GENERAL EMPLOYEES PENSION BOARD

Minutes of
February 19, 2009

Meeting was called to order by Chairperson, Tom Lynch at 1:00 p.m.

Members Present:	Tom Lynch, Joseph Safford, Stephen Swank, Evan Turk and Milena Walinski
Members Absent:	None
Guests Present:	Susan Ruby, Karen Schell, Brendon Vavrica (Thistle Asset Consulting)

Item 1. Approval of the General Employees Pension Board Agenda for February 19, 2009.

Mr. Swank moved to approve the agenda for February 19, 2009, seconded by Mr. Turk. Said motion passed unanimously.

Item 2. Approval of the General Employees Pension Board Minutes for the Meeting of November 20, 2008.

Mr. Lynch questioned item 13, fifth paragraph, the trending of unemployment rates going up in December. After a brief discussion Board members requested a change in the wording to "any down turn of economic indicators" to advise the Board Members.

Mr. Swank moved to approve the minutes for November 20, 2008 as amended, seconded by Mr. Safford. Said motion passed unanimously.

Item 3. Approval of the Following Invoices:

A. Thistle Asset Consulting, Inc, dated November 10, 2008, in the amount of $4,750.00 for performance monitoring for the quarter ending September 30, 2008.

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

B. State Street Global Advisors, dated November 21, 2008, in the amount of $5,315.34 for quarterly investment management fee for the period of July 1, 2008 through September 30, 2008.

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

C. Gabriel, Roeder, Smith & Company, dated November 30, 2008, in the amount of $2,333.00 for preparations for actuarial valuation report of October 1, 2008 and retirement benefit calculations for Patterson and Stryjek.

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

D. The Boston Company Asset Management, LLC, dated January 23, 2009, in the amount of $16,608.56 for quarterly investment management fee for the period of January 1, 2009 through March 31, 2009.

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

E. Thistle Asset Consulting, Inc, dated February 12, 2009, in the amount of $4,750.00 for performance monitoring for the quarter ending December 31, 2008.

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

Item 4. Approval of the Following Retirements:

A.

Name:	Gillian Ironside
Age:	67
Monthly Pension Amount:	$249.13
Benefit Commenced:	November 1, 2008
Benefit Requested:	100% Joint and Last Survivor Annuity

Mr. Safford moved to approve the Normal retirement of Gillian Ironside, seconded by Ms. Walinski. Said motion passed unanimously.

Item 5. Approval of the Following Termination Refunds:

A. Paul M. Ricard (Community Improvement) in the amount of $1,237.89.

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

B. Sylvester Griffin (Water and Sewer) in the amount of $4,076.76.

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

C. Matthew Carbone (Parks & Recreation) in the amount of $2,948.46.

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

Item 6. Approval of the Following Beneficiary Disbursement(s):

A. Monthly benefit $1,454.49 to Mrs. Marjorie Church, beneficiary of Gerald Church for one year then reduced to $872.69 to continue to the earlier of Mrs. Church's death or remarriage.

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

B. Monthly benefit $937.74 to Mrs. Ilona Axelrod, beneficiary of Charles Axelrod for one year then reduced to $562.64 to continue to the earlier of Mrs. Axelrod's death or remarriage.

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

Item 7. 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 $307.00, deposited December 9, 2008 for trading activity with LJR Recapture Services through October 31, 2008.
B. Lynch, Jones & Ryan in the amount of $230.00, deposited December 31, 2008 for trading activity with LJR Recapture Services through November 30, 2008.
C. Lynch, Jones & Ryan in the amount of $469.00, deposited February 5, 2009 for trading activity with LJR Recapture Services through December 31, 2008.

Item 8. Review of Fiduciary Liability 2009-2010.

With the City being scrutinized heavily, Mr. Swank felt the need to make sure all underwriting procedures were followed properly.

Mrs. Ruby indicated there was an issue that needed to be addressed. An individual may not do business with their own agency which in this case is the Pension Board; if it were the City that would not be their own agency.

