



Employees Pension Board

Regular Board Meeting Minutes

Tuesday, May 23, 2006

Chairperson Laura Hawley
Vice-Chairperson Art Rowbotham

Chairperson Laura Hawley called the Employees Pension Board to order for a regular meeting, Tuesday, May 23, 2006, 8:30 a.m., in the Civil Service Conference Room, Department of Civil Service and Retirement, 500 North Lake Parker Avenue, Lakeland, Florida. Present: Chairperson Laura Hawley, Vice-Chairperson Art Rowbotham, Board Members Robert Andrew, Eugene Strickland, Roger Haar and Ronald Tomlin. Vice-Chairperson Art Rowbotham gave the invocation. Absent: Board Member Phil Allen.

1. Consent Agenda - Consent agenda was unanimously approved.

a. April 25, 2006 Employees Pension Board Minutes

b. Retirement Refunds

NAME	CHECK DATE	REASON	AMOUNT
Cables, Shannon J	5/13/2006	TER	\$14,613.88
Eyman, Richard L	5/13/2006	TER	\$9,735.93
Kinnett, Shawn M	5/13/2006	TER	\$2,509.37
Lewis, Dustin B	4/29/2006	TER	\$1,216.64
Meskimen, Dale A	5/13/2006	TER	\$10,969.53
Nettles, John R	4/29/2006	TER	\$2,157.02
Total	6		\$41,202.37

c. Retirements

NAME	DOR	AMOUNT	JOB TITLE	CSD
DROP Employee				
Bash, Joyce A	4/15/2006	\$1,057.95	Office Associate II	4 /3 /1994
Bell, Donald V	4/29/2006	\$1,678.60	Police Officer	11/5 /1990
* Schofield, Thomas W	4/01/2006	\$1,351.46	Industrial Coatings Foreman	3/25/1990
Retired				
Carroll, Larry E	4/29/2006	\$3,293.15	Mgr Of Construction&Maint	1 /6 /1985
Retirement Pending Final Pay				
Bozeman, James C	5/14/2006	Pending	Police Officer	3 /12/1990
Kendall, Earl D	6/19/2016	Pending	Warehouse Op Tech 11	4/22/1990
LeRoy, Robert S	5/13/2006	Pending	Power Production Foreman	2 /29/1988
Post, James L	5/11/2013	Pending	Maintenance Coordinator	2 /25/1990
West, Richard A	5/20/2006	Pending	Plumbing Inspector	11/27/1994

*Thomas Schofield was previously approved as retired at the April meeting

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 4.3% in the first quarter, which outperformed the allocation index. The total fund's asset allocation as of first quarter end consisted of 70.0% equity allocation. Fixed income (including cash) represented 30% 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.**
 - ◆ During the first quarter, the **INTECH** Institutional Large Cap Growth outperformed the Russell 1000 Growth Index (3.8% vs. 3.1%). This ranked the portfolio in the 40th percentile among their large cap growth peers. INTECH's strategy is unique in that it relies completely on a mathematical process, which is used to identify securities to be brought or sold from the portfolio. Performance is a direct result of this mathematical process.



