GENERAL EMPLOYEES PENSION BOARD

Minutes of
November 17, 2011

Meeting was called to order by Chairperson, Stephen Swank at 1:00 p.m.

Item 1. Roll Call.

Members Present:	David Boyd, Vincent Dole, James Smith, Stephen Swank and Milena Walinski
Members Absent:	None
Guests Present:	Stephen Palmquist (Gabriel Roeder Smith & Company), Brendon Vavrica (Thistle Asset Consulting), Karen Schell and Brian Shutt (arrived at 1:05 p.m.)

Item 2. Approval of the General Employees Pension Board Agenda for November 17, 2011.

Mr. Dole moved to approve the agenda for November 17, 2011, seconded by Ms. Walinski. Said motion passed unanimously.

Item 3. Approval of the General Employees' Pension Board Minutes:

A. August 18, 2011.
B. September 19, 2011.

Ms. Walinski moved to approve the minutes of August 18, 2011 and September 19, 2011, seconded by Mr. Dole. Said motion passed unanimously.

Item 4. Consent Agenda:

A. **Approval of the Following Invoices:**

a. Gabriel, Roeder, Smith & Company, dated August 15, 2011, in the amount of $657.00 for benefit calculations for Diaz and review of salary increase assumption.
b. State Street Global Advisors, dated August 17, 2011, in the amount of $5,314.73 for investment management fee for the period of April 1, 2011 through June 30, 2011.
c. Gabriel, Roeder, Smith & Company, dated September 13, 2011, in the amount of $1,419.00 for benefit calculations for Hopp, Leonard, Mitchell, review of salary increase assumption and no impact statement regarding ordinance for rehires.
d. Gabriel, Roeder, Smith & Company, dated October 6, 2011, in the amount of $2,349.00 for benefit calculations for Gonzalez, Abrahim, Bathelemy and Pierpont, review of salary increase assumption and preparation of the October 1, 2011 actuarial valuation report.
e. RhumbLine Advisers, dated October 12, 2011 in the total amount of $5,075.00 for quarterly management fee for the period of July 1, 2011 through September 30, 2011.
f. The Boston Company Asset Management, LLC, dated October 19, 2011, in the amount of $10,939.65 for quarterly investment management fee for the period of October 1, 2011 through December 31, 2011.

B. **Approval of the Following DROP Retirement(s):**

a.	Name:	Rasheeda Abrahim
	Age:	60
	Monthly Pension Amount:	$1,511.01
	Benefit Commenced:	October 1, 2011
	Benefit Requested:	Normal Form
b.	Name:	Carole Pierpont
	Age:	64
	Monthly Pension Amount:	$2,083.81
	Benefit Commenced:	October 1, 2011
	Benefit Requested:	Normal Form

c. Name: Milton Timerman
Age: 64
Monthly Pension Amount: $1,845.42
Benefit Commenced: November 1, 2011
Benefit Requested: 100% Joint & Survivor

C. **Approval of the Following Early Retirement(s):**

a. Name: Otes Bathelemy
Age: 58
Monthly Pension Amount: $1,994.40
Benefit Commenced: October 1, 2011
Benefit Requested: 100% Joint & Survivor

b. Name: Gwendolyn Crutchfield
Age: 59
Monthly Pension Amount: $3,757.86
Benefit Commenced: November 1, 2011
Benefit Requested: 10 Year Certain

D. **Approval of a decrease in benefit for change of beneficiary for retiree Victor Gonzalez.** (From $813.12 to $799.07 effective October 1, 2011.)

E. **Approval of the Following Termination Refund(s):**

a. Ashley Soren (Police Department) in the amount of $4,186.12.
b. Chad Carlson (Parks & Recreation) in the amount of $3,147.84.
c. Yolanda Glass (Police Department) in the amount of $9,360.39.
d. Portia Dinkins (Risk Management) in the amount of $6,358.35.

