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

March 7, 2012

A meeting of the Board of Trustees of the City of Atlanta General Employees Pension Fund was held on March 7, 2012 in City Hall, Committee Room 2, and Atlanta, GA.

TRUSTEES PRESENT:

Alfred Berry, Jr.
Douglas Strachan
Jim Beard
Yolanda Johnson
Aretha Sumbry-Powers
Angela Green
Yvonne Cowser-Yancy
Gregory Nash

TRUSTEES ABSENT: Aaron Watson Yolanda Johnson

OTHERS:

Richard Larimer, GEMGroup; Kristen Denius, City Law Department, Ray Adams, Office of Retirement Services; Larry Gray and Lisa Joe of Gray & Company, Eric Atwater and Jeanette Cooper of Segal, Jim Caine and Walter Lenhard of Vanguard.

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 as presented. The motion passed.

APPROVAL OF MINUTES:

Mr. Gray pointed out that under the Investment Consultant report the description of the Vanguard and Rydex index strategies was reversed. Administrator will make the correction.

MOTION: A motion was made and seconded to adopt the Minutes of the February 1, 2012 meeting, as corrected. The motion passed.

Mr. Berry questioned if a person can receive more than 80% of their final income as a pension benefit. (There is an applicant on the agenda who appears to be receiving a benefit in excess of that limitation). Mr. Adams responded that the Plan stipulates that a monthly benefit cannot exceed 80% of the adjusted gross income which includes credit for unused vacation pay. The addition of unused vacation pay in the calculation of the pension benefit may cause the calculated benefit to exceed 80% of regular income.

GENERAL EMPLOYEES' PENSION FUND PENSION AWARDS:

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. 1-12 as listed on the attached spreadsheet dated March 7, 2012. The motion passed.

CORRECTION

A correction Service Pension that had previously been approved was presented to the Board for further review and approval. The correction reflects an increase in the previously approved benefit due to unused sick time being reported after the board approval. The correction results in the new benefit being $31.73 more than previously approved.

MOTION: A motion was made and seconded to approve the corrected monthly benefit amount as presented on the attached spreadsheet. The motion passed.

DISABILITY PENSION APPLICATIONS

The Disability Pension Applications on the attached spreadsheet were presented to the Board for action. Based on the applicants not having two doctors render an opinion of total disability, application No. 5 is recommended for denial.

MOTION: A motion was made and seconded to deny application No. 5 as listed on the attached spreadsheet dated March 7, 2012. The motion passed.

MOTION: A motion was made and seconded to approve application Nos. 1-4 as listed on the attached spreadsheet dated March 7, 2012. 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 – 9 on the attached spreadsheet dated March 7, 2012. The motion passed. Mr. Berry abstained.

The board questioned why the benefit of two of the beneficiaries exceeded 75% of the amount of the participant's benefit as capped by the plan. Mr. Larimer stated that it was the result of an adjustment for COLA and would provide additional details. Subsequent to the meeting, Mr. Larimer explained that when a retiree dies toward the end of a calendar year but notification and processing does not reach the Administrator until the beginning of a new calendar year, the beneficiary calculation includes the COLA adjustment, if any, for January – causing the calculated benefit amount to be greater than 75% of the original participant's amount.

APPROVAL OF CHECK REGISTER AND INVOICES:

A Check Register dated March 7, 2012 was presented for review and approval

MOTION: A motion was made and seconded to approve 16 items- #34645 - #34660 -- on the Check Register dated March 7, 2012 totaling $504,547.15. The motion passed.

REVIEW OF NOVEMBER 2011 FINANCIALS:

The financials for the period ending January 31, 2012 were presented. The board questioned the entry captioned "Indirect Expense" for $38,392.46. Mr. Larimer stated he would get an explanation and get back to the board.

MOTION: A motion was made and seconded to defer a review of the January 31, 2012 financial statements as presented, pending and explanation of the Indirect Expense.

Prior to the end of the meeting, Mr. Larimer explained that the Indirect Expense item of $38,392.46 was for the purchase of watches for retirement gifts approved at a previous meeting. With the concurrence of Mr. Beard, the chart of accounts will be changed to include a Miscellaneous category; the charge will be moved to that account.

Mr. Beard stated that he had reviewed the recommendations for the cash raise and allocation among the investment managers was satisfactory.

Ms. Green and Mr. Berry raised questions about how the selection of managers from whom to raise cash was determined. Mr. Gray responded that many factors went into the decision process including the specific asset class managed, sensitivity to remaining within the overall asset allocation targets and others. Mr. Beard commented that the cash raise decisions should not be based on considerations of relative short-term performance which should be left to strategic discussions of overall asset allocation. He commented that the process undertaken by Gray & Company was consistent with industry standards.

MOTION: A motion was made and seconded to approve the recommendation of Gray & Company to raise cash for the March to May 2012 period. The motion passed. Mr. Berry voted against.

