

TAB 1

GENERAL EMPLOYEES' PENSION PLAN  
BOARD OF TRUSTEES  
September 22, 2008 – 8:30 AM

Board Members Present:

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

Board Members Absent:

Tanya Lukowiak, Employee Representative

Staff and Others Present:

Charlie Mulfinger, Smith Barney  
Mike DeGenova, Smith Barney  
Bruce Scover, Lord Abbett  
Stephen Hillebrecht, Lord Abbett  
Lee Dehner, Christiansen & Dehner  
Deanna Roberts, Administrative Assistant

Chair Ellen Leonard called the meeting to order at 8:34 a.m.

**1. APPROVAL OF MINUTES**

**MOTION: Mr. Dielman moved, Mrs. Johnson seconded, and motion carried unanimously to approve the June 2, 2008, minutes.**

Mr. Mulfinger introduced Bruce Scover, Lord Abbett's Regional Manager for the West Coast of Florida. Mr. Scover gave a brief history of Lord Abbett and then introduced Stephen Hillebrecht, Director, Portfolio Specialists. They passed out a book that summarized the history, focus, philosophy and experience of Lord Abbett, and contained the City of Palmetto Portfolio Review, among other things. This handout will remain a permanent part of the record of these minutes.

Mr. Hillebrecht pointed out that Lord Abbett's philosophy is a large cap value approach. They focus on the largest companies and they are a Value Manager. Lord Abbett looks for blue chip companies that are currently out of favor and under earning their potential; trading cheaper than they have historically. Lord Abbett avoids companies that are at peak earnings; over-earning their potential. The booklet contained the City's portfolio performance through June 30, 2008. Year-to-date the account was down, but in line with the benchmark. Over the last year, they have outperformed the benchmark by about 3 percent. Over the past ten years, they have outperformed the benchmark on average by about 2 percent.

In the financial services sector, which is such a focus of the market now, he said the opportunity exists now to buy some of the strongest banks out there like Wells Fargo and J.P. Morgan. There are great stocks to be found in this volatile market; volatility creates opportunity.

Mr. Hillebrecht continued. Page 16 shows the long-term performance of Lord Abbett. In the last ten years they were up over 7 percent. He continued with an overview on page 18 of the current strategy and sector weightings in the portfolio.

Mr. Dielman asked Mr. Hillebrecht to give the most compelling reason for the City of Palmetto to continue with Lord Abbett. Mr. Hillebrecht said Lord Abbett has been managing money for nearly eighty years, and over time it has performed well and has a history of protecting clients. They

participate in a rising market and protect when times are tough, and times are tough! There is a crisis in the market, but history shows that crises come and go.

## **2. INVESTMENT REVIEW (Charlie Mulfinger)**

Mr. Mulfinger informed the Board that six of the seven managers outperformed the benchmark, so the City had a positive return in a market that was negative for the quarter ending June 30, 2008. The current quarter is worse; the volatility has increased dramatically.

To summarize the economy in the second quarter, he said foreclosures were up, housing values declining, oil was up dramatically and a loss of 191,000 jobs reported. The stimulus checks did cause consumer spending to be flat and not down as expected. The current quarter does not have the stimulus checks helping the consumer. There will probably be a decline in consumer spending.

The federal government got involved in the market in March helping J.P. Morgan acquire Bear Stearns which boosted confidence. In April and May the market did well. In June mortgage and inflation numbers came out and June was the worst month since the depression, leading to a negative market.

The market performance for the quarter: the stock market, bond markets, international markets and emerging markets were all negative for this quarter.

The portfolio as of June 30, 2008, was \$7,922,000 at the end of the quarter, a gain of \$115,000 gross-of-fees and net-of-fees \$97,896. With the stock markets, both U.S. and international, and bond markets down, to have a positive return was very good. He reviewed the quarterly report ending June 30, 2008. A summary of relevant facts is attached hereto and made a part of these minutes. No rebalancing is needed; everything is in line with our policies.

Mr. Mulfinger presented an update of returns through September 18, 2008, showing a negative 10.56% vs. the actuarial assumption of 7.75%. The table is attached to the summary of relevant facts. Even though the City had a good quarter (quarter ending June 30, 2008), the update on recent events in the market is not good news for the City. It will be tough on the City to budget.

The quarter ended June 30, 2008, was a good quarter compared to the market. The City had a positive return. The current quarter will be a disaster for everyone. Based on what he sees now, no managers need to be on watch.

He said the City is well diversified, but he did have a recommendation that would help the City diversify a little better. Growth does best when an economy is slowing. He performed an International Growth Manager Search Analysis to complement the International Value Manager. Our weakened economy brings down the European and Asian markets, and that's why he recommends the growth search now. He recommends splitting Lazard, an international value manager, with one of the growth managers. He narrowed his search to Harding Loevner, Henderson Global International and Renaissance International. Based on comparisons, he recommends either Harding Loevner or Renaissance. The City has large value and large growth in U.S. markets; in international we've had value which has outperformed growth since 1998, but this is an opportunity to go into growth while the economy is slowing worldwide.

