MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
July 26, 2012 – 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; Livingston, Steve; Mercado, Joe.

ABSENT: Ellwanger, Paul; Kindt, Bill.

ALSO PRESENT: Tanya Riley, Human Resources; Denise Ezell, City Clerk's Office; Tim Wilson, City Attorneys Office.

III. Approval of Minutes from April 26, 2012 and May 31, 2012.

MOVED by Ihler, **SECOND** by Livingston, to approve minutes of April 26, 2012 and May 31, 2012 as written. **AYE**: Ihler; Hill; Livingston; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

IV. New Business

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

Armstrong stated Warren asked at the last meeting if we could give a full blow report at your October meeting. We will go into great depth about how bonds work, how mutual funds work, asset allocations and all those things. It has been several years since we have done this and we have new Trustees that need to be informed. At the next meeting we will take approximately 35 to 40 minutes for our report. Looking at the bottom of the report to the far right you see since inception we have made about 4.29% per year. For the past three years we have made 8%. We are starting to catch up to the 6.5% that we have to make. We are lagging a bit over the last twelve month at 2%. Below that is our bench mark at 65% bonds and 35% stocks. We are lagging a bit there because we have been a little more cautious than what the index is. We have traded return for lower risk. Looking at the upper right hand corner about four lines down where it says Net Portfolio Appreciation. This is what the portfolio has made or loss since inception. You have made $6,691,140 with a combination of interest and change in price up or down. It has made right at $6.7 million. This is probably what you are most interested in knowing. Are there any questions?

Armstrong stated moving to page three the lower left hand corner tells us where we are. We have 40% equities/stocks, 57% bonds, and 3% cash. So we are roughly 60% bonds/cash and 40% stocks. Our target is 35% and we are a tad heavy at 40%. Part of the equities are hedges against changing bond prices and if stock prices fall. Are there any questions?

Armstrong stated page four is annual return and page five is what is actually in your portfolio as of June 30th. You can see equities mean stocks and they are all mutual funds. These are the individual companies ranging from small, medium, large, growth, value and foreign. Page six is the total value at $17,191,566. Below that is a short term treasury bill. Sometimes when we have to much cash we buy these. You see we have $800,000 in there. Next are the government backed mortgage bonds and we have lots of them. I have circled off the interest rates to the right and continues on the middle of page nine. Going back to page six under Fixed Income you see the 6,600 shares of Ishares Iboxx. That is an exchanged trade fund that invest in high yielding corporate bonds. Looking to the far right you see it is yielding 7%. The computer counts that as a bond and we count it as a stock. They act like bonds but have more risk like stocks. It is also a hedge against raising interest rates. Back on page nine is where we have two hedges in case interest rates go up. In the middle of the page where it says Lord Abbett Inflation Focused there is about $595,651 and then below in Proshares Short 20+ Treasury there is $936,960 for a total of $1.5 million. Those are hedges against raising interest rates. Right above that are the mortgage backed bonds for $21,173,729 and below that is cash at $1.2 million. Page ten you see the total account balance at $42,545,232.

Armstrong stated that is a brief report on the performance and where it is invested. Are there any questions. If not as usual we thank you for your trust.

Ihler stated thanks you.

B. Receive quarterly employees refunds made from retirement system and receive quarterly statement of receipts and disbursements and take action if necessary.

Tehauno stated looking at the balance sheet for the fourth quarter we had assets totaling $44,947,377; cash in the bank and money market funds $1.5 million; investment US government obligations $22 millions; mutual funds of $16.4 million; stocks; $2.9 million; judgments $1.7 million; and interest and accounts receivable $246,655. In liabilities and fund equity we had accounts payable retirement claims of $1,362 for a fund equity of $44,946,014. On your Statement of Revenue and Expenses contribution by the City for the quarter is $517,938 and year to date $2.1 million; contributions by employees for the quarter $326,835 and year to date $1.3 million; miscellaneous revenue for the quarter $150 and year to date $600; realized gain/loss on Morgan Stanley for the quarter was a gain of $6,544.22 and year to date a loss of $118,644.57; dividend on Morgan Stanley for the quarter $56,962 and year to date $452,541; unrealized gain/loss on Morgan Stanley for the quarter a loss of $239,614 and for the year a loss of $365,395; interest for the quarter of $230,685 and for the year $876,088. For the expenditures the benefits of participants who are our retirees for the quarter was $819,372 and for the year $3,216,615; refunds for the employee who left the City of Lawton for the quarter $189,289 and year to date $803,815.51; audit fees for the quarter $18,500 and for the year $19,137; bank charges for the quarter $57.05 and for the year $308.50; Morgan Stanley investment fees for the quarter $61,262 and for the year $162,958; McAfee & Taft consulting fees for the quarter $1,642 and for the year $5,315. For the fourth quarter we had a net decrease of $190,622 and year to date an increase of $184,488. The next page is the refunds made from the retirement system for the fourth quarter.

Ihler stated your fund balance is $44,946,014 and Armstrong's is $42,545,000. What is the difference?

Tehauno stated our report also includes retirees.

Armstrong stated and the judgments.

Ihler stated okay. Are there any other questions? If not thank you.

C. Consider approving and executing a proposed Second Amendment to the Pension Trust Agreement of December 22, 1970, extending the duration of the Trust Agreement until November 1, 2033, and recommend the City adopt, execute and accept the same amendment.

Wilson stated our Trust is scheduled to expire November 1, 2012. It was originally created in 1970 and has been extended once in 1991 for twenty one years. It is time to extend the trust again. Once you have approved the extension it will be taken to City Council for their approval and then it is filed in the County Clerk's Office.

Ihler stated so basically this is to continue the trust for another 21 years.

Wilson stated correct.

Livingston asked what happens if Council doesn't approve it?

Wilson stated the Trust would expire and then provisions for closing the Trust will go into effect. I haven't looked into closing the Trust but I would assume the City would buy annuities for the retirees. I don't think that will happened but if it does it will be a big mess.

Armstrong stated since we are only 62 or 63% funded you couldn't buy annuities to fund them fully with what the benefits that are required as well. That is the way I understand it and that would be real bad.

Wilson stated the City would have to provide more money to take care of the retirees.

Livingston asked can you not go longer than 21 years.

Wilson stated it is the rule of perpetuity. That is a fairly convoluted legal term that sets limits on length of terms of trust so they can't go on perpetually.

MOVED by Hill, **SECOND** by Livingston, recommend approving and executing a proposed Second Amendment to the Pension Trust Agreement of December 22, 1970, extending the duration of the Trust Agreement until November 1, 2033, and recommend the City adopt, execute and accept the same amendment. **AYE**: Ihler; Hill; Livingston; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

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 there are 557 full time general employees in the plan with 480 under the old pension and 77 new positions under the career averaging. After one year 13.82% are under career averaging. We are looking at about 30 years for everyone to go to career averaging. That is a pretty high turnover.

IV. 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 Memo of Information Regarding the Death of Imogene Bolinger
B. Consider Application for Normal Retirement for John Hegna
C. Consider Application for Normal Retirement for David Snider
D. Consider Application for Early Retirement for Thomas Barlett
E. Consider Application for Normal Retirement for John Walsh
F. Consider a Letter of Acknowledge for Receipt of Payment to buy back into the Retirement System

MOVED by Mercado, **SECOND** by Hill, to approve the consent agenda. **AYE**: Hill; Livingston; Mercado; Bayones; Ihler. **NAY**: None. **MOTION CARRIED**.

V. Comments

Ihler stated our next meeting will be in October. Armstrong will be giving an in depth report. Does anyone else have any comments.

VI. Audience Participation

VII. Adjournment

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