

TAB 1

**DRAFT
GENERAL EMPLOYEES'
PENSION BOARD OF TRUSTEES
February 27, 2012 - 8:30 A.M.**

Board Members Present

Ray Dielman, Chair
Jim Freeman, Vice Chair
Matt Bloome, Secretary
Ellen Leonard
Karen Simpson
Allen Tusing (entered at 8:40 a.m.)

Staff and Others Present

Scott Christiansen, Board Attorney
Doug Lozen, Foster & Foster
Charlie Mulfinger, Gray Stone Consulting
Scott Owens, Gray Stone Consulting
Diane Ponder, Deputy Clerk-Administration

1. Chairman Ray Dielman called the meeting to order at 8:30 a.m.

2. APPROVAL OF MINUTES

Mr. Freeman confirmed with Mr. Mulfinger that the total fee reduction resulted in a savings of five basis points rather than three basis points as stated in the minutes.

MOTION: Mr. Freeman moved, Mrs. Leonard seconded and motion carried 5-0 to correct and approve the November 28, 2011 minutes, to reflect the total savings of five basis points. Mr. Tusing was absent for the vote.

3. INVESTMENT REVIEW

Mr. Mulfinger discussed the market's performance for the quarter ending December 31, 2011, which was much better than the previous quarter.

The Plan's portfolio was valued at \$8,540,279 as of December 31, 2011, a gain net-of-fees of \$554,937. The value as of the end of last week was \$9,151,000. The total weighting of the equity investment is within policy at 59.59%; no rebalance was recommended by Mr. Mulfinger.

Mr. Mulfinger reviewed the performance of each manager. He commented on the Compliance Check List, explaining non-compliance managers. He reported on the performance of the managers since October 1, 2011, stating there is an approximate 12% increase since the beginning of the new fiscal year. He also reiterated the new fee structure, which going forward will be a total of 82 basis points.

Mr. Mulfinger discussed the Large Capitalization Value manager search performed to replace Lord Abbett. The companies summarized in the search were Lord Abbett as compared to BlackRock, Cambiar and HGK. He explained the data contained in the search, comparing the performance ratios between the three companies to the Russell 1000 Value Index. He stated that fees for any one of the managers will remain at the same current 34 basis points level. Mr. Mulfinger explained the search results, comparing the companies' performances to the benchmark investment philosophies, management and size of companies purchased. Discussion ensued between the Board members and Mr. Mulfinger regarding the data in the search. Mr. Mulfinger concurred with Mr. Freeman's conclusion that BlackRock had out-ranked the other two companies over the last three years

MOTION: Mr. Freeman moved, Mr. Tusing seconded and motion carried 6-0 to approve BlackRock as the Large Cap Value Manager to replace Lord Abbett.

Mr. Mulfinger discussed the Large Capitalization Growth Manager search performed to replace Wells Fargo. The Board already has a conservative manager in Polen, so the search contains companies that are more aggressive and will compliment Polen. The companies summarized in the search were Wells Fargo as compared to Columbia, Jennison and Winslow. He explained the data contained in the search, comparing the performance ratios between the three companies to the Russell 1000 Growth Index. Mr. Mulfinger explained the search results, comparing the companies' performances to the benchmark, investment philosophies, management and size of companies purchased. Discussion ensued between the Board members and Mr. Mulfinger regarding the data in the search. Mr. Mulfinger stated that long-term return has to be considered when comparing the companies. Mr. Mulfinger confirmed that his firm still approves Wells, but acknowledged that during an entire market cycle (three to five years) the firm's performance has been disappointing. Mr. Tusing commented on Wells' performance based over ten years, stating they ranked with the best. Mr. Mulfinger stated that based on the data he would recommend Winslow over Jennison and Jennison over Columbia.

MOTION: Mr. Dielman moved, Mr. Freeman seconded and motion carried 6-0 to replace Wells with Winslow.

