

TAB 1

GENERAL EMPLOYEES' PENSION PLAN
BOARD OF TRUSTEES
December 1, 2008 – 8:30 AM

Board Members Present:

Jim Freeman, City Clerk
Gracie Johnson, Employee Representative
Ellen Leonard, Citizen
Tanya Lukowiak, Employee Representative
James Terry, Citizen
Allen Tusing, Citizen

Board Members Absent:

Ray Dielman, Citizen

Staff and Others Present:

Mike DeGenova, Citi Institutional Consulting
Doug Berman, Lazard Asset Management, LLC
Diane Ponder

Chairman Leonard called the meeting to order at 8:35 am.

Chair Ellen Leonard requested that Allen Tusing and her reappointments be added to the agenda for action.

1. APPROVAL OF MINUTES

MOTION: Mrs. Lukowiak moved, Mrs. Johnson seconded and motion carried 6-0 to approve the September 22, 2008 minutes.

2. INVESTMENT REVIEW

Mike DeGenova, Citi Group, introduced Doug Berman, Lazard Asset Management, the international manager for the Plan.

Mr. Berman briefly reviewed the history of Lazard, the firm's global locations, and the fact the firm manages \$100 billion of client funds worldwide. Mr. Berman discussed the firm's investment philosophy and goal of outperforming the market through an entire up and down cycle. He explained the firm is a bottom-up manager, doing all research in-house to choose companies that are most the productive selling at the most reasonable price, regardless of the company's domicile. He stated the Plan's portfolio does not invest in emerging markets, and that the portfolio management team must reach a unanimous decision to purchase or sell a stock.

Mr. Berman discussed the current market, opining "there was no way to escape this market; if you were in equities of any sort, you went down." He reviewed the portfolio's performance since inception in 1998, and discussed what helped the portfolio during the third quarter: materials, pharmaceuticals, and consumer staples. What hurt the portfolio was financials, being over weighted in some energy related stocks, and being underweighted in Japan, as that market fell less than its European counterparts. Mr. Berman discussed what has been sold from the portfolio since June. Currently cash is at 14% vs. the normal 5% level.

Mr. Berman speculated on market's future action; smaller returns; stock pickers market; inflationary move with interest rates creeping upward or a deflationary move which would be a precarious market. He stated it will be a time to be prudent; buy high quality and take as little risk as possible.

Mike DeGenova, Citi Group, discussed the economic events that occurred in September; the credit crisis, rising unemployment, falling home prices, decline in manufacturing, and first negative GDP growth to a negative .5%. Mr. DeGenova stated his firm believes the country is in

recession and it can last six to eight quarters vs. a past typical average length of thirteen months. He further stated that does not mean the market will perform poorly for that length of time; normally it improves before the economy.

Discussing the market's performance, Mr. DeGenova referred to the LIBOR spreads, which indicated banks were not comfortable lending to other banks, thereby adversely impacted hedge funds, which affected managers in the Plan's portfolio. All three indexes were down. The S&P was down 8.49% for the quarter, due to the de-leveraging in the hedge funds.

Mr. DeGenova discussed the reasons for the manager's poor performance. As of September 30, 2008 the portfolio was valued at \$7,222,095, a loss of \$746,745 net-of-fees. Total asset distribution by percentage showed Total Equity at 60.42% vs. Policy of 65%; Fixed at 38.15% vs. Policy of 35%. The Policy allows a 2.5% deviation in the range. Mr. DeGenova recommended the portfolio should be rebalanced back to the established Policy targets, and the Policy should be complied with and followed, which would mean selling bonds and buying stocks.

Mr. Terry opined that due to the current market and the forecasts that have been made as to the market's performance for the next several quarters or longer, 38% in Fixed is "not a bad place to be". He stated he would prefer the ranges be set at 60% for Fixed and 40% for Equity. Mr. DeGenova stated the updated figures for this date show the portfolio is even more out of policy with less in Equity and a higher percentage in bonds.

