

RETIREMENT COMMITTEE MINUTES

MEETING OF MAY 19, 2010

Chairman Warren called the meeting to order at 1:10 p.m. in the Council Chambers.

ROLL CALL

Chairman Edwin Warren: present
Don Campbell: present
Gary Langston: present
Jeanette Hurt: absent

OTHERS PRESENT

Dale Flynn, Finance Director/Trustee
Phyllis A. Kraft, City Clerk, Trustee
Niecia Barton, Human Resources Director
Sylvia Bermudez, Assistant Finance Director
Javier E. Villarreal, Recording Secretary
Barthus J. Prien and Tiao-Tiao Hsu of
Prien Associates, Inc.
Robert Abraham of Stifel Nicolaus & Co.
David Couch and Rupert Gregorio of Buena
Vista Group of Morgan Stanley Smith Barney

Chairman Ed Warren opened the meeting at 1:10 p.m. with the first item on agenda to review Minutes of October 12, 2009 regular meeting and November 20, 2009 special meeting.

Mr. Ed Warren asked about the Committee membership requirements as discussed in the October 12, 2009 meeting. Ms. Sylvia Bermudez reported that it was referred to City Attorney, Mr. Alan Peake, and Mrs. Phyllis Kraft stated that they have not heard from the attorney regarding the requirements.

There were no other questions and a motion was made by Mr. Don Campbell and seconded by Mr. Gary Langston to approve the Minutes for the October 12, 2009 meeting. *Motion passed unanimously.*

Mr. Prien noted reference to the listing of the individual pensioners and beneficiaries who are also reported in the annual actuarial valuation. Mr. Langston stated that he does not see any problem with confidentiality of showing the names.

Next, the Committee members reviewed the November 20, 2009 meeting Minutes. Mr. Ed Warren observed a typo to be corrected.

A motion was made by Mr. Gary Langston and seconded by Mr. Don Campbell to approve the Minutes of November 20, 2009 meeting with a typo correction as noted. *Motion passed unanimously.*

Chairman Warren opened the subject to review the financial transactions of the pension trust fund for the periods ended December 31, 2009 and March 31, 2010.

Mr. Prien proceeded to present the quarterly report and reviewed with the Committee the financial transactions and experience of the second and third quarter of the current fiscal year. He noted Table 1 of the report issued April 16, 2010 for the nine months July 1, 2009 through March 31, 2010 shows deposits of contributions totaling approximately \$854,000 which was almost adequate for withdrawals of about \$903,000. The inflow almost covered the outflow without a need to convert assets to cash while the economy is in a recession.

He observed that Table 4 shows an annualized net rate of investment return of 19.67% reflecting recovery from a -20.75% adverse experience shown on page 18 for the fiscal year ended June 30, 2009.

Mr. Prien noted that the June 30, 2009 actuarial valuation report shows on page 21 an average annual investment net return of 7.8% in recent 5 fiscal years preceding the recession which is about the same as the long term assumption of 7.75% applied in the actuarial valuation to determine the City's contribution requirement. However using 10 years time period the net return shown in the valuation report was only 3.3% with 4 of the 10 years reflecting negative return.

The investment policy of the \$18.1 million pension trust delineated in Table 3 is given on page 14 that was established in 1996. Equity investments represent 59.2% of the pension trust which is below the investment policy of 70% while cash equivalents represent 14.9% of the pension trust well above the investment policy of 5%.

After some questions and answers regarding the financial transactions, Mr. Ed Warren brought up the Interest Assumption Rate topic; he observed that the interest assumption of 7.75% used in actuarial valuation appears unlikely to be achieved for the pension trust fund in the future and suggested that the Committee should recommend the City to lower the actual Interest Assumption Rate from 7.75% to 7.50%. After a brief discussion Mr. Gary Langston made the motion to accept the financial transactions report and for consideration by City Council to change the interest assumption from 7.75% to 7.50% to be applied with the current valuation as of June 30, 2010. Motion seconded by Mr. Don Campbell and *unanimously carried*.

[Ms. Dale Flynn left the meeting at 1:45 p.m.]

At 1:50 p.m. Mr. Robert Abraham of Stifel Nicolaus was then invited to join the meeting to present his investment performance report.

Mr. Ed Warren commented that 28% of total funds is in international investments with negative returns which tends to pull down the total return.

