



Employees Pension Board

Regular Board Meeting Minutes

Tuesday, August 22, 2006

Chairperson Laura Hawley
Vice-Chairperson Art Rowbotham

Chairperson Laura Hawley called the Employees Pension Board to order for a regular meeting, Tuesday, August 22, 2006, 8:30 a.m., in the City Commission Chambers, City Hall, 228 South Massachusetts Avenue, Lakeland, Florida. Present: Chairperson Laura Hawley, Vice-Chairperson Art Rowbotham, Board Members Robert Andrew, Eugene Strickland, Roger Haar, Phil Allen and Ronald Tomlin. Vice-Chairperson Art Rowbotham gave the invocation.

1. Consent Agenda - Consent agenda was unanimously approved.

a. May 23, 2006 Employees Pension Board Minutes

b. Retirement Refunds

NAME	CHECK DATE	REASON	AMOUNT
Alley, Amy N	7/22/2006	TER	\$28,758.20
Baker, Lonnie C	8/5/2006	TER	\$1,107.24
Barfield, Edward L	6/24/2006	TER	\$864.41
Bearden, James L	7/8/2006	TER	\$272.62
Bernier, Sara E	6/24/2006	TER	\$774.23
Callahan, Neil G	5/27/2006	TER	\$3,507.87
Ceriale, Hazel Y	5/27/2006	TER	\$5,269.71
Chruszcz, Richard P	8/5/2006	TER	\$2,925.12
Cooley, Crystal B	6/24/2006	TER	\$12,886.55
Craft, Radiah A	7/8/2006	TER	\$3,932.87
Dausy, Jonathan W	6/24/2006	TER	\$3,004.06
Daw, Israel T	8/5/2006	TER	\$5,590.35
Downs Jr, Roger	6/24/2006	TER	\$15,914.97
Fry, Terry D	6/24/2006	TER	\$20,684.67
Gandy, Brent L	6/24/2006	TER	\$1,717.61
Gary, Daniel M	6/24/2006	TER	\$7,470.14
Holdman, John G	8/5/2006	TER	\$3,853.68
Howell Jr, Ralph D	6/24/2006	DEM	\$7,947.44
Jacobs, Mark D	6/24/2006	TER	\$3,649.02
Lee, Michele D	8/5/2006	TER	\$2,075.69
Lynch, Yvonne M.	7/8/2006	TER	\$235.57
McClain, Beatrice K	8/5/2006	TER	\$3,304.81
Miller, Gregory W	6/24/2006	TER	\$11,615.62
Moran, Patricia J	7/8/2006	TER	\$8,714.72
Neuman, Chad T	7/22/2006	TER	\$13,143.99
Ogden, Barbara D	7/22/2006	TER	\$4,448.43
Piatt, David R	6/10/2006	TER	\$19,092.42
Pritchard, Cristin A	6/24/2006	TER	\$565.92
Robinson Jr, Otis D	7/22/2006	TER	\$1,289.17
Rodman, Joe N	6/10/2006	TER	\$30,783.62
Ruede, Sandra J	5/27/2006	TER	\$21,749.59
Scott, Vanessa V	5/27/2006	TER	\$2,709.49
Troutman, Harvey L	8/5/2006	TER	\$4,268.48
Walker, Gerald F	5/27/2006	TER	\$3,517.43
Wall Jr, Alton L	5/27/2006	TER	\$39,651.17
Wilson, Miriam A	5/27/2006	TER	\$4,455.40
Young, Jinola C	8/5/2006	TER	\$519.84
Total	37		\$302,272.12

c. Retirements

NAME	DOR	AMOUNT	JOB TITLE	CSD
DROP Employee				
Davis, Jennifer E	6/24/2006	\$1,766.86	Account Clerk III	1 /17/1988
Retired				
Arnold, Tony	7/14/2006	\$2,768.21	Plant Welder	7 /7 /1985
Bozeman, James C	5/14/2006	\$1,954.00	Police Officer	3 /12/1990
Landry, Betsy W	7/12/2006	\$1,967.85	Power Plant Technician	2 /16/1986
LeRoy, Robert S	5/13/2006	\$2,207.75	Power Production Foreman	2 /29/1988
West, Richard A	5/20/2006	\$1,280.57	Plumbing Inspector	11/27/1994
Survivor				



