MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
JANUARY 24, 2013 – 9:00 A.M.

Jerry Ihler, Chair, called the meeting to order at 9:00 a.m. in the New City Hall 2nd Floor Conference Room. Notice of meeting and agenda was posted on the City Hall notice board as required by law.

ROLL CALL

PRESENT: Bayones, Teri; Ihler, Jerry; Hill, Andy; Kindt, Bill; Mercado, Joe.

ABSENT: Ellwanger, Paul; Livingston, Steve.

ALSO PRESENT: Tanya Riley, Human Resources; Denise Ezell, City Clerk's Office; Tim Wilson, City Attorney's Office; Julie Magness and Stephanie Tehauno.

I. Introduction of Visitors

Magness stated Carolyn Levy our auditor is here today.

III. Approval of Minutes from October 25, 2012.

MOVED by Hill, **SECOND** by Mercado, to approve minutes of October 25, 2012 as written. **AYE**; Ihler; Hill; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

IV. New Business

A. Receive quarterly financial report from Morgan Stanley and take action if necessary.

Armstrong stated thank you for allowing us to be here and for taking care of your retirement plan. The Trust approved changing the asset allocation from 65% bonds and 35% stocks to 50/50. We have revised the Investment Policy to reflect those changes and have the revision here for your signature. That was the only change. First let's look at the asset scan by Morningstar. In the upper left hand corner is the pie chart you have seen many times. You see it says bonds 46% and cash 4% so we are sitting at 50% bonds. US stocks 38%, foreign stocks 4% and other is 7% which is 49%. We are roughly 50/50. Other is not stocks but they are things like gold and oil. They are commodity hedges for inflation protection. They have similar risks as stocks so we count them as stocks. It took us the whole quarter to get to 50/50. Below that you see our stocks are broken up among Cyclical, Sensitive and Defensive industries. The percentages are nicely diversified across all those industries. In the upper right hand corner you see the Style Box Diversification. Across the top in large it says 21/22/23. Those are the percentages in large companies. The vertical columns are value/core/growth. We have 21% in large value. The target for the top numbers is 25 each and we are a tad under but in good shape. Medium you see 8/7/8 and our target is 5/6/5 so we are a tad heavy. Small target is 3/3/3 and we are 4/4/4 so we are a tad heavy. We are well within our limits of where we would like to be. If you add them up vertically we have 33/33/35 and our target is 33/34/33 so we are on there.

Everything asset allocation wise is spot on or very close to where we think we should be. Are there any questions.

Armstrong stated moving to the Performance Report in the upper right hand corner where it says “since inception”. We started in November 07 and hit the very market peak before it went down. The Dow Jones was around 14,000. We are almost back up there but the stock market has been essentially flat since that time. The value at that time was $34,000,000. Next is contribution withdrawal in the amount of $203,000. You put money in and take money out. The net contributions have been $200,000. Our appreciation is $9,000,000. Since we started in November 07 the portfolio has made $9,000,000 bring our total ending value to $43,900,000. I believe there is another couple million in judgments. That equals 24% total and if you divided that by the number of years we have earned 4.3% a year. The last 5 years we have earned 4.58%, the last 3 years 6.68% and in the last 12 months 6.28%. We are heading in the right direction. The actuary said we needed to get 6.5 to 6.75% and we are getting close. Page 4 shows you what the portfolio has made on a year by year basis. The next page shows you what the fund are invested in. First you see all the equity which is all the mutual funds we own. At the top of page 6 you see a summation of total equity. The middle shows a current market value of $26,000,000 and the percent of assets is 47%. Below you see the fixed income. These are all the different bonds we have. Most of them are government bonds. Pages 7-9 are all the Fannie Mae, Jennie Mae and Freddie Mac’s government agency mortgage bonds. In the middle of page 9 we have summarized all the total mortgage backed bonds which equal $17,800,000 or 40% of the portfolio. Below that are others. These are bonds as well but they are not guaranteed like Fannie Mae and Freddie Mac’s. We can go 50/50 with latitude as high as 60%. We are keeping right at 50% stock and the extra 10% we are adding to these bond funds. Their risk is in between. It is great than the Fannie/Freddie/Jenny’s but less than the stock market and they make pretty good money. They have averaged 4 to 8% a year over the past several years. We believe it is a good place to be in between. You see this equals to about $2,400,000 which is 5.5% of the portfolio. Page 10 you see total bonds are 49% which is $21,800,000. Cash is 3% which is $1,400,000 and the total is 43.8%. We try to keep the cash below $500,000 because that is the FDIC insurance limit and that is difficult to do. We are concerned about money markets right now. The FCC is looking at giving them floating NAV’s and there are no guarantees.

Kindt stated on page 5 there are 3 funds that have a zero current yield. Is that current amount and we are expecting them to change?

Armstrong stated current yield is not the actual amount they are going to make. That is a dividend. Some stocks don’t pay dividends. Current yield is solely dividends. We buy mutual funds to make money 2 ways. First is from dividends if they have one and the other is price appreciation. Alger Cap Appreciation is one you are looking at and we paid $506,000 for it and it is worth $568,000. It has made $62,000. That is capital appreciation and it is not included in that dividend yield. We don’t pay much attention to the yield on stock funds. We do on bonds because that is their primary purpose. We look at the total return from dividend yield and price change.

Ihler asked are there any other questions for Armstrong. Thank you.