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- ◆ **Lord Abbett** outperformed the S&P 500 index by 170 basis points in the first quarter by returning 5.9% versus 4.2% for the index. Relative to the S&P Barra Value, the portfolio outperformed the index with returns of 5.9% compared to 5.4% for the index. This strategy ranked in the 31st percentile for the quarter in the large cap value manager universe. Over the past five and ten years the portfolio has outperformed both the S&P 500 and S&P Barra Value indices and has ranked above median over both time periods. Stock selection in the technology and energy sectors benefited performance during the first quarter. Lord Abbett's overweight in the healthcare sector detracted from quarterly performance due to over evaluations in the short term. Long term, Lord Abbett remains confident in their overweight position in healthcare.
- ◆ The **Rice Hall James SMID** portfolio underperformed the blended index comprised of 65% Russell 2000/35% Russell 2500 during the first quarter by returning 8.5% relative to 13.0% for the benchmark. Over the past eight years, the portfolio outperformed the blended benchmark with less volatility. A lack of sector exposure in materials detracted from performance. The portfolio's exposure to technology was a positive for the first quarter but generally the names Rice Hall James selected were not as aggressive as other tech names in the index. Asset Consulting Group visited the Rice Hall James offices in the first quarter. ACG met with Tom McDowell and Thao Buuhoan to discuss the Lakeland portfolio, underperformance, investment philosophy, and the overall organization. Employee turnover is low and the firm will not be changing their strict investment discipline to accommodate the existing low quality, cyclical conditions in small cap.
- ◆ The **Martingale** Small Cap Value portfolio underperformed the Russell 2000 Value in the first quarter but ranked in the 15th percentile among small cap value manager peers. Martingale's quantitative strategy aims to keep sector weightings neutral relative to the Russell 2000 Value. However, during the first quarter, the portfolio did have underweights to financials (mostly banks) and utilities.
- ◆ In the first quarter, **Invesco** slightly underperformed the MSCI EAFE Index by posting returns of 8.9% vs. the index's return of 9.5%. The portfolio ranked in the 56th percentile for the past quarter. Over the past six years, the international equity portfolio has performed well, outperforming the MSCI EAFE by 2.4%. Underweight country allocations to Germany and France detracted from quarterly performance. Stock selection was positive in financials and information technology but lagged in the consumer discretionary sector.
- ◆ **Fixed Income.**
 - ◆ The **Fidelity** Intermediate Bond Fund slightly outperformed the Lehman Intermediate Gov't/Credit Index in the first quarter by posting returns of -0.2% relative to -0.4% for the index. The portfolio ranked in the 67th percentile among peers in the intermediate term bond manager universe. The portfolio's position in asset backed securities (ABS) focusing on home equity and credit card backed issues was a source of outperformance for the quarter. Fidelity's CMO and CMBS positions also helped performance in the quarter as all three weighting in ABS, CMO, and CMBS were out-of-benchmark positions. Lakeland's investment policy statement was updated in the first quarter to reflect the use of hybrid securities in the Fidelity portfolio. Fidelity portfolio management suggested incorporating the use of hybrids in the portfolio as an additional source of yield.
 - ◆ The **Loomis Sayles** portfolio ranked in the top decile among core bond managers during the first quarter as the performance was 6 basis points ahead of the Lehman Aggregate. Loomis Core Plus broke even as the index lost 6 basis points in the quarter. A slightly shorter duration than the index and a sizable position in asset backed securities were the primary contributors to first quarter performance.
- ◆ Chairperson Laura Hawley inquired as to whether the pension fund has an adequate percentage of international exposure. George Tarlas recommended that the target percentage invested in international equities should be at least 10% going forward. This is more reflective of our long term



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view. The median international exposure with other institutional investors is within the 10–15% range.

The City of Lakeland Pension Fund is in line with the median and may even want to reconsider raising this percentage in the future. As a point of information, the Employees' Pension Fund does not have restrictions based on international investments.

- ◆ George Tarlas commented on the somewhat recently added managers, Intech and Martingale. He is pleased with what has been produced from these managers thus far and views these as additive features to the portfolio. Board Member Ron Tomlin asked if a better benchmark has been determined for the identified managers. Gary Clark reported that a benchmark that is adequate is under negotiation, the specifics are being fine tuned.

b. International Growth Equity Manager Search

- ◆ George Tarlas produced and reviewed a report for consideration. Observations included:
 - ◆ As international equities are a relatively inefficient asset class, the median active international (non small cap) manager has demonstrated the ability to add significant value over a passive approach over both the long and shorter terms.
 - ◆ Opportunistic investment in emerging markets and small cap stocks provides additional diversification benefits and potential returns enhancement. This is true within the international portfolio as well as relative to a U.S. equity portfolio. This benefit is primarily the result of small cap and emerging markets being more closely tied to the local (rather than global) markets in which they conduct business.
 - ◆ Active management typically adds value to an international portfolio.
 - ◆ Diversified managers can reduce benchmark relative risk.
 - ◆ Complementary style exposure (growth & value) can help reduce volatility and capture returns in varying market cycles.
 - ◆ Opportunistic investment in emerging markets and small cap stocks provides additional diversification benefits and potential returns enhancement.
- ◆ The Asset Consulting Group recommendation is to allocate to a two manager structure that has greater ability to capture a more broad opportunity set within the international equity markets. The goal of this structure is to maintain a simple portfolio that diversifies by style (growth – value), market cap (small – large cap) and potentially through the opportunistic exposure to emerging markets.
- ◆ The following is a summary of Asset Consulting Groups (ACG) process for selecting an international manager to complement the existing City of Lakeland Employee Pension Plan's portfolio:
 - ◆ In addition to access to top tier managers in which clients are currently invested, ACG utilizes experienced, asset class specific analysts to identify undiscovered managers with unique and promising strategies. Emphasis is placed on the art of evaluating whether a manager is positioned to outperform in the future in addition to the science of analyzing past performance. Emphasis is also placed on gaining an in–depth knowledge of the top managers, rather than gaining a summary amount of knowledge on all managers. ACG conducts a series of meetings with the manager's key investment personnel. The meetings are driven by ACG questions, not simply listening to the manager pitch their strategy. The ultimate goal of the meetings is to reach a level of understanding about the manager on which an informed investment decision can be made. ACG has conducted more than 900 manager meetings in the last 12 months.
 - ◆ **Step One – Defined the Mandate.** Determined that we are looking for investment managers that meet these specific criteria: proven track record; superior investment performance; consistency of people, philosophy, process; an international growth focus that complements the existing value–biased international manager (INVESCO).



