

GENERAL EMPLOYEES PENSION BOARD

Minutes of September 19, 2011

Meeting was called to order by Chairperson, Stephen Swank at 2:12 p.m.

Item 1. Roll Call.

Members Present: David Boyd, James Smith and Stephen Swank
Members Absent: Vincent Dole and Milena Walinski
Guests Present: Brian Shutt, Karen Schell and Brendon Vavrica by phone

Item 2. Revision of Investment Policy.

Mr. Vavrica indicated there were additional changes to the Investment Policy not addressed at the last meeting. City Attorney felt this should be brought before the Board for approval. The following was added: mortgage-related securities or asset-backed securities not issued by the U.S. government or an agency or instrumentality thereof, and other securities contained in the specified index. These are including the other securities that are contained within the index but not specifically mentioned previously.

The second change is to add number 7, with respect to Denver Investment Advisors, mortgage-related securities and asset-backed securities will be limited to 15% of the market value of the portfolio. As part of Denver's strategy, they normally have approximately 5%-7%; this would limit them from exceeding their portfolio.

At this time Mr. Smith commented he was reviewing the mortgage-related securities and pulled Denver's statement (distributed copies to the Board Members) of their fixed income portfolio as of June 30th. Mr. Smith stated it's one thing to receive 15 bsp on a two year treasury and another to start losing principal. The report lists 11% of the holdings are in BB and below ratings and 20% in BBB ratings. Mr. Smith questioned what the yield for Denver would have been in the last quarter if we struck out their mortgage-related and asset-backed securities along with the BB and BBB's ratings.

Mr. Vavrica stated the investment policy indicates a credit rating must meet or exceed BBB from Standard & Poor's or a BAA rating from Moody's may be purchased. As part of their normal process, Denver would invest in the mortgage-backed securities and asset-backed securities to a lesser degree than perhaps other managers. State Street is an indexed fund; however, it has close to 40% of mortgage and asset-backed securities. Assuming rates go up in the future, the move to intermediate fixed income will be more defensive and help protect against that type of principal loss.

Mr. Swank confirmed the Board would be able to instruct Denver to avoid the BB's; customize their portfolio.

Mr. Vavrica responded that is correct. He felt confident it was quite minimal where chances were it was perhaps a security purchased above BB; however, it was then downgraded. Denver would be required to do away with any securities that have been downgraded.

Mr. Swank suggested Mr. Vavrica try to reach Denver for further information at this time.

Item 3. Ratification of Denver Contract.

Mr. Swank commented the Denver contract relates to the same intermediate fixed income portfolio.

Mr. Smith indicated the only item he would add would be what the Board decides on the BB and below ratings.

City Attorney Mr. Shutt indicated an Exhibit B would indicate the guidelines to be provided by the client. This is where the investment policy would be included which addresses purchase limitations.

Mr. Swank questioned if it was safe to assume if the Board went with another manager and demanded nothing less than BBB, we'd end up with a similar product that we're requesting here. The fee is listed at 22.5 bsp's which falls in the perimeter requested. Perhaps we should delay this decision and stay entirely in State Street; there's no sign of escalating interest rates at this time.

At this time the Board reconvened with Mr. Vavrica by phone.

Mr. Vavrica indicated he has spoken with Denver and the team will put the numbers together. They will also answer the exposure in mortgage or asset-backed securities to the quality sector at that time.

Mr. Swank stated the Board's discussion led them to believe what is necessary, is to add the revised investment policy statement to Exhibit B. That's how we're directing them to avoid the BB's.

Mr. Vavrica confirmed that is correct.

Mr. Smith stated the other concern in getting back to the Denver portfolio is once the BB's are removed and obtain a new rate of return, it would be good if we could do the same with the other firms that were rated highly in the search. Some of these other firms may have higher yields than Denver after removing the BB's; perhaps we may want to consider them in lieu of Denver.

Mr. Vavrica indicated this would take time; however he would do that.

At this time, Mr. Swank stated the Board has decided to postpone this decision until the November meeting, giving Mr. Vavrica a chance to make the requested comparisons.

Mr. Smith moved to table these items until the November meeting, seconded by Mr. Boyd. Motion passed unanimously.

Motion to Adjourn:

There being no further business, Mr. Smith moved to make a motion for adjournment, seconded by Mr. Boyd. Said motion passed unanimously. The meeting adjourned at approximately 2:48 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 September 19, 2011, which minutes were formally approved and adopted by the General Employees Pension Board on November 17, 2011.



David Boyd
Secretary, General Employees Pension Board

cc: David Harden, City Manager
Brian Shutt, City Attorney
Department Heads