As the Policy is secured through Plastridge Insurance Agency which is owned by Mr. Lynch, Mr. Lynch suggested deferring this to the last item to avoid any conflict of interest; at that time he would resign.

Item 9. Review of Monthly Disbursement Allocations and Future Transfers.

Ms. Walinski explained Salem Trust and Boston Company requested confirmation of the monthly payment moneys. Last month expenses were up to approximately $139,000.00. Her second concern was the posibile elimination of Loomis Sayles as an investment manager. The monthly allocation needs to be addressed along with Loomis Sayles.

Ms. Walinski indicated monthly expenses have increased. Previously there was a problem with the way Salem Trust was funding the DROP transfer; transfer needs to be completed the day before the last of the month. To process this change, the first month had two DROP transfers which lead to a shortfall; and DROP participates have increased substantially.

Mr. Vavrica updated the investment manager's percentages as follows: Boston 18.6%, Loomis 17%, RhumbLine 4.5% and State Street, fixed income 59.8% as of the end of January.

Mr. Lynch indicated due to the market the way it currently is, one does not want to commit to long term, however, we do want moneys invested as quickly as possible.

Ms. Walinski stressed the importance of having an automatic monthly disbursement/allocation.

Mr. Swank suggested deferring this item until discussion of the investment reports.

Item 10. Review/Discuss IRS Determination Letter.

Mrs. Ruby indicated a News Scan e-mailed to her was forwarded to Jim Linn for review with reference to an IRS Determination Letter. Mr. Linn's response is neither the Internal Revenue Code nor IRS regulations require governments obtain determination letters for their pension plans to make sure they are qualified. In the past, IRS has not taken action to revoke the qualified status of governmental plans. However, IRS has announced in the past year it intends to increase its scrutiny of such plans, and has strongly encouraged governmental representatives to seek review of their plans through the determination letter process. Mr. Linn did not feel a determination letter was needed.

Mr. Swank commented if there were aggressive terms in the plan the Board might choose to pursue a determination letter; however, to his knowledge there isn't anything unusual.

Mr. Lynch commented if there were purchases of private equities and hedge funds it might be different.

Mr. Vavrica stated what he has heard from other Attorneys and Boards, because the IRS has not been covering this area, they don't spend much time on it. If one were to go ahead and obtain the determination letter now, it would probably not be reviewed closely as the Board doesn't apply. However if an audit was requested, the Board would have documentation in their file to illustrate they received the letter. A year/two years from now if plans are reviewed, the Board could say they've already been reviewed.

Mr. Swank indicated he would pass on pursuing the determination letter at this time. His experience is the IRS is so overwhelmed and not in a position to start auditing every City's plan. Mr. Swank feels comfortable the plan is in compliance and would choose to save the $5,000-$6,000. Should the IRS choose to audit the plan, it would be no cost other than time. Mr. Swank moved to pass on obtaining a determination letter at this time to save cost and a general feeling we have no issues with our plan, seconded by Mr. Safford. Said motion passed 4-1 with Ms. Walinski dissenting.

Item 11. Review/Discuss an Asset-Recovery Portfolio Monitor Contracts.

Mrs. Ruby indicated she reviewed the contract for Coughlin, Stoia, Geller Rudman and Robbins finding no issues. It's a simple agreement where they can monitor it at no cost to the Board.

Upon questioning of the second contract for Saxena White, Mr. Swank stated at the last meeting it was discussed there wouldn't be a problem with two firms monitoring the plan. Mrs. Ruby will follow up with the second contract.

Mr. Safford move to approve the contract with Coughlin, Stoia, Geller Rudman and Robbins for port folio monitoring program, seconded by Mr. Swank. Said motion passed unanimously.

Item 12. Review of the Plan's Performance Evaluation for the Period Ending December 31, 2008.

