

GENERAL EMPLOYEES PENSION BOARD

Minutes of May 15, 2008

Meeting was called to order by Chairman, Thomas Lynch at 1:10 p.m.

Members Present: Thomas Lynch, Joseph Safford, Stephen Swank, Evan Turk (arrived at 1:35 p.m.) and Milena Walinski

Members Absent: None

Guests Present: Steve Palmquist, Terrill Pyburn, Karen Schell, and Brendon Vavrica (Thistle Asset Consulting)

Item 1. Approval of the General Employees Pension Board Agenda for May 15, 2008.

Mr. Swank moved to approve the agenda as amended for May 15, 2008, seconded by Mr. Safford. Said motion passed unanimously.

Item 2. Approval of the General Employees Pension Board Minutes for the Special Meeting of March 10, 2008.

Mr. Safford moved to approve the minutes for March 10, 2008, seconded by Mr. Swank. Said motion passed unanimously.

Item 3. Approval of the Following Invoices:

- A. State Street Global Advisors, dated February 20, 2008, in the amount of \$5,174.29 for quarterly management fee for the period of October 1, 2007 through December 31, 2007.

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

- B. Gabriel, Roeder, Smith and Company, dated February 29, 2008, in the amount of \$6,545.00 for actuarial valuation report and retirement benefit calculations for Desisto.

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

- C. Arthur J Gallagher Risk Management Services, dated February 28, 2008, in the amount of \$7,850.00 for fiduciary liability for General Employee's Pension Board for policy period 02/28/08 through 02/28/09.

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

- D. RhumbLine Advisers, dated April 8, 2008, in the amount of \$2,500.00 for quarterly management fee for the period of January 1, 2008 through March 31, 2008.

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

- E. Gabriel, Roeder, Smith and Company, dated April 16, 2008, in the amount of \$5,000.00 for valuation data export utility for the pension administration system.

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

- F. The Boston Company Asset Management, LLC, dated April 17, 2008, in the amount of \$23,961.06 for the quarterly investment management fee for the period of April 1, 2008 through June 30, 2008.

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

Item 4. Approval of the Following DROP Retirements:

- A. Name: Barbara Flynn
Age: 53
Monthly Pension Amount: \$3,076.20
Benefit Commenced: April 1, 2008
Benefit Requested: 50% Joint & Survivor Annuity

Ms. Walinski moved to approve the DROP retirement of Barbara Flynn, seconded by Mr. Safford. Said motion passed unanimously.

- B. Name: Allan Nichols
Age: 60
Monthly Pension Amount: \$1,102.01
Benefit Commenced: June 1, 2008
Benefit Requested: 100% Joint and Survivor Annuity

Ms. Walinski moved to approve the DROP retirement of Allan Nichols, seconded by Mr. Safford. Said motion passed unanimously.

Item 5. Approval of the Following Termination Refunds:

- A. Dorothy Stacey-Wright (Mitchell-Green) a terminated vested employee in the amount of \$6,921.23. (additional interest earned)

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

- B. Marianne Rangel (Parks & Recreation) in the amount of \$1,517.68.

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

- C. Cynthia Whilby (Parks & Recreation) in the amount of \$2,764.31.

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

Item 6. 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 \$276.00, deposited March 10, 2008 for trading activity with LJR Recapture Services through trade date January 2008.
- B. Lynch, Jones & Ryan in the amount of \$144.00, deposited April 8, 2008 for trading activity with LJR Recapture Services through trade date February 2008.

At this time the Board moved to item 8.

Item 8. Approval and signature of the Pension Fund Investment Policy.

Ms. Pyburn indicated Susan Ruby prepared the Investment Policy, however upon arrival of this meeting she was informed of an inconsistency between pages three and five. Page three under Equities provides up to 25% of the equity portfolio may be invested in foreign securities and obligations, whereas page five (under Other Assets) it forbids securities of foreign companies represented by American

Depository Receipts or traded on foreign stock exchanges may not be purchased. Ms. Pyburn was made aware the intent at the last meeting was to allow investments in ADR's, but not direct investment in foreign securities. Ms. Pyburn was concerned approving this revised policy without first bringing this to Susan Ruby's attention.

Ms. Walinski commented she was under the impression there would be a maximum of 25% foreign security investment allowed. As it reads now, equities and fixed income are both allowed a 25% allotment.

Board members pursued discussion stating as there is 55% in equities and 45% in fixed income, allowing 25% in each would not exceed the maximum of 25%. Ms. Walinski requested the language be clearer; as it stands now she would have to vote against it.

Mr. Vavrica reiterated when the Custodian was present at a previous meeting, they indicated they did not have the ability to hold true foreign securities. The reasoning behind this language was to say there would be no direct foreign securities. There are two ways to allow foreign investments; through ADR's which are basically securities in the U.S. or purchasing a security on a foreign exchange which again the current Custodian does not have the ability do do.

