GENERAL EMPLOYEES PENSION BOARD

Minutes of
June 8, 2006

A Special Meeting was called to order by Chairman Jeffrey Keating at 1:05 p.m.

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

At this time Mr. Keating indicated he would like to revise the agenda. The purpose of this meeting was to review and select a replacement large cap growth manager. The second item is to look at the possible allocation to a mid cap manager.

Mr. Swank moved to approve the revised agenda for the Special Meeting of June 8, 2006, seconded by Mr. Safford. Said motion passed unanimously.

Item 1 Review the Large Cap Growth Managers for a Possible Replacement:

Mr. McCann reviewed the large cap growth managers from a selection of Atlanta, GA, Boston, MA, Palm Beach Gardens, FL, and White Plains, NY.

Mr. McCann indicated the Board has Boston Company as a value manager. The managers being reviewed today are large cap growth managers. Mr. McCann has worked with Globalt Investments, Invesco Capital Management, Inc, and Loomis, Sayles & Company, LP. The managers have been sorted by three and five year returns and three and five year risk categories.

Risk is a standard deviation; a measure of volatility; a distance from the average line that goes through all the returns. The standard deviation will be much higher than the manager closer to the line.

Mr. Keating commented risk is measured in both directions. You're measuring and looking at the beta and the random volatility from quarter to quarter versus a medium; then you look at the alpha. An example of the alpha may be when one is taking more risk, are you consistently above or is that more risk producing bigger negative returns, however offset with bigger positive returns results in a higher total return because one had enough market. There was a bias but one has a negative alpha; which means one was not rewarded for the risk that was taken.

Mr. Keating questioned if these managers were fully invested all the time?

Mr. McCann responded he could not quantify that. Mr. McCann stated there is a standard that managers are supposed to abide by to be included in the data base. It's called the American Institute Management Research (AIMR) standard. Mr. McCann believes it should be true equity returns, no cash or mixed. So if the managers are sticking to AIMR standard, this is a true equity return. The majority are gross of fees.

In response to Mr. Swank's question of are the fees being factored in his scoring, Mr. McCann stated he did not score the fees, however has sorted by fees. Fees are very negotiable if the manager really wants your business. Mr. McCann continued with the explanation of "r-square", stating if we were comparing these managers to the index manager, the index manager would have an r-square of 100% because they replicate the index completely. It's important to stay with your large cap growth manager, because you have the large cap value and you want a manager with a high "R-square". In reviewing the Score Analysis, Northstar had the highest with a total score of 89, Invesco with a total score of 83 and Loomis Sayles with a total of 75.

Further discussion pursued among Board members.

Mr. Keating commented of all the managers, Loomis Sayles is the one with the longest record and highest alpha, which is what we are looking for. He has concerns with Invesco with the fact they had some problems with management.

Mr. Safford commented Loomis Sayles basically had the highest return in three out of the five years and the highest return when their risk wasn't much more than the other funds.

Mr. Swank commented between the two managers, Invesco is the lowest and Loomis was the highest. We're more interested in returns; we have our smoothing in effect, which takes some of the volatility.

In response to Ms. Walinski's question of where these managers are placed, Mr. McCann stated these managers are on top. Upon the style analysis; their returns are the highest among the pure growth managers that were reviewed. Mr. McCann stated he added these new managers because he has met them and liked what they had to say; they will work hard for the money and hopefully do well for the board. Loomis Sayles has good returns, a consistent track record and the risk is not that aggressive.

Mr. Safford moved to make a motion to request Mr. McCann converse with Loomis Sayles with reference to negotiate lowering the fees to around 50 basis points or comparable to Boston for replacement of current Manager Davis, Hamilton and Jackson, seconded by Mr. Swank. Said motion passed unanimously.

Upon agreement, Mr. McCann would pursue with receipt of contracts to be forwarded to Mrs. Ruby for review. Investment policy guidelines should also be forwarded for informational purposes.

<u>Item 2</u> Review and Discuss the Diversification of a Mid Cap Manager:

Mr. McCann reviewed his research on the following Mid Cap Managers:

Chicago Equity Partners, LLC
RhumbLine Advisers
State Street Global Advisors
Weiss Peck & Greer (named changed to DIVICO)
Wellington Management Company, LLP

Mr. McCann indicated he used the same scoring technique as for the large cap growth managers. Weiss Peck & Greer had the highest three and five year return. The highest three year risk is Wellington; the highest five year risk is Chicago Equity. Mr. McCann indicated one of his clients has been with Wellington well over fifteen years and have done very well. One year return 26.35% was the highest for Weiss Peck & Greer; State Street 22.07%; followed by Rhumbline with a return of 21.79%. The current quarter was not well at all with none of the managers exceeding the S & P Midcap 400. These Midcap managers are quite volatile. In reviewing the "R-square", Rhumbline was the highest of 99.98; Chicago Equity is 98.14; and Wellington is 97.82. All of these managers are in the high 90's which is very well. Sorting Fees illustrates Rhumbline at 15 basis points; this might be lower as Mr. McCann could not recall how much money the Board had decided on putting into this fund. Chicago Equity is 50 basis points, State Street 55 basis points, Weiss Peck & Greer at 70 basis points and Wellington at 75 basis points. Score analysis illustrates Weiss Peck & Greer leads with a total of 92. They were on top for the calendar year returns for 2005, 2004 and 2002, also with the 5 year trailing Alpha and Batting average. Chicago Equity follows second with a score of 78 even though they had no top returns, following came State Street with a score of 75; then Wellington with a score of 67 and last Rhumbline with an overall score of 56.

Mr. Safford stated if the Board is to be moving about 4-6 million we would have to pay higher fees. With Weiss Peck & Greer we could pay 70 basis points, whereas in the index fund we'd only be paying 15.

Mr. Swank commented in looking at the three year return, the returns paid for their fees with more over and above with 5½%, and we end up paying 1½ points more.

Mr. Keating indicated the Board had talked about reducing the other managers particularly because of dissatisfaction of the growth manager, and leaving Boston Company as is. Although he feels if the Board is going to change managers, they should keep the two large cap managers balanced. The city ordinance allows us to go to 60/40. Mr. Keating feels equities will have higher returns than fixed income going forward.

In further discussion, the Board agreed to transfer 4.2 million that being 6% of the fund to be transferred as 5% from State Street (fixed income) and the remaining to be split ½ from Boston Company and ½ from Davis Hamilton and Jackson (or Loomis Sayles).

Mr. Safford moved to make a motion to have Mr. McCann converse with Weiss Peck & Greer to negotiate a lower fee comparable to the other manager's 50-60 basis points, pursue further contract drawn with the transfer as stated above, seconded by Ms. Walinski. Said motion passed unanimously.

Motion to Adjourn:

There being no further business, Mr. Safford moved to make a motion for adjournment, seconded by Mr. Swank. Said motion passed unanimously. The meeting adjourned at approximately 2:19 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 June 8, 2006, which minutes were formally approved and adopted by the General Employees Pension Board on August 24, 2006.

J. Safford

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