.25% from 5.50%

Investment Outlook

The following summarizes our 12-month investment outlook across 28 regions, asset classes and currencies.

GLOBAL ASSET-CLASS WEIGHTINGS: Equities—**Partial Overweight**; Fixed Income—**Partial Underweight**; Cash—**Neutral**; Hedge Funds—**Neutral**

» EQUITIES	12-MONTH OUTLOOK	SUGGESTED BENCHMARK INDEX	1-MONTH TOTAL RETURN	1-YEAR TOTAL RETURN†	FORWARD P/E
US Large-Cap	▼ NEUTRAL	S&P 500	-8.33%	-2.97%	13.2
US Mid-Cap	NEUTRAL	S&P 400 Mid-Cap	-8.44%	-2.43%	14.7
US Small-Cap	NEUTRAL	S&P 600 Small-Cap	-7.61%	-7.53%	14.8
Europe	BULLISH	MSCI Europe	-12.39%	-7.74%	10.6
Japan	NEUTRAL	MSCI Japan	-12.69%	-23.56%	12.2
Asia Pacific	NEUTRAL	MSCI Pacific ex-Japan	-8.34%	8.44%	13.0
Emerging Markets	▲ BULLISH	MSCI Emerging Markets	-12.25%	17.28%	11.4
Latin America	▲ BULLISH	MSCI Emerging Markets Latin Am	-9.04%	21.70%	10.9
Europe	▲ BULLISH	MSCI Emerging Markets Eur/ME	-14.16%	7.24%	10.1
Asia	▲ BULLISH	MSCI Emerging Markets Asia	-13.00%	21.37%	12.3

Data Source: Price/earnings ratios for Standard & Poor's indexes provided by S&P as of 22 January 2008; MSCI ratios as of 24 January 2008; other data provided by Bloomberg and Datastream as of 28 January 2008. †For the 12 months ended 28 January 2008. **Bullish:** Returns are expected to be significantly higher than the long-term trend. **Neutral:** Returns are expected to be around the long-term trend. **Bearish:** Returns are expected to be significantly lower than the long-term trend.

» FIXED INCOME	12-MONTH OUTLOOK	SUGGESTED BENCHMARK INDEX	1-MONTH TOTAL RETURN	1-YEAR TOTAL RETURN†	SPREAD VS. TREASURYS
US Trsy. & High-Gr.	NEUTRAL	Lehman Brothers Aggregate Bond	2.27%	9.44%	163.43†*
US High Yield	NEUTRAL	Citi High Yield Composite	-1.58%	-0.97%	582.58†*
Europe	NEUTRAL	Citi Euro Government	1.86%	3.20%	55.40*
UK	NEUTRAL	Citi GBP Government	0.45%	8.63%	70.60*
Japan	BEARISH	Citi JPY Government	6.61%	17.34%	263.85*
Emerging Markets	NEUTRAL	JPM EMBI Global Composite	0.77%	7.55%	276.20

Data Source: Bloomberg and Lehman Brothers as of 28 January 2008. †Calculated using lowest yield. ††For the 12 months ended 28 January 2008. *As of 31 December 2007.

» CURRENCIES	12-MONTH OUTLOOK	» HEDGE FUNDS	12-MONTH OUTLOOK
	(VS. US DOLLAR)		
Euro	NEUTRAL	Relative Value & Event Driven	NEUTRAL
Yen	NEUTRAL	Macro & Managed Futures	NEUTRAL
Pound	NEUTRAL	Equity Long/Short	NEUTRAL
Australian Dollar	NEUTRAL		
Canadian Dollar	NEUTRAL		

Data Source: Citi Global Wealth Management Global Investment Committee, GWM Investment Research and CitiFX

▲ ▼ Arrows denote change from previous month.

OPINION SUMMARY

Lord, Abnett & Co. – Large Cap Value
Product name as assigned by Lord, Abnett & Co.