F. **The General Employees' Pension Board accepts that the Plan has received the following check(s) which have been deposited in the Trust Account.**

a. Sun Trust in the amount of $107.91, deposited August 23, 2011 for settlement with Motorola class action proceeds.
b. Victor Gonzalez in the amount of $300.00, deposited September 9, 2011 for fees associated with the actuarial recalculation for a change of beneficiary.

G. **The General Employees' Pension Board is being advised of the class action settlement report from both Portfolio Monitoring Agencies.**

H. **Distribution of the Quarterly Meeting Schedule for the General Employees' Pension Board for Calendar Year 2011.**

Mr. Smith moved to approve the consent agenda for November 17, 2011, seconded by Mr. Boyd. Said motion passed unanimously.

<u>Item 5.</u> Review of Senate Bill 1128 Amendment.

Mr. Palmquist indicated the approval of Senate Bill 1128 Amendment may have minimal affect towards the General Employees' Plan. Plans affected would include those that allow overtime, unused sick pay and unused vacation pay at the end of their career into their pensionable earnings. Currently the General Employees' pensionable earnings is base pay; therefore, it would not affect this plan in that aspect. There were several changes to the Florida Retirement System whereas employee contributions increased from 0% to 3%. Mr. Palmquist continued stating by January 1, 2012 the Division of Retirement must come up with a financial rating system for each plan. GRS volunteered to provide their input as to the thoughts of what would be good elements to include in this rating system such as funded ratio, how much the employer has to pay as percent of payroll and what the fund returns have been over a period of time. Feedback from the State has been received of what they put together and followed much of what GRS had to say.

There is one provision in the law that allows the plan termination liability of each plan to be comparable around the state. Everyone will need to use a discount rate equal to that of which FRS uses in its actuarial reports. (Currently it is 7.75%.) Beginning this year, the annual reports must illustrate the plan termination liability, which we have always done using your interest rate of 7.25% but must also illustrate the FRS rate of 7.75%. Based on this, there will be an additional fee of $750.00 to complete this additional disclosure.

Item 6. Review of Actuarial Salary Assumption.

Mr. Palmquist stated approximately two years ago GRS completed an experience study for the General Employees' Plan and made recommendations for changes. A number of changes were adopted; however, with the current recession pay plans have changed. When reviewing the annual report with the Board, Mr. Palmquist mentioned the pay salary assumption might need further reviewing as it may not be represented of what to expect in the future. Based on that, GRS received feedback from the Finance Department to assume a pay increase of 2% per year for the next three years; after that, revert back to the assumptions previously used.

The latest actuarial report indicated a City contribution due of $2,365,620; with the new salary assumption change the contribution due would be $2,044,346. (A decrease of $321,274.) The actuarial present value of all projected benefits for all members in the latest report totaled $112,061,957; with the new salary assumption change it would be $107,269,372. (A decrease of $4,792,585.) The Accrued Liability would decline by $2,175,576; leaving a funded ratio increase of 2.36% (98.77% vs. a current ratio of 96.41%).

The Board has the authority on setting the assumptions and also the determination of when to make the changes. In addition to this change, another thought would be to reduce the rate of return to 7.1% which in turn would offset the decrease. If an effective date of October 1, 2010 was used, there would be a savings of $321,274 which if the City chose to, could be recognized as a reserve towards the next year by reflecting this in the annual report. This temporary reduction in the assumption does not mean after the three year period the cost would increase; this is leveling out the cost over the future. Should normal pay increases return in a few years, as long as they don't exceed the assumption, the cost as percent of payroll would remain level.

From GRS's stand point, they've always favor more money sooner going into the pension fund. There are two ways to handle the extra $321,274; one as stated previously, hold it aside on paper as a prepayment for next year. The second is to count it as an additional payment towards the unfunded liability.

City Attorney, Mr. Shutt reminded Board Members their fiduciary responsibility would be to the plan not the City.

Mr. Dole moved to accept the recommendation to reduce the salary increase to 2% for a three year period starting retroactively to October 1, 2010, seconded by Mr. Smith. Said motion passed unanimously.

In discussing where this extra payment should be allocated, Mr. Swank questioned if the Board has the ability to indicate where it should go.

