

GENERAL EMPLOYEES PENSION BOARD

Minutes of February 21, 2008

Meeting was called to order by Secretary, Joseph Safford at 1:08 p.m.

Members Present: Joseph Safford, Stephen Swank and Evan Turk
Members Absent: Thomas Lynch and Milena Walinski
Guests Present: Susan Ruby, Karen Schell, and John McCann (Thistle Asset Consulting)

Item 1. Approval of the General Employees Pension Board Agenda for February 21, 2008.

Mr. Safford amended the agenda to include a discussion on foreign investments as item 10 A. Mr. Swank moved to approve the agenda as amended for February 21, 2008, seconded by Mr. Turk. Said motion passed unanimously.

Item 2. Approval of the General Employees Pension Board Minutes for November 15, 2007.

Mr. Swank moved to approve the minutes for November 15, 2007, seconded by Mr. Turk. Said motion passed unanimously.

Item 3. Approval of the Following Invoices:

- A. Thistle Asset Consulting, Inc., dated November 15, 2007, in the amount of \$4,750.00 for performance monitoring for the quarter ending September 30, 2007.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

- B. State Street Global Advisors, dated November 14, 2007, in the amount of \$5,056.72 for quarterly investment management fees for the period of July 1, 2007 through September 30, 2007.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

- C. Gabriel, Roeder, Smith & Company, dated November 5, 2007, in the amount of \$10,000.00 for pension administration system: annual member statements and online benefit calculator.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

- D. Gabriel, Roeder, Smith & Company, dated December 31, 2007, in the amount of \$1,279.00 for Actuarial Valuation Report: retirement benefit calculations for Ladizinsky and Safford.

This item was deferred to the next meeting as Mr. Safford declared a conflict of interest thereby creating a lack of a quorum.

- E. RhumbLine Advisers, dated January 10, 2008, in the amount of \$2,500.00 for quarterly management fee for the period of October 1, 2007 through December 31, 2007.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

- F. The Boston Company Asset Management, LLC, dated January 27, 2008, in the amount of \$24,845.45 for quarterly investment management fee for the period of January 1, 2008 through March 31, 2008.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

- G. Gabriel, Roeder, Smith & Company, dated January 31, 2008, in the amount of \$1,879.00 for actuarial valuation report and retirement benefit calculations for Bezovics.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

- H. Thistle Asset Consulting, Inc., dated February 7, 2008, in the amount of \$4,750.00 for performance monitoring for the quarter ending December 31, 2007.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Turk. Said motion passed unanimously.

Item 4. Approval of the Following DROP Retirements:

- A. Name: Joseph Safford
Age: 63
Monthly Pension Amount: \$4,086.51
Benefit Commenced: December 1, 2007
Benefit Requested: 100% Joint & Survivor Annuity

This item was deferred to the next meeting as Mr. Safford declared a conflict of interest thereby creating a lack of a quorum.

- B. Name: Robert Desisto
Age: 60
Monthly Pension Amount: \$2,992.60
Benefit Commenced: April 1, 2008
Benefit Requested: Ten Year Certain and Life

Mr. Swank moved to approve the DROP retirement of Robert Desisto, seconded by Mr. Turk. Said motion passed unanimously.

Item 5. Approval of the Following Retirements:

- A. Name: Larry Worthington
Age: 60
Monthly Pension Amount: \$641.92
Benefit Commenced: August 1, 2007
Benefit Requested: 50% Joint and Last Survivor Annuity

Mr. Swank moved to approve the normal retirement of Larry Worthington, seconded by Mr. Turk. Said motion passed unanimously.

- B. Name: Ivan Ladizinsky
Age: 74
Monthly Pension Amount: \$303.90
Benefit Commenced: January 1, 2008
Benefit Requested: Normal Form

Mr. Swank moved to approve the normal retirement of Ivan Ladizinsky, seconded by Mr. Turk. Said motion passed unanimously.

