

Summit Strategies Group



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Investment Performance Review
*for the Fiscal Year Ending
September 30, 2001*

**City of Gainesville General
Employees' Pension Plan**

002173.

The Economy *September 30, 2001*

- Third quarter growth fell at a 0.4% annual rate and may drop at a 1.0% annual pace during the last three months of the year. The core CPI rose 0.4% in September, the biggest increase in four months. So far this year, the CPI is rising at a 2.8% annual rate, while the core CPI is advancing at a 3.1% annual rate. The PPI unexpectedly rose for the second straight month by 0.4% in September, led by higher energy and automobile costs. Year-to-date, the PPI rose at a 1.3% annual rate, while the core rate rose at a 1.6% annual rate. Unemployment rose to 4.9% during the third quarter, the highest since a 4.7% increase in March 1998. Job losses are expected to continue through next quarter.

Equity Markets

- The U.S. equity market endured enormous losses during a grim and turbulent third quarter with the majority of losses occurring in September after the attacks. For the month of September, the S&P 500 Index lost -8.1%, increasing the loss for the third quarter to -14.7%. The Russell 2000 Index lost its dominance over the S&P 500, dropping -20.8% during the quarter. Year-to-date, the S&P 500 Index is down -20.4%, while the Russell 2000 Index is down -15.4%, a 5.0% spread favoring small cap. The tech-heavy Nasdaq Composite dropped -30.7% in the third quarter pushing year-to-date performance down -39.4%.

- The quarter was relatively strong for value, which outperformed growth in large cap, mid cap and small cap. Small cap growth was the worst place for investors in the third quarter, dropping -28.1%. Small cap value fell -13.3% during the quarter, down -11.0% in September alone. Large cap value lost -11.0% in the third quarter while large cap growth dropped -19.4%, a spread of 8.4%. Year-to-date, value leads growth by 18.8% in large cap and 25.8% in small cap.

- International equity tumbled along with U.S. equity. A weakening dollar provided some reinforcement as the MSCI EAFE in local currency ended the quarter down -18.6%, while MSCI EAFE in U.S. dollars lost -14.0%. Year-to-date, the EAFE Index has lost -26.4%. Emerging market equity registered huge losses during the quarter, as reflected in the -21.8% drop in the MSCI EMF Index. Year-to-date, emerging markets are down -23.2%.

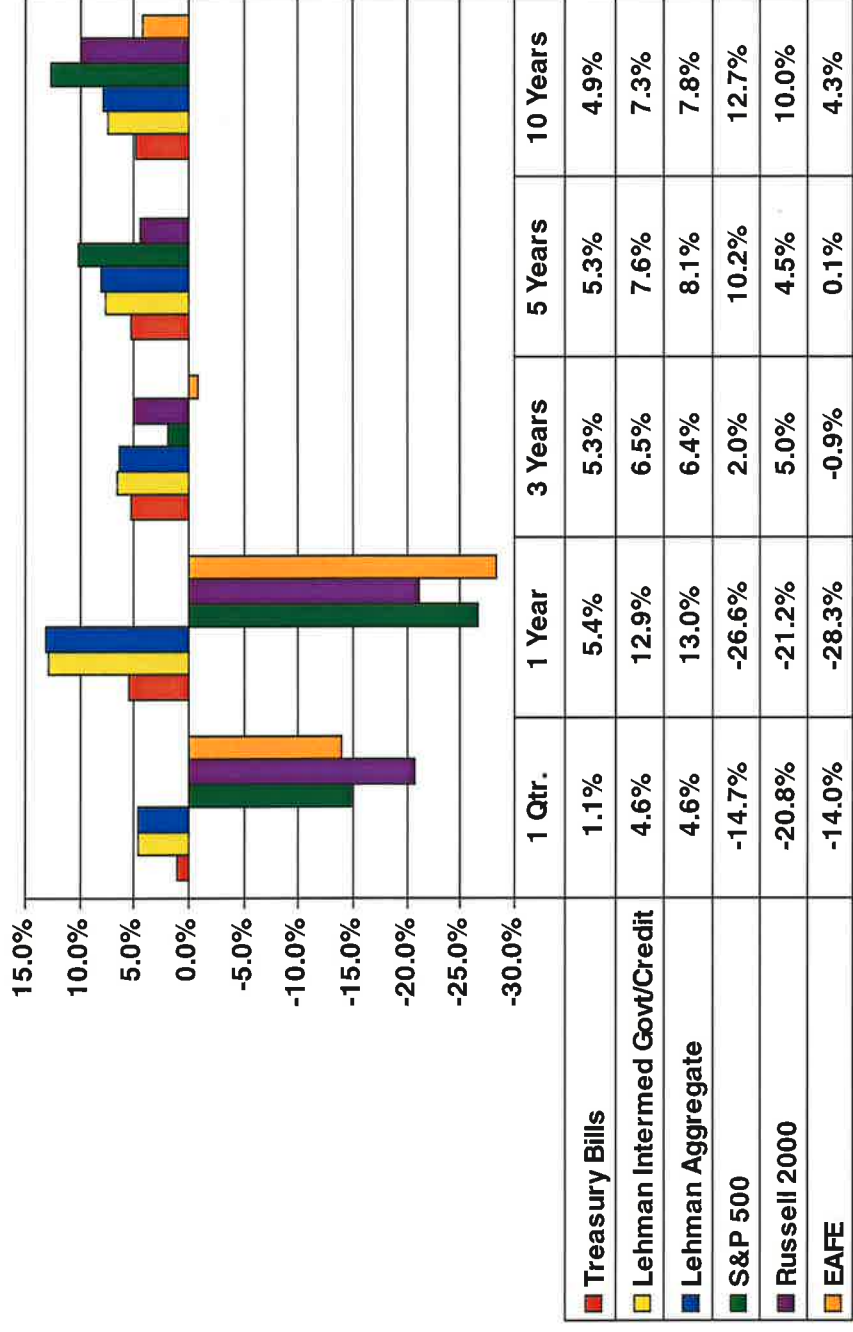
Fixed Income Markets

- With continued economic weakness, the FOMC continued to ease throughout the third quarter. The Fed reduced rates by a quarter of a percentage point on August 21st, its seventh cut so far this year. Following the attacks, the Fed again took aggressive action, reducing rates 50 basis points before markets reopened on September 17th, leaving the rate at 3.00%. Since the beginning of the year, the Fed has lowered rates a total of 350 basis points. The yield curve continued to steepen during the quarter as the short end of the yield curve shifted down more than the long end of the yield curve. The yield curve is at an extreme steepness not seen since 1992. Yields on 30-year Treasury bonds fell to 5.42%, a decrease of 34 basis points from June 30, 2001. Alternatively, 3-month Treasury bills dropped 129 basis points during the quarter to 2.36%. Spreads widened during the quarter between the bellwether 2-year and 30-year Treasuries to 2.57%.

- Fixed income experienced strong returns for the quarter with Treasuries outperforming the rest of the market. Long Treasuries performed the best for the quarter, returning 6.7%, despite a flight to shorter maturities in September. Investment grade corporate bonds suffered losses in September as earnings declined for the third straight quarter in the sharpest downturn since 1958. However, investment grade corporate bonds, as represented by the Lehman Brothers Credit Index, still managed a positive 3.8% for the quarter. High yield dropped -6.7% in September and -4.2% for the quarter. The Lehman Aggregate Index gained 4.6% for the quarter while world government bonds jumped 7.8%.