Mr. Palmquist stated by making this decision, the Board is telling the City its obligation is $2,044,346. In turn the City could keep the money and not necessarily allocate it towards the pension fund.

Ms. Walinski stated she was sorry she voted then, she wanted to have the City contribute $2,365,620

Mr. Swank asked for clarification in that this would change the salary to 2% for 3 years. Everything would remain as is with an annual savings of $300,000 for three years.

Mr. Palmquist indicated this would be a permanent savings. The plan hasn't recognized all the losses in 2008-2009 compared to the 7.25%; there's still $7.5 million as of last year not yet recognized. As this is recognized, the cost of the plan will increase. By the time it is all recognized, the City's cost will be approximately 3.5% of payroll more than what it is currently. Payroll will increase approximately $600,000; if the return of 7.25% is not met, this would add further to that. Costs will increase no matter what the decision is today. If this new salary assumption is adopted, you can request the City to pay the $321,274; however, they are not obligated to do so.

Ms. Walinski moved to reconsider the previous motion, seconded by Mr. Swank (passed the gavel to the Vice Chair, Mr. Dole). Said motion passed 4-1 with Mr. Dole dissenting.

Mr. Swank moved to reduce the salary increase to 2% for a three year period starting October 1, 2011, seconded by Ms. Walinski. Said motion passed 3-2 with Mr. Boyd and Mr. Dole dissenting. The City's obligation for December 31, 2011 will remain at $2,365,620.

Item 7. Review of Plan's Performance Evaluation for Period Ending September 30, 2011.

Mr. Vavrica started with the review of the executive report indicating there are a few "no's" in the compliance report; the total return over the trailing 3-year period did not exceed the policy, 3.96 vs. 5.14; nor did the return rank in the top 40% of the Universe, 50th. The total return did not exceed 8.5% nor exceeded the CIP+5%. Boston's equity return for the trailing 3 year period did not rank in the top 40; 74th. RhumbLine Large Cap Value and Large Cap Growth's inception date was June 30, 2009. State Street did not exceed the BCAB over the 3 year period; 7.95 vs. 7.98.

The asset allocation illustrates a total of $77,824,000; total equities of $41,800,000 (53.7%); Fixed Income $35,520,000 (45.6%) and $504,000 (.6%) in Cash.

The total fund for the quarter was -8.58% vs.-7.29% ranking 62nd; for one year the return was 0.72% vs. the policy of 2.70% ranking 58th; three years 3.96% vs. the policy of 5.14% ranking 50th and five years 1.97% vs. the policy of 2.81% ranking 35th. Equity return for the quarter was -17.09% vs. the policy of -15.80% ranking 76th; one year -2.26% vs. the policy of 0.05% ranking 31st; three years 0.54% vs. the policy of 1.71% ranking 35th and five years -1.72% vs. the policy of -0.90% ranking 64th. Fixed Income return was 3.79% vs. the policy of 3.83% for the quarter ranking 24th; one year 5.24% vs. 5.29% ranking 10th; three years 7.95% vs. the policy of 7.98% and five years 6.53% vs. the policy of 6.53%.

Boston Company's quarterly return was -19.35% vs. the policy of -16.20% ranking 95th; one year -5.35% vs. the policy of -1.89% ranking 89th. Dana's quarterly return was -16.34% vs. the policy of -13.14% ranking 74th. Harding Loevner's quarterly return was -20.42% vs. the policy of -20.69% ranking 42nd. RhumbLine's Midcap quarterly return was -19.85% vs. the policy of -19.88% ranking 40th; one year -1.16% vs. the policy of -1.28% ranking 26th. RhumbLine's Large Cap Value quarterly return was -16.18% vs. the policy of -16.20% ranking 67th; one year -1.89% vs. the policy of -1.89% ranking 61st. RhumbLine's Large Cap Growth quarterly return was -13.13% vs. the policy of -13.14% ranking 12th; one year 3.75% vs. the policy of 3.78% ranking 15th.

