CIVILIAN PENSION BOARD

The Civilian Pension Board meeting was held on May 9, 2013 at 2:00 p.m. with Chairman Bonar presiding. Members present were Councilman Lynn, Mr. Blakeman, Mr. Clendaniel, Mr. Koenig, and Mrs. Mitchell. Mrs. Hettinger was absent.

AGENDA ADDITIONS/DELETIONS

Mr. Blakeman moved to approve the agenda as presented, seconded by Mr. Koenig and unanimously carried.

Adoption of Minutes - Civilian Pension Board Meeting of February 14, 2013

Mr. Blakeman moved for adoption of the minutes of the Civilian Pension Board Meeting of February 14, 2013, seconded by Mr. Clendaniel and unanimously carried.

Adoption of Minutes - Special Civilian Pension Board Meeting of March 25, 2013

Mr. Koenig moved for adoption of the minutes of the Special Civilian Pension Board Meeting of March 25, 2013, seconded by Mr. Lynn and unanimously carried.

Quarterly Performance Review *(Quarter Ending March 31, 2013) (Milliman, Inc.)*

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Quarterly Investment Monitor Summary Report for the Quarter Ending March 31, 2013. He advised members that as of the end of the first quarter, plan assets totaled approximately $25M, which was an increase from the end of 2012. He noted that there had been contributions to and withdrawals from the plan and that withdrawals had exceeded contributions; however, there was upward movement in the markets. He stated that the plan had performed fairly well for the quarter with a return of approximately 4%, which would be a potential 17%-18% return for the year, although there was no guarantee that similar returns would be realized during the remaining quarters. He noted that the plan's performance did exceed the benchmark.

Referring to Page 9 of the report, Asset Allocation, Mr. Marzinsky stated that the plan was in line with the target allocations. He noted that as cash flow and deposits go into the plan, as well as near the end of each quarter, Milliman, Inc. reviews the allocations of the plan. Mr. Marzinsky advised members that equity investments had grown and fixed incomes investments were down, so Milliman rebalanced to the target elections. He stated it was important to rebalance throughout the year to maintain the risk/return profile.

In reviewing Page 10, Investment Policy Review - Active Management, Mr. Marzkinsky stated that the highlighted areas indicated slightly below average performance. He noted that some of the investments were underperforming the benchmarks; however, they were still ranking well compared to peers and he felt there were no major concerns at this time.

Mr. Marzinsky explained that some anomalies in the Beta and Tracking Error on Page 11, Investment Policy Review - Passive Management were due to Vanguard changing its underlying indexes. He noted that Beta should normally be around 1.0 and Tracking Error is generally desired to be close to 0.5. He advised members that Vanguard had changed its equity indexes from Morgan Stanley Composite Indexes (MSCI) to Financial Times and London Stock Exchange (FTSE) for

international investments and to Center for Research in Security Prices (CRSP) for U. S. investments, therefore, he was not concerned about the numbers reflected in the report.

He indicated that the Civilian Pension Plan had a good mix between active and index funds. He noted that the returns reflected on Page 12 showed that the new allocations were beating the index year-to-date. He noted that the prior allocation was trailing the index over this period, so he felt that the plan was on a good trend and, with the new portfolio allocation, would exceed the portfolio index.

Mr. Marzinsky advised members that interest rates were still very low, which was a potential cause for concern. He stated that the Plan did have a fair amount of fixed income investments (approximately 60-65% equity; 40-45% fixed income) and as interest rates increase, fixed income investments would be affected. He stated that this would be monitored and that consideration may be given during the next meeting to reallocating the plan slightly to counteract some of the potential future effects of a possible rise in interest rates.

Discussion - Audit of the General Employees' Pension Fund

During the Civilian Pension Board Meeting of February 14, 2013, members requested that the cost of performing an audit of the General Employees' Pension Fund every one (1), three (3), and five (5) years be examined and reported to the Board. Mrs. Donna Mitchell, Controller/Treasurer, advised members that SB & Company, LLC had provided a response. She explained that she had met with Mr. Blakeman, who had suggested the audit, and explained that the City's pension funds are audited through the City's Comprehensive Annual Financial Report (CAFR) process. She stated that SB & Company explained that they perform an internal audit document and questioned to what depth pension funds would be audited as part of a separate audit. She informed members that the State performs a separate audit on their pension plans because, unlike the City, State pension plans are not part of their annual financial report. She indicated that it would be the Board's decision whether or not to proceed, noting that the range of the estimate provided by SB & Company was $9,000 to $100,000, depending upon the scope of the audit requested.

