

PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

INVESTMENT PERFORMANCE EVALUATION

Second Quarter 2006

Presented on August 24, 2006

NOTE: For a free copy of Part II of Burgess Chambers and Associates, Inc.'s most recent Form ADV which details pertinent business procedures, please write or call: 601 North New York Avenue, Suite 200, Winter Park, Florida 32789, 407-644-0111. Part II will be mailed within five (5) business days upon receipt of the request.

PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

For the Quarter Ending June 30, 2006

**BCA Second Quarter 2006 Market Review ®
How Capital Markets Respond to Rising Interest Rates**

By Burgess B. Chambers

The Fed recently posted its 17th rate hike, signaling that rising capital costs will slow economic activity in the U.S. economy and elsewhere. The Central Bank of Japan has begun raising its short-term interest rates, following a long standing zero interest-rate policy. As borrowing costs rise, businesses and consumers begin to borrow less. Lenders tend to raise underwriting standards as future expectations point to increasing risk. This double squeeze is most notable among companies that have high debt levels in relation to total capital.

During the past four years, small-cap stocks of low quality and junk bonds have performed well, in contrast to high quality stocks of large-cap firms and high quality credits. The former group took advantage of the Fed's low interest rate policy, which improved balance sheet strength, while the later group was already there.

Emerging markets also took advantage of low borrowing costs. This environment encouraged developed countries to move manufacturing operations to these regions in order to remain globally competitive. China is the best example.

During the equity market pull-back which began in May 2006, it was the small-cap and emerging market stocks that received the biggest hits. Investors responded to statements by the Fed Chairman that further rate hikes were likely. If the Fed induces a recession, it is these two sectors that would stand to lose the most. Declining domestic consumer spending would slow down factories both here and in the emerging countries.

Investment grade bonds have been very expensive and less than desirable during the past three years. With interest rates finally responding to rising inflation expectations, investment grade bonds are becoming more attractive. Everyone knows that there is more inflation in the economy than reported by the Labor Department. As the news of growing inflation moves its way into the market, bonds will become attractive again.

Fed policy influences investor behavior and adjusts the relative valuation of asset classes.

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Investment Summary

- For the quarter, the total Fund experienced a -0.8% return, which was inline with the benchmark objective. The negative performance was due to the May-June stock market sell-off. The international manager (Fisher) experienced a decline of -2.5% for the quarter. The new investment program was not fully deployed until the REIT was funded on May 1, 2006. The bonds and TIPS posted modest returns for the quarter. The best performing asset class was the REIT, which earned +2.4%.

Asset Allocation Table

Investment Approach	\$ Market Value	% Asset Alloc.	% Target Alloc.	Compliance % Delta	% Min	% Max
Large Cap Value Equity (CSM)	4,926,684	13.1	13.0	+0.1	10.0	20.0
Large Cap Growth Equity (R1000G)	5,467,506	14.6	15.0	-0.4	10.0	20.0
Mid Cap Equity (LCM)	5,943,537	15.8	15.0	+0.8	10.0	20.0
International Equity (Fisher)	4,515,708	12.0	12.0	0.0	7.0	20.0
Total Equity	20,853,434	55.5			N/A	70.0
Alternative: Real Estate (RREEF)	2,569,648	6.8	10.0	-3.2	5.0	15.0
Fixed Income (Galliard)	12,265,605	32.6	30.0	+2.6	N/A	N/A
TIPS (Galliard)	1,897,673	5.1	5.0	+0.1	5.0	10.0
Total Cash	1,298	0.0	0.0	0.0		
Total Fund	37,587,658	100.0	100.0			

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Investment Performance

	Dollars		
	<u>Quarter</u>	<u>Fiscal YTD</u>	<u>One Year</u>
Beginning Market Value	37,664,114	36,218,789	34,561,485
Ending Market Value	37,587,659	37,587,659	37,587,659
Net Contributions (+/-)	+253,811	+595,545	+1,275,682
Investment Gain (+/-)	-310,266	+773,325	+1,750,492
Investment Return (%)	-0.8%	+2.2%	+5.1%
Benchmark Objective (%)	-0.8%	+4.1%	+8.7%
Value Added	0.0%	-1.9%	-3.6%