Mr. Abraham stated that last year he recommended international exposure. With the current recommendation, he would reduce the international proportion. He referred to page 11 of his report with the following Recommended Action:

1. Replace Alliance Bernstein Large Core Portfolio with Atalanta Sosnoff Large Cap Equity Portfolio.
2. Add \$300,000 to the Kayne Anderson Small Cap Value Portfolio. This would increase the small cap allocation to 7.5% from 5.1%.
3. Invest \$500,000 in a second large cap growth manager, Wedgewood Partners, for added diversification. This would increase the large cap growth allocation to 24.3% from 21.2% and it would bring the total large cap (growth and value) allocation to 46.3%.

He further explained in detail of each item and refers to the professional background of the new managers. With the additional \$800,000 invested in equity portfolios, the city's overall equity allocation would increase from 59.2% to approximately 64%.

[Ms. Niecia Barton left the meeting at 2:15 p.m.]

Mr. Prien asked about international exposure and in which countries most of the investments were made. Mr. Abraham answered that we should have international exposure because there are good parts of the world for investment and Europe investment is cheap at the moment. The debts of Europe and Japan are in fact not as bad as U.S.

Mr. Ed Warren thanked Mr. Abraham for his presentation and stated that the Committee will defer their decisions later at the meeting following another investment manager's presentation.

[Mr. Abraham left the meeting at 2:35 p.m.]

[Ms. Sylvia Bermudez left the meeting at 2:35 p.m.]

Following a short recess (10 minutes), Mr. David Couch of Buena Vista Group of Morgan Stanley Smith Barney made his presentation of investment performance.

He opened the discussion by stating that he had underperformed the market for the trust fund.

He commented that he had not attended this Committee meeting to review investments previously. He observed Mr. Abraham's report and presentation. In the future, he will send his report tailored in similar format and send reports by e-mail to Mr. Villarreal and Ms. Hsu a few days before the meeting.

He reported a return of 6.71% last year net of fees, and 11% as of the last month, compared to S&P index of 15%. He said half of his portfolio is in stocks where he tries to be conservative and not to lose money. He was not fully invested in March so he underperformed.

Mr. Ed Warren asked if Mr. Couch is still working with City Manager on the investment decisions. Mr. Couch said yes. One of his accounts is in Pacific Life Annuity Contract and Reverse Convertibles (RevCon's). He explained how the RevCon fixed income investment work. He said he agrees with Mr. Abraham that Europe is cheap.

Mr. Warren asked him what are you going to do for us?

Mr. Couch said he will match the interest assumption of the pension plan (7.75%). He named few stocks in consumer staples which he would consider at the current time.

Mr. Don Campbell asked about investments in oil companies.

Mr. Couch said he can go one of the two ways: (1) put the cash into market immediately, or (2) put cash into market in small increments as he determines to be the best timing.

[Mr. Couch and Mr. Gregorio left the meeting at 3:20 p.m.]

Chairman Warren then returned to the Recommend Action presented earlier by Mr. Abraham.

After confirming that the additional cash for investment is from Mr. Abraham's current account, a motion was made by Mr. Don Campbell and seconded by Mr. Gary Langston to approve the Recommend Action as presented by Mr. Abraham. *Motion passed unanimously.*

Next, Chairman Warren requested Mr. Prien to present his report on post-retirement medical benefits.

Mr. Prien pointed to Table 4 of a funding of \$232,129 with a medical trend factor of 4%. The City may fund this or at least is required under GASB 43 & 45 to report in a footnote of this liability in its June 30, 2010 financial statement. He continued to discuss the alternatives on funding.

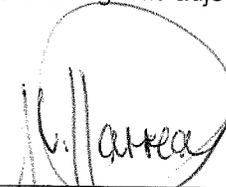
Mr. Warren said it is City's decision on funding and the Committee has no suggestion at this point. Ms. Phyllis Kraft pointed out that one of the participants listed in Table 1, namely, Frank Sadler, is a safety member.

Chairman Warren then proceeded to the next subject of plan document and summary plan description.

The Committee members said that staff needs to work on Committee membership requirements in order to resolve this subject. They agree that the two elected members of employee group representatives may not require residency. Also there should be a requirement of not missing three consecutive regular or special meetings of the Committee and if they do, they are automatically gone. The position vacated by the Safety member should be replaced by an elected representative from the Community Correctional Facility.

ADJOURNMENT

There being no further business, by motion passed the meeting was adjourned at 3.55 p.m.



Javier E. Villarreal,
Recording Secretary