Mr. Blakeman stated his concern that funds audited in the general budget audit include the amount of money that the City transfers into the Civilian Pension Fund; however, the plan itself is not being examined, including investments, checks, etc.

Responding, Mrs. Mitchell stated that the pension reports that indicate the issuance of checks by Wells Fargo, bank reconciliations, and financial transactions that reflect funds going in and out of accounts are all examined as part of the audit process. Purchases and redemptions of investments themselves (e.g., from Vanguard) are not audited. She explained that Wells Fargo also has an audit performed and stated that if another auditor were needed to audit the Civilian Pension Fund's transactions within Wells Fargo, this could be arranged.

Mr. Blakeman felt that it appeared that what the auditor stated would be a good audit was not being done and suggested that a Request for Proposals (RFP) be issued for a general audit of the Civilian Pension Fund.

Mr. Blakeman moved to request to issue a Request for Proposals (RFP) to have a general audit of the Civilian Pension Fund performed, seconded by Mr. Clendaniel and carried by unanimous consent.

Mrs. Mitchell questioned the benefit of this action.

Mr. Blakeman stated that that he did not feel that the Pension Fund was being examined adequately, noting that there was no comment or disclaimer in the CAFR referencing Wells Fargo activities.

Responding, Mrs. Mitchell explained that none of the City's other funds were talked about in such detail and that this is addressed holistically when an audit is opined on rather than through discussion of the individual transactions that go in and out of the General Fund, Electric Fund, etc.

Mr. Blakeman stated that if Mrs. Mitchell felt that the correct thing was being done and that the Civilian Pension Fund was being examined in accordance with all rules, he was "fine."

Mrs. Mitchell reassured him that she did feel that this was the case. She stated that financial reports are provided to the City by firms such as Milliman, Inc., and Wells Fargo. The auditors audit the information that is provided to the City rather than the methods used by these firms to come up with the data, and this information is included in the CAFR.

Mr. Blakeman was concerned that an appropriate audit for the Civilian Pension Fund was not being done.

Responding to Mr. Lynn regarding whether the Civilian Pension Fund had ever been audited, Mrs. Mitchell stated that the Fund is audited every year in the same fashion that State pension funds are audited; however, the City's results are included in the CAFR and the State has a separate audit report. Individual mutual funds, stock certificates, etc., are not included because this is an internal audit function that is performed by the company managing funds.

In response to Mr. Lynn, Mrs. Mitchell stated that she had material to review with Mr. Blakeman on this topic, had done so in the past, and had no problem with individuals approaching her to discuss this type of information.

Mr. Lynn moved to table the request to issue a Request for Proposals (RFP) to have a general audit of the Civilian Pension Fund performed to allow an opportunity for Mr. Blakeman to review the information that Mrs. Mitchell had available to determine if it would satisfy his concern, seconded by Mr. Blakeman and unanimously carried. *(City Clerk's Office Note: Subsequent to the meeting, Mrs. Mitchell advised the Clerk's Office that she and Mr. Blakeman had discussed this matter and agreed that the City's audit includes the City's pension funds but not outside investment firms and that Mrs. Mitchell would request the City's auditor to attend a Civilian Pension Board Meeting to explain the audit process.)*

Responding to Mr. Koenig, Mrs. Mitchell stated that if approved, audit expenses would be paid from the Civilian Pension Fund.

Mr. Blakeman moved for adjournment, seconded by Mr. Koenig.

Meeting adjourned at 2:19 p.m.

David L. Bonar
Chair

DLB/JS/mk/dd/tm
S:\AGENDAS-MINUTES-PACKETS\Misc-Minutes\PENSION\2013\05-09-2013 Civilian Pension.wpd