

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

April 6, 2011

A meeting of the Board of Trustees of the City of Atlanta General Employees Pension Fund was held on April 6, 2011 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Alfred Berry, Jr.
Jo Ellen Paige
John Bell

Aaron Watson
Douglas Strachan
Joya De Foor

Sherri Dickerson

TRUSTEES ABSENT:

Yolanda Johnson
Aretha Sumbry-Powers

OTHERS:

Richard Larimer of GEMGroup; Ray Adams of the Office of Retirement Services; Kristen Denius of the City of Atlanta Law Department;; Eric Atwater of the Segal Company and Larry Gray and Bob Hubbard of Gray & Company.

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

ADOPTION OF AGENDA:

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

APPROVAL OF MINUTES:

Several edits to the March 2, 2011 meeting minutes were requested: 1) in the report on the Corrective Interest Refund project, the numbers need to be reconciled with the updated spreadsheet provided; 2) the classification and department description for #12 on the pension approval spreadsheet need to be reversed, and 3) Mr. Watson is shown as both present and absent (he was present). Subsequent to the meeting, these edits were made.

MOTION: A motion was made and seconded to approve the minutes of the March 2, 2011 meeting, as amended. 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. 1-13, as listed on the attached spreadsheet dated April 6, 2011. 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 No. 1 – 5 on the attached spreadsheet dated April 6, 2011. The motion passed.

APPROVAL OF INVOICES AND CHECK REGISTER:

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

Mr. Strachan asked about the check for the City of Atlanta Administrative costs. This represents the monthly invoice from the ORS for expenses incurred in the administration of the Pension plan.

MOTION: A motion was made and seconded to approve seven items on the Check Register totaling \$293,623.92. The motion passed.

REVIEW OF FEBRUARY 2010 FINANCIALS:

The financials for the period ending February 28, 2011 were reviewed. Mr. Berry asked if Ms. De Foor had responded to the email sent to her asking for her review of the past two months of financials. Mr. Larimer stated that Ms. De Foor had not yet responded.

At this point, Ms. De Foor joined the meeting. She commented that she did not feel comfortable with the format in which the financials were being presented. She would prefer to see more detail and supporting information. She commented that perhaps the board could obtain some examples of other pension plan financials that were considered to be “best practice” in terms of presentation.

Mr. Strachan asked what was missing from the financials. Ms. De Foor responded that it was not so much that there were things missing as not being able to validate what is being presented.

Mr. Larimer pointed out that in addition to the financials that were presented to the Board, each month the Administrator was supplying to the Finance and Accounting staff a check register, bank account reconciliation, a pension check register and a list of GL entries as back up to the financials.

Ms. De Foor offered and the board agreed to have the Director of Pensions, Ms. Sneed, work with the Administrator to review all the financial information currently being provided to the Finance Department and determine its adequacy in enabling validation of the financial statements as presented to the board and a comfort level by the Chief Financial Officer.

LAW DEPARTMENT:

Status of Corrective Interest Refunds

The Administrator reported that 376 of the 532 checks that should be mailed (excluding those with negative balances and zero balances) had been mailed (71%); 156 remain to be mailed. The total value of the undelivered refund checks is \$325,575. The remaining checks are individuals whose initial letters and/or checks were returned as undeliverable by the US Post Office or for whom there is no address available. Since the date of the report, approximately 40 additional address corrections and 10 social security number corrections have been provided by the City. If these corrections prove to be accurate, the number of checks remaining will be about 100.

MOTION: A motion was made and seconded to direct the Law Department and GEMGroup to work out a legally appropriate process to deposit the remaining funds with the State of Georgia as unclaimed property and to advertise the process to inquire and claim the refunds on the City and GEPP Website. The motion passed.

IRS Requirement on Mailing of Notice to Interested Parties

Following up on Mr. Berry's request from the last meeting, Ms. Denius furnished to the Board the IRS regulations that required that the Notice to Interested Parties concerning the GEPP's filing for a Determination Letter be mailed to all participants, both actives and retirees. Ms. Denius explained that "Interested Parties" was a defined term in the regulation and the definition encompasses all participants.

Change of Interest Rate Credit on Contributions

Following up on the board's request from the last meeting, Ms. Denius confirmed that the amount of interest accrued and credited to participants on their contributions to the Plan falls under the purview and discretion of the board and therefore can be changed.