Fiscal Year: January 1 – December 31

Total Fund Performance
(Annualized Percent Returns)

	Qtr.	1 Yr.	2 Yr.	3 Yr.	5 Yr.
Ranking ①	43rd	N/A	N/A	N/A	N/A
TOTAL FUND	-0.8	5.0	5.5	7.1	2.7
Benchmark ②	-0.8	8.7	8.4	10.0	5.5
Value Added	0.0	-3.7	-2.9	-2.9	-2.8
60% S&P 500 / 40% LBAB	-0.9	4.8	5.7	7.6	4.0
Value Added	+0.1	+0.2	-0.2	-0.5	-1.3
Actuarial % Return Objective	1.9	8.0	8.0	8.0	8.0

① PSN Balanced Moderate Universe

② Benchmark from 1Q06 is 28% Russell 1000/15% MSCI 450/12% MSCI EAFE/10% Wilshire REIT/5% LB Interm TIPS/30% Custom (49% LB Mortg/11% LBABS/40% LB Interm Cr); prior from 3Q04 was 25% S&P 500/20% MSCI World/15% Russell 2000/40% ML Domestic Master Bond; prior provided by ML.



PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

For the Quarter Ending June 30, 2006

Equity Performance
(Annualized Percent Returns)

	Qtr.	1 Yr.	2 Yr.	3 Yr.	5 Yr.
Total Equity ③	-2.0	9.3	8.5	11.9	2.9
Total Equity Benchmark ④	-1.4	12.6	10.6	13.3	3.7
<i>Value Added</i>	<i>-0.6</i>	<i>-3.3</i>	<i>-2.1</i>	<i>-1.4</i>	<i>-0.8</i>
Domestic Equity	-1.8	9.1	7.9	11.5	2.0
Ranking ⑤	<i>33rd</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
C.S. McKee LC Core Value	-0.2	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Russell 1000 Value	0.6	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Value Added</i>	<i>-0.8</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Ranking ⑥	<i>25th</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
i-Shares Russell 1000 Growth	-3.7	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Russell 1000 Growth	-3.9	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Value Added</i>	<i>+0.2</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Ranking ⑦	<i>2nd</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Lotsoff Mid-Cap	-1.2	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
MSCI Mid-Cap	-2.8	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Value Added</i>	<i>+1.6</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Ranking ⑧	<i>99th</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Fisher International	-2.5	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
MCSI EAFE	0.9	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Value Added</i>	<i>-3.4</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>

⑤ Large Cap Core Value Universe ⑥ Morningstar Large Growth Universe ⑦ PSN Mid-Cap Universe

⑧ PSN Foreign Large Blend Universe ③ Total Equity from 1/27/06 is CS McKee (LCV), i-Shrs R1000G ETF (LCG), Lotsoff (MC), Fisher (Int'l); prior was Fox (LCV), Fayez Sarofim (LCV), Buckhead (SCV) and Atlantic Capital (SCG).

④ Total Equity Benchmark from 1Q06 is 51%Russell1000/27%MSCI MC/22%MSCI EAFE; prior from 3Q04 42%S&P500/33%MSCI World/25%Russell2000; prior provided by ML.



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Performance of Various Equity Strategies
(Calendar-Year Performance)

Composite	2Q06	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	10 Yr. Avg.
S&P 500	-1.4	4.9	10.9	28.7	-22.1	-11.9	-9.1	21.1	28.6	33.4	23.0	9.1
Russell 1000 Growth	-1.6	5.3	6.3	29.7	-27.9	-20.4	-22.4	33.2	38.7	30.5	23.1	6.7
Russell 1000 Value	-3.9	7.1	16.5	30.0	-15.5	-5.6	7.0	7.3	15.6	35.2	21.6	10.9
S&P Mid-cap 400	-3.1	12.6	16.5	35.6	-14.5	-0.6	17.5	14.7	19.1	32.3	19.2	14.4
Russell 2000	0.6	4.6	18.3	47.3	-20.5	2.5	-3.0	21.3	-2.5	22.4	16.5	9.3
Russell 2000 Growth	-7.3	4.2	14.3	48.5	-30.3	-9.2	-22.4	43.1	1.2	12.9	11.3	4.7
Russell 2000 Value	-2.7	4.7	22.2	46.0	-11.4	14.0	22.8	-1.5	-6.5	31.8	21.4	13.1
Wilshire Real Estate Securities Index	-1.1	14.0	33.1	37.1	2.6	10.5	30.7	-3.1	-17.4	19.8	36.9	15.4
MSCI EAFE	0.9	14.0	20.7	39.2	-15.7	-21.2	-14.0	27.3	20.3	2.1	6.4	6.2

