

MINUTES
FIREFIGHTERS' RETIREMENT BOARD MEETING
October 26, 2010

A Firefighters' Retirement Board meeting was held at 3:30 p.m., October 26, 2010. Board members in attendance were Keith Dothage, Nick Kenny, Dearld Snider and Jan McCrary. Also attending from the Finance Department were Lori Fleming, Bette Wordelman, and Shirley Carden.

Investment Report

Bette Wordelman handed out the most recent UBS report and a discussion was held regarding its format. Two reports were run by Marc Shegoski, one showing fiscal and calendar year-to-date columns, and the other showing a ten-year column. Bette explained that the meat of the report lies on page 4, where the asset allocation is listed in the upper left corner, the change in portfolio value in the upper right corner, and the performance comparisons in the lower part of the page.

Ms. Wordelman talked to Marc this morning and got clarification on the time weighted and money weighted returns. The money weighted return is the return that is actually used for evaluation of performance of money manager. It takes into consideration the actual investment funds. For example, if there is a large dividend or coupon payment that comes in, it will start booking that as interest earning money as of the date it is invested. Whereas, on the time weighted return it assumes that all of the money is there at the start of the period. Money weighted return is more our actual, precise rate of return given the timing and cash flows.

A discussion was held regarding asset allocations and risk. Ms. Wordelman explained that the S&P500 and Barclay's 50/50 mix are considered to be a valid comparison to ours because we have a 50/50 allocation and the 50/50 mix is comparable to our blend. The 60/40 blend was put on the report because of a suggestion by someone in the past that we should adopt a 60% equity allocation. A comparison can be done of the two during the same time periods by looking at the report. The standard deviation is a measure of risk and when looking at the 60/40 as compared to the 50/50, the standard deviation jumps significantly.

Ms. Fleming explained that there was discussion held at a past joint meeting suggesting that once we get more strategic and have our equity allocation customized, there would be a line on the report of our custom index. She explained that we are not there yet, but eventually this report will have that on it and it will be very helpful to us.

A question was asked about the standard deviation difference between looking at the S&P500 50/50 mix. He commented that our standard deviation is more conservative and asked what we have done to our portfolio to make it that much more conservative. He wanted to know whether it had to do with our cash exposure. Ms. Wordelman explained that was part of it. We have a shorter duration in our mixed income portfolio than the index. She stated that she would guess that on the equity side we are very diversified by using mutual funds. In addition, we are not getting into trend sectors. Our funds are more generic, more conservative, and nothing is highly specialized.

A discussion was held regarding contributions to the fund. Ms. Fleming explained that of the \$45 million, \$33 million came from contributions into the fund. It is not just the contributions for that period. We had our mutual funds added in when we transferred the equity portfolio in July

2010, and the calculating rates of return do not assume that we had \$33 million added in. Ms. Wordelman let the board know that Marc would be available by telephone if anyone has any questions.

A question was asked why our cash account is 13% if the investment policy is 5%. He wanted to know when we were going to invest down to that 5%. A discussion was held regarding whether the policy is 5%, a range of 0-5%, or no more than 5%. Ms. Wordelman stated that there is uncertainty about going to an external manager and we need a transition plan. She stated it is much easier to hand over cash and have a fresh start. No manager wants to take on existing investments and have to work through those to get to where we want to be. She also stated that another issue is resource allocation. Mr. Dothage stated that the policy is black and white and he does not understand why we are not down to 5%. Ms. Wordelman explained that she was not there when the policy was established and that even before the mutual fund was liquidated and dumped into the plan in late July, we were not at our 5%. Ms. Fleming stated that we had been over our cash target for a long time. She stated that it is a very valid question and offered that we want to have some flexibility in order to transition things to a money manager.

Ms. Wordelman asked for some direction in allocation of funds. She stated that we have almost 45% in equities, 31.5% in fix income, and cash sitting here. In order to go 50/50, we need to take cash and put half into equities and half into fixed income. Ms. Wordelman explained that fixed income is an unattractive field and on the equities side we could put our money to work. She stated that the issue is what is being done to move forward. In the last year and one-half we have gone from a RFP to hire an external manager to presentations to educate people to hire an advisor. Ms. Wordelman asked for some direction because the direction has changed and changed and changed.