	Current Opinion 2/4/08	Previous Opinion 4/13/07	Product Information
Diamond Opinion	◆◆◆	◆◆◆◆	Service Level(s): FS, CES
Qualitative			Investment Style <i>Large Cap Value</i>
Personnel	4	5	
Investment Process	5	5	
Quality of Research	4	4	Investment Sub-Style <i>Relative Value</i>
Implementation of Process	4	4	
Business Evaluation	2	3	
Reliability of Composite			Primary Benchmark <i>Russell 1000 Value</i>
Quality of Composite	3	4	
Dispersion	5	5	

Distinguishing features

- Valuation and growth metrics tend to be above the benchmark
- The process combines bottom up stock selection based on relative value with benchmark risk controls
- Very aware of benchmark risk which is monitored using Barra
- At times, significantly underweights Financials and overweights Technology

Points to consider

- Potential for overlap with core or growth managers due to flexibility of relative value process
- Bias over time toward higher growth and PE stocks than the Russell 1000 Value Index may cause underperformance when higher growth/PE stocks are out of favor
- Despite risk controls and flexibility of investment process, portfolio may underperform when deep value stocks lead the Russell 1000 Value Index
- Active risk in sectors could cause significant performance deviation from the benchmark
- Performance dispersion between managed accounts and institutional due to some differences in holdings, number of holdings, and turnover
- The portfolio generally holds 55-65 stocks and has turnover of approximately 40%-50%

Strengths of firm/discipline

- Strong, high quality portfolio management team
- Flexible investment process
- Dedicated, impressive research effort
- Depth of business, operations, and marketing infrastructure

Current issues

- Q1/08-Diamond opinion reduced from 4 to 3 and three scores adjusted downward.
- Q1/08-Lord Abnett announced retirement of PM Stan Dinsky to take place in April 2008
- Q2/07-Watch issued due to announced change in SMA PM from Eli Salzman to Ken Fuller.
- Q3/07-Bob Dow named Senior Partner; Daria Foster becomes Managing Partner, Bob Gerber becomes CIO.
- Q1/2007-CIO Bob Morris retiring, Managing Partner Bob Dow temporarily adds CIO responsibility.

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
CONSULTING GROUP RESEARCH

OPINION SUMMARY

Lord, Abbett & Co. – Large Cap Value

Product name as assigned by Lord Abbett & Co.

CONCLUSIONS AND RECOMMENDATIONS

CG has lowered the diamond opinion of this product from **◆◆◆◆** to **◆◆◆**, lowered the score for Business Evaluation from 3 to 2, lowered the score for Personnel from 5 to 4, and lowered the score for Quality of Composite from 4 to 3.

The main reasons for the downgrade in diamond opinion are:

- The recent personnel changes announced by Lord Abbett. The two key changes are the change in decision-making responsibility from PM Eli Salzmann to PM Ken Fuller for SMA portfolios (effective January 1, 2008) and the loss of PM Stan Dinsky to retirement (expected in April 2008). While CG has confidence in Mr. Fuller, CG has greater confidence in Mr. Salzmann and is very disappointed in Lord Abbett's decision to change the PM responsible for SMA portfolios. While Mr. Salzmann is still a PM actively involved in the SMA product, final decision-making for the SMA portfolio now rests with Mr. Fuller. Mr. Fuller has full discretion over the portfolio and differences in holdings due to his discretion have occurred and are expected to continue to occur. In addition, Mr. Dinsky's loss is material to the team given his experience and value added decisions over the years.
- CG believes that Lord Abbett has allowed what are mostly business issues to take precedence over investment issues in deciding to make the PM change to SMA accounts. CG tends to believe that while a number of issues impacted Lord Abbett's ultimate decision in this matter, the desire to add assets to this product was the overarching deciding factor. CG believes that this product's opportunity set has declined over time with asset growth. Material additional asset growth would be viewed negatively by CG. Unfortunately, in 2007 LA reopened the product to the formerly closed platforms, reinstated internal compensation related to the product, and is again actively pursuing asset growth in the product.
- CG now has less confidence in the SMA product's potential returns over time. More limited potential returns are most likely to be seen in market environments where midcap stocks lead, but may also be seen in environments where liquidity in the market or in value stocks is weak in general.
- Recent senior management changes at the firm could create issues over time as the firm in 2007 named a new Managing Partner and a new CIO. CG would be concerned if these management changes negatively impacted the large cap value team. In the past, CG has observed the new CIO, Bob Gerber, make significant changes to products that were under his management. CG would be concerned if this product was impacted with greater benchmark sensitivity, style purity goals, or the like, which CG has seen in some similar situations at other firms. Overall, CG believes Mr. Gerber is a strong investment professional that could end up being a source of value added technologies and skills to this product, but at this point CG believes a cautious stance with regard to any potential changes should be taken.