Market Environment

September 30, 2001



Cash
 Intermediate Bonds
 Core Bonds
 Domestic Large Cap Stocks
 Domestic Small Cap Stocks
 International Stocks

Executive Summary

September 30, 2001

| Asset Allocation | Asset Values | Index Returns (Blue) | | | | | Actual Returns (Green) | | | | | | |
|------------------------------|---------------|----------------------|---------|---------|---------|---------|------------------------|----------|--|--|--|--|--|
| | | YTD | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 10 Years | | | | | |
| Equity Managers | | | | | | | | | | | | | |
| Trusco | \$20,219,689 | (13.1)% | (18.0)% | (1.9)% | 6.0% | 6.3% | 11.6% | 12.4% | | | | | |
| SSGA S&P 500 | \$5,877,600 | (14.7)% | (26.6)% | (8.8)% | N/A | N/A | N/A | N/A | | | | | |
| S&P 500 | | (14.7)% | (26.6)% | (8.8)% | 2.0% | 3.7% | 10.2% | 12.7% | | | | | |
| Barrow Hanley | \$24,854,359 | (8.3)% | 6.7% | 9.6% | N/A | N/A | N/A | N/A | | | | | |
| Russell 1000 Value | | (11.0)% | (8.9)% | (0.4)% | 5.6% | 5.1% | 11.7% | 13.9% | | | | | |
| DGI | \$23,135,268 | (35.0)% | (39.7)% | (1.6)% | 13.7% | (0.4)% | 5.8% | 13.5% | | | | | |
| Russell 2000 | | (20.8)% | (21.2)% | (1.4)% | 5.0% | (1.6)% | 4.5% | 10.0% | | | | | |
| Domestic Equity | \$74,086,916 | (20.2)% | (20.1)% | N/A | N/A | N/A | N/A | N/A | | | | | |
| Zurich Scudder | \$15,997,873 | (14.4)% | (31.4)% | (14.8)% | (1.0)% | (3.5)% | 1.2% | N/A | | | | | |
| EAFE | | (14.0)% | (28.3)% | (13.9)% | (0.9)% | (2.7)% | 0.1% | 4.3% | | | | | |
| International Equity | \$15,997,873 | (14.4)% | (31.4)% | (14.8)% | (1.0)% | (3.5)% | 1.2% | N/A | | | | | |
| Global Equity | \$90,084,789 | (19.2)% | (22.3)% | (0.3)% | 10.4% | 3.8% | 9.3% | N/A | | | | | |
| Fixed Income Managers | | | | | | | | | | | | | |
| Firmco | \$26,783,028 | 4.6% | 12.9% | 9.7% | 6.8% | 7.8% | 7.8% | N/A | | | | | |
| Merrill Lynch G/C 1-10 Yr | | 4.7% | 13.0% | 9.6% | 6.5% | 7.5% | 7.6% | 7.4% | | | | | |
| Richmond Capital | \$27,029,204 | 4.4% | 13.9% | 10.5% | 6.5% | 8.3% | 8.6% | 8.5% | | | | | |
| Merrill Lynch G/C | | 5.0% | 13.4% | 10.0% | 6.1% | 7.7% | 8.1% | 7.9% | | | | | |
| Fixed Income | \$53,812,232 | 4.5% | 13.4% | 10.1% | 6.6% | 8.0% | 8.2% | N/A | | | | | |
| Total Fund | \$143,897,021 | (11.7)% | (11.7)% | 3.7% | 9.7% | 5.7% | 9.5% | N/A | | | | | |
| *Policy Index | | (9.5)% | (17.0)% | (3.3)% | N/A | N/A | N/A | N/A | | | | | |
| CPI + 5% | | 1.4% | 5.9% | 7.7% | 8.1% | 8.0% | 7.6% | 7.7% | | | | | |

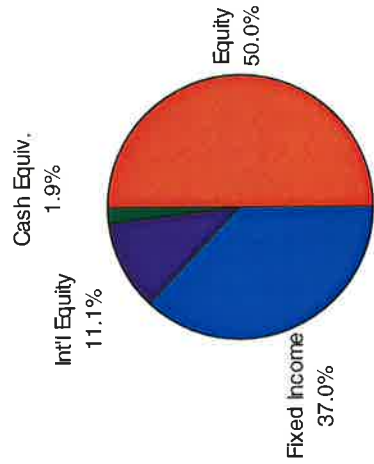
*Policy Allocation: 55% Russell 3000, 15% EAFE, 15% ML 1 to 10 yr G/C, 15% ML G/C (as of 1/1/99)

Total Fund September 30, 2001

Asset Allocation

| | |
|--------------|------------------|
| Equity | \$71,964,127 |
| Fixed Income | 53,192,841 |
| Int'l Equity | 15,997,873 |
| Cash Equiv. | <u>2,742,180</u> |

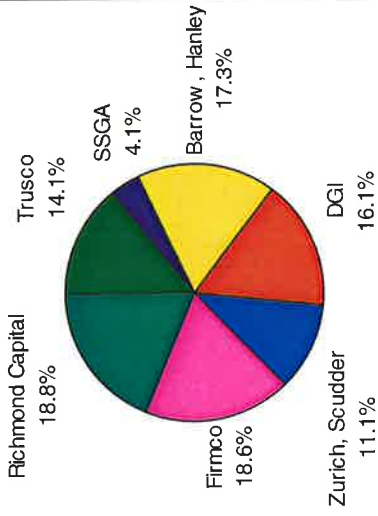
Total: \$143,897,021



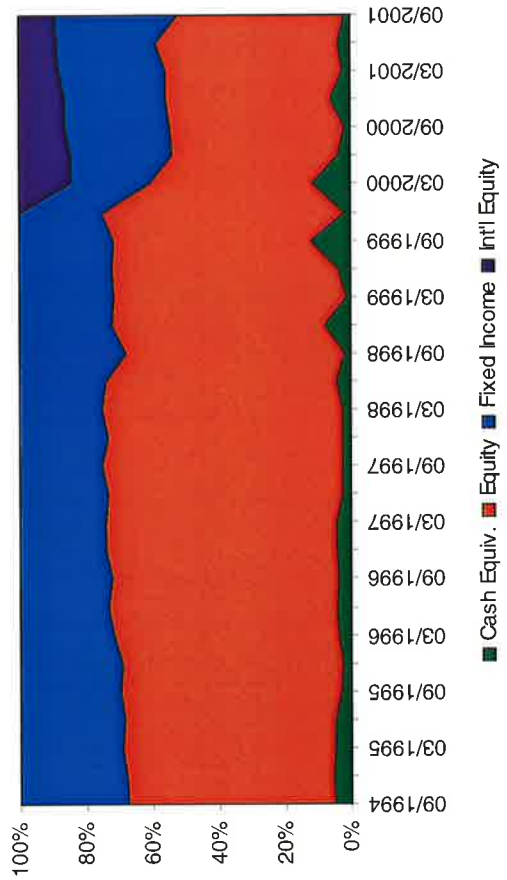
Manager Allocation

| | |
|------------------|-------------------|
| Trusco | \$20,219,689 |
| SSGA | 5,877,600 |
| Barrow, Hanley | 24,854,359 |
| DGI | 23,135,268 |
| Zurich, Scudder | 15,997,873 |
| Firmco | 26,783,028 |
| Richmond Capital | <u>27,029,204</u> |

Total: \$143,897,021



Asset Allocation History



Asset Allocation Comparison

As of September 30, 2001

| | Equity Commitment | Fixed Income Commitment |
|--------------------|-------------------|-------------------------|
| Total Fund | 61.1% | 37.0% |
| Median Total Fund | 54.4% | 37.6% |
| Median Public Fund | 51.7% | 40.6% |

