

September 20, 2004

Dear Trustees:

I am writing at the request of the Chairman to review prior discussions concerning the Fund's role as a lead plaintiff in securities litigation matters.

As you will recall, several years ago we received written presentations from several law firms, including Bernstein, Litowitz, Berger and Grossman (BLBG) about the Private Securities Litigation Reform Act. The Act, which was passed by Congress in 1995, was designed to encourage large institutional investor, pension funds in particular, to accept the role as lead plaintiff in actions to recover for officer and director misconduct which resulted in a decline in the investment value of securities held by those institutions. The Police and Fire Pension Fund, as a large institutional investor, has suffered significant losses in a number of instances due to patently dishonest conduct by corporate directors who misreported earnings to make their stock holdings rise, only to sell their inflated interests prior to the true financial condition of the company being reported.

The Board entered into an agreement with BLBG to monitor the Fund's portfolio, at no cost, to advise when a loss due to unlawful activity had adversely impacted the portfolio. Email reports were regularly sent to the Fund, through the Executive Director. The Board adopted a policy which delegated to the Executive Director and the board counsel the duty of reviewing those reports and determining when the Fund's interests were affected to such a degree that it was likely the largest victim in a securities fraud. It was understood that the securities lawyers would apply to the appropriate court for lead plaintiff status. A contingency fee agreement would be reached with the proviso that the Fund would have no liability for fees and costs for any aspect of the litigation. In addition, any legal services performed by me or expenses incurred would not be billed to the Fund, but would instead be paid from any classwide recovery. Any fee paid to me or any other counsel would come from the class settlement as a whole and that ALL fees would not exceed the amount approved by the court at the end of a case. If a fee is paid, the amount and the names of the payees would be reported in writing to the Board. No fee application or settlement decision would be made without the Board's prior approval.

To date, the Board has applied for lead Plaintiff status in three cases. The first, Pediatrix, involved restatement of earnings of a national group pediatric medical practice. It was determined following the taking of numerous depositions, that the Fund had divested its position prior to certain critical dates in the litigation and therefore, no longer qualified as a class representative. The Fund withdrew as a participant. No fees or costs were incurred by the Fund. I continued in the case as Florida counsel for the remaining class members. The case was ultimately settled some significant time after the Fund was no longer a party. I was paid no fee for work done on behalf of the Fund, only for work which affected the other class members. As a

result there was nothing to report to the Board. The other two cases, Nextcard and El Paso Energy are active. On Nextcard, a significant corporate fraud, I have traveled to California with the Executive Director on two occasions for mediation proceedings. I have also participated in numerous conferences and reviewed all pleadings in the case. The FDIC also has a significant claim to assets and Nextcard is also in bankruptcy. It is likely the case will not be settled but will require a trial. To date, I have incurred several thousand dollars of out of pocket travel costs and significantly more in lawyer time. None of that has been billed to the Fund and will not be billed to the Fund. I have continued to keep the Executive Director advised of the course of the litigation.

26
The third case, El Paso Energy, involved a restatement of earnings due to fraudulently reported earnings. The case is still in the early pleading stage, although issues have been extensively briefed to the Court and I have participated in all steps of that process. The Director has been kept apprised of the progress of the case. Again, I have expended a significant amount of lawyer time, but the Fund will never be billed. Fees in class action cases from the class recovery and all counsel share in the fee. The number of lawyers has nothing to do with the fee, only with the share each may receive. In total, I expended thousands in my time on behalf of the Fund which will only be recovered if the class is successful and only to the extent approved by the court from the total class recovery. The fee is never the direct responsibility of the Fund and the risk of recovery is always borne by the lawyers.

For those clients for whom recovery has occurred, it is my procedure, as it is yours, that all settlement decisions are approved by the Board. The same is true for fee applications. Fees are usually between 15-18% of the recovery. I usually receive between 5 and 10% of the approved fee. The final percentage and the dollar amount are always reported to the client. Even the grossly inaccurate Forbes article noted that the fees sought by BLBG were 30% to 50% than any other leading securities firm. That is due in part to negotiations on behalf of the various funds by our office to secure services at the most reasonable rate.

As you know, I am compensated by you on an hourly, rather than fixed fee basis. When fees are received from an alternate source, you are not billed. If, as in the past, we have received court awarded fees, you are reimbursed on a dollar for dollar basis.

The Forbes article sought to suggest that there has been unreported compensation. This has not and will not occur. Court rules require your preapproval of a fee application. What the Forbes article failed to note was that Jacksonville has not completed any case in which a recovery occurred. The writer obviously sought to mislead the trustees and the public. The purpose is to shift the focus away from the corporate misconduct you are vigorously resisting and cause you to doubt the people who are working to recover losses caused to the fund by the greed of others.

I trust this answers your questions. I will be available for a luncheon meeting on Thursday September 23, as I will be in Jacksonville for the General Employee Pension Fund Board meeting. If that date is not convenient, we can choose an alternate time.

Bob Klausner