 Large-cap Equity
 Small-cap Equity



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Equity Characteristics

	CS McKee	i-Shrs R1000G	Lotsoff	Fisher
Average Market Cap. (\$ Billions)	69.4	5.6	5.1	53.7
Price to Book Ratio	2.7	5.6	2.5	2.5
Price to Earnings Ratio	14.2	21.1	15.4	15.9
Dividend Yield %	2.3	0.9	0.2	2.1

Fixed Income Characteristics

	Intermediate	LBIA	TIPS	LBIT
Bond Duration	4.0	4.0	4.1	4.2
Quality Rating	AAA	AA+	GOV	TSY



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Fixed-Income Performance
(Annualized Percent Returns)

	Qtr.	1 Yr.	2 Yr.	3 Yrs.	5 Yrs.
Ranking ⑦	<i>26th</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Total Fixed Income ⑤	0.4	0.0	2.4	1.7	4.2
Total Fixed Income Benchmark ⑥	0.2	-0.2	3.3	2.3	5.2
<i>Value Added</i>	<i>+0.2</i>	<i>+0.2</i>	<i>-0.9</i>	<i>-0.6</i>	<i>-1.0</i>
Ranking ⑦	<i>53rd</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Galliard Intermediate Fixed Income	0.3	N/A	N/A	N/A	N/A
BCA Custom Benchmark	0.1	N/A	N/A	N/A	N/A
<i>Value Added</i>	<i>+0.2</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Galliard Intermediate Fixed Income	1.2	N/A	N/A	N/A	N/A
Lehman Intermediate TIPS	1.2	N/A	N/A	N/A	N/A
<i>Value Added</i>	<i>0.0</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>

⑤ Fixed Income since 1/1/06 Galliard; prior was Fox and Faye Sarofim

⑥ Total Fixed Income Benchmark: 86%BCA Custom Bond (49%LBMortg/11%LBABS/40%LBIC)/14%LBIT;
prior was ML Dom Master Bond

⑦ PSN Intermediate Fixed Income Universe



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GLOSSARY OF TERMS

ACCRUED INTEREST

Bond interest earned since the last interest payment, but not yet received.

ALPHA

A linear regressive constant that measures the manager's expected return independent of Beta.

ASSET ALLOCATION

The optimal division of portfolio asset classes in order to achieve an expected investment objective.

BETA

A measure of portfolio sensitivity (volatility) in relation to the market, based upon past experience.

BOND DURATION

A measure of portfolio sensitivity to interest rate risk.

COMMINGLED FUND

An investment fund, offered by a bank or insurance company, which is similar to a mutual fund in that investors are permitted to purchase and redeem units that represent ownership in a pool of securities.

CORE

A type of investment strategy that has approximately an equal weighting in both growth and value stocks in order to achieve a return that is comparable to the broad market performance (i.e., the S&P 500).

CORRELATION COEFFICIENT

A statistical measure of how two assets move together. The measure is bounded by +1 and -1; +1 means that the two assets move together positively, while a measure of -1 means that the assets are perfectly negatively correlated.

INDEXES

Indexes are used as "independent representations of markets" (e.g., S&P 500 and LBGC).

INFORMATION RATIO

Annualized excess return above the benchmark relative to the annualized tracking error.

GROWTH MANAGER

A growth manager generally invests in companies that have either experienced above-average growth rates and/or are expected to experience above-average growth rates in the future. Growth portfolios tend to have high price/earnings ratios and generally pay little to no dividends.

LARGE CAP

Generally, the term refers to a company that has a market capitalization that exceeds \$5 billion.

MANAGER UNIVERSE

A collection of quarterly investment returns from various investment management firms that may be subdivided by style (e.g. growth, value, core).

MID CAP

Generally, the term refers to a company that has a market capitalization between \$1 and \$5 billion.

