GENERAL EMPLOYEES PENSION BOARD

Minutes of
February 15, 2007

Meeting was called to order by Chairman Jeff Keating at 1:02 p.m.

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

Item 1 Approval of the General Employees Pension Board Minutes for November 16, 2006.

Mr. Safford commented on page 5, fourth paragraph from the bottom; Dr. Lee is not on the Police and Firefighter's pension board, he is the physician for the Board in which the same applies for this Board. Board Members agreed it should read "he is the physician for this Board".

Mr. Swank questioned item 11 on page four; the definition of total and permanent. Mr. Swank suggested "to remain so disabled continuously and permanently from the cause specified".

Mr. Safford moved to approve the minutes for November 16, 2006 with the corrections as noted, seconded by Mr. Lynch. Said motion passed unanimously.

Item 2 Approval of the Following Invoices:

A. GRS Asset Consulting Group, Inc, dated November 15, 2006, in the amount of $4,000.00 for performance monitoring for the quarter ending September 30, 2006.

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

B. State Street Global Advisors, dated November 13, 2006, in the amount of $5,172.27 for investment management fees for the period of July 1, 2006 through September 30, 2006.

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

C. Federal Express, dated November 7, 2006, in the amount of $12.54 for overnight package of 2006 actuarial data to Gabriel, Roeder, Smith and Company.

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

D. Gabriel, Roeder, Smith & Company, dated December 7, 2006, in the amount of $3,005.00 for preparation of 10/01/06 actuarial valuation report, preparation of actuarial experience study/attendance to 11/16/06 Board meeting and retirement benefit calculations for Passero and Houston.

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

E. Arthur Gallagher & Co., dated January 18, 2007, in the amount of $1,039.05 for additional premium to extend coverage through February 28, 2007 for Fiduciary Liability.

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

F. Federal Express, dated January 9, 2007, in the amount of $24.63 for overnight package of RhumbLline Contract.

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

G. The Boston Company Asset Management, LLC, dated January 16, 2007, in the amount of $27,035.47 for the quarterly investment management fee for the period of January 1, 2007 through March 31, 2007.

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

H. Gabriel, Roeder, Smith & Company, dated January 31, 2007, in the amount of $4,845.00 for preparation of 10/01/06 actuarial valuation report and retirement benefit calculations for McGee, Renner, Lunsford and Roper.

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

Mr. Lynch questioned due to the small amounts on several invoices could the Board group them together in one line item. Mr. Safford commented he would like to have all invoices and checks come before the Board as an additional audit check. However, in the future we could group the smaller invoices together.

<u>Item 3</u> Review of GRS Asset Consulting Group, Inc. invoice with reference to the Mid Cap Manager Searches.

Mr. Safford requested clarification of this invoice versus the contract, and is asking the Board to review and determine what is to be paid. The performance monitoring of $4,000 per quarter is okay; however the charge for the three manager's searches is not clear.

Mr. McCann explained on June 8, 2006 he was instructed to complete two searches, a Large Cap Growth search and Mid Cap search, and a Growth Value Mid Cap Manager. The Growth Manager search is usually a set charge of $5,000; this being the most labor intensive of researches. One must weed through 3,000 – 4,000 names displayed depending on the portfolio requesting. There was no charge for the Large Cap Growth Search due to the unsatisfactory result. The Mid Cap Research is usually a charge of $5,000; however since the Board did not have a final presentation, there was a reduction of $2,000. With this search the Board had agreed to accept ROEBECO; however ended up not pursuing as this was a commingled fund and might have had ADR's. The Board then approved State Street Global which was also not successful. Finally, Board Members approved RhumbLline as the Mid Cap Manager. Mr. McCann stated this search was more involved because a questionnaire was sent to each manager confirming they had no ADR's, internationals or derivatives.

Mr. Safford questioned item two in the contract with Mr. McCann where it addresses additional managers and fees.

Mr. McCann indicated on the next quarterly invoice, RhumbLine's fee as an additional manager will only be $3,000 because it is an index fund which requires less intensified work.

Mr. Safford confirmed the next invoice should be $4,750.00.

Mr. McCann agreed.

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

<u>Item 4</u> Approval of the Following Early Retirement:

A.

Name:	Susan Passero
Age:	53
Monthly Pension Amount	$1,456.19
Benefit Commenced:	January 1, 2007
Benefit Requested:	66 2/3% Joint and Last Survivor Annuity

Mr. Lynch moved to approve the early retirement of Susan Passero, seconded by Mr. Swank. Said motion passed unanimously.