Total Fund

September 30, 2001

Performance Returns

| | 1 Qtr. | 1 Year | 3 Yrs. | 5 Yrs. |
|----------------------------------|----------------|----------------|---------------|---------------|
| Total Fund | (11.7%) | (11.7%) | 9.7% | 9.5% |
| Policy Index* | (9.5%) | (17.0%) | N/A | N/A |
| Allocation Index | (8.9%) | (11.1%) | 4.7% | 9.2% |
| Median Total Fund | (7.1%) | (9.1%) | 5.4% | 8.2% |
| Median Public Fund | (6.9%) | (8.7%) | 4.9% | 8.3% |
| CPI | 0.2% | 2.6% | 2.9% | 2.5% |
| Domestic Equity Composite | (20.2%) | (20.1%) | N/A | N/A |
| S&P 500 | (14.7%) | (26.6%) | 2.0% | 10.2% |
| Russell 2000 | (20.8%) | (21.2%) | 5.0% | 4.5% |
| Russell 3000 | (15.6%) | (27.9%) | 2.5% | 9.3% |
| Median Equity Fund | (14.9%) | (22.2%) | 6.4% | 10.4% |

International Equity Composite

| | | | | |
|--------------------------|---------|---------|--------|------|
| EAFE | (14.4%) | (31.4%) | (1.0%) | 1.2% |
| Median Int'l Equity Fund | (14.2%) | (26.5%) | 3.4% | 4.6% |

Fixed Income Composite

| | | | | |
|----------------------|------|-------|------|------|
| ML 1-10 Yr Corp/Govt | 4.5% | 13.4% | 6.6% | 8.2% |
| ML Corp/Govt Master | 4.7% | 13.0% | 6.5% | 7.6% |
| Median Bond Fund | 5.0% | 13.4% | 6.1% | 8.1% |
| | 4.2% | 12.8% | 6.5% | 8.1% |

Performance Goals

- Earn an annualized rate of return greater than or equal to 9.5% over long term.
- Earn a 5% real rate of return over the long term (e.g., CPI + 5%).
- Outperform the Policy Index, which is composed of 55% Russell 3000, 15% EAFE, 15% ML 1-10 Year G/C and 15% ML G/C.
- Outperform average of similar portfolios.

Dollar Reconciliation (000s)

| | Latest Qtr | Latest 12 Mos. |
|------------------------|-------------------|-----------------------|
| Beginning Market Value | \$166,155 | \$167,915 |
| Net External Growth | (3,141) | (4,988) |
| Return on Investment | (19,117) | (19,030) |
| Income Received | 997 | 4,244 |
| Gain/Loss | (20,114) | (23,275) |
| Ending Market Value | \$143,897 | \$143,897 |

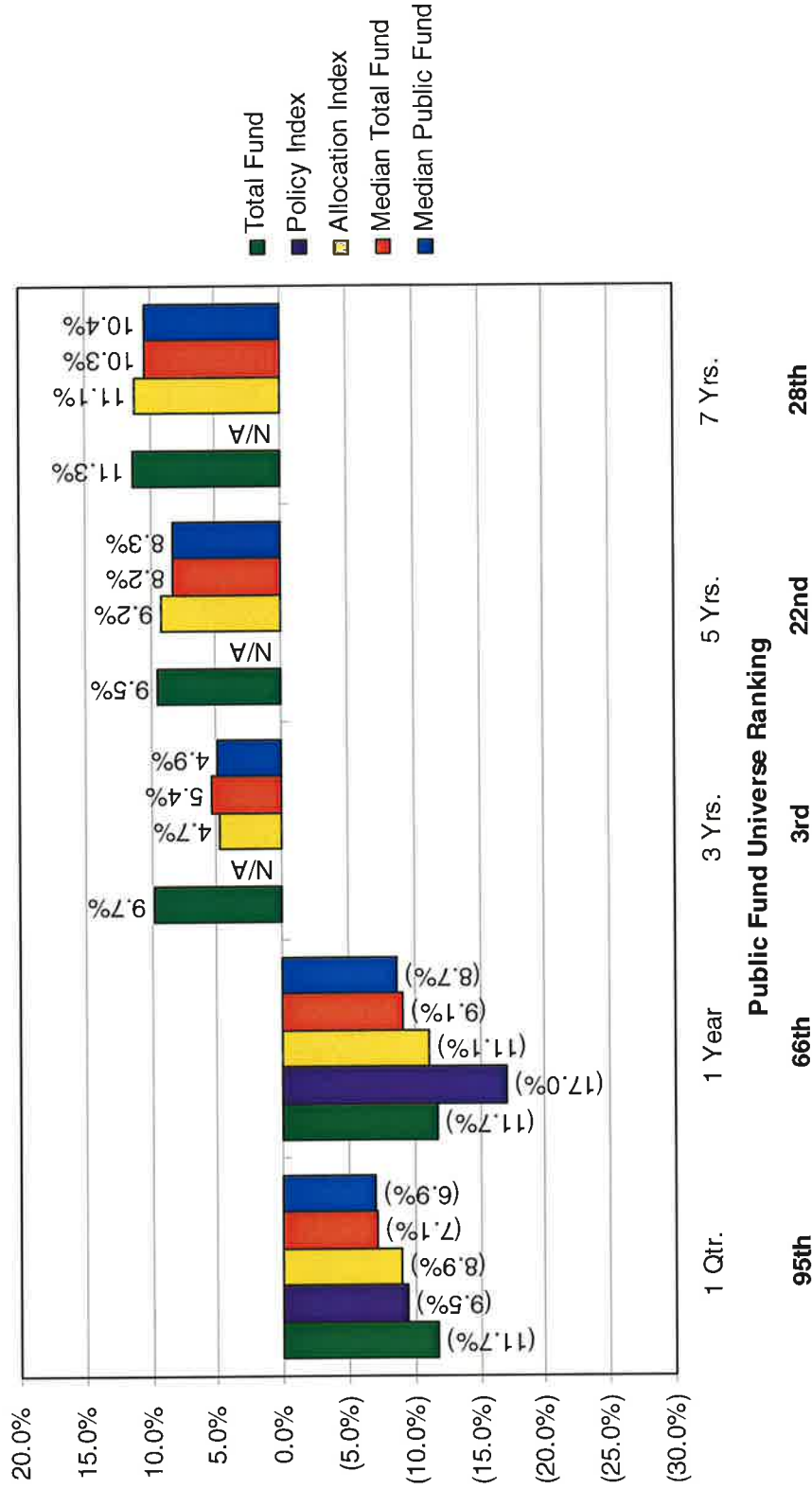
*Policy Index calculated by prior consultant before 1/1/99.

Note: Returns are shown gross of fees and are annualized for periods longer than one year.

Total Fund

September 30, 2001

Performance

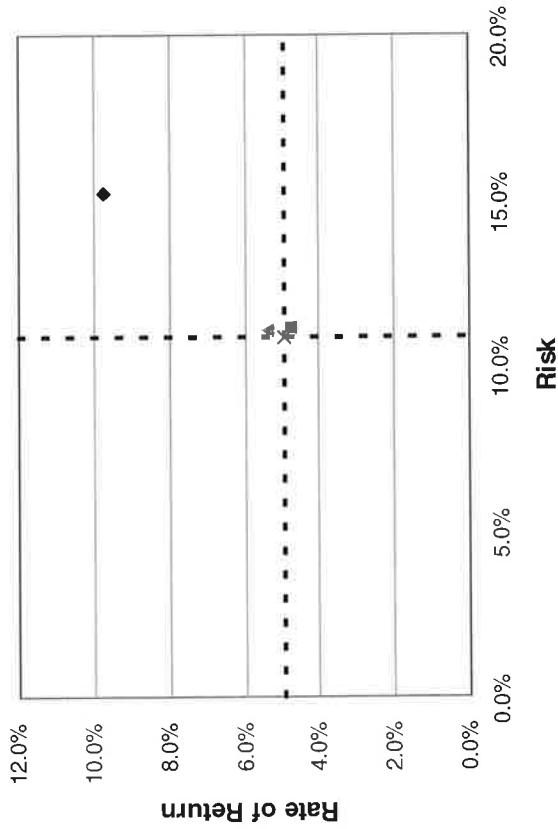


*Policy Index calculated by prior consultant before 1/1/99. Note: Returns are gross of fees and are annualized for periods longer than one year.

