

MINUTES

CITY OF DELANO PENSION COMMITTEE – REGULAR MEETING May 4, 2015

CALL TO ORDER

Committee member Don Campbell called the meeting to order at 2:02 p.m. in the City Hall Council Chambers, 1015 – 11th Avenue.

ROLL CALL

Committee Members present: Don Campbell, Gerald Gruver, Gary Langston, Abel Moreno and Carlton Lennon.

Committee Member absent: None

OFFICIALS PRESENT

City Manager Maribel Reyna, Finance Director Lara Rios, Assistant Finance Director Bermudez, City Clerk Kraft, Human Resources Director Zamudio, Recording Secretary Villarreal, and Barthus J. Prien and Tiao-Tiao Hsu from Prien Associates.

SWEAR-IN NEW COMMITTEE MEMBERS

City Clerk Phyllis A. Kraft was the responsible to take the oath to Mr. Carlton Lennon and Mr. Abel Moreno as new Committee members of the City of Delano Employee Pension Committee.

Mr. Gary Langston left the meeting at 2:06

ELECTION OF CHAIRMAN AND VICE-CHAIRMAN

Mr. Gerald Gruver nominated Mr. Carlton Lennon to be the new Chairman. It was accepted unanimously. Committee member Gruver also nominated Mr. Abel Moreno for the Vice-Chairman position, which was unanimously accepted.

Having a new Chairman and Vice-Chairman, Mr. Don Campbell passed the gavel to the new Chairman, Mr. Carlton Lennon.

CONSENT AGENDA

- 1) Minutes of Special Pension Committee meeting of February 23, 2015.

Moved by Committee member Campbell, seconded by Committee member Gruver and *unanimously carried* to accept the Minutes of the Special Pension Committee meetings of February 23, 2015.

REGULAR AGENDA

- 2) Presentation of portfolio performance by Mr. Bob Abraham of Stifel Nicoalus; discussion and any action regarding this portfolio.

Mr. Bob Abraham started his presentation at 2:12 p.m. He started explained page 1 which shows the consolidated performance for all the managed accounts from July 2013 through March 2015, which is

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5.5% and compare with the indices, which are S&P 500 (Large Cap), Russell 1000, 2000 (Small Cap) and MSCI EAFE (international).

He explained how the accounts were performed through the years and also he explained the changes on the asset allocation. He also mentioned the percentage of each manager within the portfolio.

He went to analyze each individual manager. He started with the Large Cap Growth, then Large Cap Value, Mid Cap Core, Mid-Cap Value, Small Cap Value and the International Value. He explained each individual account and their performance.

At one point, Committee member Gruver mentioned about the investment on Good Harbor, and Mr. Abraham explained that in this performance review is included the lost that we incurred with Good Harbor account (page 8).

Mr. Lennon asked to Mr. Abraham if he knows the name of the manager at Allianz Global Investors. Mr. Abraham said that at this moment he doesn't have the names of each individual manager but he will get the names for each individual account and give it to the Committee.

Mr. Abraham also mentioned that on February the Pension Plan invested \$594,000.00 in new managers. He explained the reason to invest in Apex, Ziegler and Legg Mason Clearbridge was because these managers got better returns than their benchmarks and he emphasize about the up capture ratio and down capture ratio of these managers.

He mentioned that on page 10 is the investment on the annuity with Genworth Fixed Index Annuity. Chairman Lennon asked about the annuity and Mr. Abraham explained how it works the Fixed Index Annuity.

Mr. Lennon asked Mr. Abraham, how do you determined the risk for the pension plan? How do you come up with the allocation for the pension plan? Mr. Abraham said that the allocation started with something that Morgan Stanley recommended. He didn't look at the risk, he looks at the potential return he will get for the pension plan. Mr. Abraham said that it will be easier doing the way he is asking, if we will have an investment policy stating the risk. He said that it has been discussed about the investment policy but the Committee was comfortable with the investment allocation.

Mr. Moreno asked what kind of authority he has in order to move money from one manager to another or to open or close accounts. Mr. Abraham said he doesn't have any authority to do any transaction at all. He made recommendation to the Pension Committee.

Mr. Lennon asked Mr. Abraham if he is comfortable having 50% of the portfolio in the small, mid and international, he said that at this moment yes, he is. He also asked if he has any consideration with the age of the potential retirees in order to allocate the funds. Mr. Abraham said that this issue is the Actuarial responsibility.

There were comments and more questions made by the Committee members, which were answered by Mr. Abraham.

Mr. Lennon asked if Stifel Nicolaus will help the Committee in order to update the Investment Policy; Mr. Abraham said yes, they will.

Mr. Abraham finished his presentation at 3:46 p.m.

- 3) Presentation of portfolio performance of MorganStanley SmithBarney; discussion and any action regarding this portfolio

The MorganStanley representatives started explain that they invest base on Models. At this moment the City of Delano Employee Pension Plan is on Model 4. They have different models base on the risk that the client decide from 1 to 8.

Mr. Lennon asked if MorganStanley has an Investment Policy that can be provide to the Pension Plan, they said that they don't provide it.

In order to make any recommendation they need to have the Investment Policy, so they can follow the directions that will be in the Investment policy.

Mr. Moreno and Mr. Lennon agreed that the first thing to do is begin to work in develop an investment policy.

Mr. Lennon stated that until the Committee develops an Investment Policy, won't be any changes on the investments hold by MorganStanley SmithBarney.

After a brief discussion and comments a motion was made by Committee member Lennon that the Committee will work to have an investment policy as soon as possible; it was seconded by Committee member Moreno. *Motion carried unanimously.*

- 4) Review of financial transaction for the period July 1, 2014 through March 31, 2015

Mr. Prien reviewed the financial transaction from July 1, 2014 through March 31, 2015. He started with Table 4, which is the Net Investment Return. He mentioned about the MorganStanley return, which was 2.51% annual. At this point there were some discussion about the allocation and that the Committee should enforce this allocation. Looking page 20, it shows that this allocation has not been followed. Mr. Lennon asked who and how they come out with this percentage (70 in equities, 25 in fixed income and 5% cash). Mrs. Hsu said that the Committee is the one that set-up the percentages and it changed over the years. Mr. Lennon also mentioned as an example that if the average of the pension participants is 30 years old, the actual allocation is right, otherwise is not.

There were more comments and a brief discussion about the allocation and the need for an Investment Policy. Also, one of the members mentioned that the Committee needs to look into the investment history of the fund and Mr. Prien said that on page 21 there is the information of the last 18 years, year by year and the average net investment return.

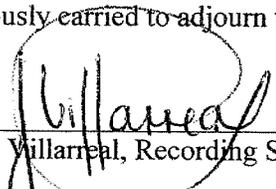
Mr. Lennon asked Mr. Prien what is their role with the Pension Plan, Mrs. Hsu answered that they are the Actuaries and the pension administrators.

Mr. Lennon stated that the Committee needs to be lead to the right direction on how much of risk we should be taking in order to meet our income goals, so everybody will get their money at the time of their retirement, and that should be the purpose of the investment policy so the fund should be 100% funded.

The Committee agreed to have a special meeting in order to discuss the investment policy

ADJOURNMENT

Moved by Committee member Carlton Lennon, seconded by Committee member Abel Moreno, and unanimously carried to adjourn the meeting at 4:56 p.m.



Javier E. Villarreal, Recording Secretary