CG continues to recommend the Lord Abbett Large Cap Value product.

- CG believes the large cap value portfolio management team is strong. The team is extremely focused and has demonstrated a robust thought process at the individual stock and at the portfolio construction level. CG has confidence in their abilities, investment acumen, and knowledge of portfolio holdings.
- LA has a large group of talented fundamental research analysts dedicated to the product as well as access to a centralized quantitative research group.
- The investment process is highly flexible, has considerable depth, and is well thought out from a portfolio construction point of view.

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- The presence of strong senior level managers, business, operations, marketing, and client service professionals, are important to the ability of the team to stay focused on investment related activities.
- The strength of the firm from a product, operations, and distribution perspective.
- CG believes LA has successfully grown their infrastructure with high quality personnel to support their business.
- CG is pleased with LA's ownership structure and their additions to the ownership ranks over the years.

Other issues:

- As mentioned earlier, while CG has confidence in Mr. Fuller, CG has greater confidence in Mr. Salzmann and is very disappointed in Lord Abnett's decision to change the PM responsible for SMA portfolios. Of particular concern is what CG views as Mr. Salzmann's superior ability relative to Mr. Fuller in the Technology sector and in decision making related to benchmark risk controls (Barra).
- The main reason for the downgrade to the business score from 3 to 2 is the motivation for the change in personnel assigned to the SMA product on the large cap value team. According to Lord Abnett the reasons for the change include:
 - The desire to enhance liquidity across the large cap value portfolios by allowing greater differences in holdings across the portfolios. These differences result in a greater ability to own midcap and smaller large cap stocks across the portfolios since the portfolios will in some cases not own the same stocks.
 - The desire to grow the large cap value products again after Lord Abnett limited asset growth in these products in recent years due to capacity issues. These changes allow for additional capacity in large cap value given many names will not be in common between SMA and institutional and mutual fund portfolios.
 - Concern over ICI (a mutual fund trade group)'s unease about asset managers managing SMA accounts too similarly to mutual funds. According to Lord Abnett this is due to ICI's concerns regarding the timing of disclosure of portfolio holdings in mutual funds.
 - The desire to "not give away" Mr. Salzmann's intellectual capital. CG thinks that Lord Abnett believes this would happen if Mr. Salzmann's SMA portfolio participated in model portfolio programs, deemed by Lord Abnett to be a significant potential growth avenue for this product.
 - The desire to reduce Mr. Salzmann's administrative role in managing SMA accounts in order to allow him more time to be involved in day-to-day research issues.
- Though Mr. Fuller is at a point in his career where some investment professionals consider retirement, he claims to have plans to continue in his current position for at least 8 years, perhaps longer. CG would be very concerned should these plans change in the near term as this team that had 4 PMs several years ago will be down to 2 PMs after Mr. Dinsky's retirement in April 2008.
- Mr. Salzmann claims to be happy in his current role at the firm and claims he plans to continue in that role for an extended period of time. CG would be quite concerned should Mr Salzmann leave the firm or his role change on the team again. The loss of Mr. Salzmann would likely result in changes to the overall diamond opinion of the product.
- There is some uncertainty regarding SMA implementation going forward given the personnel changes discussed above. CG tends to believe that the full transition to a material number of unique holdings in SMA accounts will be a slow process taking place over several years, though this is uncertain. As of the writing of this report, there were 6 securities held in SMA accounts not held in institutional accounts or mutual funds due

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to Mr. Fuller exercising his decision-making authority in SMAs. CG believes this will increase over time. While Lord Abnett claims not to have a target difference or maximum difference allowed, an early conversation with them on this topic indicated that differences of 50% on an asset basis and 30% on a name basis are certainly possible over time.