Risk vs. Return: Total Fund

September 30, 2001

Last Three Years



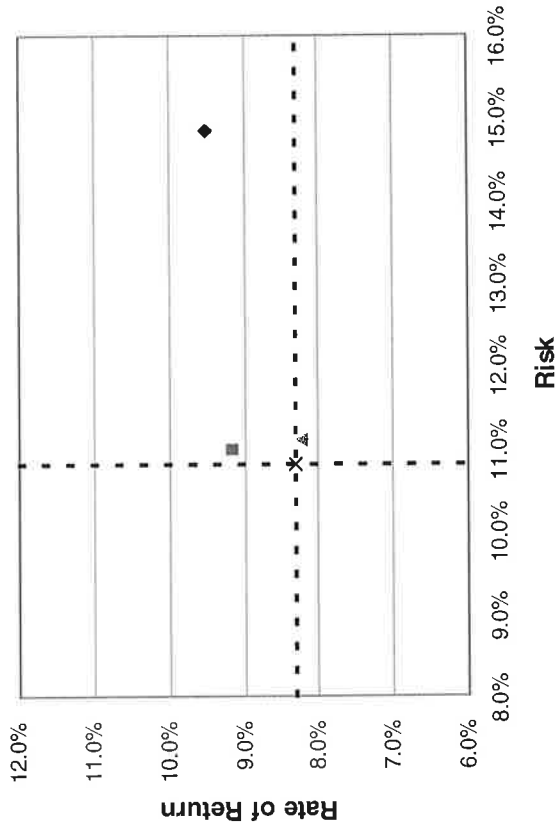
Total Fund
Allocation Index
Median Total Fund
Median Public Fund

Return
9.7%
4.7%
5.4%
4.9%

Risk
15.2%
11.2%
11.0%
10.9%

◆ Total Fund
■ Allocation Index
▲ Median Total Fund
× Median Public Fund

Last Five Years



Total Fund
Allocation Index
Median Total Fund
Median Public Fund

Return
9.5%
9.2%
8.2%
8.3%

Risk
14.8%
11.0%
11.1%
10.8%

◆ Total Fund
■ Allocation Index
▲ Median Total Fund
× Median Public Fund

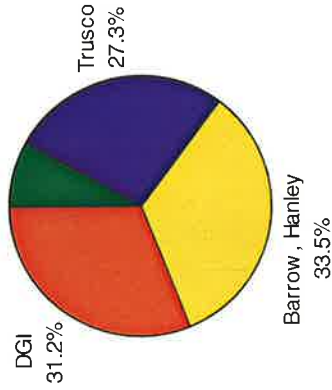
Note: Policy Index not available for 3-5 years at this time.

Domestic Equity Composite

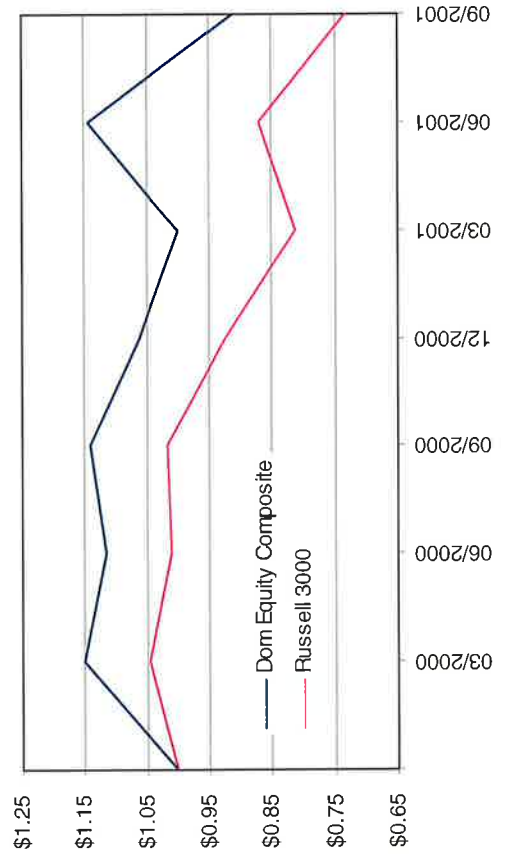
September 30, 2001

Manager Allocation

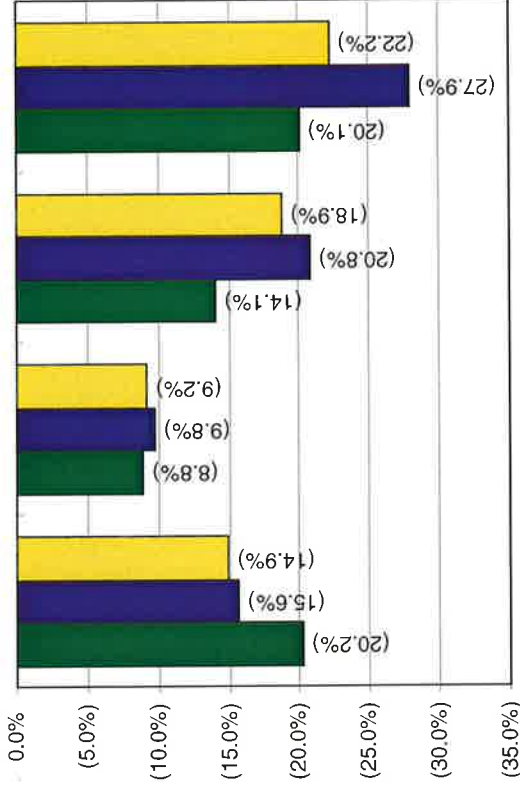
| | |
|----------------|---------------------|
| SSGA | \$5,877,600 |
| Trusco | 20,219,689 |
| Barrow, Hanley | 24,854,359 |
| DGI | <u>23,135,268</u> |
| Total: | \$74,086,916 |



Growth of \$1.00



Performance



Equity Universe Ranking
 1 Qtr. 74th
 2 Qtrs. 47th
 3 Qtrs. 37th
 1 Year 46th

■ Dom Equity Composite ■ Russell 3000 ■ Median Equity Fund

Dollar Reconciliation (000s)

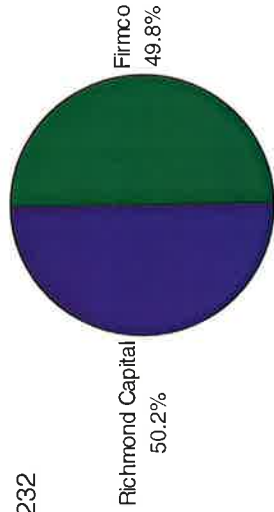
| | Latest Qtr | Latest 12 Mos. |
|------------------------|------------|----------------|
| Beginning Market Value | \$95,968 | \$90,720 |
| Net External Growth | (3,115) | 1,696 |
| Return on Investment | (18,765) | (18,329) |
| Income Received | 174 | 850 |
| Gain/Loss | (18,940) | (19,179) |
| Ending Market Value | \$74,087 | \$74,087 |