- C. Name: Jozsef Bezovics
Age: 60
Monthly Pension Amount: \$264.82
Benefit Commenced: February 1, 2008
Benefit Requested: Ten Year Certain and Life

Mr. Swank moved to approve the normal retirement of Jozsef Bezovics, seconded by Mr. Turk. Said motion passed unanimously

Item 6. Approval of the Following Termination Refunds:

- A. James Springer (Police Department) in the amount of \$2,299.12.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

- B. Wilson Feliciano (Community Improvement) in the amount of \$6,847.62.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

- C. Kenneth Repass (Parks & Recreation-full time to part time) in the amount of \$25.26.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

- D. Janet Whipple (City Clerk) in the amount of \$2,038.47.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

- E. Dorothy Stacey-Wright (Mitchell-Green) a terminated vested employee in the amount of \$35,825.48.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

- F. Nicholas Scolaro (Fire Department) in the amount of \$375.94.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

- G. Mario Johnson (Police Department) in the amount of \$2,282.08.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Turk. Said motion passed unanimously.

Item 7. Approval of the Following Beneficiary Disbursement:

- A. Sharhonda Harris, beneficiary of Anthony Harris to commence retroactively from November 1, 2006 in the amount of 159.10.

Mr. Swank moved to approve payment of the monthly benefit to Ms. Sharhonda Harris, seconded by Mr. Turk. Said motion passed unanimously.

- B. Monthly benefit of \$493.60 to Mrs. Betty Rodriguez, beneficiary of Rosendo Rodriguez for one year then reduced to \$296.16 to continue to the earlier of Mrs. Rodriguez's death or remarriage.

Mr. Swank moved to approve payment of the monthly benefit to Mrs. Betty Rodriguez, seconded by Mr. Turk. Said motion passed unanimously.

Item 8. The General Employees Pension Board is being advised that the Plan has received the following checks which have been deposited in the Trust Account.

- A. Lynch, Jones & Ryan in the amount of \$191.00, deposited January 3, 2008 for refund of commissions paid.

- B. Lynch, Jones & Ryan in the amount of \$260.00, deposited February 5, 2008 for trading activity with LJR Recapture Services through trade date December 31, 2007.

Item 9. Review of Social Security Number Collection Disclosure Statement.

Ms. Ruby indicated this is a requirement of a Florida Statutory amendment where they want to limit the collection of social security numbers, especially that all documents that we create are public records except if there is an exemption. The Statutes requires adopting a statement of when you will collect social security numbers; a copy of the statement is in the memo.

Mr. Swank moved to approve the use of the language in the memo copy of the social security number disclosure statement, seconded by Mr. Turk. Said motion passed unanimously.

Item 10. Review of Investment Manager, State Street Global Advisors.

Mr. Safford indicated there have been numerous e-mails and articles distributed with reference to State Street Global Advisor's personnel. Mr. Safford questioned Mr. McCann as to the status of what is going on.

Mr. McCann has seen the articles and indicated it was subprime issues; the City of Delray Beach is in an index fund. State Street (Nick Navarro) has established a contingency reserve to address legal exposure and other costs associated with the under performance of a small number of active fixed income strategies managed by SSGA. The subprime issues affect active fixed income; therefore it does not affect the City of Delray Beach.

Mr. Safford questioned if the index of active accounts is invested in subprime and we are simply mirroring that, are we not affected?

Mr. McCann responded "no" explaining the City of Delray Beach is in the Lehman Aggregate Bond index. The active index is where State Street would pick the securities they would purchase for their clients. If clients did not have the limitations the City of Delray Beach has in the investment policy guidelines, there is a good chance they purchased high yield bonds in subprime issues.

Further discussion pursued as to why Mr. McCann did not communicate with Mr. Safford and/or the Board members. Mr. Safford indicated Mr. McCann needs to keep in contact with the Board if events happen with the money managers the City has selected. We need to have comfort that Mr. McCann has been in contact with the proper personnel of these investment managers. We do not want to find out about a \$5 to \$10 million loss when the Board could have taken action to prevent that. The Board may call a special meeting and have one within 24 hours notice. Mr. Safford indicated if there is an emergency situation or something critical in the market where the Board needs to act, to please contact us and we will call a special meeting. Mr. Safford indicated the only response he received was something sent to State Street, but never heard back from that.