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- ◆ **Step Two – Screened Internal and External Databases.** Screened internal and external databases for international managers who met strict criteria of outperforming peer on a variety of metrics.
- ◆ **Step Three – Reviewed Qualifications.** Reviewed both quantitative and qualitative characteristics of each manager. Conducted follow-up conference calls with candidate manager for further clarification and understanding. Identified 18 managers (20 investment strategies) for further consideration.
- ◆ **Step Four – Select Finalists.** Presentation of six candidate firms to the City of Lakeland Employees' Pension Plan. Qualitative and quantitative aspects of each manager will be addressed. The six finalists are: Artisan Partners – Artisan International Growth, Fidelity – International Growth, Fisher – Foreign Equity, Julius Baer – International Equity II, New Star – International Equity, and Wellington – International Growth.
- ◆ **Step Five – Finals Presentation/Manager Selection.** Formally interview finalists; select manager. The two finalists recommended by Asset Consulting Group are Julius Baer and Fisher.
- ◆ Chairperson Laura Hawley inquired on the beta of the managers under consideration. George Tarlas commented that growth managers, on average, can expect to have higher beta. It should be noted, however, that the managers under consideration are not in the higher octane (high beta) category.
- ◆ George Tarlas reported that the two managers recommended by ACG to the Board employ the top down approach, meaning actual regions vs the stocks (companies) are the factor under consideration. Contrarily, Invesco employs a bottom up approach. The two strategies together would provide a complementary mixture.
- ◆ Board Member Roger Haar inquired on the source of reallocation in order to increase the current percentage invested in international equities. George Tarlas reported that the reallocation would occur from a portion of the portfolio which should be rebalanced, at this time, the small cap area would be a logical choice. Board Member Gene Strickland asked how much money specifically should be moved to the manager under consideration. Gary Clark reported \$20M-\$25M can be expected to transfer if the necessary actions take place once the selection process is finalized.
- ◆ Board Member Ron Tomlin requested the fee associated with the recommended managers. It was confirmed that they are both in line with Invesco. Fisher is reported at 75 basis points and Julius Baer is reported at 80 basis points.
- ◆ Board Member Roger Haar proposed a motion to interview the two recommended managers, Julius Baer and Fisher, at the August 22, 2006 meeting. Motion was seconded by Board Member Ron Tomlin. Motion carried. George Tarlas will arrange for the recommended managers to be formally interviewed by the Board on August 22, 2006.

3. Administrative Report – Gary Clark

- a. Return per Dollar of Fee Cost. A chart was presented comparing the fund managers in terms of investment return gained per dollar of fees billed to the plan. The following were reported (Return per \$ Fee): Fidelity Management \$21.74, Loomis Sayles \$27.02, Lord & Abbett \$51.66, Growth Managers \$36.76, Invesco \$32.93, Rice Hall James/Martingale \$38.17.
- b. Funding Status. A chart was provided to board members describing the status of the fund against required funding profile. The current deficit of \$56M was outlined with a benefit increase anticipated after this amount is recovered. Gary Clark pointed out that current taxpayers cannot be taxed to fund a benefit increase.
- c. Letter to Retirees. A final version of the letter to retirees was given to the Board for approval. The letter provided an update on the status of the inability to award a benefit increase to retirees at this time. The letter will be sent to retirees in their next pay statement.



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- d. A summary status of all defined contribution plans under the Board's oversight was provided. The plans identified are 401a plan, 457b plan, OBRA, and the Retirement Health Savings Program. The current value is \$47,396,700.
- e. Ordinances Enacted.
 - ◆ The board was advised on the vesting changes to the 401a program and the allowance of newly hired City employees age 52 or older to opt into the defined contribution 401a plan in lieu of participating in the defined benefit pension plan. The vesting schedule is set at 20% per year to complete full plan vesting upon five years of City of Lakeland service. For those not completing the vesting period, the forfeited sum will return to the City general fund.
 - ◆ Firefighters may now elect to participate in the DROP program or elect the lump-sum option.
- f. Fidelity. Transfer of funds from the separately managed portfolio to the commingled fund will take place on May 30, 2006. Fidelity is in the process of transforming Fidelity Trust into an agency focused strictly on retail customers and creating a unit to be called Pyramis Global Advisors to specialize in institutional investors. This transition will take place on October 1, 2006. Our account will be under the Pyramis structure.

4. Miscellaneous

- ◆ Board Member Roger Haar requested a written copy of the City Manager's feedback received thus far from the stakeholder groups. He wishes, on behalf of the Board members, for those items to be presented for their consideration prior to the upcoming special meeting on June 8 regarding the reorganization of the human resource functions and pension system.

5. Adjournment – Upon motion, meeting adjourned at 10:06 a.m.