LAW DEPARTMENT:

MOTION: A motion was made and seconded to go into Executive Session for the purpose of conducting privileged consultation with legal counsel pertaining to pending or threatened litigation, claims, administrative proceedings or settlements. The motion passed.

{Executive Session begins}

{Regular Session resumes}

Based on the recommendation of the City Law Department the following motion was made:

MOTION: The board authorizes the Austin & Bird law firm chosen to represent the General Employees' Pension Plan in the securities litigation filed in the State of New York involving the Lionel matter to negotiate a settlement of the claim up to a maximum amount and not to exceed $52,257.00, inclusive of legal fees, which represents 30% of the total claim asserted. The motion passed.

MOTION: A motion was made to authorize the Motley Rice law firm to represent the General Employees' Pension Plan as lead plaintiff in the securities litigation involving the Helca Mining case. The motion passed.

Mr. Berry sought comment and explanation of the article that appeared in the Atlanta Constitution Journal that was critical of the GEPP board and some of its investment decision. He expressed concern that the article was misleading and inaccurate. Ms. Yancy commented that the article was actually much improved from the initial draft after significant amount of input was provided to the reporter. Mr. Beard commented that he had spent over an hour and Gray & Company had spent considerable time providing the reporter with pertinent facts and details of the GEPP investment guidelines, strategies and constraints. Mr. Beard recommended that the board take no further action or respond to the newspaper.

ACTUARY REPORT

Experience Study

Mr. Atwater presented the Actuarial Experience Study for the GEPP covering the period January 1, 2003 – June 30, 2011.

Ms. Yancy asked about the difference in funding levels of the APS plan (17% funded) and City (51% funded) and the whether the APS board was taking the right actions to contribute their appropriate share. Specifically, she wanted to know how the GEPP is being impacted by the APS board's decision to seek a temporary reduction in their contribution. Mr. Atwater acknowledged that the APS plan is poorly funded, but that they are committed to a strategy to reach fully funded status by 2025. The temporary relief in the 2012 contribution, however, will require even higher contributions in future years to meet the 2025 goal. Ms. Yancy reiterated that her goal was to be clear that the City cannot absorb any shortfalls in funding by APS to cover the liabilities in the GEPP associated with APS and a reduction in their contribution level.

Mr. Berry suggested that Mr. Burbridge, CFO of the Atlanta Public Schools, attend the April board meeting and would extend an invitation to him.

Mr. Atwater explained the purpose of the Experience Study was to compare actual experience in to the economic and demographic assumptions that are used to perform the annual valuations. Mr. Atwater commented on the economic assumptions including the discount rate, salary increases and payroll growth. The current assumption for inflation is 4.5%; Segal's recommendation is to use

2.75% going forward. Their recommendation for Payroll Growth is 3.5%, down from 4.50%. Recommendations for Salary Grades were lowered slightly as well.

The assumption for Investment Returns is recommended at 7.5%, down from 8% currently. Mr. Atwater commented that it was important that the APS and City agree on a common investment return assumption.

Ms. Cooper discussed the rationale behind the demographic assumptions and recommended the use a generational mortality tables that recognize the fact that younger people are expected to live longer than people who are approaching retirement age today. Ms. Cooper reviewed the data on the APS and City experience with Turnover Rates, Retirement Rates and Disability Rates within several age groups.

Mr. Atwater summarized the impact of the Study and the proposed changes to actuarial assumptions based on the data by stating that for the City the Contribution would increase to 28.1% of payroll or $39.4 million, an increase of .8% or $700,000 annually. For the School Board, the recommended Contribution is $45.8 million, an increase of $3.4 million. Mr. Atwater pointed out that with APS, only 25% of the liability is accounted for by active employees, the majority is for retirees, and therefore the impact of percentage of salary adjustments has a minimal impact.

Ms. Yancy asked for clarification on the next steps. Ms. Denius stated that it was the board's role to evaluate, review and ultimately accept the report and its recommendations. It would then be the responsibility of City Council and the Atlanta Public School board to formally accept the report and implement the actions required, if any, as a result of revised assumptions.

MOTION: A motion was made and seconded to accept the Experience Study report as presented. The motion passed.

INVESTMENT CONSULTANT REPORT:

Ms. Yancy asked how the annual investment returns reported for the General Employees' and the School Board on page 13 of the Experience Study could be different: 4.18% vs. 6.97% over the last 10 years. Mr. Gray prepares the investment reports and manages the portfolio as one consolidated pool of assets and any allocation between the plans would be an administrative or accounting function. Mr. Gray, Mr. Larimer and Mr. Atwater promised to address the discrepancy quickly and provide and answer. Subsequent to the meeting, Mr. Atwater responded that the divergent returns was an error caused by the adjustment that was made to the allocation between the General and School board in 2010 to correct a miscalculation of the factor in 2008. The accounting adjustment corrected the asset holdings of the two plans, but did not accurately attribute the investment returns to the adjusted balances. The difference will be corrected in Segal's final report.
Flash Report – January 2012 - Total market value at January 31 was $1,026 billion and as of March 5 was $1.047 billion. Since January 1 the fund is up $58 million. For the current month, the total composite return was 4.17% net of fees vs. the policy index of 3.44%, an outperformance of 73 bps. The one-year numbers show 3.43% net of fees, underperforming the policy index of 3.95% by 52 bps.