Fixed Income Composite

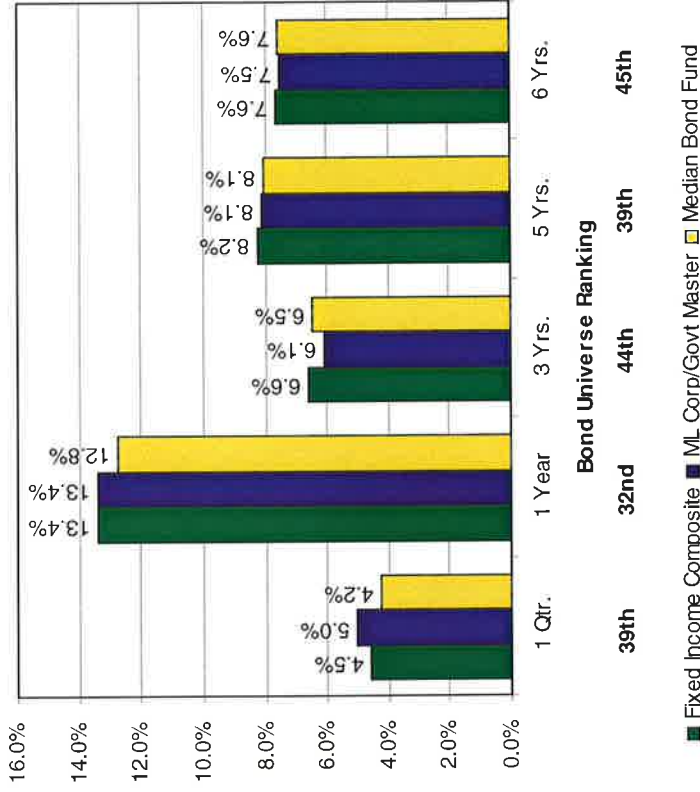
September 30, 2001

Manager Allocation

| | |
|------------------|---------------------|
| Firmco | \$26,783,028 |
| Richmond Capital | <u>27,029,204</u> |
| Total: | \$53,812,232 |



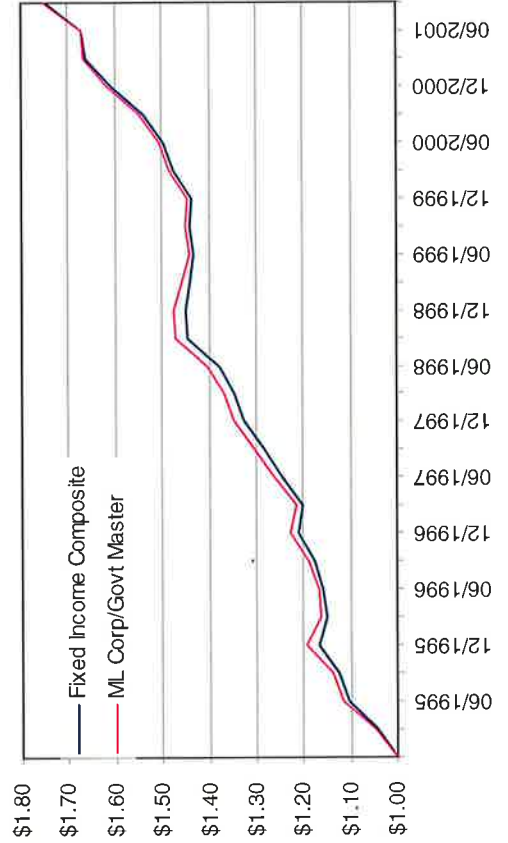
Performance



Dollar Reconciliation (000s)

| | Latest Qtr | Latest 12 Mos. |
|------------------------|------------|----------------|
| Beginning Market Value | \$51,501 | \$53,773 |
| Net External Growth | (25) | (6,601) |
| Return on Investment | 2,337 | 6,641 |
| Income Received | 823 | 3,394 |
| Gain/Loss | 1,514 | 3,247 |
| Ending Market Value | \$53,812 | \$53,812 |