RATE OF RETURN

The percentage change in the value of an investment in a portfolio over a specified time period.

RISK MEASURES

Measures of the investment risk level, including beta, credit, duration, standard deviation, and others that are based on current and historical data.

R-SQUARED

Measures how closely portfolio returns and those of the market are correlated, or how much variation in the portfolio returns may be explained by the market. An R2 of 40 means that 40% of the variation in a fund's price changes could be attributed to changes in the market index over the time period.

SHARPE RATIO

The ratio of the rate of return earned above the risk-free rate to the standard deviation of the portfolio. It measures the number of units of return per unit of risk.

STANDARD DEVIATION

Measure of the variability (dispersion) of historical returns around the mean. It measures how much exposure to volatility was experienced by the implementation of an investment strategy.

SYSTEMATIC RISK

Measured by beta, it is the risk that cannot be diversified away (market risk).

TRACKING ERROR

A measure of closely a manager's performance tracks an index; it is the annualized standard deviation of the differences between the quarterly returns for the manager and the benchmark.

UP-MARKET CAPTURE RATIO

Ratio that illustrates how a manager performed relative to the market during rising market periods; the higher the ratio, the better the manager performed (i.e., a ratio of 110 implies the manager performed 10% better than the market).

VALUE MANAGER

A value manager generally invests in companies that have low price-to-earnings and price-to-book ratios and/or above-average dividend yields.



