

**BOARD OF TRUSTEES OF THE CITY OF ATLANTA  
GENERAL EMPLOYEES PENSION FUND  
MINUTES OF MEETING**

**JANUARY 5, 2011**

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A meeting of the Board of Trustees of the City of Atlanta General Employees Pension Fund was held on January 5, 2011 in City Hall, Committee Room 1, Atlanta, GA.

**TRUSTEES PRESENT:**

Alfred Berry, Jr.	Aaron Watson	Sherri Dickerson
Jo Ellen Paige	Douglas Strachan	Aretha Sumbry-Powers
Joya De Foor	Yolanda Johnson	Aaron Watson

**TRUSTEES ABSENT:**

John Bell

**OTHERS:**

James Bell and Richard Larimer of GEMGoup; Ray Adams of the Office of Retirement Services; Jerry DeLoach and Kristen Denius of the City of Atlanta Law Department; Sherry Davis of Atlanta Public Schools; Eric Atwater of the Segal Company, Laurel Hill of Wells Fargo Bank, Rod Norman of JP Morgan, and Larry Gray, Bob Hubbard and Jennifer Chrisman of Gray & Company.

Mr. Berry called the meeting to order at 9:30 A.M. There was a quorum.

**SWEARING IN:**

The swearing in of Mr. Berry, Mr. Strachan and Ms. Sumbry-Powers as a result of having been re-elected the Pension Board was determined not to be necessary. The swearing in of Trustees on the agenda was therefore eliminated from the Agenda.

**ELECTION OF CHAIRMAN AND VICE CHAIRMAN:**

**MOTION:** A motion was made and seconded to elect Mr. Alfred Berry, Jr. as Chairman of the General Employees' Pension Board. The motion passed.

**MOTION:** A motion was made and seconded to elect Ms. Aretha Sumbry-Powers as Vice Chairman of the General Employees' Pension Board. The motion passed.

**ADOPTION OF AGENDA:**

A request was made to add to the agenda the receipt of the Indexing Strategy Comparative Analysis prepared by Mr. Ryan Williams. The report was accepted with discussion deferred to the February meeting.

**MOTION:** A motion was made and seconded to adopt the Agenda as amended. The motion passed.

**APPROVAL OF MINUTES:**

**MOTION:** A motion was made and seconded to approve the minutes of the December 1, 2010 Regular Session meeting. The motion passed.

**MOTION:** A motion was made and seconded to approve the minutes of the December 1, 2010 Executive Session meeting. The motion passed.

**GENERAL EMPLOYEES' PENSION FUND PENSION APPLICATIONS:**

**SERVICE PENSION APPLICATIONS**

The Service Pension Applications on the attached spreadsheet were presented to the Board for approval:

**MOTION:** A motion was made and seconded to approve service pension applications Nos. 1-19, as listed on the attached spreadsheet dated December 1, 2010. The motion passed.

**DISABILITY PENSION APPLICATIONS**

The Disability Pension Applications on the attached spreadsheet were presented to the Board with a recommendation for denial based on the opinions of doctors:

Ms. Dickerson raised a question regarding the options available to a person whose pension application was denied, including the effect on the status of their pension. After discussion with ORS representatives and the Law Department, the board directed that the two applications on the agenda be deferred and placed on the February agenda after review of the applications had been completed by the Law Department. In the future, all disability applications brought to the board with a recommendation to deny should be reviewed in advance by the City Law Department.

**MOTION:** A motion was made and seconded to defer the disability pension applications Nos. 1 & 2 as listed on the attached spreadsheet dated December 1, 2010. The motion passed.

### **BENEFICIARY PENSION APPLICATIONS**

The Beneficiary Pension Applications on the attached spreadsheet were presented to the Board for approval:

**MOTION:** A motion was made and seconded to approve beneficiary pension applications Nos. 1 – 5, as listed on the attached spreadsheet dated December 1, 2010. The motion passed.

### **SERVICE PENSION CORRECTIONS**

The Service Pension Corrections on the attached spreadsheet were presented to the Board for approval:

Two corrections to prior pension approvals were presented. Both of the individuals were originally approved under the 1962 amendment but later have decided to elect the 1978/2005 amendment, making monthly payments to make up the difference in benefit amount. Discussion ensued as to whether a person can make such an election after the window of time that had originally been offered had expired. Due to several irregularities in the original process, it has been determined that this option was extended. The City Law Department stated that the corrections had been reviewed and approved.