B. Receive Audit Report from Eide Bailey for Fiscal Year Ending 11-12 and take action if necessary.

Levy stated you should have 2 deliverables from us. First is the audit report and then the independent auditors report. This includes the management discussion in the analysis. This is a common sense explanation of what all went on during the year, the financial statements and notes which were compared by management. Our part of the report is the actual opinion. For the year ending June 30, 2012 you have a clean statement and that is what you want every year. It states the financial statements referred to present fairly in all material respects, the net assets held in trust for benefits, and the changes in its net assets held in trust with benefits. There is another report in the back of the package which is the report on government auditing standards. This is required. It is the report on the internal control over financial reporting and test of compliance. Following our report is the management's discussion and analysis. That is management's explanation of what went on during the year. This is followed by the statements and then the notes. You will notice that on the funded status of the plan those are all based on the actuary report from the prior year. Since this is only done every other year it should be pretty much the same as last year. The report on page 20 is our report on internal control over financial report, non-compliance and other matters based on the audit. We consider the internal control of the system as a basis for designing our steps in procedures that we use during the audit. It is not done to express an opinion on internal control but to let you know that we did not find any deficiencies in internal control that we considered to be material weaknesses. That is defined above. We did not find anything wrong with internal control. On compliance we are required to test certain provisions of laws, regulations, contracts, and etc. Non-compliance could have a direct material effect on the financial statement and is not done to give you an opinion we just test to see if certain things are working. Our test disclosed no instances of non-compliance or other matter that required to be reported. This was a good report all around.

Levy stated the second deliverable is the 2 page letter that is required to be communicated to the Trust as governed. It goes through the things that we considered during the audit such as the qualitative aspects of accounting practices. These are the policies and are disclosed in note 2 of the financial statement. It also explains which estimates we looked at during the audit. Those are the estimates of market value investments, interest receivable and the actuary report of June 30, 2011. We encountered no difficulties in performing the audit. There was no adjustment made and no corrected or incorrect statements. There are times we will give the client an adjustment to things we have looked at during the audit. We had no adjustment. In a lot of audits we will have small differences that we come upon that don't come up to the material difference but we go ahead and pass on them. We do not have any of those either. The financial statements as presented are what Magness gave us when we started the audit. We requested certain representations from management and we did receive those. There was no other consultation with any other auditor to get a second opinion. It explains what we did with the supplementary information and we make certain inquiries of management. We evaluate the form and content and compare it to the financial information we have. We had very good cooperation with Magness and her staff and we appreciate her help. We also appreciate the opportunity to perform the audit for the City of Lawton. If there are any questions I will try to answer them.

Ihler stated thank you.

C. Receive Quarterly Employees Refunds Made From Retirement System and Receive Quarterly Statement of Receipts and Disbursement and take action if necessary.

Tehauno stated the City Employees' Retirement balance sheet for the second quarter ending December 3, 2012 we had a total asset of $45,632,105.99. We have no liabilities for a total liability and fund equities of $45,632,105.99. The second page is the Statement of Revenue and Expense. Revenue for the second quarter is $890,102.14 and total for the year is $3,147,253.30. Expenditures for the second quarter total $1,164,846.52 and for the year is $2,404,404.83. We had a net decrease in the second quarter of $(274,744.38) but we had a total increase for the year of $742,848.47 leaving a fund balance of $45,632,105.99. Employee Refunds for the second quarter were $229,885.53.

Ihler asked are there any questions of Tehanuo. Thank you.

D. Receive Report on Number of Employees Enrolled in the Pension Prior to Career Averaging and the Number of Employees Enrolled in Career Averaging and take action if necessary.

Ihler stated we are going to strike this item. There hasn't been any change from the last report. Last quarter we had about 107 new employees. Rather than asking HR to do the research every quarter I would suggest we to go twice a year in July and January.

Kindt stated once a year would probably be alright.

Ihler stated if that is the pleasure of the Trust we can do it once a year. How about every July?

Hill stated that would be good.

Ihler stated okay we will do it every July at the end of the fiscal year.

V. Consent Agenda

FOR THE BENEFIT OF THE AUDIENCE, ALL MATTERS LISTED UNDER THE CONSENT AGENDA ARE CONSIDERED TO BE ROUTINE BY THE PENSION COMMISSION AND WILL BE ENACTED BY ONE MOTION. THERE WILL BE NO SEPARATE DISCUSSION OF THESE ITEMS. IF DISCUSSION IS DESIRED, THAT ITEM WILL BE REMOVED FROM THE CONSENT AGENDA PRIOR TO ROLL CALL AND WILL BE CONSIDERED SEPARATELY.

A. Consider Application for Normal Retirement for Roy L. Anderson.
B. Consider Memo of Information Regarding the Death of Retiree James Toups, Jr.
C. Consider Memo of Information Regarding the Death of Retiree Anna Nix.
D. Consider Memo of Information Regarding the Death of Active Employee James Given.
E. Consider Memo of Information Regarding the Death of Retiree Ray V. Taylor.

F. Consider Application for Early Retirement for Rolando Crespo.
G. Consider Memo of Information Regarding the Death of Retiree James Seward.

MOVED by Kindt, **SECOND** by Hill, to approve Consent Agenda. **AYE**: Ihler; Hill; Kindt; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

VI. Comments

VII. Audience Participation

VIII. Adjournment

MOVED by Mercado, **SECOND** by Kindt, to adjourn. **AYE**: Hill; Kindt; Mercado; Bayones; Ihler. **NAY**: None. **MOTION CARRIED**.