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Smith, James D	6/17/2006	\$1,366.02	Chief Engineering Inspector	1 /12/1992
Vested				
Hawthorne, Todd A	2/4/2014	\$1,116.01	Wastewater Plant Supervisor	10/16/1994
Kendall, Earl D	6/19/2016	\$924.35	Warehouse Op Tech II	4 /22/1990
Post, James L	5/11/2013	\$1,644.45	Maintenance Coordinator	2 /25/1990
DROP Retirement Pending Final Pay				
Filmore, Larry H	8/5/2006	Pending	Operations Support Tech IV	3 /19/1973
Gandy, Charles P	8/5/2006	Pending	Control Center Operator	4 /26/1987
Henson, Joseph E	8/19/2006	Pending	Police Lieutenant	8 /18/1986
Retirement Pending Final Pay				
Mellott, Paul	8/6/2006	Pending	Wastewater Plant Operator II	7 /15/1996
Smith, Alvin B	7/9/2010	Pending	Electronics/Relay Technician	5 /16/1993
Walker, Lanny R	8/19/2006	Pending	Chief Building Official	5 /6 /1990
Weiss, Dena M	6/24/2015	Pending	Crime Scene Technician II	6 /17/1996

18 Employee Plan Retirements

2. Consultant Report - George Tarlas

a. Quarterly Report - Mr. George Tarlas of Asset Consulting Group, Inc. (ACG) appeared to give the investment performance review.

- ◆ **Total Fund.** The total fund increased in market value by \$19.7 million to \$474.4 million for the quarter ending March 31, 2006. The total fund generated return of -1.2% in the second quarter, which slightly underperformed the allocation index. The total fund's asset allocation as of second quarter end consisted of 69.5% equity allocation. Fixed income (including cash) represented 30.5% of market value. The current asset allocation is within allowable ranges according to the investment Policy guidelines, which state target allocations to be 65% equity and 35% fixed income with 5% minimum/maximum bands around the allocation targets.

- ◆ **Equity Composite**

The **Intech** large cap growth strategy generated a return of -4.2% vs. the Russell 1000 Growth Index's return of -3.9%, ranking in the 41st percentile for the quarter.

Lord Abbett outperformed the S&P index with a performance over the past quarter by returning -0.1% vs. -1.4% for the index. The portfolio slightly underperformed the index and generated less risk than the benchmark, ranking in the 57th percentile for the quarter.

The **Rice Hall James SMID** portfolio outperformed the blended index comprised of 65% Russell 2000/35% Russell 2500 in the second quarter with a return of -3.2% relative to -4.8% for the benchmark.

The **Martingale** Small Cap Value portfolio underperformed the Russell 2000 Value index in the second quarter relative to the Russell 2000 Value Index.

In the second quarter, **INVESCO** outperformed the MSCI EAFE index with a return of 6% vs. the index's return of 0.9%, ranking in the 14th percentile for the quarter.

- ◆ **Fixed Income**

The **Fidelity** Intermediate Bond Fund slightly outperformed the Lehman Intermediate Gov't/Credit Index in the second quarter by posting returns of 0.4% relative to 0.2% for the index. The portfolio ranked in the 32nd percentile among peers in the intermediate term bond manager universe.

The **Loomis Sayles** portfolio matched the performance of the Lehman Aggregate with a return of -0.1%. The portfolio ranked in the 63rd percentile among core bond managers in the second quarter.

Top performing equity sectors for the quarter were Utilities, Energy and Consumer Staples. Industrials was almost flat with the remaining sectors in negative territory. The Utilities and Energy sectors were the strongest quarterly performers with a 5.83% and a 4.14% return respectively. The weakest quarterly sectors were Information Technology with -9.93% and



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Health Care with -5.07%. Over the past twelve months, Energy came in first with 24.40% return followed by Materials with a 21.15% return. All sectors showed positive returns from a year-on-year perspective with the exception of Health Care.
Total Market Value of the fund is \$468,852,536.00

3. International Growth Manager Presentations

Julius Baer Investment Management

Brigid Flanagan, Director, Institutional Investments, Mid-Western Region, Asset Management Americas (AMA), a business unit of Julius Baer Investment Management, LLC, New York, New York, appeared before the Board to make her presentation. The presentation covered organization and resources, investment philosophy and process, market overview, portfolio performance and fund holdings. Ms. Flanagan began her presentation with a general overview of the company. Julius Baer Investment Management LLC is the US investment subsidiary of the Julius Baer Group, one of the oldest Swiss asset management institutions. As of June, 2006, the Julius Baer Group has a total of \$257 billion in global assets under management. In addition, Julius Baer Investment Management LLC has an asset management total of \$42 billion.