Mr. Vavrica commented the fourth quarter was off to a very bad start and has continued. The compliance report illustrates the total return over the trailing 1-year period did not exceed 8.5%. Loomis Sayles has several no responses. State Street fixed income return over the trailing 3-year period did not exceed the BCAB (they tied the index).

The asset allocation illustrates 40.8% in equities for a total of $25,847,000; 57.5% in fixed income for a total of $36,460,000; and 1.7% in cash for a total of $1,050,000; a grand total of $63,357,000.

The total fund for the quarter was down, -9.30% versus -11.48% ranking 3rd; for one year the return was -21.76% versus the policy of -20.95% ranking 35th three years -2.39% versus the policy of -2.54% ranking 15th and five years 0.51% versus the policy of 0.67% ranking 26th. Equity return for the quarter was -23.48% versus the policy of -23.54% ranking 76th; one year -42.48% versus the policy of -38.46% ranking 99th; three years -.9.76% versus the policy of -8.99% ranking 79th and five years -3.24% versus the policy of -2.60% ranking 82nd.

Boston Company's return was -20.34% versus the policy of -23.83% for the quarter ranking 29th; one year -35.29% versus -39.22%; three years -6.41% versus the policy of -9.19% and five years -0.48% versus the policy of -1.72%.

Loomis Sayles' quarterly return was -26.41% versus the policy of -22.79%; one year -41.63% versus the policy of -32.31% ranking 97th.

RhumbLine's quarterly return was -25.21% versus the policy of -25.557%; one year -33.30% versus the policy of -33.64%.

Mr. Vavrica commented when reviewing Loomis Sayles, they have not changed their style. Their performance on a calendar basis shows they do very well or really bad.

Mr. Vavrica continued stating his preliminary Large Cap Growth Manager search is short; a couple active and passive managers. Generally speaking on a single quarterly basis fixed income may be 3% if one is lucky. The Market environment in the past six months has been highly unusual. Equity markets have the ability to substantially out perform and under perform. Mr. Vavrica reiterated the percentages in the managers as follows: Boston 18.6%, Loomis 17%, RhumbLine 4.5% and State Street, fixed income 59.8% as of the end of January. Roughly 15% over the target; 15% light in equities.

After further discussion, Mrs. Ruby distributed a copy of the House Bill Act, "Public Retiree's Investment Act of 2009". There is a special federal program which provides a one year guarantee return of 8.5% for investment of public pension plans. After the one year period the reset rate is determined by adding together the yield prevailing as of the close of business of the date of the determination on 10-year United States treasury notes; and the difference between 8.5% and the yield prevailing as of the close of business on the date of the enactment of this Act on 10-year United States treasury notes.

Mr. Swank commented the government is trying to get institutions to help invest in troubled banks.

Mr. Vavrica indicated from their prospective this needs to be explored further. Any time one is guaranteed something, especially when this would meet the actuarial assumption, one needs to explore it further.

Mr. Vavrica distributed a print out document on Treasury Inflation Protective Securities (TIPS) per the Board's request of the last meeting. This is basic information with a few summary bullet points. Mr. Vavrica commented he is not a fan of TIPS for one particular reason. The Consumer Price Index (CPI) is determined by the government. They have a direct incentive to under inflate the rate of inflation. Social Security Benefit payments and cost expenditures are related to the CPI. If CPI goes up by the real rate of inflation, costs go up more than they like. They tend to under inflate or keep CPI lower than normal. If one has a security where the margin rate of return is based on CPI, in Mr. Vavrica's estimation one is getting less than the market rate. With a TIPS security one receives what the federal government states is inflation; over time that will actually be a negative gap. Mr. Vavrica believes there is a better return out of a bond port folio; one gets the market return on inflation.

Mr. Safford questioned if the equity managers are being closely monitored as quite a few have been restructuring. Many companies have been downsizing.

Mr. Vavrica indicated Boston Company has down sized however no individuals in the management area have been affected; mostly operations, sales and marketing. Loomis Sayles has not had any changes.

Further discussions lead Mr. Swank to comment he would like to see the asset allocation stay where it currently is.

