DRAFT
GENERAL EMPLOYEES' PENSION PLAN
BOARD OF TRUSTEES
NOVEMBER 28, 2011 - 8:30 A.M.

<u>Board Members Present</u>
Ray Dielman, Chair
Jim Freeman, Vice Chair
Matt Bloome, Secretary
Ellen Leonard
Karen Simpson
Allen Tusing

<u>Staff and Others Present</u>
Scott Christiansen, Board Attorney
Charlie Mulfinger, Gray Stone Consulting
Diane Ponder, Deputy Clerk-Administration
Deanna Roberts, Administrative Assistant

<u>1. CALL TO ORDER</u>

Mr. Dielman called the meeting to order at 8:45 a.m.

<u>2. APPROVAL OF MINUTES</u>

MOTION: Mr. Tusing moved, Mr. Bloome seconded and motion carried unanimously to approve the August 28, 2011 minutes.

<u>3. INVESTMENT REVIEW</u>
Investment performance review for the quarter ending September 30, 2011.

Charlie Mulfinger commented that the third quarter was a very difficult quarter for the economy. There was no improvement occurring May through September as anticipated. During the quarter there was a fear that the economy was moving into a double dip or a recession. This proved not to be true, but anything based on economic sensitivity performed poorly. There was slower growth in all the indicators. Fear of what is going on politically here and abroad, and not knowing what to do about the sovereign debt countries like Italy and Greece that have a substantial amount of debt created a terrible market environment. Consumer confidence and consumer spending is the largest part of the economy and confidence is still low. GDP was 2, better than what was feared.

Mr. Mulfinger referred to a handout; the performance review for the quarter. The only area that did well was the bond market. He reported that the portfolio value as of September 30, 2011 was $7,980,378, a loss of $1,081,778, a substantial decline in value for the quarter. A copy of the performance summary is attached hereto and made a part of these minutes.

The plan is underweight in every equity asset class except for Large Cap Growth. Large Cap Growth was the area that performed the best; we were slightly overweight but within range. We were underweight in every other equity asset class. We were slightly below our policy range at the end of the quarter but within range as of today. Fixed income bonds were overweight at 34.38% vs. 30% because the equity market fell and the bond market went up, but within range as of last week.

He reported that managers that are economically sensitive underperformed for the quarter. He discussed Renaissance's performance and recommended hiring a different Large Cap Growth manager, but he is not recommending a change in Wells in Large Cap Growth.

In summary, the return was more negative for the quarter because of the economic sensitivity of the first four managers. The plan was down 11.56 vs. 10.68 for the index. For the year the plan was down .55 vs. .62.

The value as of November 22, 2011 was $8,348,196, a big increase since the end of the quarter. The valuation is in line with the policy. This is a good start to the new fiscal year; up 4.2%.

Morgan Stanley and Smith Barney have negotiated fees lower than what had been charged in the past. It would lower the fees from a blended fee for the managers at .40, equity and fixed combined, to a blended fee of .32, 8 basis points difference. The new fees would be effective December 1, and Mr. Mulfinger informed the Board attorney there would be no change in the contractual agreement. Mr. Mulfinger said he is offering to lower his fees from 55 down to 50 on the first $10 million, which would then create a total savings of 3 basis points.

The last quarter saw the most volatility in the market ever. The market is very nervous about what is occurring in Europe. So far retail sales have been strong. Black Friday was better than expected and U.S. companies are beating expectations. But, there is still the worry that we could go into a recession because of the situation in Europe.

Diane Ponder entered at 9:00 a.m.

Mr. Mulfinger discussed the Asset Allocation article, as well as a new academic study that studied managers compared to index indices. Results indicate that the greater the difference between holdings in a portfolio and in an index, the better the out-performance, which is known today as active share.

Mr. Mulfinger confirmed that the portfolio's managers are active and not following the index; over time they will beat the appropriate index. However, he did recommend that the Board look at the search he performed to replace Renaissance, because of the manager's performance and loss of assets.

Mr. Mulfinger reviewed the search to replace Renaissance, stating that three large cap traditional or conservative growth managers were considered. He eliminated Jennison because it is so close in structure to Wells. In addition to the replacement of Renaissance, the Board discussed also looking at all the other managers. Mr. Mulfinger did not recommend replacing Wells because of the long term returns, and the fact the manager is fundamental and more growth oriented.

The Board discussed whether or not it would be beneficial to bring in the three managers for interviews. It was determined that sufficient data on each manager had been provided in the search to make a decision without an interview.

The Board also discussed looking at all the managers, but determined that they would like to have a review of Abbot and Wells at the next meeting and a review of the balance of the managers in the future.