Julius Baer Investments represent a variety of clients in the corporate, public, and healthcare fields, as well as numerous foundations and endowments. With an investment process that focuses on independent thinking, prioritization of relevant information, and applying different strategies for different regions, they apply a bottom up approach for developed markets, a top down approach for emerging markets, and a hybrid approach for Japan.

Fisher Investments

Sean Naughton and Gil Barrett of Fisher Investments, Inc. Woodside, California, appeared before the Board to make their presentation. The presentation covered organization and resources, investment philosophy and process, market overview, portfolio performance and fund holdings. Fisher Investments, Inc. has total assets over \$31 million spread across two principal business units - Fisher Investments Institutional Group (FIIG) and Fisher Investments Private Client Group (FIPCG). These groups serve a global client base of diverse investors including corporate, public and multi-employer pension funds, foundations and endowments, insurance companies, healthcare organizations, governments, and high net worth individuals. Since inception in 1979, the firm has been 100% employee-owned, currently having 3 shareholders and over 45 equity option holders. This ownership structure has allowed the firm to use equity-based compensation to align the interests of its employees with those of its clients. The firm utilizes a top-down investment process based on the analysis of a wide range of economic, political, and sentiment drivers to formulate forecasts and develop portfolio themes. The Fisher Investment managers recommended the Board consider pairing the existing international equity manager, INVESCO, with a complementary international equity manager. The new manager will have a growth bias and would ideally allocate to emerging markets and small cap stocks on an opportunistic basis. Mr. Naughton believes this action would increase portfolio diversification, reduce individual manager risk, and reduce the existing value style bias. The City's current structure has 100% of the funds invested with INVESCO International Equity. The recommended structure would change the percentage invested with INVESCO to 50%, with the remaining 50% to be invested with Fisher Investments.

Board Comments Concerning Presentations

Board Member Gene Strickland asked Consultant Clark how the two investment companies were chosen to make presentations. Consultant Clark said that he and Mr. Tarlas started the review process with 40 to 50 companies who specialize in international investments. They then narrowed it down to the top six or so managers. From these they chose the two companies who had been in business for a long time, and whose long term performance was at the top of the scale. Additionally, they looked at how



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the companies would complement INVESCO. Based upon these criteria, they felt that Julius Baer and Fisher Investments were the best choices.

Mr. Tarlas, with Consultant Clark in agreement, made the following recommendations as to how the City's assets should be allocated:

- 24% Small Cap International Funds
- 21% Large Growth Fund
- 25% Value Fund
- 30% Fixed

Consultant Clark suggested the Board allocate 25 million for the new international fund, pulling 10 million from INVESCO and 15 million from Lord Abbett.

Board Member Hawley expressed her concern about the research side of Fisher Investments, stating they had only approximately five years experience. A discussion ensued based on the opinion that Fisher Investments may be top heavy and not as large as Julius Baer. It was decided that Julius Baer will provide the best long term complement to INVESCO. Board Member Roger Haar made a motion to begin negotiations with Julius Baer Investments. Board Member Art Rowbotham seconded the motion. The motion assed unanimously. Board Member Gene Strickland made a motion to allocate 25 million to Julius Baer Investments. Board Member Roger Haar seconded the motion. The motion passed unanimously.

Consultant Clark commented that he would like to see the 30% in fixed assets moved up to 35%. Board Member Strickland asked why. Board Member Laura Hawley opined that the bond term is the fund's life preserver/safety net. Consultant Clark agreed, adding that the bond term along with the small cap fund saved our Pension a few years ago. Consultant Clark then added that he was comfortable with the fixed fund allocation for another month and would like to discuss the fund again in the September meeting.

