

TAB 1

GENERAL EMPLOYEES' PENSION PLAN
BOARD OF TRUSTEES
CALLED MEETING
January 20, 2009

Board Members Present:

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

Staff and Others Present:

Charlie Mulfinger, Smith Barney
Mike DeGenova, Smith Barney
Scott Christiansen, Christiansen and Dehner
Deanna Roberts, Administrative Assistant

1. CALL TO ORDER

Chair Ellen Leonard called the meeting to order at 3:12 p.m.

2. APPROVAL OF MINUTES

MOTION: Mr. Freeman moved, Mr. Dielman seconded, and motion carried unanimously to approve the December 1, 2008 minutes.

3. INVESTMENT REVIEW (Charlie Mulfinger)

The official numbers indicate that the U.S. economy has been in a recession since December 2007.

In the fourth quarter, housing was still the biggest issue in the economy, and it has created other problems. There was a 47% decline in housing starts in the quarter. This has led to problems with access to credit and credit defaults. As a result, the GDP has been revised downward to a possible negative 4%; however, the final numbers are not out yet. There was no area of the economy that was positive.

Oil prices have dropped. Inflation is not an issue, but there is some discussion about the possibility of deflation.

Mr. Mulfinger referred the Board to the Smith Barney fourth quarter Capital Market Overview, page 3, which showed the S&P down 21.9% and the Dow Jones down 18.3%. The entire overview is attached to and made a permanent record of these minutes. The fourth quarter was particularly bad for the year as a whole. Value performed better than Growth, but both were very negative (pg. 4). International markets were down less than the U.S. markets in the quarter, but for the whole year they were down as much or more than the U.S. markets; 43% for the year (pg. 4). Interest was lower in the Bond market because the Federal Reserve forced them lower in the fourth quarter (pg. 5). The Federal Reserve in the quarter reduced the fed funds rate and the discount rate and pumped cash into the market, so they're doing what they can to help the economy. A stimulus package will be coming soon that should help put people back to work. He said this is the only positive news out there.

Next he reviewed the Summary of Relevant Facts, the performance of the City's pension fund. The value of the portfolio at the end of the quarter was \$6,425,850.42, a loss of \$823,000 Net-of-Fees. The ranges in the portfolio are slightly lower than the policy target. Mr. Mulfinger explained that this was due to the fact that at the last quarterly meeting on December 1, 2008, the City was out of range according to the policy. Normally they would recommend rebalancing, but the Board decided to wait and call a special meeting to go over it. Smith Barney mistakenly rebalanced the portfolio. He pointed out that it was a

lucky mistake in that, as of last week, the City was ahead of where it would have been if it hadn't rebalanced. He does not recommend reversing the action as the City needs to remain within its policy, and he does not recommend changing the policy when the market is down. There is \$131,000 in cash (deposit & disbursements account), that needs to be rebalanced. That money would be going into stocks.

After reviewing the Breakdown of Returns on page 2 of the Summary, and comparing them to the supplemental Manager Risk/Return information, he recommends no changes except to put Golden on watch. Overall, the City is negative 11.22 for the quarter, but that is less negative than the benchmark, negative 13.57. The Summary and the Manager Risk/Return pages are attached to these minutes.

The Valuation and Performance of the Fund as of January 8, 2009 is negative 10.04. Bonds and cash gave some support, or it could have been worse. Regarding the Compliance Checklist, he said the City is in compliance due to the rebalancing that Smith Barney did.

As of December 31, 2008, the cash is \$131,000. It is up to around \$190,000 as of today's date. He recommends investing now; investing low. In answer to Mr. Christiansen's question, Mr. Mulfinger said the cash is kept in a government money market account. Through the end of this year, he said the money is insured for an unlimited amount. The checks to retirees are coming out of the money market account.

Regarding the fiscal stimulus package, Mr. Mulfinger said it may be the second quarter of 2010 before an impact is seen.

Mr. Mulfinger said that historically there is a huge rebound after a really depressed market.

He recommended that the Board rebalance the approximately \$190,000 in cash in the portfolio.

