

MINUTES

CITY OF DELANO PENSION COMMITTEE – REGULAR MEETING February 4, 2013

CALL TO ORDER

Chairman Warren called the meeting to order at 2:03 p.m. in the City Hall Council Chambers, 1015 – 11th Avenue.

ROLL CALL

Committee Members present: Ed Warren, Don Campbell, and Gerald Gruver.
Committee Members absent: Gary Langston, and Lidia Albiar.

OFFICIALS PRESENT

Finance Director Rios, City Clerk Kraft, Assistant Finance Director Bermudez, Recording Secretary Villarreal, Barthus J. Prien and Tiao-Tiao Hsu from Prien Associates.

CONSENT AGENDA

- 1) Minutes of Regular Pension Committee meeting of November 5, 2012
- 2) Minutes of Special Pension Committee meeting of November 19, 2012

Mr. Warren asked about the paragraph related to the payment of Mr. Salem. It was clarified that the contributions for Mr. Salem payments have been included on the regular contributions that the City make every two weeks, base on the actuarial calculations.

Moved by Committee member Campbell, seconded by Committee member Gruver and *unanimously carried* to accept the Minutes of the Pension Committee meetings of November 5, 2012, and November 19, 2012.

REGULAR AGENDA

- 3) Review of financial transactions for July 1, 2012 through December 31, 2012.

Mr. Prien reviewed the financial transaction from July 1, 2012 through December 31, 2012. He started mentioned that the annualized net return for investments for the 6 months period it was equal to 10.23%. He stated that the contributions compare with prior year, went up by 5.8%. He said that the payroll went down in about 21%, and also mentioned the reduction of the interest assumption from 7.75% to 7.50%. Mr. Prien talked about table 15, which is related to the net annual rate of investment return of the pension fund for the last 16 years.

Mr. Prien explained table 1 which shows withdrawals and contributions. The total withdrawals were \$1,011,934.89, and the contributions were \$975,834.32, which includes \$100,000 that has been transferred from MorganStanley BarneySmith, leaving a balance at the end of December 2012 of \$102,161.80.

Mr. Prien brought up that the City's information is not included, but in the report shows that the Pension Plan owns close to \$100,000 to the City.

Mr. Ed Warren suggested that the bills for the attorney (Hansen Bridget) should be prorating between all the funds. Also, Mr. Gruver asked if all the expenses that the Pension Plan incurred are cover with the contributions. The finance director, Mrs. Rosa Rios said that she will look into before asking the Committee for money to be transferred. It will be an agenda item on a next meeting.

At this point a motion was made by Mr. Gerald Gruver and seconded by Mr. Don Campbell to accept the financial transactions as presented. *Motion passed unanimously.*

The finance director, Mrs. Rosa Rios asked the Committee to consider agenda item number 6 before the other ones. Motion accepted.

6) Presentation and acceptance of the City of Delano Employee Pension Plan Financial Statements, for the Fiscal Year ended June 30, 2012

Mrs. Rosa Rios presented the City of Delano Employee Pension Plan Financial Statements, for the Fiscal Year ended June 30, 2012, which was audited by Mayer Hoffman McCann, independent CPA firm. She said that noting was noted on their audit. At this point, she asked the Committee to accept the report and recommend presenting to the Council.

Mr. Prien questioned about the total of the expenses and Mrs. Hsu asked about the composition of those expenses.

Mr. Campbell asked about the age showing on page 11 of the report. It shows 60 years instead of 62. Mrs. Rosa Rios said she will make sure that the correct information will be on the report.

At this point, Mr. Campbell made a motion to ask the auditors make the necessary corrections and present the corrected one to the Committee on the next meeting; it was seconded by Mr. Gruver. *Motion passed unanimously.*

4) Presentation and discussion of pension fund investments by Mr. Robert Abraham of Stifel Nicolaus.

Mr. Bob Abraham started his presentation at 2:50. He beginning saying that year 2012 was an interesting year. Despite all the problems, the market performed really well showing good returns.