Mr. Safford moved to postpone this item to the next meeting to allow City Attorney's office to clarify the language of the 25% investment in foreign securities, seconded by Mr. Swank. Said motion passed unanimously.

At this time, the Board resumed with Item 7.

Item 7. Review of the Plan's October 1, 2007 Actuarial Valuation Report.

Mr. Palmquist reviewed the Actuarial Valuation Report as follows. The investment return on market was over 11% for fiscal year 2007; the return recognized under the smoothing method was approximately 9%. The City of Delray Beach's assumption was 7.25% resulting in a gain due to investments. This gain was somewhat offset by the fact that pay increases during fiscal 2007 were higher than expected. In total there is a net experience gain of over ½ million dollars, making the cost go down approximately 45% of payroll. The required City contribution for the next fiscal year is \$2,498,065 (13.90%) compared to \$2,398,379 (14.35%) this year.

As there were more employees in the plan this year, payroll increased by 1.1 million dollars. Monthly benefit payments increased \$500,000 partly due to the early retirement window (8 employees elected the early window).

Mr. Palmquist explained the process in determining the basic number of the annual cost. The total present value of future benefits is taken, less assets and members contributions over their remaining careers equals the present value of future City's contributions. This is then divided by the future payroll (12.63%), multiplied by the current payroll and adding expected administrative expenses.

Summary of Assets illustrated \$45,752,131 in stocks and \$34,615,510 in bonds. Revenues for 2006 included employee's contributions of \$623,610.00 and the City's contribution of \$2,008,058 covered all disbursements; same for 2007 with \$3,122,176.00 coming in and \$2,718,295.00 in disbursements. All investments earnings have increased the size of the fund over these two years.

The investment rate of return for a five year average market return was 9.1%. The funded ratio would have increased slightly had it not been for the early retirement window which remained at 98%. Compare to other clients this is at the top. Mr. Palmquist commented material is being gathered of funded ratios comparison to be distributed illustrating all funds in the State of Florida. The annual report put together by Mr. Charles Slavin's office, Bureau of Local Retirement Systems can be found at myflorida.com/FRS. This will illustrate statistics of every public plan in the state.

Item 9. Review of Plan's Performance Evaluation for the Period Ending March 31, 2008.

Mr. Vavrica started out by apologizing for Mr. McCann's absence as he had another meeting scheduled at the same time today. In reviewing the Callan Periodic Table of Investment Returns, Mr. Vavrica

indicated this is based on a calendar year, not fiscal year. In 2000 through 2006 (the brown colored boxes coded as large cap growth), was the first time a single domestic asset class was down at the bottom for that length of time. In 2007 it was the best performing excluding international. Another item of interest illustrates in 2005 (excluding international), domestic equities best performance of S & P Citi 500 value at 5.8% and the worst performance being S & P Growth at 4.0% for a difference of 1.8%. The same scenario for 2006 resulted in a difference of 12%; 2007 had a 19% difference.

Mr. Vavrica continued stating the compliance is taken directly from the investment policy. A few changes will occur once the investment policy is approved. The total fund was slightly behind the index on a three year basis. The trail for one year did not meet the actuarial assumption. Boston Company did not beat the policy for the 5 year period, 13.52 versus 13.89; Loomis Sayles trailed the index for the three year period, -17.32 versus -10.18.

The asset allocation illustrates 52.5% in equities for a total of \$40,622,000; 46.8% in fixed income for a total of \$36,214,000; and .7% in cash for a total of \$531,000; a grand total of \$77,367,000.

The total fund for the quarter did not exceed the index, -6.20% versus -4.31% ranking 64th; for one year the return was .88% versus the policy of .82% ranking 16th; three years 5.35% versus the policy of 5.61% ranking 26th and five years 7.24% versus the policy of 8.04% ranking 66th. Equity return for the quarter was -12.65% versus the policy of -9.45% ranking 98th; one year -4.24% versus the policy of -4.83% ranking 41st; three years 6.24% versus the policy of 5.94% ranking 42nd and five years 11.03% versus the policy of 11.38% ranking 60th.

Boston Company's return was -8.38% versus the policy of -8.94% for the quarter; one year -6.30% versus -8.36%; three years 7.46% versus the policy of 6.76% and five years 13.52% versus the policy of 13.89%.

Loomis Sayles' return was -17.32% versus the policy of -10.18% ranking 100th. Last quarter they ranked 1st. One year -1.44% versus the policy of -0.75%. Mr. Vavrica stated they have seen similar action with other large cap growth managers; specifically the ones that have done very well.

Rhumblin's return was -8.83% versus the policy of -8.85%; one year -6.85% versus the policy of -6.97%.

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 2:35 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 May 15, 2008, which minutes were formally approved and adopted by the General Employees Pension Board on August 21, 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