Mr. Vavrica continued with the Aggregate Equity Analysis indicating all securities held by managers are compiled together to see how they all interact with one another. All are well balanced between the different categories.

In response to what the Board could do better or possibly should do, Mr. Vavrica suggested for a plan this size, perhaps some small cap exposure, real estate and the ongoing adjustment or change in fixed income. As rates are incredibly low, you would still want to remain in longer term, longer duration bonds because of the higher coupon rates. Mr. Vavrica cautioned the Board to not to do too much too fast. The first stage would be to bring in an asset allocation to illustrate the projection of the expected term and risk.

Mr. Vavrica continued with the small cap search indicating these are the same managers; summary for each is on page 10. Kayne Anderson as far as risk and return has been outstanding. Eagle is also very good. RBC is goo also, but different in style. Kayne and Eagle are very similar in style; relatively defensive minded managers.

Mr. Swank commented small caps are also the most sensitive right now.

Mr. Vavrica concurred and the most volatile. There aren't as many managers and more importantly, there are not as many analysts focusing on them. Mr. Vavrica's expectation would be for the next period you will see small cap underperform large cap and mid cap. He urged a little more patience with small cap. If the Board was to make one change to the portfolio, he suggested real estate rather than small cap right now.

Mr. Smith moved to table the small cap investment for the next meeting, seconded by Mr. Dole. Said motion passed unanimously.

Mr. Vavrica stated there was a question relating to Denver's exposure to BBB's as to how much return was attributable to the BBB exposure, and secondarily how much could you attribute to mortgage back and asset back securities. The illustration illustrates the comparison between Denver, Garcia Hamilton and Seix with virtually no impact on the results.

Mr. Vavrica indicated the Board has an agreement with Denver ready to be signed. The investment policy indicates no securities rated BB's or less are allowed. Funds would come from State Street. Denver agreed to the 22.5% bsp fee on the idea that it would be a $15,000,000 account. The fee would be honored with the initial

$5,000,000; however, within one year if not invested with $15,000,000 Denver would have the option of renegotiating their fees.

Mr. Dole moved to take $5,000,000 from State Street and put it into an intermediate fund managed by Denver seconded by Mr. Smith. Said motion passed unanimously.

Mr. Vavrica stated the plan is within 55/45 target balance. He suggested the City's contribution of $2.3 million forthcoming be split putting 55% into equity and 45% into fixed. Split the 55% among the large growth (Dana) and large value (RhumbLine) and add the 45% to Denver.

Mr. Smith moved to take the $2.3 million contribution and split it on the equity basis of 45% into Denver and split the 55% between RhumbLine Value and Dana, seconded by Mr. Dole. Said motion passed unanimously.

Mr. Dole moved that Board accept and execute the agreement with Denver, seconded by Mr. Smith. Said motion passed unanimously.

Ms. Walinski moved in the event the Denver contract is not ready for the account to receive the money, the discussion was this money would go into State Street as a separate account, seconded by Mr. Smith. Said motion passed unanimously.

Ms. Walinski stated the last time the Board discussed the monthly transfer from State Street, bumping it up to $400,000 with a review at this meeting. Ms. Walinski feels that $400,000 is too much.

Mr. Smith moved to give Finance Administration the flexibility to modify a monthly redemption up to $400,000, seconded by Mr. Boyd. Said motion passed unanimously.

Mr. Vavrica questioned with the hiring of Denver, one item discussed was adding them to the investment policy, with a restriction they couldn't own more than 15% of their portfolio in asset backed and mortgage backed securities.

Mr. Smith moved to adopt the new investment policy reflecting the limit on the mortgage backed securities to 15% for Denver, seconded by Mr. Dole. Said motion passed unanimously.

Item 8. Other Business.

Mr. Smith distributed the Certified Public Pension Trustee Program guidelines. Mr. Smith is interested in becoming certified and would like to attend the next FPPTA trustee school in February to take the Basic Course.

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 3:40 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 November 17, 2011, which minutes were formally approved and adopted by the General Employees Pension Board on February 16, 2012.

David Boyd

David Boyd
Secretary, General Employees Pension Board

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