B. Name: Tina Lunsford (Early Incentive)
Age: 50
Monthly Pension Amount $4,105.42
Benefit Commenced: February 1, 2007
Benefit Requested: 75% Joint and Last Survivor Annuity

Mr. Swank moved to approve the early retirement of Tina Lunsford, seconded by Mr. Lynch. Said motion passed unanimously.

C. Name: Nancy McGee (Early Incentive)
Age: 58
Monthly Pension Amount $696.16
Benefit Commenced: February 1, 2007
Benefit Requested: 10 Year Certain and Life Thereafter Annuity

Mr. Lynch moved to approve the early retirement of Nancy McGee, seconded by Mr. Swank. Said motion passed unanimously.

Item 5 Approval of the Following Normal Retirement:

A. Name: Bruce Roper
Age: 60
Monthly Pension Amount $1,119.48
Benefit Commenced: February 1, 2007
Benefit Requested: 100% Joint and Last Survivor Annuity

Mr. Lynch moved to approve the normal retirement of Bruce Roper, seconded by Mr. Safford. Said motion passed unanimously.

B. Name: William Renner
Age: 60
Monthly Pension Amount $177.62
Benefit Commenced: November 1, 2006
Benefit Requested: Normal Form

Mr. Lynch moved to approve the normal retirement of William Renner, seconded by Mr. Safford. Said motion passed unanimously.

Item 6 Approval of the Following Termination Refunds:

A. Corey Nelson (Water & Sewer Department) in the amount of $2,836.57.

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

B. Christopher Gullusci (Water & Sewer Department) in the amount of $7,389.15.

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

C. Tracey Sweeney (City Manager's Department) in the amount of $21,771.04.

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

Item 7 Approval of the Following Beneficiary Disbursement:

A. One time lump-sum distribution of $5,000.00 to employee Rodney Houston's designated beneficiary, Rhonda Houston for a non-service connected death benefit.

Mr. Lynch moved to approve payment of the lump-sum distribution benefit to Rhonda Houston, seconded by Mr. Safford. Said motion passed unanimously.

B. One time lump-sum distribution of $10,000.00 to employee Anthony Harris's designated beneficiary, Louise Smith for a non-service connected death benefit.

Mr. Lynch moved to approve payment of the lump-sum distribution benefit to Louise Smith, seconded by Mr. Swank. Said motion passed unanimously.

C. Monthly benefit of $178.49 to employee Anthony Harris's designated beneficiary, Louise Smith for a non-service connected death benefit.

Mr. Lynch moved to approve payment of the monthly benefit to Louise Smith, seconded by Mr. Safford. 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. Scott Zubek in the amount of $314.29, deposited November 20, 2006 for purchase of previous years of credited service with the City of Delray Beach.
B. Lynch, Jones & Ryan in the amount of $157.00, deposited November 22, 2006 for October 2006 commissions.
C. SunTrust in the amount of $1,754.14, deposited December 4, 2006 for refund of a settlement with Novell Securities Litigation Class Action proceeds from November 1, 1996 through April 22, 1997.
D. SunTrust in the amount of $406.76, deposited January 18, 2007 for refund of a settlement with WorldCom Class Action proceeds from April 29, 1999 through June 5, 2002.
E. Jennifer Reynolds in the amount of $350.00, deposited January 22, 2007 for the actuarial calculation fees for the purchase of the 3% enhanced multiplier.
F. Susan Ruby in the amount of $350.00, deposited January 23, 2007 for the actuarial calculation fees for the purchase of six months prior service.
G. Lynch, Jones & Ryan in the amount of $114.00, deposited January 18, 2007 for December 2006 commissions.

Item 9 The General Employees Pension Board is being copied on the signed contract for the pension software being purchased.

Mr. Safford updated Board Members on the purchase of the pension software. A meeting with Gabriel Roeder & Smith, the software developer, went very well. The City's team of individuals had an overhead viewer and started gathering information for the database. Mr. Safford commented it looks excellent; very professional and GRS's staff seems to be knowledgeable. Mr. Safford feels this will be a welcome addition. The City will reside on Gabriel Roeder & Smith's server; the software will include a website for employees to calculate future pension information; and it will accumulate and feed the payroll program so year end actuary information needed for the actuarial report preparation time would be decreased by several months. This could result in significant savings if the City made its contributions sooner.

Item 10 Review Money Manager's distribution to fund the Receipt and Disbursement account with Salem Trust.