Chart 1 PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

Total Fund Asset Allocation

Market Value
\$37,587,660

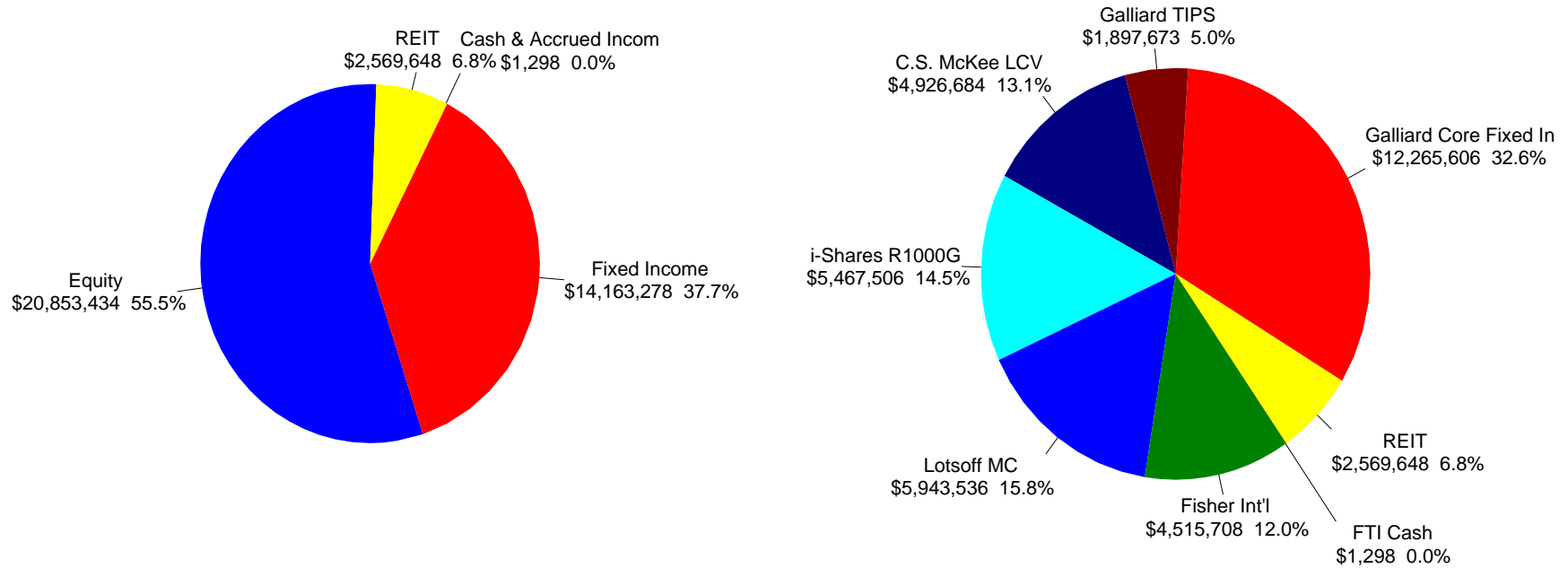


Chart 2

PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

Total Fund Asset Allocation

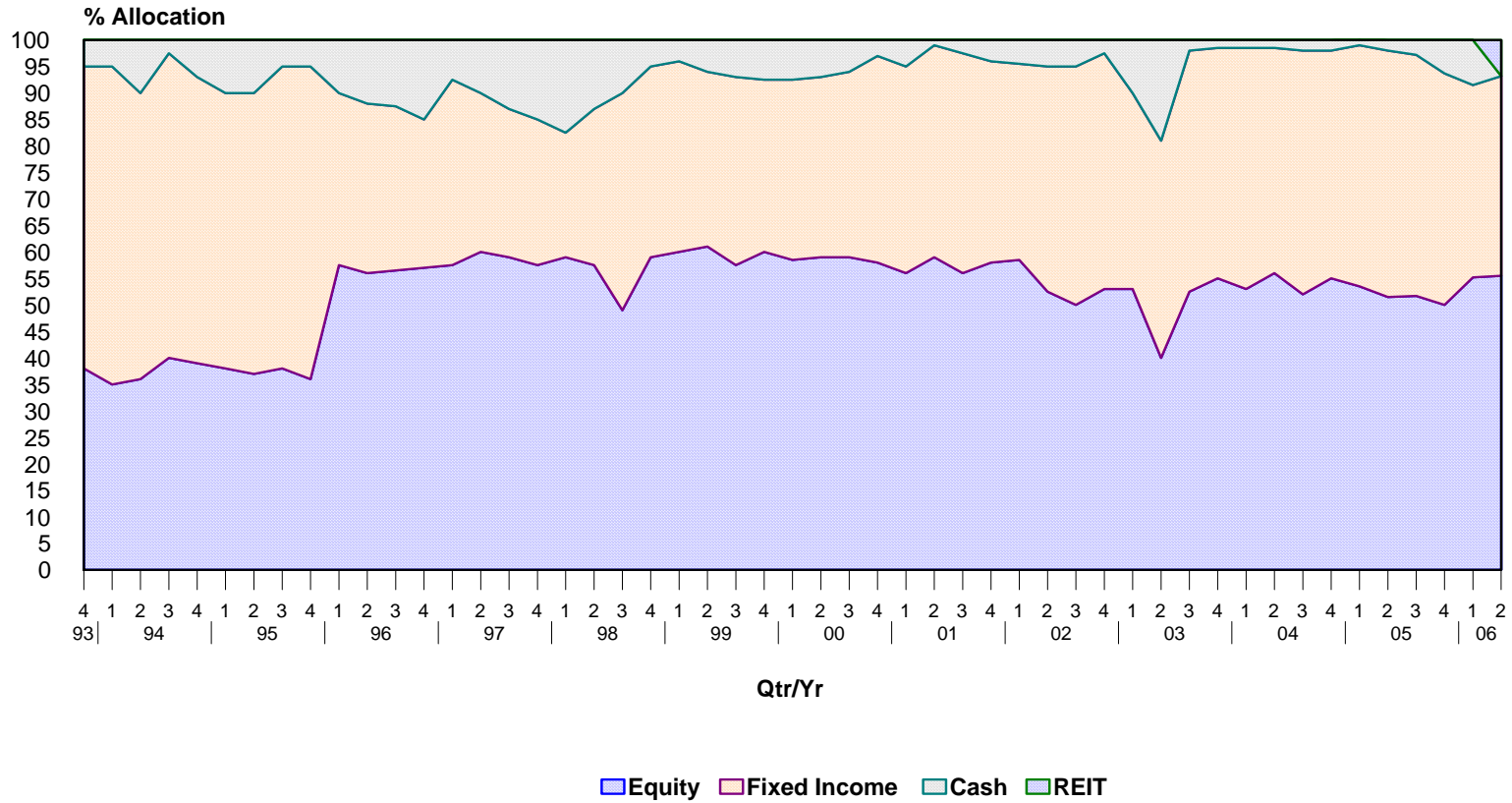
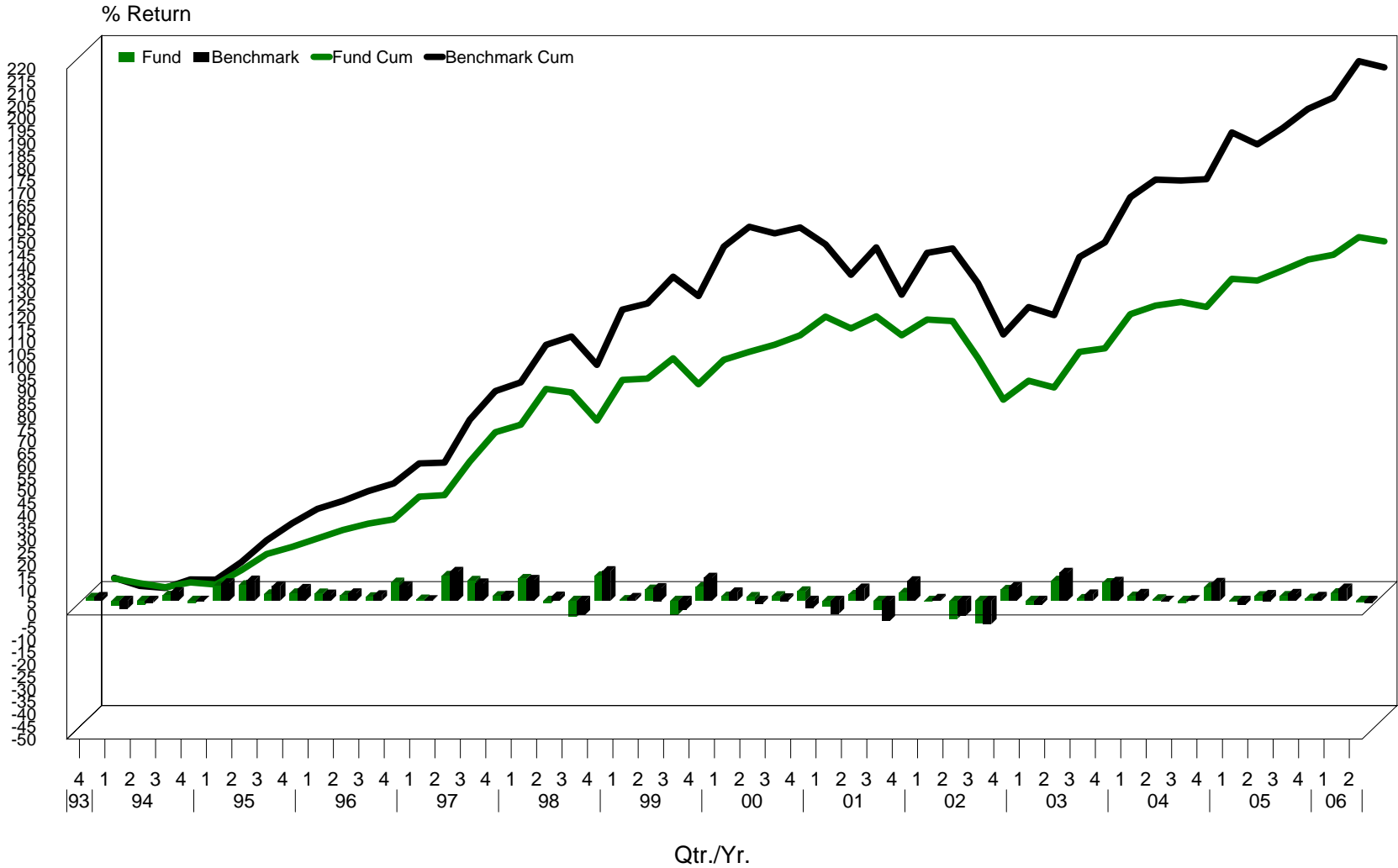