He explained in detail each individual account that the Pension Plan has with Stifel Nicolaus. There were some questions, which were answered by Mr. Abraham. After he explained how the different managers were performing he made the following recommendations:

1. Move the assets invested with NWQ International Value into Allianz Global/NFJ International Value. NWQ has underperformed its peers ever since the management team left in 2011.

2. Move the assets invested in the Kayne Anderson Small Cap Value portfolio into the Kayne Anderson Small Cap Core portfolio that has a growth component in addition to value. The core portfolio has outperformed the value portfolio by more than 2% in annual return for the one, three, and five year periods.
3. Shift \$350,000 from Atalanta Sosnoff Large Cap Equity and \$350,000 from Eaton Vance Large Cap Value to Confluence Investment Management Large Cap Value. This will add a third large cap value manager who has outperformed our managers for the past one, three and five year periods.
4. Shift \$500,000 from Anchor Mid Cap Value to Madison Investment Advisors Mid Cap Core to add a mid cap growth component to the City's portfolio. The Madison Core Portfolio has outperformed Anchor each of the last four years.

Mr. Abraham finished his presentation around 3:50 p.m.

Mr. Warren thanked Mr. Abraham for his presentation and suggested that the Committee discuss and decide on the recommendation at the end of the meeting. Motion accepted.

5) Presentation by Mr. Rupert Gregorio of MorganStanley SmithBarney.

Mr. Rupert Gregorio started saying that Mr. David Couch is no longer with Morgan Stanley, then he presented Mr. Lance Horton in order to begin their presentation.

Mr. Horton started his presentation with his background and then went to explain the performance of the portfolio.

Mr. Horton explained how the market works before going in detail about their proposal. He started the explanation of the Consulting Group's four-step investment process, which are:

1. Set Investment Objectives.
2. Define Investment Strategy.
3. Evaluate and Select Investment Products, and
4. Ongoing Review Process

Mr. Horton said that if their proposal is accept from now on there will be different managers depending on the asset allocation, which will be based on the investment objectives of the City of Delano Employee Pension Plan.

He explained about standard deviation and other topics. There were questions, which were answered by Mr. Horton. Mr. Warren asked basically which is the real difference between what we have right now and what they are proposing. Mr. Horton said that the difference is that the investment selections will not be made by himself or Rupert or as used to be by Mr. Couch; it was successful, it works but he thinks right now they can be in a better position if they are out of the process of doing the investments and have managers to make those decisions.

He also mentioned that he would like to have access to other asset classes that right now they can't because of the type of management.

Mr. Horton finished his presentation around 4:53 p.m.

Mr. Warren thanked him and Rupert Gregorio for coming to this meeting.

The Committee went back to Mr. Abraham's proposition and Committee member Campbell made a motion to accept Mr. Abraham recommendation as follows:

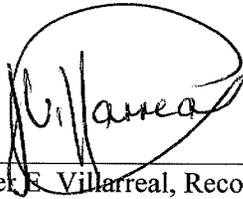
1. The Committee accepted this recommendation, which move the assets invested with NWQ International Value into Allianz Global/NFJ International Value.
2. This recommendation, also, was accepted, which move the assets invested in the Kayne Anderson Small Cap Value portfolio into the Kayne Anderson Small Cap Core portfolio.
3. The Committee accepted the recommendation changing the amount from \$350,000 to \$250,000. Shift \$250,000 from Atalanta Sosnoff Large Cap Equity and \$250,000 from Eaton Vance Large Cap Value to Confluence Investment Management Large Cap Value.
4. The Committee accepted this recommendation but with changes. Shift \$1,000,000 from Anchor Mid Cap Value; \$500,000 to Madison Investment Advisors Mid Cap Core and \$500,000 to Wedgewood Partners Large Cap Growth

It was seconded by Committee member Gruver. *Motion passed unanimously.*

A motion was made by Mr. Gerald Gruver and seconded by Don Campbell to accept Mr. Horton and Rupert Gregorio proposal. *Motion passed unanimously.*

ADJOURNMENT

Moved by Committee member Campbell, seconded by Committee member Gruver, and unanimously carried to adjourn the meeting at 5:01 p.m.



Javier E. Villarreal, Recording Secretary