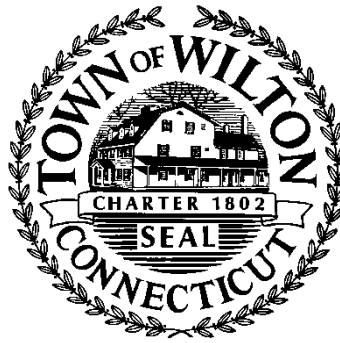


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INVESTMENT COMMITTEE, OPEB COMMITTEE  
AND RETIREMENT TRUST  
REGULAR MEETING

OCTOBER 19, 2011

Investment Committee Members Present: Robert Kelso, Paul Burnham, Richard Wehrmann, Warren Serenbetz

OPEB Committee: Warren Serenbetz, Gil Bray, Hal Clark, Ken Post, Sandy Dennies

Retirement Trust: Bill Brennan, Richard Dubow, James Meinhold, Richard Creeth, Hal Clark

Absent: Jeffrey Rutishauser, Bob Schultz, Ted Hoffstatter

Others: Richard McArdle, Sarah Taffel, Carol Misus (Investment Consultant Vanguard, on the Phone),

The Meeting was called to order at 7:30 PM.

**Approve Minutes of Regular Meetings on April 13, 2011 for the Investment Committee, OPEB and Retirement Trust**

Motions were made to approve the Minutes of the Regular Meetings on April 13, 2011, seconded and carried for the Investment Committee, OPEB and Retirement Trust

**Approve Minutes of the Special Meetings on July 21, 2011 for Investment Committee, OPEB and Retirement Trust**

Motions were made to approve the Minutes of the Special Meetings on July 21, 2011, seconded and carried for the Investment Committee, OPEB and Retirement Trust

## **Outlook**

Ms. Missus from Vanguard was on the phone. She said that she appreciated being able to address the group via telephone because they had a meeting with Ken Volpert who is a principal in the Fixed Income Group at Vanguard. She conveyed Mr. Volpert's opinion that the major issue in the market right now is the European debt crisis which is a liquidity crisis of large proportion. Greece, Portugal, and Ireland have run out of cash to honor their obligations and run out of access to funding, so they can't roll over their debt. Also, capitalization of banks has come into question. The feeling is that if Greece does default, which they think it will; it will cause a massive liquidity crisis in Europe similar to what happened here in 2008.

The difference is that here we are one nation and over there they are dealing with 17 different nations/governments. She said that the feeling is that the Euro will survive.

She was asked if Mr. Volpert had said anything about contagion to US banks and money market funds. She answered that it has the potential to spread. Vanguard has been cutting back on their European holdings for the past two years and their money markets own almost no European debt. Anything they might own would be Sweden and Finland. Contagion will occur because it is a global economy but it won't turn into another 2008 over here.

A discussion ensued regarding the defaulting countries. Mr. Kelso asked if they should be doing something different with the Pension Plan. Ms. Missus replied, "diversify". She said that Vanguard still believes that their clients should be invested internationally but shouldn't be over-weighted in any particular area. She said that they do see growth rates coming down, and that it will be difficult to achieve a return goal of 7.8%. Mr. Volpert believes that growth for a while will be in the 1% to 2% area. Ms. Missus then added that this doesn't necessarily translate into poor performing equity markets.

Achieving the 7.8% goal will be difficult, she said, without taking on substantial risk. She asked if they really want to be in that risk profile? Vanguard will show them a higher risk profile at the next meeting in January so they can see what that might involve.

## **Review Account Performance for Third Quarter**

Ms. Missus reviewed the Portfolio for the past quarter:

- Total Stock Market down over 15%
- FTSE All World down over 21%
- Emerging markets down 24%
- Total Equity International is down over 21%
- Total Equity down over 17% (she said that a lot of this was the result of the markets being down over 9.7% in September)
- Fixed income did relatively well and Total Fixed Income was up 2.18%
- REITS were down over 14%.

## **OPEB**

Ms. Misus said that the OPEB Portfolio was very similar to the Pension Portfolio.