Mr. McCann indicated he was in contact with State Street and upon hearing this did not affect the City of Delray Beach thought all was okay leading to his decision to review and discuss this at the next meeting. Mr. McCann stated he received a compliance questionnaire completed by State Street Global Advisors stating the City of Delray Beach was not affected. Mr. McCann apologized to the Board.

In reviewing some of the articles, Ms. Ruby quoted "In a December 20 memo to clients, Pension Consulting Alliance recommends that institutions put SSgA on watch. The memo, written three days after the Lazard lift out, says those departures may signal additional organizational developments at the firm. And although that lift out came from active equity – not passive, which makes up the bulk of SSgA's assets – it's still troubling, PCA says."

Mr. Swank questioned what type of funds make up the Lehman index?

Mr. McCann responded all high quality; probably nothing under BBB, all A to AAA ratings. The City was affected by the subprime indirectly.

Mr. Swank questioned equity wise?

Mr. McCann responded no, fixed income wise; it spread internationally. It was nearly a global recession.

Mr. Safford continued reading from the FUNDfire article, SSgA Loses a Fixed Income Chief, COO. "The Massachusetts Pension Reserves Investment Management board has already fired SSgA from a \$930 million mandate that Moghtader's team oversaw. One client that's known to have a firm on watch is the \$563 million Oakland Police and Fire Retirement Board. The system has \$23 million invested in the EAFE index product that Beach oversaw. Last week, the pension put the firm on watch as a result of changes within the EAFE index, as well as changes to the management structure." Here's a major customer that put the firm on watch and someone left and this was an index fund.

Mr. McCann commented that is an international equity index fund.

Ms. Ruby indicated the Board needs to have more information from Mr. McCann, such as are there other index funds that are not being put on watch? It's comforting they have reserves; however Ms. Ruby indicated the Board would like to see if there is anyone else that is not in the same situation. Perhaps State Street is the best for a fixed index fund; the Board needs to determine that for themselves.

Ms. Ruby continued stating e-mails may be sent to Board members; however there will need to be a disclaimer indicating you can not have any discussion back and forth under the Sunshine Law. Information can not be reparatory or discussed. To be on the safe side, put a disclaimer "I'm not soliciting any response nor will I accept any".

Mr. Swank commented it's important the Board be comfortable staying with State Street for the time being until John returns with potential alternatives. We need to feel comfortable we can leave this meeting without making a motion to immediately change our fixed income.

Mr. Safford agreed indicating he wanted assurance the funds are okay. State Street is still one of the top performers in the field in this particular area.

Ms. Ruby suggested the Board have a special meeting. It is important to have met those assurances.

Mr. Turk questioned if the Board could have a comparison of another company in the same type of index and how close we mirror that.

Mr. McCann stated he has an asset allocation prepared he was going to review.

Mr. Safford commented Mr. McCann could present the asset allocation however, he did not feel the Board should act on it until the full Board was present; that would be a major decision.

Mr. Swank indicated he was not totally aware of the type of fixed income securities comprised in the Lehman index. Is there a small percentage attributable to subprime?

Mr. McCann responded not according to what State Street has said. There's zero percent in subprime. Those are like the high yield bonds and we would not allow any manager to be an index fund or active to purchase those due to the restriction in the guideline.

Ms. Ruby stated it currently is not allowed under the investment policy; however it is allowed in the ordinance. The Board would not need to change the ordinance but needs to modify the investment policy to allow up to 25% for foreign stocks. A sample of changes is attached as back up. The investment policy specifically states no foreign investment in the policy. This could be included in the special meeting if chosen to have one.

Mr. Turk requested an updated Executive Summary in place of the December 31, 2007 report, there being a significant difference in the market.

Mr. Safford commented the topic of the international investments, subject of the asset allocation and suitability of State Street could all go on the special meeting.