Mr. Safford indicated this is the disbursement account where the pension expense payments are paid. We were trying to have an automatic monthly distribution set up. Mr. Safford explained Loomis Sayles requires a medallion signature for every transaction. The process of obtaining a medallion signature requires both Milena and Mr. Safford going to the bank and executing the proper paperwork. Mr. Safford indicated this doesn't make sense due to the fact the medallion signature is only good for that bank; it has nothing to do with Loomis Sayles, Salem Trust or any one other than Bank of America.

Ms. Schell stated Loomis Sayles is trying to become their own trustee, and if that is the case, the medallion signatures would no longer be needed. Ms. Schell commented Loomis Sayles personnel and staff (mostly Noreen) are very nice to work with and very prompt in responding.

Item 11 Review letter from Investors Bank & Trust retaining Loomis Sayles & Company L.P. to serve as investment manager with respect to the Trust.

Mr. Safford questioned Mr. McCann with reference to the letter from Investors Bank & Trust retaining Loomis Sayles & Company L.P. serving as investment manager with respect to the Trust. Is there a need for the Board to execute any changes to the Loomis Sayles contract?

Mr. McCann responded no. According to Investors Bank & Trust they are treating Loomis Sayles as their investment adviser; however, they are actually the investment manager.

Mr., Keating commented the letter says Investors Bank & Trust is owned and controlled by Loomis Sayles.

Mr. McCann stated he doesn't think they have anything to do with Loomis Sayles; they're just a trustee.

Mr. Keating questioned who is Investors Bank & Trust then? It's not a public entity.

Mr. McCann stated he would check into this.

Mr. Keating agreed to have Mr. McCann check this further and commented he would find this is a captive audience of Loomis Sayles in order to get around the back of the adviser. Once they have the Bank Trustee's power they can't have a custodian. Such as Boston Company, they don't have a custodian, they are a security firm.

Mr. Swank indicated this is just an internal thing done by Loomis, to form a new trust entity.

Mr. Keating confirmed that is correct.

Item 12 Review Salem Trust's Securities Lending Program.

Mr. McCann reminded the Board, State Street Global did Security lending; they had outside counsels.

Mr. Keating agreed and stated the Board got out of their funds for that reason. They were paying us a fee every quarter instead of us paying them to manage the money they were paying because they were lending the securities.

Mr. McCann commented it seemed too risky for our pension fund; this pretty much nixes what Salem Trust says. They've been going around to all the pension plans that they hold money for talking about this securities lending program. Mr. McCann felt because the Board nixed State Street Global, he didn't feel there was any point in discussing Salem Trust in it.

Mr. Keating agreed, explaining many firms mean to borrow actual securities in order to sell contracts on them and they pay a fee for this. The main point is always to know who's on which side of the transaction and determine if the pocket's deep enough. Salem Trust is a very small organization owned by a larger outfit out of Chicago, but they do not have deep pockets. They're basically inviting us to call them up to say how would you like to make some money loaning your securities.

In response to Mr. Safford's question of whether or not the Board should respond, Mr. Keating stated he would reply and state we are not interested in participating in their securities lending program.

Item 13 Review of Plan's Performance Evaluation for the Period Ending December 31, 2006.

Mr. McCann announced he had changed his company's name to Thistle Asset Consulting. He continued with a distribution of a medal to Board members indicating the thistle is the national emblem in Scotland. The Latin is very respectful to the flower which means don't mess with me. If one picks the flower the wrong way it can be painful and is quite a prickly little thing. Mr. McCann indicated his company would be referred to the actuary as it had the same initials, so by contract he had to change the name which took effect January 1, 2007. Mr. McCann continued stating he is still incorporated and there have been no changes in his staff.

Mr. McCann reviewed the Callan Periodic Table of Investment Returns indicating international equities were on top for the year. The Large Cap, high quality growth stocks have not done well for the past seven years. Back in 1995 through 1998 was the last time high quality growth stocks were in favor.

In reviewing the quarterly performance, Mr. McCann stated the index comparison is pointing up and has been for almost a year; a very nice sign. EAFE is the highest asset class for one and three years. Bonds have been the lowest, however they are still positive. The asset allocation illustrates 52% equities for a total of $39,143,000; 47% fixed income for a total of $36,024,000; and 1% in cash for a total of $788,000; a grand total of $75,955,000. Next quarter will illustrate RhumbLline in the breakdown between managers as the policy will be adjusted to 55/45 allocation.