Chart 3

PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

Total Fund Annualized % Returns

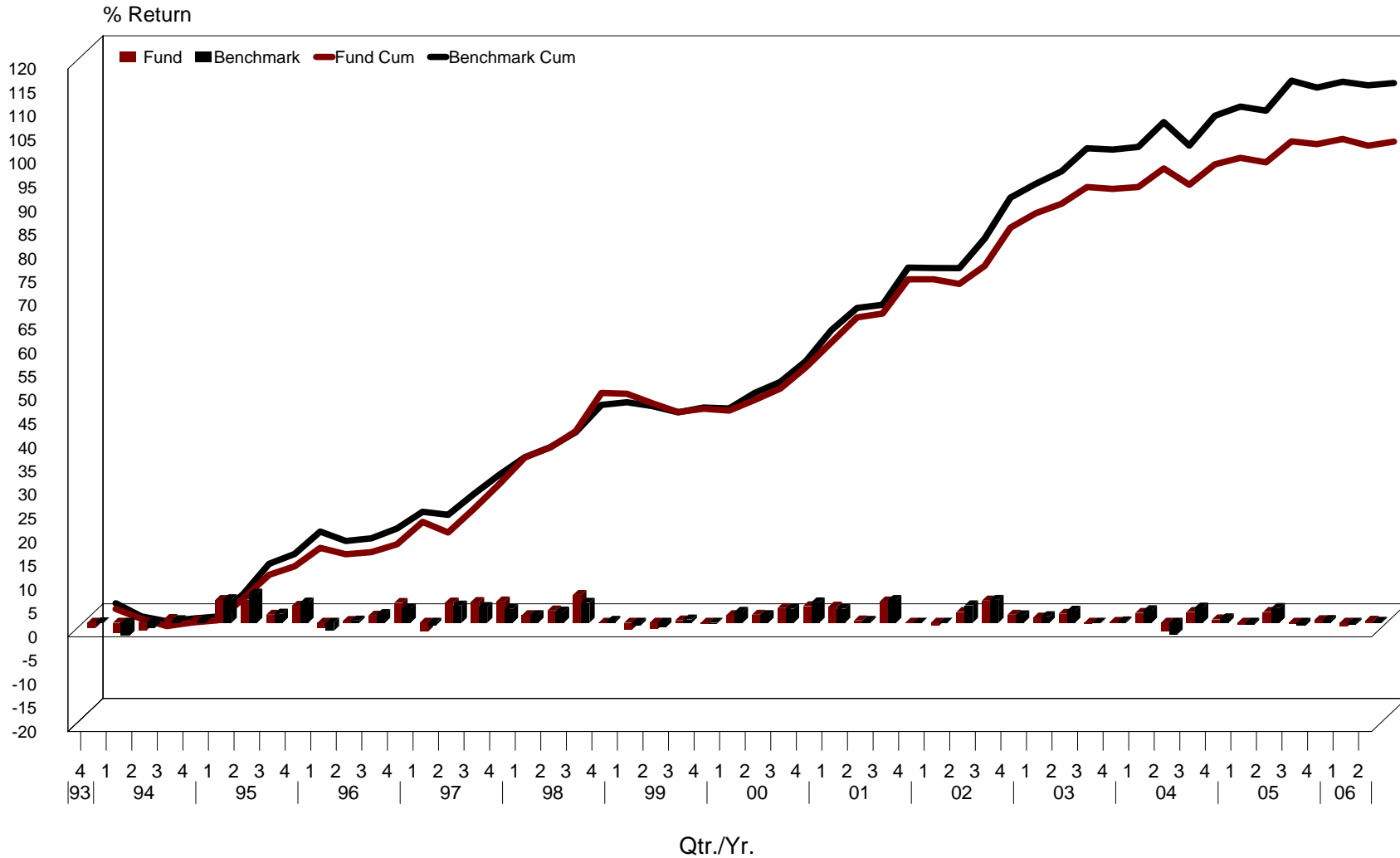


Benchmark: 28% Russell 1000/15% MSCI MC/12% MSCI EAFE/10% Wilshire REIT/5% LBIT/30% BCA Custom Bd;
 prior from 3Q04 was 25% S&P 500/20% MSCI World/15% Russell 2000/40% ML Dom Mas Bd; prior
 benchmark data provided by Merrill Lynch (prior consultant)

Chart 5

PALM TRAN / A.T.U. LOCAL 1577 PENSION FUND

Fixed Income Annualized % Returns



Total Fixed Income Benchmark from 1Q06 is 86%BCA Custom Bond/14%LBIT; prior was ML Domestic Master Bond