Mr. Swank moved to have a special meeting tentatively set for March 6, 2008 at 1:00 p.m., seconded by Mr. Turk. Said motion passed unanimously.

Mr. Swank commented he was not sure if he understood the specific bonds in the fund, however would like a high level of assurance there are no subprime mortgages involved. Mr. Swank requested if the Board would be able to receive a written list of what comprises their class of fund.

Mr. McCann responded there are approximately 14 pages of the bonds that are in the aggregate index. He would need to check with State Street for the identity of subprime as he is not a money manager.

Mr. Safford requested an official letter from State Street stating specifically there are no subprime securities in the City of Delray Beach's portfolio.

Item 11. Review of Plan's Performance Evaluation for the Period Ending December 31, 2007.

Mr. McCann continued with the review of the quarterly performance indicating the asset allocation illustrates 54% in equities for a total of \$45,527,000; 42% in fixed income for a total of \$34,668,000; and 4% in cash for a total of \$2,981,000; a grand total of \$83,176,000.

Mr. McCann mentioned the pension plan doesn't need to have just one fixed income manager. There are two large cap equity managers and RhumbLine as a midcap index. Loomis Sayles, an active manager does fixed income and RhumbLine does a fixed income index which means the fees are low.

Loomis Sayles fees are calculated at 55 basis points every day. Mr. McCann requested Loomis Sayles to indicate the fee averages be listed in their quarterly report.

The total fund for the quarter exceeded the index, 1.42% versus -0.32% ranking 2nd; for one year the return was 8.99% versus the policy of 6.51% ranking 6th; three years 7.27% versus the policy of 6.71% ranking 27th and five years 8.51% versus the policy of 8.83% ranking 62nd. Equity return for the quarter was 0.34% versus the policy of -3.05% ranking 2nd, one year 11.09% versus the policy of 5.77% ranking 14th; three years 10.64% versus the policy of 8.72% ranking 25th and five years 13.39% versus the policy of 12.89% ranking 44th.

The equity managers are doing very well. Boston Company -4.25% versus the policy of -5.38% for the quarter and one year 2.69% versus 1.99% ranking 63rd. Boston Company got a bit more aggressive by taking more risk. Mr. McCann indicated he would rather see this versus a manager which takes less risk and is behind the policy.

Loomis has only been around for a year, but their numbers are quite impressive; ranking 1 through 11.

Mr. McCann finalized his review by indicating he has checked the risk measures and all looks fine.

Item 12. Review of Fiduciary Liability 2008-2009.

Mr. Safford indicated the Fiduciary Liability for 2008-2009 is up for renewal; a premium of \$7,500 plus a Waiver of Recourse (\$25 per trustee) totaling \$7,625.

A J Gallagher requested several quotes with various companies with an ending result of one quote received. Mr. Safford questioned this and apparently what the City is running into, is quite a few of these companies would not quote on municipal guidelines or have a certain floor of premium before getting involved. The \$7,500 level is very low.

Mr. Swank questioned what happened to the prior carrier, American Homes? In reviewing Lisa Rodriguez's e-mail to Frank Babin; premium for comparable coverage went from \$16,894 with American Home Insurance Company for the 2006/2007 policy year to \$7,700 with Federal Insurance Company for the 2007/2008 term.

Mr. Swank moved to approve the policy renewal with Federal Insurance Company for \$ 7,625.00 seconded by Mr. Turk. Said motion passed unanimously.

Motion to Adjourn:

There being no further business, Mr. Swank moved to make a motion for adjournment, seconded by Mr. Turk. Said motion passed unanimously. The meeting adjourned at approximately 2:34 p.m.

The undersigned is the Finance Director of the City of Delray Beach and the Secretary for the General Employees Pension Board. The information provided herein is the minutes of the City of Delray Beach General Employees Pension Board of February 21, 2008, which minutes were formally approved and adopted by the General Employees Pension Board on March 10, 2008.



Joseph M. Safford, Director of Finance
Secretary, General Employees Pension Board

/kms

cc: General Employees Pension Board Members
David Harden, City Manager
Susan Ruby, City Attorney
Department Heads