### **Recommendations and considerations:**

- Elimination of Emerging Markets overweight in Equity International (with proceeds directed to the FTSE All-World ex-US index Fund Instl Share)
- Continue transition within fixed income to Intermediate-Term Investment Grade (from Short Term Grade Fund to Intermediate)
- Re-visit the asset Allocation decision and return expectations with another look at the Vanguard Capital Markets Model (VCMM) output- to be presented at the first meeting in 2012.

Mr. Kelso thanked Ms. Misus and she hung up. Mr. Kelso said that this portion of the meeting was over and the members of the OPEB and the Retirement Trust Committee were excused.

### **UBS Presentation**

Tom Gahan and Maryanne Moxie from UBS Institutional Consulting Group introduced themselves to the Members of the Investment Committee. Mr. Gahan said there was another member of their team who couldn't make it tonight and his name was Jeff Farrar. Mr. Gahan referred to a booklet that had been handed out to the Members. Ms. Moxie gave an overview of their division, saying that their team works with private and public retirement plans. Mr. Gahan added that they were recognized as the 2011 Retirement Advisor of the Year.

Mr. Gahan and Ms. Moxie gave an overview of their Consulting Group and its services saying that their consulting group is completely independent from UBS and that there are no conflicts of interest with products. He brought up the topic of alternative investments and a question was asked about what types of investments he was referring to. He replied that there were several that were conservative and market neutral which would be appropriate for a pension portfolio and mentioned precious metals as an example.

He said that they believe that Investment Grade Intermediate Bonds isn't going to perform well in the long term (over the next couple of years). They would rather see the majority of assets in fixed income in short-term very high grade [bonds].

Mr. Kelso said he wanted to discuss how they could broaden the Vanguard platform. They want to add variety to the platform.

Mr. Gahan said they have prior experience working with Vanguard and discussed how they would approach integrating with their platform.

Mr. Wehrmann asked that since they are a municipal pension plan how would UBS allocate between active and passive plans similar to what the pension plan currently has. Mr. Gahan answered that it would be whatever the Committee was comfortable with and that there are more passive investments within municipal investments than within the corporate world. Mr. Wehrmann asked if their research shows that active managers outperform passive managers and Mr. Gahan said that they did, adding that UBS does not benefit from the returns of active managers.

Mr. Gahan said their investment philosophy is that your asset allocation should change because your requirements change, the markets should not dictate asset allocation, since they can't time the market and feel it's a losing proposition. What would change their asset allocation would be, i.e. if they were to see an unusually high retirement rate within the portfolio and there's more liability short term, then they would have to adjust the portfolio. He continued to say that the plan dictates the changes not the market.

He was asked whether they would make revaluation decisions internally without seeking the approval of the Committee and Mr. Gahan answered that no, nothing is done without the approval of the Committee, unless the investment policy statement calls for it. They might recommend rebalancing quarterly which would mean on a certain date, four times a year, the portfolio would get rebalanced and that would happen automatically without consulting the Committee but any changes to the portfolio, the hiring of a manager or firing a manager has to be approved by the Committee.

Mr. Gahan was asked about their fees and he turned over the discussion to Ms. Moxie who referred everyone to page 14 in the booklet explaining that they operate on a fee-for-service basis. Their one-time upfront fee would be \$15,000. Additionally, there would be a record keeping fee of \$10,000 and then the on-going fee for defined benefit services would be \$70,000 annually. She and Mr. Gahan went on to explain to the Committee how their fee structures worked and what it covered.

Mr. Kelso thanked Mr. Gahan and Ms. Moxie for their presentation and they departed.

Mr. Kelso said that they needed to put some money into the money market fund to pay out the benefits because they are running short.

Mr. Burnham made a Motion to move \$300,000 out of the Short-term Investment Grade Fund into the Money Market Fund. Mr. Kelso seconded the Motion and it carried.

A discussion ensued about getting rid of the Emerging Markets Fund altogether. At the end of the discussion it was decided to keep things the way they were.

Another discussion ensued whether to use UBS or Fiduciary and whether they actually needed an outside advisor to provide objective recommendations. It was decided that they did need an outside advisor and would be making a formal recommendation to the Retirement Trustees naming Fiduciary as their preferred Advisor.