Growth of \$1.00





State Street S&P Index Fund

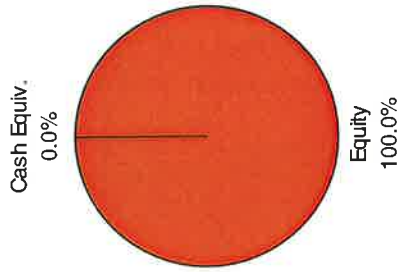
September 30, 2001

Asset Allocation

Equity \$5,877,600

Cash Equiv. 0

Total: \$5,877,600



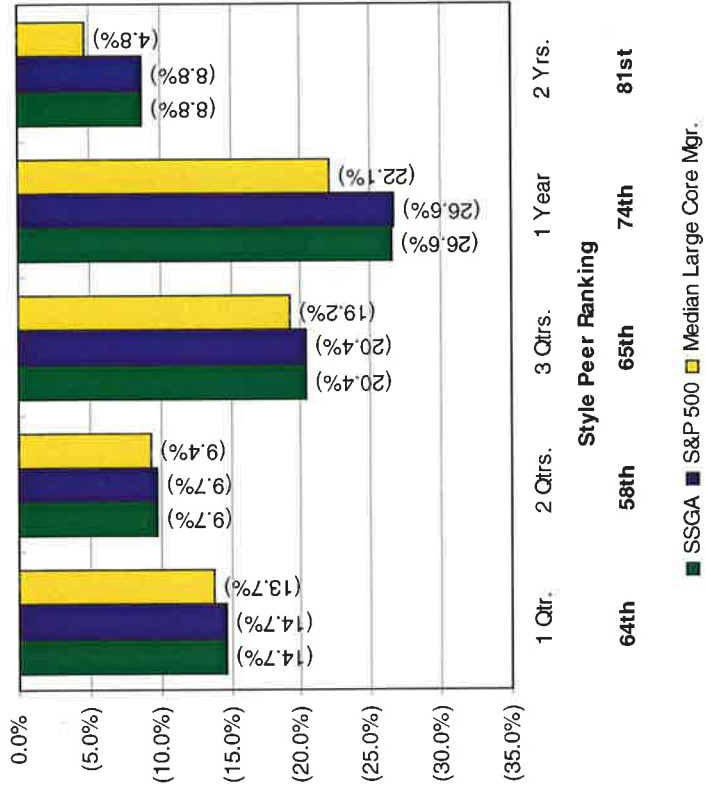
Strategy

- S&P 500 Index Fund
- Inception: 1999

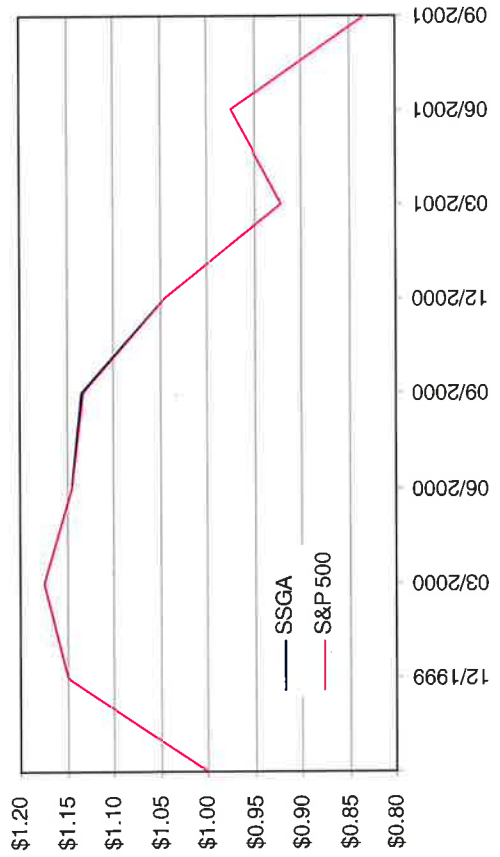
Performance Goals

- Match the return of the S&P 500 Index and minimize tracking error

Performance



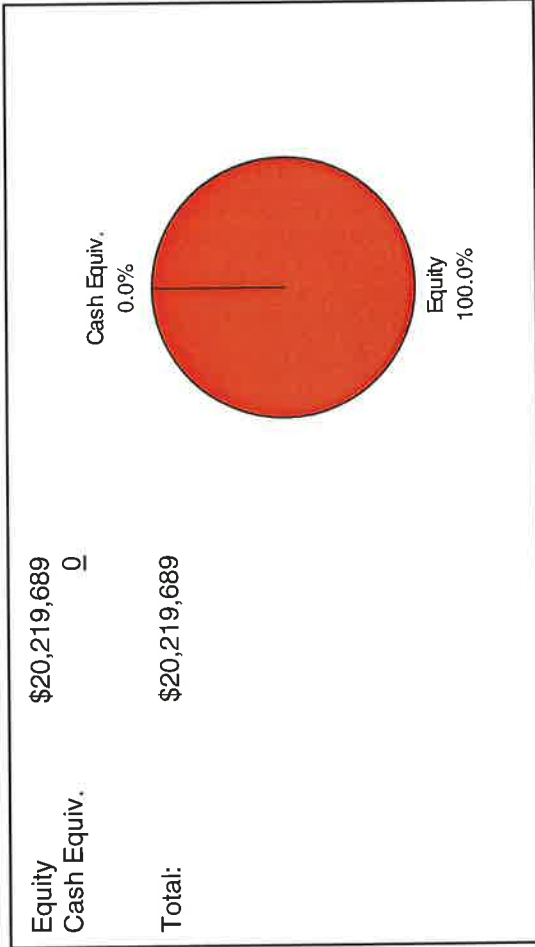
Growth of \$1.00



Trusco

September 30, 2001

Asset Allocation



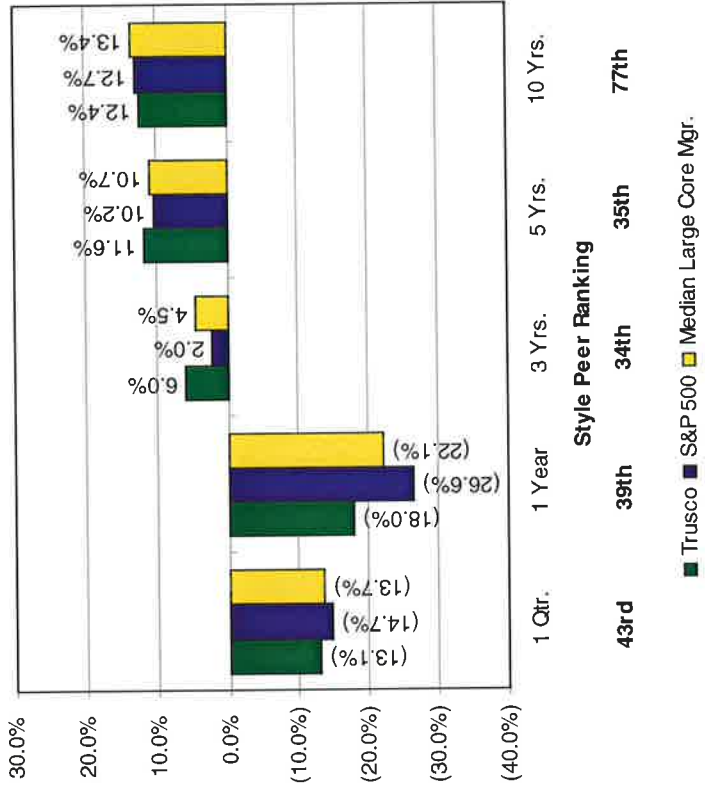
Strategy

- Large cap core equity (formerly large cap growth equity)
- Inception: July 1987

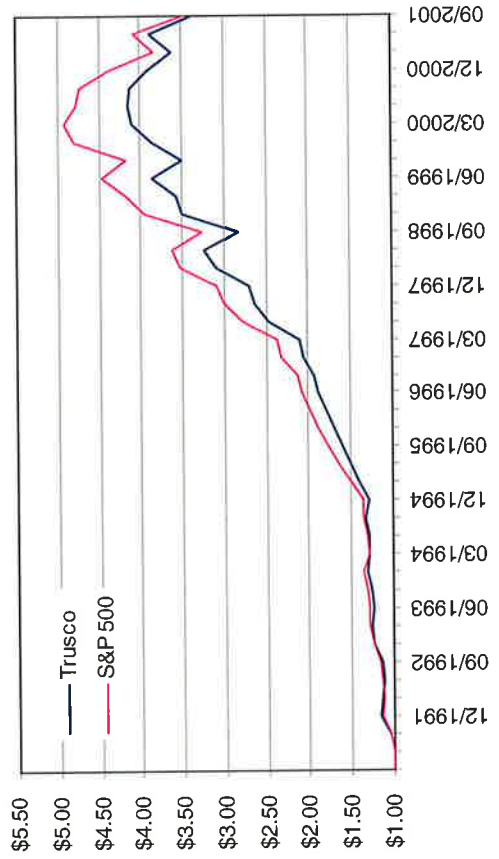
Performance Goals

- Outperform the S&P 500 Index

Performance



Growth of \$1.00



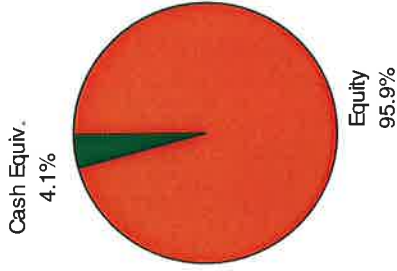
Barrow, Hanley, Mewhinney & Strauss, Inc.