- Both the buy process and the sell discipline are highly flexible at LA. Clients should be aware that the potential for overlap between LA and core or growth managers is higher than with most other large cap value managers.
- CG believes that Lord Abnett is constrained from significantly participating in the midcap and smaller large cap portion of their benchmark due to asset levels within this and related products. Though the changes to decision-making detailed above may help reduce this issue, CG believes the issue remains and is a cause for concern. Further, CG believes that Lord Abnett will face a strong headwind in markets led by midcap stocks.
- With a strong relative performance year in 2007, trailing performance has improved, but still suffers from difficult comparisons from the prior several years. CG believes that underperformance in those prior years reflects: the relative value bias of the product in an environment where relative value was out of favor; insufficient participation in the energy sector; weaker stock performance relative to the benchmark than LA achieved in prior periods; an underweight allocation to midcap stocks which outperformed during that period.
- LA states that they normally execute trades for SMA accounts (including FS) after trades for non-directed institutional accounts and mutual funds. At this time, CG's analysis of historical performance differences among distribution channels in LA products covered in this report does not lead CG to believe that there has been an identifiable material affect on relative returns due to trading. However, given that LA manages the accounts in the various distribution channels somewhat differently, it is difficult to assign performance differences to only one factor such as trading rotation. CG believes that there are potential detrimental impacts for SMA accounts as a result of trading rotation practices at LA and CG will continue monitor this issue over time.
- "The NASD alleged that in 2001 and 2002 Lord Abnett Distributor LLC ("Distributor") received credit for certain of its obligations in revenue sharing programs relating to the Lord Abnett Funds with three broker-dealers for certain portfolio transactions that were placed with those three broker-dealers. The NASD alleged that this credit was not in compliance with its rules. The most important purpose of the relevant NASD rules is that mutual funds receive "best execution" of their portfolio transactions. Lord Abnett has always placed portfolio transactions on the basis of "best execution," and the NASD has not alleged that Lord Abnett failed to obtain best execution. In addition, the NASD did not allege that Lord Abnett Fund shareholders or any other Lord Abnett client incurred any additional costs for such transactions or was harmed in any way. On August 30, 2005, Distributor entered into a settlement with the NASD. Without admitting or denying any of the NASD's allegations or findings, Distributor agreed to the settlement in order to bring an efficient close to the matter. Under the terms of the settlement, Distributor paid a fine of \$255,000 and accepted a censure."

Analysis of Sub-Style

- Consulting Group assigns this product to the Relative Value sub-style.
- Key factors driving the sub-style rating include:
 - Over time, LA has displayed a significant bias toward higher growth and PE stocks than the Russell 1000 Value Index.
 - LA tends to underweight Financials (typically considered a value-oriented sector) and overweight Technology (typically considered a growth-oriented sector).

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- Highly flexible investment process has resulted in portfolios which included non-traditional value names at many points in time.
- Flexibility with respect to sub-style categorization:
 - LA has shown the ability to move around the valuation spectrum to a limited degree, from relative value in 1999 to more of a traditional value orientation for much of 2000, and back toward relative value in more recent periods.
 - A deep value orientation has not taken place and CG believes that such an orientation is unlikely to take place in the future as LA is typically positioned with a relative value orientation.

This report was prepared by:

Drew B. Soffer

302.888.4106

drew.b.soffer@citigroup.com

INDEX DEFINITIONS

RUSSELL 1000 VALUE INDEX: Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets.

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For information about the Consulting Group research process and the diamond rating system, please ask your Financial Advisor for a copy of the Consulting Group White Paper entitled *Behind the Diamonds*. If a "W" appears next to the diamond opinion, Consulting Group has issued a Watch for this product which could (but is not certain to) result in a material change in the product's rating. However, there is no guarantee that a change in rating will occur. For additional information on the Watch process, please contact your Financial Advisor.

For further information on sub-styles, please see the Research Bulletin entitled "Why Sub-Styles Matter."

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fluctuation than portfolios that diversify among a broad range of sectors. With respect to fixed income securities, please note that in general, as prevailing interest rates rise, fixed income securities prices will fall. High Yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. With respect to Real Estate investments, property values can fall due to environmental, economic or other reasons, and a change in interest rates can negatively impact the performance of real estate companies. Past performance of any security is not guaranteed.

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