4. Administrative Report - Gary Clark

ICMA-IRS Opinion

Consultant Clark explained that ICMA is the record keeper for the City of Lakeland's health reimbursement plan. A feature of the plan states that members are allowed a salary reduction that is irrevocable. This portion goes into each member's health savings plan. Once the member reaches age 40 or retires, he/she can start withdrawing money tax free for reimbursement for health insurance, prescriptions, premiums, etc. Consultant Clark explained that the key part is the employer contributions. In reading the opinion piece, he felt that the IRS was stating that they don't allow what businesses commonly call "employer pickup". In other words, if the employer, the City of Lakeland, is actually technically making the payment, the employee is allowing his salary to be used for that purpose. The issue is that in the past the IRS has allowed these pickups on behalf of the employee as long as it was irrevocable. Consultant Clark stated that he had recently met with an ICMA representative and the representative did not recommend suspending the program. ICMA's lawyers feel the issue will be resolved in a timely fashion. At this time, the City will begin open enrollment for the upcoming year on the 1st of October. Consultant Clark stated that approximately 80 employees are currently enrolled in the program, with assets totaling approximately 1 million dollars. The worst case scenario would be for the IRS to say to cease and desist with the current plan program. Consultant Clark opined that the question is how the term *salary reduction* is interpreted and if the City's interpretation is consistent with the IRS Code. He opined that the City is in compliance. Consultant Clark added that he was providing this information to the Board in the event they wanted to take any action. No action was taken.

Bristol Myers Settlement

Consultant Clark advised the Board that three checks were received as payment in the settlement, however only two were expected. Consultant Clark conferred with the litigation persons in charge of



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the settlement, and they could not ascertain that the City was not entitled to the additional check; therefore, Consultant Clark advised the Board that he saw no reason to send the check back.

Securities Lending Program

Consultant Clark stated that taking part in a securities lending program would give the City an opportunity to make additional money for the pension fund. Consultant Clark explained that securities lending occurs when a sale occurs and there is insufficient stock to cover the sale. Stocks are then borrowed to fill out the order. If the City is a participant, it would be compensated for its participation. While it isn't a lot of money, a few years ago the City was making approximately \$25,000 - \$30,000 a year. In Consultant Clark's viewpoint, it is virtually risk free, he sees no downside to it and is of the opinion that it would add value to the pension fund. The City has a variety of stocks that are prime candidates for lending. Consultant Clark said he had recently spoken to a representative from Salem Trust, who is looking to implement a program such as this. Mr. Tarlas commented that it is a good way to make extra income, and he would be happy to look at the program, the terms, and the City's portfolio and run an analysis for the Board. A motion was made by Board Member Ron Tomlin to allow the City of Lakeland pension plan begin participation in the Security Lending Program. Motion was carried unanimously.

Policy Update - Joint Survivor Options and Divorce Policy

A situation has arisen whereby a retired City employee opted for Option 2 when he completed retirement election paperwork. Since then, he has gotten divorced, and would like to revert back to Option 1. Rowbotham asked what the policy has been. Gary: there is no policy; Annette doesn't remember ever having this problem before. City Attorney Tim McCausland says there should be a policy drafted; broad intent of the ordinance that governs the plan. Gary recommends that divorce should be treated the same as death; election 2, which is no change. Option 3—it reverts to the unreduced amount. Interim Civil Service Director Tommy Hamrick asked Consultant Clark if he saw any loopholes in the options. Consultant Clark answered that it has never happened before.

Retiree Wayne Carreker asked the Board to research the problem. Board Member Art Rowbotham asked about the new practice adopted after 2005 (which is a person can change the benefit options up to two times) He suggested that due to the 185 change brought about by the recent Police negotiations, that the same options be extended to all City employees. Strickland O.K. to changing it. Consultant Clark opined that more research needed to be done and asked that the issue be brought back to the board meeting in September.

Comments from audience

Penney Chappell, president of COLAR, commented that she is concerned about the retirees she represents. She feels the fund is going to fall back 10 years due to Consultant Clark's departure. Penney does not want to see Gary Clark let go. "This has been going on for five months, he won't be here next week. Please make some kind of statement in Gary's behalf as I have done." Board Member Laura Hawley asked what our options are. Consultant Clark commented that he wasn't fond of the idea of extending his contract. He would, however, be willing to work on a voluntary basis until the Board makes a decision. The Board decided to defer discussion until the meeting scheduled for August 23, 2006 with all of the Boards of Trustees representing the three City of Lakeland pension plans.

5. Adjournment – Upon motion, meeting adjourned at 11:30 a.m.