Discussion ensued on selecting Polan to replace Renaissance, with a consensus vote to waive the interview based on the information contained in the search. Mr. Mulfinger agreed that an interview is not necessary, suggesting the manager can be brought forward at a future meeting to explain the manager's process. Mr. Mulfinger explained the process Polan uses to select investments, stating a decision is based on the quality of a company's earnings and cash flow.

MOTION: Mr. Freeman moved, Mr. Tusing seconded and motion carried 6-0 to switch from Renaissance to Polan Capital for a large cap conservative growth company.

Staff was instructed to add the review of Abbot and Wells on the next agenda. Mr. Mulfinger will perform a search for an aggressive manager to compare to Wells and a search for a value manager to compare to Abbot.

Mr. Mulfinger will provide Attorney Christiansen the proposed fee structure.

4. APPROVAL OF EXPENSES

A) Christiansen & Dehner: August & September, 2011
B) Smith Barney: Quarter ending September 30, 2011 (Investment Report)
C) Foster & Foster: August 15, 2011

MOTION: Mr. Freeman moved, Mrs. Simpson seconded and motion carried 6-0 to ratify payment of the expenses as presented.

5. APPROVAL OF BENEFITS
A) Patrick N. Douglas - DROP
B) Curtis L. Mathis – DROP

Mr. Tusing noted a correction to Mr. Mathis' name and Mr. Freeman noted the correction of his name in the letter for the benefit payment.

MOTION: Mr. Tusing moved, Mr. Bloome seconded and motion carried 6-0 to approve payment of DROP retirement benefits to Patrick N. Douglas and Curtis L. Mathis, with corrections to the supporting documents.

6. SENATE BILL 1128: BENEFIT CALCULATION ISSUES
Attorney Christiansen referred to the new limitations in the definition of salary imposed by Senate Bill 1128. The new legislation provides that up to 300 hours per year of overtime can be considered as salary when calculating retirement benefits but prohibits the inclusion of accrued sick and vacation time in that calculation. Attorney Christiansen explained the different ways the Board can determine how the benefit can be calculated; first-in, first-out method or last-in first-out method. The State has now indicated that it is permissible, but not mandatory, to set the amount of sick or annual leave accrued on July 1, 2011 as the maximum amount that can be used for pension purposes. He referred to his memo describing the methodology where it will be permissible to calculate benefits using the lesser amount of time accrued on July 1, 2011 vs. the actual amount on the books at an employee's retirement date. The Board discussed the administration of the legislation and decided to use the methodology described by Attorney Christiansen, as it is a more beneficial calculation for the employee. Attorney Christiansen recommended that an ordinance be prepared for the Board's review at the next meeting.

MOTION: Mrs. Simpson moved, Mr. Tusing seconded and motion carried 6-0 to authorize Attorney Christiansen to prepare an ordinance making the change [to the definition of salary] as described by Attorney Christiansen

7. PROPOSED 2012 MEETING DATES

MOTION: Mr. Freeman moved, Mrs. Leonard seconded and motion carried 6-0 to approve the 2012 meeting dates, as presented.

8. ATTORNEY'S REPORT
Reported he has finished review of UBS real estate documentation. Mr. Mulfinger reported the first investment could happen in March.

The Foster & Foster contract addendum approving the new fees has been signed.

Pension Letter #2, the fiscal year-end report, is due to be submitted to the City Commission.

The terms of the Board's appointed trustees, Ellen Leonard and Allen Tusing, expire in January. Both trustees agreed to serve another term.

MOTION: Mr. Freeman moved, Mrs. Simpson seconded and motion carried 4-0 to reappoint Allen Tusing as a Trustee for the General Employees Pension Board, effective January 1, 2012, for a two-year term. Mr. Tusing did not vote.

MOTION: Mr. Freeman moved, Mrs. Simpson seconded and motion carried 4-0 to reappoint Ellen Leonard as Trustees for the General Employees Pension Board, effective January 1, 2012, for a two-year term. Mrs. Leonard did not vote.

Attorney Christiansen did comment on the fact the City Commission's appointment to the Board is still vacant.

9. OTHER BUSINESS

Mr. Dielman commented on the fact the Board has not performed due diligence by issuing an RFP for thirteen years for financial management and legal services. Mr. Dielman discussed his reasons for calling for the general discussion. The Board discussed the topic and ultimately, with a general consensus from the Board, decided against issuing an RFP at this time for either service.

Meeting adjourned at 10:45 a.m.

Minutes approved:

Matt Bloome
Secretary