Mr. _____ stated his belief that the direction is to a manager or advisor because we don't have the resources to take care of this properly and it is not managed the way it should be managed. Ms. Wordelman stated that education is the key and a decision should not just be made.

A lengthy discussion was held regarding the Board's options and Ms. Fleming stated that she does not want to make a recommendation until she knows what the Board is comfortable with. She stated that the recommendation is that we go with external managers and the Board needs to meet monthly and have presentations from all of these managers. She stated, however, that she will not make a recommendation until the Board tells her that is the way it wants to go and feels comfortable that it is worth it. She stated that there are trade-offs.

Mr. Snider stated that he feels there are two options: 1) hiring an external money manager; and 2) having an advisor/consultant who has time to dig into reports on a more regular basis to make sure we have proper asset allocation and make strategic decisions. Mr. Dothage agreed and felt that starting out with a low cost approach would be worth it to see what difference it can make. Ms. Fleming suggested using interim staff in the meantime.

A question was brought up about Marc and his role. Ms. Wordelman explained that Marc is not a money manager or an advisor. He is our custodian and a monitor right now. He has the skills to be more, but SEC rules dictate he cannot be an advisor if he is a monitor. She stated we would have to do a RFP.

Ms. Wordelman asked for feedback regarding what the Board wants to do about presentations going forward. She gave a brief report about the ups and downs of the market and a discussion

was held regarding the state of the economy and the ratings systems of Morningstar and Bloomberg. She also discussed the state of the foreclosure market with Freddie Mac and Fannie Mae and explained that they were guaranteed by the federal government and she felt comfortable continuing to invest in them because we own a more conservative type. She stated that the investment strategy is different than ever before and the bottom line is that things are not as bad as some had feared, but things are not as good either.

Approval of Minutes

Mr. Dothage made the motion to approve the August 24, 2010 minutes. The motion was seconded by Mr. _____ and approved unanimously.

Retiree and DROP Participant Reports

Ms. Fleming explained that the DROP and Retirement Reports look a little different because Ms. Finley's printer had problems. A mention was made of the recent passing of Mark Blakemore. Ms. Fleming gave an update about a recent court case where the court was trying to award survivor's benefits to an ex-spouse. She stated that our position is that legally the court cannot do that and we are fighting it. Ms. Fleming explained that we get notifications sometimes, but there are numerous ways that we use to find out when someone passes away.

Ms. Fleming led a discussion about the contributions and payments from our account. The report shows there was \$4.5 million in contributions and \$4,636,991 in payments. That leaves a deficit of \$90,000, but she explained that the total coming in does not include interest earnings or investment income. Ms. Fleming also stated that this is a planned actuarial event that is going to occur as employees live longer and that it is the natural cycle of a pension plan. The trouble would be if we added new employees and no one retired.

Proposed Changes in Benefits

A discussion was held regarding upcoming changes to the benefit plan. Mr. McCrary stated that the Mayor's Pension Task Force is going to make recommendations of changes and posed the question of whether the Board should wait for that to happen or talk about some changes on our own. Mr. Fleming gave an overview of what needs to happen in order for a benefit change to be made up or down. An actuary has to come in and the change always happens at budget year. Her personal recommendation to the Board is to see what the task force comes up with and hire Mita to do everything all at once, which will be more cost effective. If the task force drags its feet or does not make recommendations on some options, she feels it would be appropriate for pension Boards to say we want this and that. Ms. Fleming informed the Board that she will keep them up to date on what is going on.

Further discussion was held regarding possible changes the task force could make, including raising the retirement age, lowering death benefits, and raising the contribution amount. Ms. Fleming assured the Board that whatever changes occur, it has to go through the meet and confer process and that process starts in May. The ultimate decision is the Council's. Mr. Dothage stated that contact has been made with a pension attorney for some advice as far as what the Council legally can and cannot do.

Mr. Snider asked if the City has fiduciary liability insurance. Ms. Fleming responded that we do and that she would ask our Risk Manager, Sarah Perry, to attend the next meeting and explain to the Board what is covered under officer's and director's insurance coverage.

Next Meeting

The Board scheduled the next quarterly meeting on Tuesday, January 11, 2011, at 3:30 p.m.

Adjournment

There being no further business, the meeting adjourned at 5:32 p.m.