**MOTION:** A motion was made and seconded to approve corrections in the pension benefit amounts for Nos. 1 - 2 as listed on the attached spreadsheet. Mr. Berry voted NO, and Ms. Sumbry-Powers ABSTAINED. The motion passed

### **APPROVAL OF INVOICES AND CHECK REGISTER:**

The Check Register on the attached spreadsheet was reviewed by the Trustees.

The Administrator reported that check #17527 payable to Mr. Strachan had been approved at the last meeting and had already been issued. Mr. Berry asked who signed the check. Subsequent to meeting, it was reported that in an effort to expedite delivery to Mr. Strachan, Administrator had affixed the facsimile signatures used to issue the monthly pension checks. Both Mr. Berry and Ms. De Foor asked that this process not be used in the future and that all checks issued for the expenses of the Pension fund be brought to the Board meeting for signature.

**MOTION:** A motion was made and seconded to approve six items (Check #'s 17527 – 18620) on the Check Register. The motion passed.

**MOTION:** A motion was made and seconded to approve and additional check payable to Mr. Berry in the amount of \$280.59 for additional conference expenses. The motion passed. Mr. Berry abstained from the vote.

A revised Check Register was presented to the board subsequent to the meeting.

**REVIEW OF FEBRUARY 2010 FINANCIALS:**

The financials for the period ending November 30, 2010 were reviewed.

It was pointed out the figures on the financial statements in the Year-to-Date column were not accurate and did not reflect the correct totals of the previous columns. Ms. De Foor recommended that the financial statements not be accepted and that a corrected version be provided. Subsequent to the meeting, a corrected set of financials for November 30, 2011 were delivered to Mr. Berry and Ms. De Foor.

Mr. Berry noted that the Wachovia Bank statement had been provided in the meeting package as requested. Highlighted on the first page was the credit to the account of \$2,076.38 from the Administrator to reimburse the account for the October NSF charges. There was also a question concerning several entries with the description "Automated Debit". Most had IRS in the first line identifying them as payments made to the IRS for withholding; the others showed GA St Dept of Revenue further in the description, identifying them as payments to the State of Georgia for state withholding.

**LAW DEPARTMENT:**

Ms. Denius reported that the IRS Application for Determination Letter for the GEPP was almost completed, had been reviewed by outside counsel and would be submitted to the IRS by January 31, 2011. She provided copies of the latest draft to board members and asked for their comments or questions by January 14.

The board was informed that a Notice to Interested Parties was required to be sent to all plan participants, retirees and beneficiaries on or before January 21, 2011 and that the Law Department would prepare the Notice and work with the Administrator to have the letter sent.

**MOTION:** A motion was made and seconded to authorize the Law Department to sign the Application for Determination Letter on behalf of the Board. The motion passed.

**Status of Interest Calculations for Corrective Pension Refunds**

The Administrator reported that 435 letters with distribution election forms had been mailed and 151 had been completed and returned. The information such as proof of identification was being verified and to date 71 checks had been mailed. The remaining 80 should be mailed within the week. 46 letters were returned by the Post Office as undeliverable and will need to be added to the list of individuals that will need further research for addresses, duplicate names, and mismatched Social Security numbers.

A lengthy discussion ensued concerning issues such as whether to send second notices to those people who do not return the election form by a certain date, does an expired drivers license

constitute a valid identification, what constitutes a good faith effort to locate individuals for whom no valid address exists, and what standards of compliance will the IRS have in the delivery of the refund checks.

A consensus was reached to give those participants who had received a letter and election form until a specific date to return the form; if not received by that date then the check should be mailed.

**MOTION:** A motion was made and seconded that all recipients who were mailed an election form and have not returned it by January 15<sup>th</sup> should be mailed their check with the required tax withholding applied. The motion passed.

In response to a prior question, Mr. DeLoach reported that a board member may participate in meetings by telephone but that their attendance by telephone would not be counted toward reaching a quorum and that they could not vote.

### **INVESTMENT CONSULTANT REPORT:**

#### Flash Report – November 30, 2010

Mr. Gray reported that performance for the month of November was .56% and 11.88% for the one year period. He also noted that the plan's composite Large Cap performance for the one year period was 12.47% with all managers in this space outperforming the S&P 500 benchmark.

For the same period, the other equity managers in Mid Cap and Small Cap also outperformed their respective benchmarks with returns of 23.65% and 27.33%.