Mr. DeGenova referred to the S&P study over a 20 year, which reflected individuals investing without an investment policy purchased high and sold low and earned 4% vs. 11% for investments governed by investment policies. He opined the reason for an investment policy is to prevent making rash decisions over a period of time.

Mr. Freeman inquired if there is a policy for selecting funds where money is placed or is the money spread evenly among all funds. Mr. DeGenova stated that a typical recommendation is to invest in the most underweighted areas, which eliminates trying to determine which manager will out perform the other.

Mr. Terry inquired if the managers are buying and selling rather than holding their portfolios. He opined the portfolio is not buying S&P; Mr. DeGenova concurred. He further stated the Plan has paid money managers who are average stock fund investors; therefore, the Plan's portfolio can't be compared to the S&P study; Mr. DeGenova disagreed with the statement, stating the study reflects how an average stock investor fared over the period of time because of emotional investments. Mr. DeGenova stated the portfolio's active money managers only are in cash because of the lack of opportunities to invest the cash; none of the owned managers are market timers.

Mrs. Lukowiak questioned if the Board had the latitude not to follow the established Policy. And, if not, what are the parameters of the deviation. Mr. DeGenova stated Attorney Christiansen would advise the Board that they should be in compliance with the Policy. Mr. Terry opined that even with a rebalance the portfolio would still be out of compliance because of the 14% in cash.

Mr. Tusing opined the ultimate time to buy is the bottom, but the Board does not know when the bottom will be. He stated the Board should stay within the guidelines of the Policy as much as possible. If the Board does not stay within the Policy, the Trustees may open themselves for liability.

Mr. DeGenova finished the review of each manager's performance. In response to Mr. Freeman's comments regarding Golden's poor performance, he stated Golden is being closely monitored. He also confirmed that funds from any rebalance would be placed in Large Cap Growth and then to Wells and Renaissance. A Summary of the relevant facts is attached hereto and made a part of these minutes.

Discussion ensued on the environment and whether or not to rebalance. Mr. DeGenova stated some Board attorneys have permitted investment within the range, not necessarily the target. The Trustees decided that they would prefer to discuss the matter when Attorney Christiansen could be present to give guidance on the rebalance issue, as well as discuss the proposed ordinance later on the agenda.

MOTION: Mr. Tusing moved, Mrs. Lukowiak seconded and motion carried 6-0 to table the rebalance issue until another meeting next month when Attorney Christiansen can be present, and authorize Diane Ponder to establish the date and time, and to note the need to resolve if non-compliance with Policy is permitted.

Mr. DeGenova stated either he or Mr. Mulfinger will attend the meeting.

3. APPROVAL: EXPENSES

- A) Christiansen & Dehner, PA: September and October 2008 billings
- B) Gabriel Roeder Smith & Company: September 2008 billings

MOTION: Mrs. Lukowiak moved, Mr. Freeman seconded and motion carried 6-0 to approve the expenses as presented.

4. APPROVAL OF BENEFITS

MOTION: Mrs. Lukowiak moved, Mr. Tusing seconded and motion carried 6-0 to approve the DROP Benefits for Sharon C. Jones.

5A. PROPOSED ORDINANCE

MOTION: Mrs. Lukowiak moved, Mr. Freeman seconded and motion carried to delay the discussion of the proposed ordinance until the January meeting.

6. OTHER BUSINESS

- A) Smith Barney Client Service Agreement

MOTION: Mrs. Lukowiak moved, Mr. Tusing seconded and motion carried 6-0 to delay the topic until the January meeting.

B) Reappointment of Ellen Leonard and Allen Tusing as the sixth and seventh trustees of the Board for a term ending January 2012. Discussion ensued on Mr. Tusing's eligibility to serve as a trustee because he is a retiree of the City and his recent appointment as Interim Public Works Director. Attorney Christiansen will be consulted

MOTION: Mrs. Lukowiak moved, Mr. Freeman seconded and motion carried 6-0 to approve the Board's appointment of Ellen Leonard and Allen Tusing to a term ending January 2012, contingent upon Attorney Christiansen's approval.

Meeting adjourned at 10:25 am.

James R. Freeman
City Clerk