The total fund for the quarter exceeded the index, 4.38% versus 3.95% ranking 27th; for one year the return was 9.05% versus the policy of 9.96% ranking 76th; three years 6.35% versus the policy of 7.09% ranking 74th and five years 5.31% versus the policy of 6.09% ranking 57th. Equity return for the quarter was 8.03% versus the policy of 6.70% ranking 9th. Mr. McCann noted this quarterly return is mostly due to Loomis Sayles. For one year equity return was 14.99% versus the policy of 15.80% ranking 55th; three years 9.90% versus the policy of 10.44% ranking 66th and five years 5.77% versus the policy of 6.19% ranking 61st.

Further discussion pursued as Mr. Keating explained how the recent Board approvals from the experience study would change. There would be no incremental increases, the excess would be completely absorbed at that point; any excess beyond that would be carried forward and used in subsequent years. The market calculation is based on the actuarial assumption of 7.25%, and then the difference would be between the experience versus the 7.25%. The fund would start with 7.25% automatically; if it earns less that that, it would be less that adjusted for the surplus that is carrying into it.

Mr. Lynch commented as long as we are in the surplus we're okay. However when the surplus runs out, we would need to re-evaluate the situation.

Mr. Keating agreed stating if we have a deficit this would make the City's payment more volatile.

Mr. Lynch commented bonds are to be the stable asset.

Mr. Keating indicated this is one of the reasons we moved away from the 50/50. Right now we're dealing with an asset class in their 40 and 50 year lows. Jeremy Siegel, a professor Wharton says for the next 20 years fixed income investment may produce no returns, adjusted for inflation and equities will produce returns of 6%-7%. The returns in fixed income investment are due to the shortage of long duration in the European pension plans. This is one of the reasons why hedge funds won't decrease; one will see more money go into them.

Mr. McCann agreed this is exactly what's been happening. Other clients are hearing the talk of fixed income not producing a great return and seeing there is no chance of making the value and interest rates they look for other avenues. This is where hedge funds come into play. There's an article stating hedge funds are not the answer; they are very volatile and risky.

Mr. McCann, continued with the performance report indicating fixed income is an index fund, for five years, the return was 5.40% versus the policy of 5.47%. Boston Company equity portfolio had a great quarter of 9.01% exceeding the policy of 7.72% ranking 4th. As you will note in the report in brackets it states (S & P 500/Barra Value), this goes back to the letter of their request to change the index whereas Mr. McCann automatically change it. For one year the return was 23.37% versus the policy of 20.80% ranking 2nd.

Mr. Lynch commented Boston Company is obviously do fairly well, however it looks like they're taking a lot of risk.

Mr. McCann commented they are taking a little bit more risk, however receiving less return than the index, and this chart is illustrates a the five year time period. They are not in the best position, but they are doing okay. Their five year return is 8.07% versus 9.06%.

A. Transfer of funds to Rhumbline Advisors.

Mr. McCann confirmed all transfers were in order with Rhumbline Advisors.

B. Disciplined Equity Income Investment Guidelines with Boston Company.

Mr. McCann stated earlier the Citigroup Value is being used for Boston Company. He will advise Ryan Fitzpatrick.

<u>Item 14</u> Review of Fiduciary Liability 2006-2007.

Mr. Safford commented on the significant reductions in premium with Chubbs proposal. Coverage is of $1 million per claim is same as expiring policy, the cost is approximately one half of the other proposal, the policy form is broader and the continuity date is providing full prior acts.

Mr. Lynch commented lower deductible and better company, which he has indicated to the Board for the past five years. In addition they should have had this information to us before January 1st.

Mr. Swank questioned if business could be done with some one other than Gallagher.

Mr. Safford explained the reason the City stays with Gallagher is because of the hurricane environment. Most large and excess carriers have limited their capacity of coastal properties coverage. By staying long term with certain companies and the same brokerage it provides advantage of the City of Delray Beach getting insurance. Some cities are having difficulty filling in their layers of different coverages.

Mr. Safford moved to approve Chubbs as the carrier for the fiduciary liability insurance, seconded by Mr. Keating. Said motion passed unanimously.

<u>Motion to Adjourn:</u>

There being no further business, Mr. Keating moved to make a motion for adjournment, seconded by Mr. Safford. Said motion passed unanimously. The meeting adjourned at approximately 2:30 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 15, 2007, which minutes were formally approved and adopted by the General Employees Pension Board on May 17, 2007.

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