4. FIRST STATE TRUST COMPANY CUSTODIAL AGREEMENT

Mr. Mulfinger explained that his firm proposes to transfer custody services for the Plan to First State Trust Company. The change will provide additional services at no additional cost. Attorney Christiansen confirmed he has reviewed and is comfortable with the proposed contract. Morgan Stanley Smith Barney will continue to pay the fees as part of the wrap program's basic fee.

MOTION: Mrs. Simpson moved, Mr. Tusing seconded and motion carried 6-0 to approve and authorize the chairman and or secretary to execute the City of Palmetto General Employees' Retirement System and First State Trust Company Custodial Agreement.

Mr. Mulfinger introduced Scott Owens, a new member of the Morgan Stanley Smith Barney team.

5. 2011 ACTUARIAL VALUATION REPORT

Doug Lozen, Foster & Foster, presented results of the October 1, 2011 Actuarial Valuation Report. He reviewed the recommendation for the City's contribution of 24.62% of payroll for this fiscal year and 28.51% for fiscal year 2013. Mr. Lozen explained the reason for the increase in the contribution amount for fiscal year 2013. The City has a prepaid contribution of \$32,727 that may be utilized to reduce the contribution amount for fiscal year 2012.

Mr. Lozen discussed the Plan's funded ratio, which is a measure to determine if assets have kept pace with the liability, today's value of all future benefits that will ever be paid out. The Plan's current GASB funded ratio is 65% compared to an industry standard of 80%. Contributions and investment returns impact funded ratio percentage. Mr. Lozen reported that proposed legislation requires the funded ratio to be 80% or some plan action must be developed to reach that percentage and filed with the state.

Mr. Lozen referred to a new funded ratio comparing the market value of assets (currently at \$7,748,000) to the present value of accrued benefits promised to date (currently \$11,566,000). This ratio amounts to 67%. This funded ratio is now posted for all pension plans' on the Division of Retirement's website and is considered when determining whether or not a valuation report is "state accepted". This funded ratio is also desired to be 80%.

The Board discussed how assumptions can affect the funded ratios. Mr. Lozen stated that it can be dangerous to compare plans on a funded ratio basis. He suggested that the soundness a pension is

based on whether or not a city makes the contribution as required by law. He opined that the Plan's overall assumptions are a little more conservative than average, relative to his clients.

MOTION: Mrs. Simpson moved, Mr. Freeman seconded and motion carried 6-0 to accept the October 1, 2011 Actuarial Valuation Report.

MOTION: Mr. Freeman moved, Mr. Tusing seconded and motion carried 6-0 to declare that based on the advice of our investment consultant professionals, the Board of Trustees declare that the total expected annual rate of investment return for the next year, next several years, and the long-term thereafter shall be 7.5%, net of investment related expenses.

6. APPROVAL OF EXPENSES

- A) Christiansen & Dehner: November, December, 2011 and January, 2012
- B) Foster & Foster: January, 2012

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

7. PROPOSED ORDINANCE

The proposed ordinance amends the definition of salary to comply with legislation adopted during the 2011 session. Discussion of the options to amend the current definition occurred during the previous Board meeting.

MOTION: Mr. Tusing moved, Mrs. Simpson seconded and motion carried 6-0 to approve the proposed ordinance amending the definition of salary and forward it to City Commission for consideration.

8. ATTORNEY CHRISTIANSEN'S REPORT

Pending HB1499 proposes that Tallahassee must be notified if a plan has a funding ratio less than 80%. The plan will then be put on a watch list, and the city and plan members will have 90 days to develop an action plan to raise the ratio above 80%. If a city doesn't raise the ratio the state can take action to increase the funding ratio.

Reported he has not heard anything about the FRS challenge.

Mrs. Ponder introduced Patricia Persson, who is considering filling the vacant seat on the Board.

Meeting adjourned at 10:20 a.m.

Minutes approved:

Matt Bloome
Secretary