September 30, 2001

Asset Allocation

Equity \$23,830,380
Cash Equiv. 1,023,979

Total: \$24,854,359



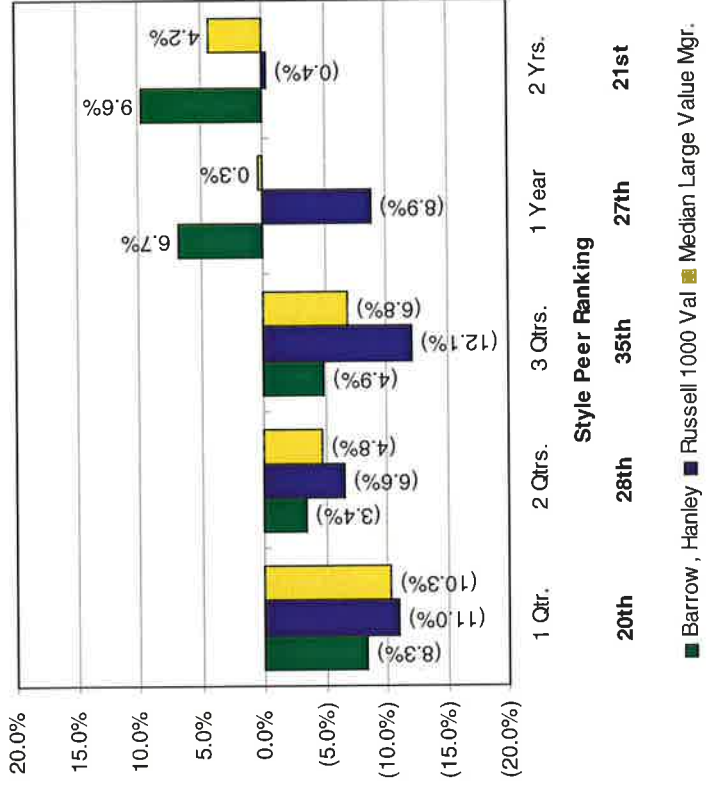
Strategy

- Large cap value equity
- Inception: September 1999

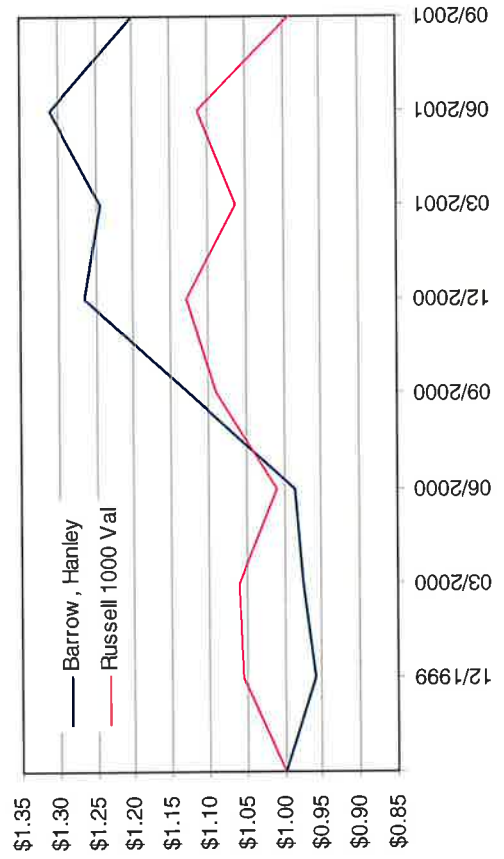
Performance Goals

- Outperform the Russell 1000 Value Index

Performance



Growth of \$1.00

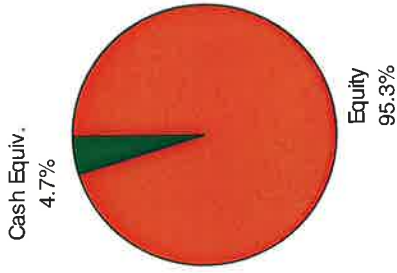


Disciplined Growth Investors

September 30, 2001

Asset Allocation

| | |
|---------------|---------------------|
| Equity | \$22,036,458 |
| Cash Equiv. | <u>1,098,810</u> |
| Total: | \$23,135,268 |



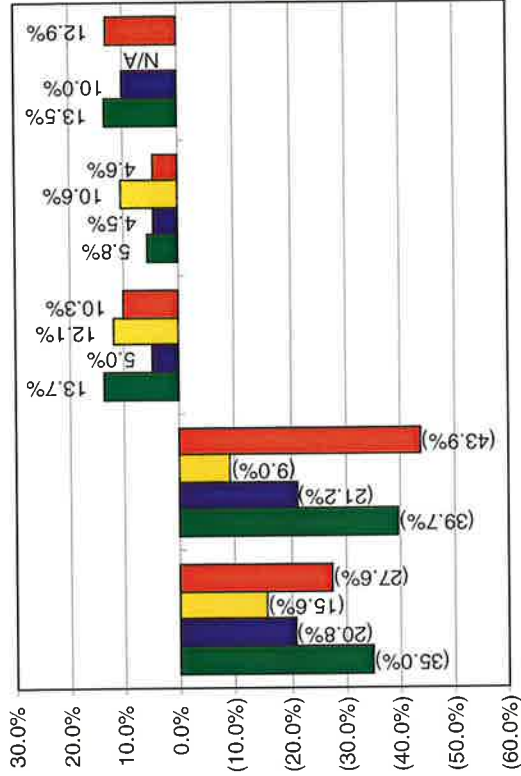
Strategy

- Small cap growth equity
- Inception: April 1981

Performance Goals

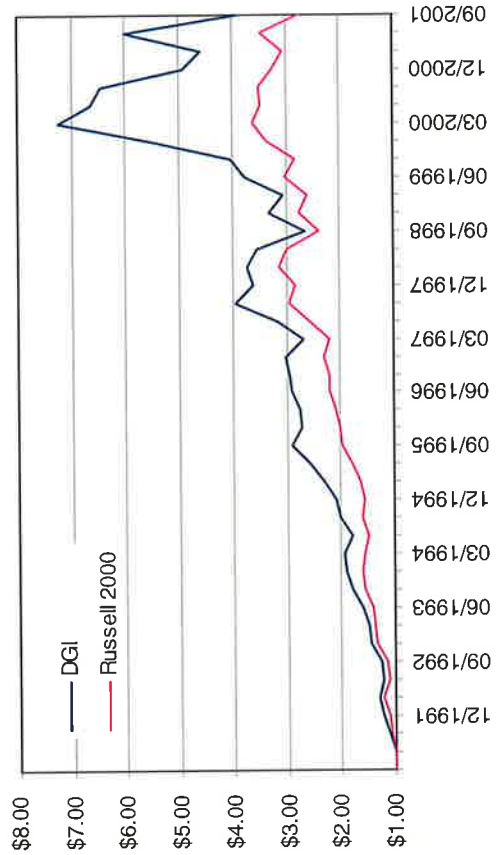
- Outperform the Russell 2000 Index

Performance



| Period | Small Core Style Peer Ranking | Small Growth Style Peer Ranking |
|--------|-------------------------------|---------------------------------|
| 100th | 99th | 40th |
| 100th | 34th | 25th |
| | | 43rd |
| | | 42nd |

Growth of \$1.00



Zurich, Scudder Investments, Inc. September 30, 2001

Asset Allocation

| | | |
|---------------|---------------------|--|
| Int'l Equity | \$15,997,873 | |
| Cash Equiv. | 0 | |
| Total: | \$15,997,873 | |



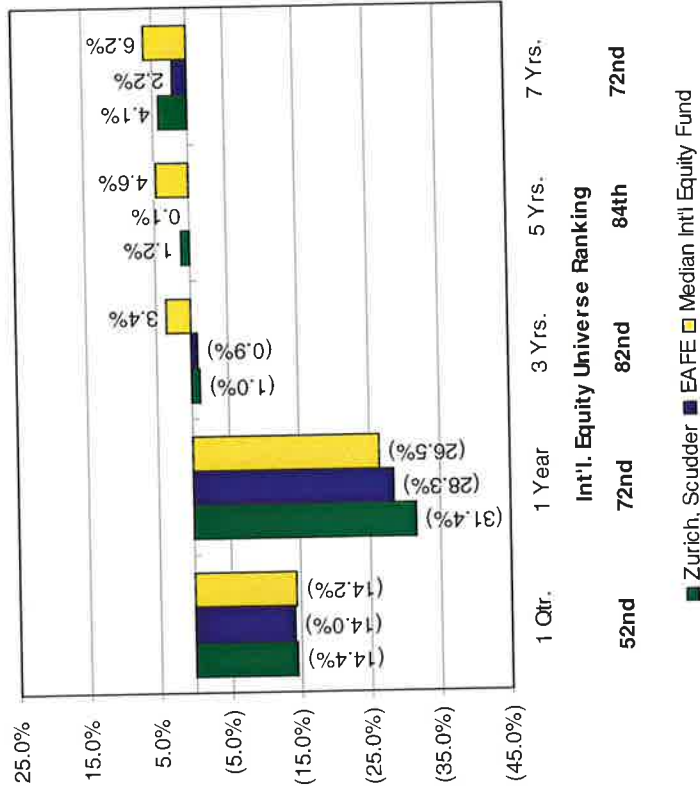
Strategy

- Developed country core international equity
- Inception: October 1994

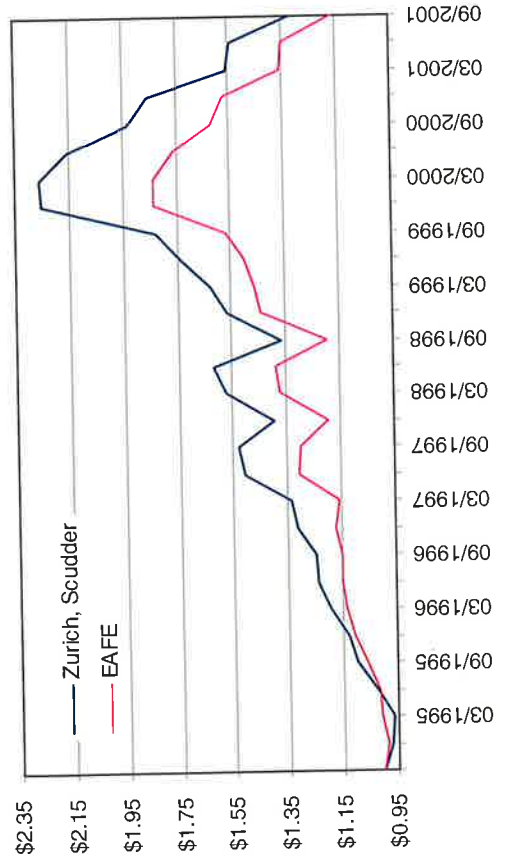
Performance Goals

- Outperform the MSCI EAFE Index

Performance



Growth of \$1.00



Firmco

September 30, 2001

Asset Allocation

| | |
|---------------|---------------------|
| Fixed Income | \$26,288,217 |
| Cash Equiv. | <u>494,811</u> |
| Total: | \$26,783,028 |