Mr. Dielman asked Mr. Mulfinger what other options the City has to minimize loss of principle. Mr. Mulfinger recommended staying in stocks, bonds and cash and in the future perhaps considering real estate as a component. Based on the history of the market, Mr. Mulfinger recommends riding the market, especially after it's already fallen. The City is well diversified; he just wants to be a little more diversified.

**MOTION: Mr. Freeman moved, Mr. Dielman seconded, and motion passed unanimously to add Renaissance as an International Growth Manager and to take 50% of the Lazard international holdings and invest that in Renaissance as recommended.**

This action will require a revision to the investment policy. Mr. Mulfinger reviewed the changes as follows:

- Page two: International Manager at 10 percent of target will be deleted and International Value Manager and International Growth Manager substituted showing each at 5 percent of target.
- Page five: language will be added under (c) International Stocks following ADRs to read, ... as well as any foreign company that trades directly in a U.S. equity market.
- Page six: in the bullet that reads Exceed MSCI EAFE – Net Dividend Index, Index will be deleted to add ...or MSCI All Country World Ex. US Indexes.

**MOTION: Mr. Dielman moved, Mr. Tusing seconded, and motion passed unanimously to adopt the revisions to the investment policy.**

Adding a manager may require a new contract. The Board attorneys are negotiating the contract and Mrs. Ponder will need to send it to the Division of Retirement.

### **3. REVIEW – 2007 ACTUARIAL VALUATION REPORT (Steve Palmquist-Gabriel Roeder Smith)**

Mr. Palmquist reviewed the October 1, 2007, report. For FY 2009, beginning October 1, 2008, the city's minimum contribution to the plan will be \$639,000, \$144,000 more than this year's payment of \$495,000. He reminded the Board that an experience study they authorized led to some assumptions being changed. There was a change in the mortality rate, and the assumed rate of return will be reduced to 7.50% beginning October 1, 2008. With the downturn in the market this fiscal year, the cost will go up. With a negative 10% return in the market, the city costs will go up beginning October 1, 2009, by some \$80,000 - \$90,000. His question to the Board was: "Do you want to go with the 7.50% assumed rate of return or stay at 7.75%?" After research, he will write a letter to the Board to show what that quarter point would do in addition to the \$80,000 or \$90,000. The decision can be made at the next meeting. He continued his review of the report and pointed out the positive impact that some of the past changes had made.

Chair Ellen Leonard left the meeting at 10:30 a.m. and Mr. Dielman took over the meeting.

**MOTION: Mr. Freeman moved, Mr. Tusing seconded and motion passed unanimously to approve Mr. Palmquist's report.**

Mr. Dehner informed the Board that with the receipt of this report, they are required to make a decision about the total annual expected rate of returns for the fund for three time periods: current year, intermediate term and long term thereafter. Mr. Mulfinger will need to make a recommendation to the Board. A letter must be sent to Charles Slavin, with backup. Mr. Mulfinger said his recommendation is 7.5 % net for the intermediate and long terms.

**MOTION: Mr. Tusing moved, Mr. Freeman seconded and motion passed unanimously to declare that the Board has determined, based on the recommendation of the consultant, that the total expected annual rate of return for the next several years and the long term thereafter will be 7.5% net of investment related expenses, but less than that for the current year.**

### **4. APPROVAL: EXPENSES**

**MOTION: Mr. Tusing moved, Mrs. Johnson seconded and motion passed unanimously to approve expenses as presented.**

#### **5. BENEFIT DISBURSEMENTS APPROVAL**

**MOTION: Mr. Tusing moved, Mr. Freeman seconded and motion passed unanimously to approve benefit disbursements for Van Brown, Jeffrey Hale, William Schaeffer and George Williamson, Jr.**

#### **6. ATTORNEY'S REPORT**

Mr. Dehner reported that he is in the process of amending the City's plan to be in compliance with the federal Pension Protection Act. The Board will need to decide if it wants to file with the IRS for a "favorable determination letter." The IRS is beginning to look into public sector plans now, and the benefit of the letter would be that if the IRS wanted to audit the plan and the City could show the letter, the City probably wouldn't have to go through an audit. To obtain the letter, the IRS would review the plan for qualification requirements. He will also amend into the plan the amendment to Florida Statute 112.3173, which is an amendment to the forfeiture of pension benefits section, discussed at the last meeting. He reminded the employee members of the Board to let him know if we need to investigate anything for forfeiture purposes, as this is an area of trustee liability.

A proposed amendment to the Florida Administrative Code, to a rule dealing with actuarial standards and practices, proposed by Charles Slavin, Actuary for the Division of Retirement, would increase funding requirements to most all the retirement plans in the state and increase administrative expenses. Opponents are: Florida League of Cities, unions and cities, among others. The next workshop on the amendment will be December 3, 2008. He encouraged the City to appear at the workshop, or at least to write in opposition to the amendment.

#### **7. OTHER BUSINESS**

Authorization for direct view of investment account.

Mr. Dehner asked for the opportunity to review this before the Board enters into it.

#### **8. ADJOURN**

**MOTION: Mr. Freeman moved, Mrs. Johnson seconded and motion passed unanimously to adjourn the meeting.**

The next meeting will be on December 1. Mr. Dielman will not be able to attend.

The meeting adjourned at 10:50 a.m.

Minutes approved:

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James R. Freeman, Secretary