Mr. Lynch recalled Jeff Keating saying the most important part of these managers is they stay to their discipline. With Loomis Sayles not changing their styles, they remain with their discipline. The reason behind our split in mid, value and growth is to keep three different disciplines.

Mr. Vavrica indicated at this time active managers are under performing more than they were six months ago. His expectation is the environment will return where active managers out perform again. In response to Mr. Swank's comment that there isn't a big difference in the style of the two managers, Mr. Vavrica indicated of the 116 stocks held in trust between the two managers, six of them are duplicated. Considering the plan has two large cap managers, this is not a great over lap.

Mr. Safford commented he sees hesitation on Brendon's part on the fact they are cyclical and will turn around.

Mr. Lynch stated the review illustrates Loomis Sayles has had more good years than bad. If there is not a consensus to delete Loomis Sayles, perhaps the Board should review the possibility of taking a portion of the money and put it into an index fund for now.

Mr. Vavrica reviewed the large cap growth manager search results indicating a seven year history has more weight than a three year history. A seven year period is a full market cycle; starting close to the market bottom moving up to the market rollover to where we are currently at. The search is sorted by a three and seven year return, and then a three and seven year risk. Two index funds were included with the current managers for a comparison; Silvant Capital which is actually Sun Trust and Denver Investment Adv. Picking the best manager would not have been constructive; Silvant Capital tends to be more stable and consistent. Denver Investment Adv. had periods of better performances similar to Loomis Sayles however has not done as well.

Mr. Vavrica stated he is in favor of RhumbLine as they do things slightly differently than the index. Most index funds try to replicate the index as closely as possible. When the index reconstitutes itself on whatever regular basis that is, the day they move a security into the port folio/index and move it out, there is a lot of volatility in those companies. RhumbLine takes a different view and stands back to allow the volatility to take place, and then make their purchase. In the past five years they have done a good job of having a slightly less risk and 10-15 basis point better return with this style.

Mr. Swank moved to take half of the Loomis Sayles account, move it to the RhumbLine index fund and continue to review the value side with consideration to make moves to the index fund there also, second by Mr. Safford. Said motion passed unanimously.

Mr. Turk moved to take half of the Boston Company account, move it into the RhumbLine index fund (same theory as Loomis), seconded by Mr. Safford for discussion. Said motion passed 3-2 with Mr. Lynch and Mr. Swank dissenting.

At this time the Board returned to Item 9.

Item 9. Review of Monthly Disbursement Allocations and Future Transfers.

Ms. Walinski commented the transfers with Loomis Sayles and State Street should be a set amount with a set date. Salem Trust has custody of the assets with Boston Company.

Mr. Vavrica cautioned the Board this will be the same issue with the RhumbLine's index fund. This would be a commingled vehicle where paperwork would be necessary to redeem monies. Index funds are packaged together; one is essentially selling shares of that fund to meet redemptions.

Mr. Lynch suggested when reallocating with Boston Company and Loomis Sayles, to take the actual percentages; forwarding written instructions for the amount needed by the first of the month.

Item 13. Other Business.

At this time being 3:05 p.m., Mr. Lynch gave his verbal resignation and left the meeting.

The Board continued the meeting returning to Item 8.

Item 8. Review of Fiduciary Liability 2009-2010.

Mr. Swank commented in today's world it is important to know the strength and port folio of insurance companies. The Board should at least know the rating of National Union. Mr. Swank questioned what the Board's requirements were as to hiring a vendor and purchasing services. Must the Board go through a request for proposal to assure the best quotes?

Mr. Safford responded this is handled and processed by the City's Risk Manager. Mr. Safford feels quite sure the ranking and Best rating has been reviewed.

Mr. Swank moved to approve payment and renewal of the fiduciary liability insurance with National Union, seconded Mr. Safford. 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 3:15 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 19, 2009, which minutes were formally approved and adopted by the General Employees Pension Board on May 21, 2009.

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