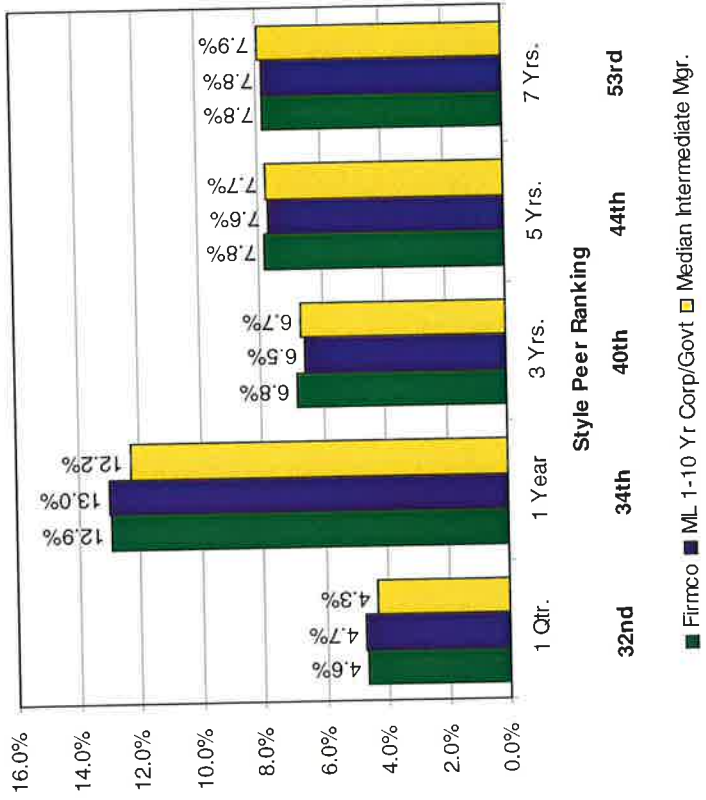
Strategy

- Intermediate investment grade bonds
- Inception: March 1994

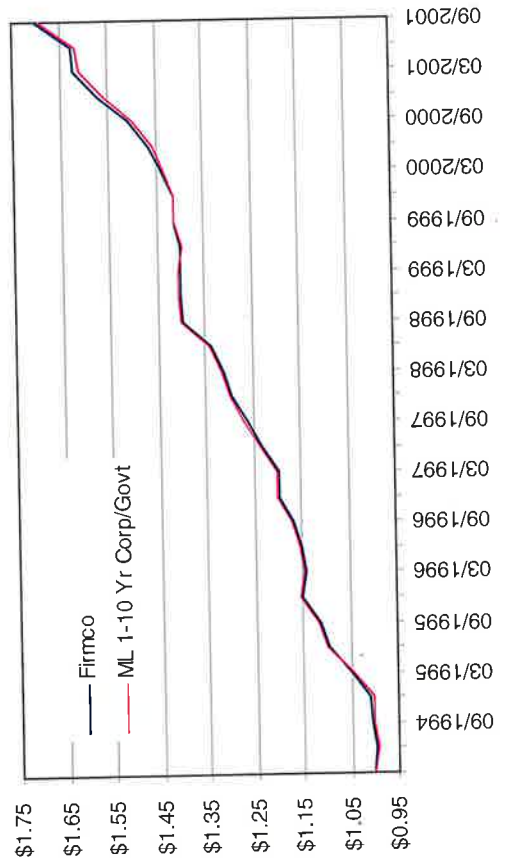
Performance Goals

- Outperform the Merrill Lynch 1-10 Year Corp/Govt Index

Performance

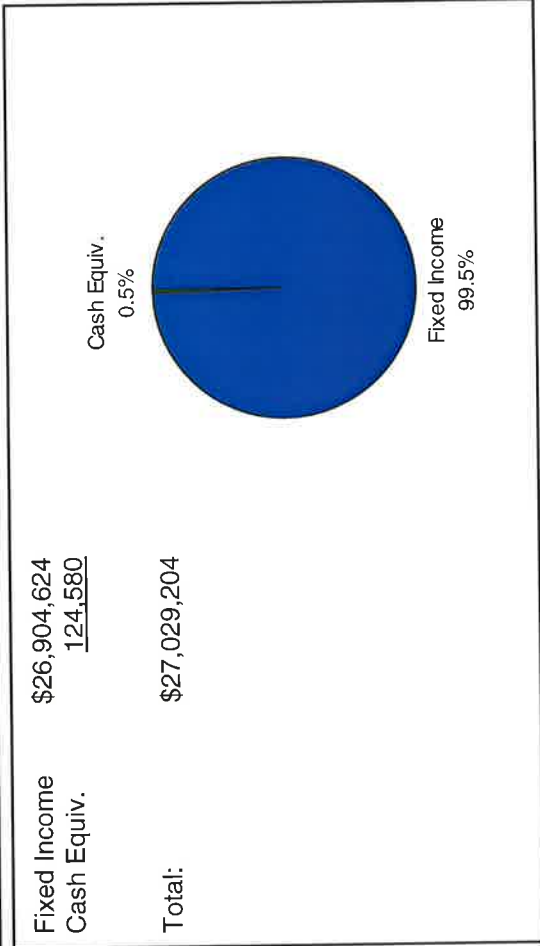


Growth of \$1.00



Richmond Capital Advisors September 30, 2001

Asset Allocation



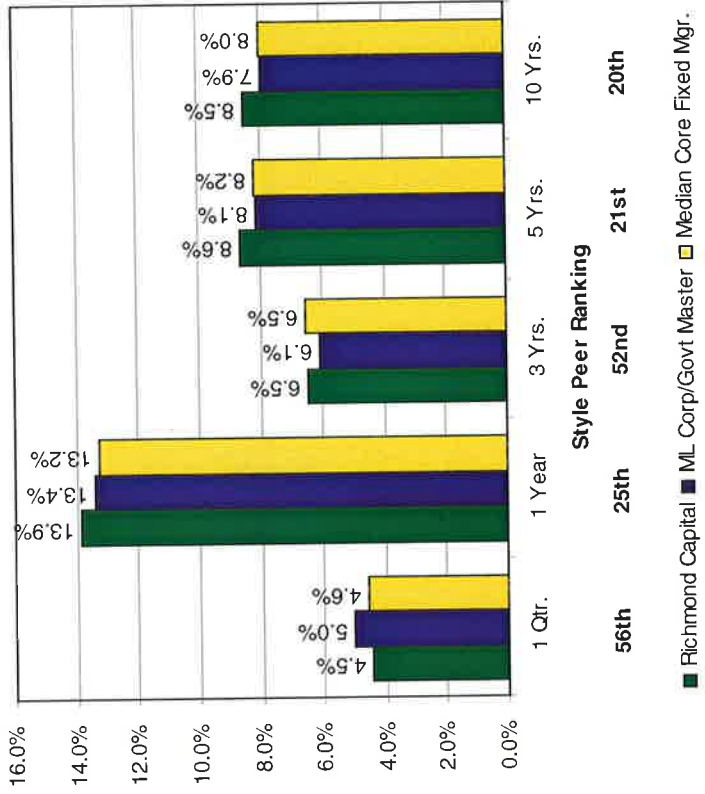
Strategy

- Core investment grade bonds
- Inception: November 1986

Performance Goals

- Outperform the Merrill Lynch Corp/Govt Index

Performance



Growth of \$1.00