Mr. Strachan asked the Administrator to provide data on the amount of interest paid as a part of refunds issued from the Plan. Mr. Larimer agreed to try to put together the information for the previous two or three years and send it to the Board to provide an idea of the amount that could be saved if the interest accrual rate were reduced from 5% to 1%.

MOTION: A motion was made and seconded to ask the Administrator to gather information on the amount of interest paid on refunds over the past several years and analyze the impact on the Plan of reducing the accrual rate from 5% to 1%. The motion passed.

Mr. Berry asked Ms. Denius to comment on the case of a recent retiree whose pension application had been approved by the board at the March meeting with an effective date of July 2010. The retiree now contends that his effective date should be May 2009, his last date of employment. Ms. Denius opined that the plan defines the effective date of a participant's retirement as being the date that a completed application for retirement is submitted. If a participant believes an error has been made in a pension award approval and has information and documentation to support such a claim, the participant has the right to come before the board to appeal the decision.

The participant, who was in the audience, stated that he would attend the next board meeting to argue his case. He also asked if he should not cash the first pension check that he has already received. A discussion ensued among board members. While the discussion was inclusive and neither the board nor the City Law Department would offer a firm opinion, Mr. John Bell made the case that the eventual outcome of the participant's appeal would result in the plan owing the participant the amount that he had received or more than amount already received. An adjustment could be made after the appeal outcome, if necessary.

Mr. Strachan raised a question concerning a request that he had received from the AFSCME representative to attend a meeting to answer questions about the various proposals that have made to change the pension plan. It was the consensus of the board that board members would be in a difficult position to discuss preliminary proposals until such time as actual legislation had been presented. As an alternative, a motion was made to post the publicly available information on the proposed changes on the GEPP Website.

MOTION: A motion was made and seconded to post on the GEPP Website information relating to proposed changes to the GEPP so that individuals seeking such information could be referred to the site for consistent information. The motion passed.

The board invited Mr. Adams, City of Atlanta ORS, to address the board on the issue of using an affidavit in lieu of probate to allow the final disbursement of relatively small amounts to sole beneficiaries to settle estates. Mr. Adams explained that the affidavit would be used in cases in which the participant dies without a will and has little or no assets to probate. The amount to be distributed typically is the portion of the retiree's monthly pension benefit that has accrued from the prior month end to the date of death. Mr. Adams stated that the affidavit process would enable many small estates to be cleared and settled without probate. The process had been used by the City since 1978 but that the Law Department had advised against it last year.

Ms. Denius advised that the recommended course of action is to follow the governing State law with respect to probate. Without the statutory protection of the probate laws, the Plan would run the risk and incur the liability of disputes among future potential heirs, even if the amounts are small. The board agreed with counsel's recommendation.

MOTION: A motion was made and seconded that it shall be the board's policy with respect to settlement of estates to conform to the State of Georgia law on probate. The motion passed.

MOTION: A motion was made and seconded to post to the GEPP Website information and the requisite forms to provide guidance to participants on the rules and the process for probating an estate under the laws of the State of Georgia. The motion passed.

Mr. Strachan proposed that the board consider amending the plan by eliminating the provision that allows beneficiaries or refund designees the option of taking a refund of the participant's contributions to the plan in the event of the pre-retirement death of the participant, or the net amount of a participant's contributions to the plan after subtracting the amount already received by the retired participant in the event of a post-retirement death. Mr. Strachan argued that the pension plan was not a savings account and despite the fact that participants contributed their own money to the plan, he felt that refunds in the circumstances of the death of participant should be retained by the plan for the benefit of the other participants. At a minimum, Mr. Strachan argued that the data on the amount of such refunds be obtained so that the board could assess the magnitude of the potential impact on the plan.

Other members of the board expressed strong opposition to the proposal.

MOTION: A motion was made to gather data on the amount of the refunds paid to beneficiaries or refund designees as a result of the death of the participant over the past several years to assess the impact of this option on the plan. The motion failed for lack of a second.

INVESTMENT CONSULTANT REPORT:

Flash Report – February 2011

Mr. Gray reviewed the February 2011 Flash Performance report. The portfolio was up 3.79% for the quarter compared to the Policy Index of 3.49%. The one-year number of 17.59% was slightly under the Policy Index of 17.65%. The Large Cap segment showed gains of 5.79% compared to the index of 5.88%; Mid Cap underperformed its Policy Index with a 5.8% return vs. 6.74% for the index; Small Cap outperformed its benchmark index 6.29% vs. 5.21% and fixed income beat its benchmark for the quarter .54% vs. .37%.

Total market value of the portfolio at February 28, 2011 was \$1.076 billion.

Ms. De Foor asked about the exposure in the international portfolio to Japan. Mr. Gray estimated it to be about 8%, which is an underweight position relative to the proportional size of the Japanese economy relative to the rest of the developed world economies.

Portfolio Rebalancing – Cash Needs

Mr. Hubbard presented a Cash Flow Projection prepared in collaboration with the Administrator showing that \$52.5 million needed to be raised to cover benefit payments and expenses through the remainder of the year, and to maintain a minimum cash reserve equal to one month's benefit and expense needs. The established practice had been to present a re-balancing plan to the board every 6 months for the purpose of raising operational cash.

Mr. Berry asked what the re-balancing would cost. Mr. Gray stated that the cost, in advance, is not known, that the board should anticipate some costs, but that the re-balancing that took place in February had actually made money for the plan due to the timing and the inter-day movement of the market.

Mr. Watson asked about the impact of holding \$52 million in cash. Mr. Gray responded that it would depend on the performance of the market over the period. If the market went down, the

cash holding would benefit the plan performance; the opposite would be true in a rising market environment. Because one expects the market to go up over time, generally one should expect a cost to holding cash.

Ms. De Foor asked about the rationale for the 6 months intervals and suggested that 90 days may be better. It was pointed out that cumbersome operational issues and delays in processing paperwork needed to implement the re-balancing made the 6 month interval preferable. Mr. Atwater, who had prepared the Cash Flow Projection in prior periods, concurred with that assessment, but deferred to the Gray & Company on the question of whether money should be taken first from underperforming managers. Mr. Strachan asked if a formula could be developed and approved by the board that would then allow the process to be implemented every three months by staff and the professionals. Mr. Gray stated that he favored such a procedure and that most of Gray's other clients handle cash needs re-balancing in this fashion. To work, however, a procedure would need to be developed that would ensure timely implementation of re-balancing recommendations, preferably handled by internal City staff and reported to the board after the fact. Mr. Gray further commented that the formula would be to follow the asset allocation policy and to adjust manager holdings in order to preserve the integrity of the approved asset allocation targets. Mr. Bell commented that it seemed to be a long lead time to be raising cash 6 months in advance when the managers can actually raise the cash in a period of 3-4 days. Mr. Watson suggested that cash raise could be scaled back and Gray, GEMGroup and City Law Department prepare a proposed process to efficiently and in a timely fashion re-balance to meet the cash needs of the plan.

MOTION: A motion was made and seconded to reduce the cash amount to be raised to \$26,250,000 plus \$2,500,000 to fund the cash reserve and for GEMGroup, Gray & Company and City Law Department to develop a process to efficiently and in a timely manner re-balance for cash needs every 90 days and present the proposal to the board at the next meeting. The motion passed.

Gray & Company will send to the Board a revised breakdown of the specific amount to be raised and from which managers the money will be taken.

Securities Monitoring Firms

Mr. Gray provided a list of law firms that were active in the area of securities litigation and monitoring. Mr. Watson asked for Mr. Gray's recommendation on hiring a securities litigation and firm. Mr. Gray stated that most of his other clients have engaged such firms. Mr. Watson recommended that a subcommittee be formed to evaluate firms to provide this service to the plan. Mr. Watson volunteered to serve as Chair of the subcommittee along with Mr. Strachan and Ms. Johnson.

Passive vs. Active Management

Mr. Gray reported that they had worked with Mr. Williams of Georgia State University and they had agreed on a number of adjustments to the analysis in the report that had been submitted to the board. Mr. Gray concurs with the basic philosophical finding of the report that indexing is a viable strategy and that the portfolio would benefit from at least a portion of the assets dedicated to a passive index strategy. As a starting point, he recommended the large cap segment because the academic data supports the conclusion that very few large cap active managers have been able to outperform the S&P 500 Index consistently over a long period of time, net of fees.

Gray & Company had prepared an analysis of the four (4) large cap managers currently in the portfolio over various time periods including since inception and ten years. The results of this analysis shows that Earnest Partners and New Amsterdam did not perform as well as the other two over the period and would be the most likely candidates to be terminated and their assets moved to a passive index strategy. (Mr. Gray pointed out that Globalt had changed their portfolio benchmark in 2003 to the Russell 1000 Growth and to be fair Gray had compared their performance to their stated benchmark in the rankings).

After considerable discussion how much to start with ranging from a low of 25% to a high of over 50% favored by the CFO, a consensus developed to begin with 50% of the large cap allocation and then evaluate the decision as experience is gained.

MOTION: A motion was made and seconded to move the assets currently under management by Earnest Partners and New Amsterdam (approximately \$140 million) to a Value-style index fund and a Growth-style index fund, respectively, as recommended by Gray & Company and approved by the CFO, and to prepare an evaluation of the decision and the strategy for discussion at a future board meeting within 90 days. The motion passed

Mr. Berry requested that Mr. Williams be invited to the May board meeting to discuss his report on the Passive vs. Active strategy.

OLD BUSINESS:

2009 Annual Pension Statement – Update

Mr. Berry invited Dan Jacobs, City of Atlanta Department of Information Technology provide a joint update with Mr. Larimer on the 2009 Pension statement project.

Mr. Larimer reported that of the 731 2009 Pension statements that have yet to be mailed, corrected refund data has been provided to GEMGroup, the data has been loaded to the system and approximately 300 statements will be mailed this week. The next step will be for Administrator to furnish to the City ORS a spreadsheet with questionable refund data for the year 2008. This file should be delivered by the end of the following week and the same corrective process will take place. The timeline indicates that the corrective data will be furnished to GEMGroup by ORS and that the remaining 2009 Pension statements will be mailed by the end of April. Shortly thereafter, the 2010 Pension Statements will be produced and mailed by the end of May.

Mr. Larimer reported that a work team has been put together at the City ORS and at GEMGroup and each knows what is needed and have agreed on the timeline to get the project completed. Good progress is being made. Mr. Jacobs agreed and commented that the summary of the project provided by Mr. Larimer was accurate.

NEW BUSINESS:

Education and Training

Mr. Berry polled the board members and May 25, 2011 was agreed on to hold an Education and Training session for board members. Details will follow.

Impact of Increasing Employee Contributions to the Pension Plan

Mr. Atwater, Segal Company, at the request of the board, presented an analysis of the impact of increasing employee contributions by various amounts ranging from 2% to 7% or 8%, depending on marital status. Two different scenarios produce different outcomes. First, if the employee contributions were increased by 7% or 8% and the City maintains its current contribution obligations to the Fund, the underfunded liability would be reduced by as much as \$20+ million for all Funds, annually, by 2030. Second, if the City reduced its contributions to the Plan in the same amount as the employee contributions were increased, there would be no benefit to the Fund and the City would benefit in the form of budgetary relief.

Turnaround Time on Pension Estimates

Following up on Mr. Berry's request to see actual data on the turnaround time on Pension Estimate Requests being submitted by participants to the GEMGroup, Mr. Larimer presented two spreadsheets showing that 114 Pension Estimate Requests had been received by the GEMGroup since January 1, 2011. Of those, only 5 did not meet the 30 day turnaround time agreed to as a Performance Standard for this task, representing a 96% compliance record.

Wellness Plan

Mr. Strachan discussed an idea to explore a Wellness Program whose savings impact could be to reduce the cost to the City, most likely on the insurance premium costs, that could be used to offset the increase in the personal pension contributions that may be a part of the Mayor's pension reform proposal. His idea is that a reduction in insurance premiums paid by participants that could be achieved as a result of the implementation of a successful Wellness Program would at least partially offset the increases in pension contributions. It may help to make these changes more palatable. The board decided to keep the item on the agenda for further discussion at the next meeting.

PUBLIC COMMENT:

None

There being no further business to discuss, the meeting was adjourned at 12:45 p.m.

Respectfully submitted:

Alfred Berry, Jr. Chairman

Joya C. De Foor, CFO & Secretary