Mr. Berry continued to inquire about the methodology used in determined which managers would be asked to provide cash to fund benefits. Mr. Strachan suggested that Mr. Gray might review the algorithm used to make this decision. Mr. Gray said he would put the item on the agenda for the next Investment Subcommittee meeting.

JP Morgan IPS - discussion of this issue was deferred.

Madison Square Proxy Voting Material - Mr. Berry again requested to be provided the entire proxy voting record for the portfolio for last year. Despite the volume, Mr. Berry wanted to see the file at least once to review it.

Madison Square Performance-based Fee Proposal - Mr. Gray presented an analysis of a proposed fee arrangement from Madison Square that included 1) a reduced traditional fee schedule, or 2) a fee arrangement that provided for a basic fee of 5 basis points, regardless of performance, and an increasing scale of fee for performance that exceeds the target benchmark. A spreadsheet comparing the two approaches was the subject of considerable discussion. Mr. Strachan reviewed the comparison and concluded that the Plan currently pays $360,000 per annum and, because Madison did not meet its benchmark over the past five years, the Plan would have paid $55,000 per annum – a savings of $1.5 million over the five years. Going forward, Madison would need to achieve returns of 1.2% in excess of their benchmark before the fees paid would be equivalent to the amount paid under a the traditional fee arrangement. Performance that exceeds 1.2% over the benchmark would result in fees substantially higher than the current traditional arrangement.
Mr. Gray pointed out that there were a number of details that may impact these summary comparisons. For example, investment fees are paid quarterly not annually and there may have been several quarters within the five year period in which outperformance to the benchmark may have resulted in higher fees paid even though the full year performance was under the benchmark. Both Mr. Gray and Mr. Strachan agreed that the decision is based largely on what the expectation of the manager's future performance. Any decision to adopt such a fee schedule needs to be carefully considered. Further discussion at the next meeting was suggested.

Johnston Fee Schedule Change - A new copy of the Johnston Asset Management Fee Agreement with a legible signature was presented and signed by Mr. Berry.

Investment Policy Statement - Mr. Beard and Mr. Berry signed the revised Investment Policy Statement. Gray & Company will distribute to all the money managers.

Vanguard - Jim Caine and Walter Lenhard of Vanguard presented a summary of their firm's philosophy and strategy. Vanguard is more of an institutional manager (401(k) and pension assets). They pointed out that Vanguard – known primarily as a passive manager – actually has 44% of total assets of +$1 Trillion are in active strategies. He pointed out that the industry experienced a spike in inflows to passive strategies since 2008.

Mr. Caine explained that the argument in favor of passive strategies is that picking active managers is extremely difficult, particularly over time, since most managers do not consistently beat the S & P 500 index. Over time, the substantially lower fees associated with indexing should, therefore, produce returns, net of fees, that are higher than all but a handful of active managers.
Mr. Caine also stated that the Vanguard is a supporter of both indexing and active management in the appropriate market segments. Active management can be effective in those segments where

information and analytical data is not perfect and the research skills of the manager can produce better results. Many large institutional investors are employing a strategy that combines low-cost passive strategies in the large cap space and use active managers in the small cap, developing markets and other specialized market segments.

Messrs. Caine and Lenhard discussed the difference between capital-weighted vs. equal-weighted strategy. Their recommendation is Vanguard's capital-weighted approach.

OLD BUSINESS:

MOTION: A motion was made and seconded to authorize the City's Office of Procurement to send a Request for Proposal to qualified firms to provide investment consulting services to the General Employees' Pension Plan. The motion passed.

NEW BUSINESS:

Summary of Clarifications of GEPP Plan Rules - Mr. Larimer removed an update Summary of Clarifications of GEPP Plan Rules. There are 25 items that clarify interpretations of Plan rules related to administering the Plan. The most recent addition was to confirm that the maximum amount of accumulated vacation hours that may be used in pension calculations is 600 hours: 25 days per year X three years X 8 hours. The board members present approved, but the lack of a quorum required deferral of formal ratification of the updated Summary to the April meeting.

PUBLIC COMMENT: None

There being no further business to discuss, the meeting was adjourned at 12:40 p.m.

Respectfully submitted:

Alfred Berry, Jr. Chairman

Jim Beard, CFO & Secretary