The Fixed Income portion of the portfolio also performed well in the one year period with a 6.15% return vs. the benchmark of 6.02%. A word of caution was noted, however, that the interest rates are expected to rise and can be expected to negatively impact the value of this portion of the portfolio. Mr. Gray requested dates that board members could spend a day with the plan's fixed income managers to discuss strategies to prepare for the challenges that he believes the bond portfolio will face in the coming year.

#### Investment Policy Statement

Mr. Hubbard led a discussion reviewing the draft of the Investment Policy Statement that had been distributed previously. Ms. De Foor suggested changes to a "prudent investor" standard, the incorporation of the Georgia State Code requirements in the Policy Statement and the addition of a reference to managing risk in the goal of exceeding the benchmark. Mr. Strachan, Mr. Watson and Ms. De Foor posed questions concerning the manager objective of exceeding the benchmark to clarify if the definition was net of fees.

Mr. Gray confirmed that the objective was net of fees and that part of the monitoring and manager oversight that Gray & Company provide includes risk assessments of the portfolio and adherence to stated policy guidelines.

It was recommended that the final draft of the Policy eliminate Section IV in favor of incorporating the pertinent language of the Georgia State Code in its entirety by reference. This would ensure that the Policy remains in compliance with the Code as it may be changed from time to time.

A discussion ensued on the merits of establishing an investment subcommittee. Ms. De Foor asked if there were recommended qualifications for individuals to sit on such a committee. Mr. Gray stated that Georgia had no guidelines but that other states he was familiar with did.

**MOTION:** A motion was made and seconded to explore the formation of an Investment Committee of the board to function as a subcommittee on investment matters. The motion passed.

Mr. Berry inquired about the status of the minority owned broker preference program. Gray & Company reported that the program is functioning and is monitored regularly. Mr. Gray commented that in the pending rebalancing plan, the estimate is that in excess of 35% of the trades would be directed through the GEPP's approved minority-owned brokers.

#### Manager Fee Schedules

At the last meeting, the board suggested that Gray & Company seek fee reductions from the existing managers. Mr. Hubbard reviewed the results of that effort as follows:

JP Morgan and Mesirow had agreed to and implemented fee reductions during 2010, Mesirow in conjunction with the addition of additional assets to manage in the Police and Fire plans. Earnest Partners agreed to a 5 bp reduction on the first tier of their fee schedule, resulting in a \$5000 savings. Ceredex committed to a 13% reduction, accounting for approximately \$8 – 10,000 savings. New Amsterdam reduced the basis points charge on their highest tier which will have no effect unless the portfolio grows. Both Union Heritage and Globalt stated they would be willing to negotiate.

Mr. Hubbard explained that many of the managers have Most Favored Nation clauses in their contracts that require them to lower fees for all similar clients if they agree to a fee reduction for any of their clients. Many of the managers stated that the GEPP account already benefits from their best fee schedule and discounts are already being granted.

Mr. Watson made the point that a discussion of fees without consideration of the performance being delivered would be an incomplete exercise. Mr. Gray quickly reviewed several of the managers' performance histories to help put the fees into context.

Mr. Strachan stated that the report on the Comparison of Historical Returns versus Passively Managed Index Funds performed by Georgia State University has just been received. The report suggests that a passive strategy over the past 10 years has outperformed the actively managed GEPP portfolio by 83 basis points annually and would have resulted in additional asset growth to the GEPP of \$72 million over that time.

Mr. Gray welcomed the opportunity to examine the report and analyze the assumptions, type of index strategies employed, and the rebalancing assumptions to better understand the conclusions. He stated that he and Gray & Company were supporters of indexing in certain circumstances and looks forward to a full discussion at the next meeting.

## Portfolio Rebalancing Recommendations

Gray & Company again presented their recommendations for rebalancing the portfolio consistent with the Target Allocations approved at the previous meeting. The initial discussion focused on the estimate of transition costs to move the Wellington account balance to Madison and Ceredex. Gray reported that approximately 14% of the portfolio could be transferred in kind and another 23% could be crossed with other clients going through rebalancing. The estimated cost of selling and buying the remainder was \$93,000. The rest of the portfolio rebalancing ex-Wellington would incur another \$108,000.

Mr. Strachan asked about using a Vanguard Index Fund. The transition costs might actually be higher but the management fees would be substantially lower going forward. The management fees for Madison and Ceredex on the Wellington assets that would be transferred to them were estimated to be 55 – 60 bps or \$625,000 annually. An index fund would be much lower.

Mr. Strachan asked if the implementation of the rebalancing plan could be delayed until the Comparison Report can be discussed. A discussion ensued on the point of order relating to a duly approved motion passed at the previous meeting being reconsidered. The Law Department opined that reconsideration of a motion previously approved by the board may be done only at the same meeting in which the original action was taken, or at a Special Meeting of the board. Mr. Strachan made the point that his objective was to try to reduce fees and to save on transition costs, at least until the Comparison Report can be evaluated. Mr. Watson commented that the board should not take low fees and low performance and it was difficult to have a fee discussion out of context with performance against benchmarks.

Mr. Gray pointed out the opportunity costs of deferring the rebalancing implementation. The Fund had experienced an opportunity loss of approximately \$6 million in November and a likely higher amount in December as a result of not decreasing the allocation to fixed income in favor increasing the allocation to equities that is part of the rebalancing plan. He also pointed out that a decision to invest in an index strategy for a temporary period was followed by a decision to move forward with the original rebalancing recommendation, transition costs would be incurred on both of these transactions.

After considerable discussion, a consensus was reached to proceed with the rebalancing plan approved at the December meeting and to discuss the Comparison Report and any resulting investment alternatives at the February meeting.

Mr. Berry reminded the Investment Consultant that Ms. De Foor required considerable supporting information and clarification on the direction letters and that would need to be delivered in a timely manner to her satisfaction for the rebalancing to move forward.

Mr. Berry discussed the board policy goal of using minority owned and Georgia brokers to implement the GEPP securities transaction business where possible with a goal of 35% participation.

**MOTION:** A motion was made and seconded that Gray & Company prepare and send a letter to all GEPP investment managers informing them of the board policy to encourage participation by

minority owned and Georgia brokers to handle security transactions with a goal of 35%. The motion passed.

### **OLD BUSINESS:**

#### Selection of Actuary Firm:

The Mayor's Atlanta Pension Panel had made decisions to hire various professional firms to provide advice and guidance to the Panel. Segal was engaged as the actuary, Jackson Spaulding as communication consultant, Troutman Sanders as legal counsel, and Deloitte for accounting and financial services.

Mr. Strachan asked if the board could get notice of future meetings of the Atlanta Pension Panel. Mr. Berry asked the Administrator to write a letter to Mr. Mellott, head of the Panel, requesting notice of meetings be sent to board members.

Now that a decision had been made by the Atlanta Pension Panel on its choice of actuary, Mr. Berry asked if the action on the board decision to select an actuary firm should move forward. The board asked Gray & Company to re-send the summaries of proposals from the four firms – Segal, Southern Actuaries, AON and Buck – to the board to review and take action at the next meeting.

#### Annual Pension Statement – Update

The Administrator reported that approximately 650 remain that will require more research in order to complete. These are being worked on in collaboration with ORS and will be mailed in batches as soon as the data can be verified for accuracy. The data reconciliation project is manual and time-consuming and will take additional time to complete.

### **NEW BUSINESS:**

#### Education and Training

The need for education and training on investments and the money management and asset allocation process was discussed. Mr. Gray suggested both a full day session for those that could devote the time and individual sessions with board members who would prefer that approach.

#### COLA Adjustment Letter – 2011

The COLA adjustment letter for 2011 dated January 6<sup>th</sup> was reviewed.

**MOTION:** A motion was made to approve the 2011 COLA adjustment letter to be sent to all retirees and beneficiaries. The motion passed.

Mr. Strachan requested that Gray & Company provide a list of recommended educational conferences for board members to consider.

The question of entertaining proposals from firms to provide securities monitoring & governance services was discussed. The consensus was to ask Gray & Company to prepare an overview presentation and lead a discussion at the March meeting.



Mr. Strachan reported that he has been hearing concerns about reports in the media quoting the Mayor and others on the work of the Atlanta Pension Panel and the implications for the future health of the Fund. He suggested that the board try to anticipate some of the questions and options that the Panel is considering by looking at possible solutions to the GEPP funding problems, such as the impact of increasing the personal contributions by participants.

**MOTION:** Ask Segal to perform an analysis of the impact on the GEPP funding status of incremental 1% increases in participants' personal employee contributions up to a maximum of 15%. The motion passed.

There being no further business to discuss, the meeting was adjourned at 12:50 P.M.

Respectfully submitted:

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Alfred Berry, Jr. Chairman

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Joya C. De Foor, CFO & Secretary