Discussion ensued. Mr. Dielman remarked that in the past the policy has dealt with capital appreciation, and he thinks of it now in terms of capital preservation. It may take years to recover what has been lost, and he doesn't want to lose more. Mr. Terry was in favor of rebalancing the portfolio to the more fixed side. Mr. Tusing preferred to stick with the policy and rebalance. Mr. Dielman said the Board's fiduciary responsibility is to stop the bleeding, not to sit and watch the policy go down \$1 million every quarter. Mr. Terry recommended not liquidating any equity as this time, but said all new money should be earmarked for the fixed portfolio. Mr. Freeman asked about the potential for other investment vehicles for the new money, Treasuries for example. Mrs. Lukowiak expressed concern about being reactionary and changing the policy and possibly losing more. Mr. Terry said the Board has a responsibility to be proactive; can't sit and wait for the market.

MOTION: Mr. Terry moved, Mrs. Lukowiak seconded and motion passed unanimously to not rebalance the portfolio at this meeting, but to keep cash in cash until the next regularly scheduled meeting when Mr. Mulfinger will come back with suggestions for other choices that might be safer or more active.

The Board members asked for Mr. Mulfinger's comments. He said he did not agree with the discussion. He thinks the economy will rebound and the market will come back. He recommends not pulling out when the market is low; this is when we should be buying. He recommends staying with the policy and rebalancing to the policy. The only alternative investment he recommends at this point is CD's; however, he still recommends following the policy that was adopted after years of study.

Mr. Christiansen reminded the Board that any policy change must be copied to the State. If the actuarial assumption is not met over time, Charles Slavin could force a change in the assumption.

Mr. Terry said he preferred a new fixed manager over CD's; Madison for example which is more conservative. Mr. Dielman sees CD's as appropriate at this time and would put all new monies into CD's.

MOTION: Mr. Dielman moved, Mr. Tusing seconded and motion passed unanimously to ratify the rebalancing that took place in December 2008.

4. PROPOSED ORDINANCE

Ordinance to ensure the Plan is in compliance with the Pension Protection Act of 2006, Internal Revenue Service regulations, changes to the Internal Revenue Code and Regulations, and changes to State law.

This item was deferred to the next meeting on March 2, 2009.

Mr. Mulfinger advised the Board that his company will change its name to Morgan Stanley-Smith Barney due to a merger. He advised the attorney that the contract will not have to be changed.

5. ATTORNEY'S REPORT

The next agenda should include the reselection of the officers of the Board; chair, vice chair and secretary.

The Summary Plan Description needs to be updated.

MOTION: Mrs. Lukowiak moved, Mr. Tusing seconded and motion carried unanimously to authorize Mr. Christiansen to update the Summary Plan Description.

Reminded the Board that the annual report due to the State reporting that we are complying with the law regarding the reporting of social security number requests is due by the end of January.

The proposed meeting dates for 2009 are: March 2, June 1, September 28, and November 30, beginning at 8:30 a.m.

MOTION: Mr. Freeman moved, Mr. Dielman seconded and motion carried unanimously to approve the 2009 proposed meeting dates.

The fiscal year-end report from the Board to City Commission, Pension Letter #2, needs to be provided to City Commission. This is a report of the Plan's investment activity for the last fiscal year.

6. OTHER BUSINESS

MOTION: Mr. Dielman moved, Mrs. Lukowiak seconded and motion carried unanimously to authorize any Board member online access to the portfolio at any time.

7. TRUSTEE TRAINING

Mr. Christiansen reminded the Board members that as trustees they are required to go to continuing education at least once during every term, and new trustees are encouraged to go within the first six months.

MOTION; Mrs. Lukowiak moved, Mr. Dielman seconded and motion carried unanimously to authorize any member to attend the Feb. 1-4, 2009 training, with all appropriate expenses covered.

Mrs. Leonard referred to a letter from the actuary which will be included on the next agenda. Attorney Christiansen explained that the letter is a proposal by the actuary to perform a projection study that will let the City know what funding will be required for the Pension Plan in the future, based on the recent investment returns.

The meeting was adjourned at 5:16 p.m.

Minutes approved: