

**MINUTES OF A REGULAR MEETING OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM HELD IN THE CONFERENCE ROOM AT CITY HALL ON WEDNESDAY, SEPTEMBER 27, 2000 AT 1:30 PM.**

**I. ROLL CALL:**

**A. Employees' Retirement Board:**

The Vice Chairman called the meeting to order at 1:35 PM.

Trustees present were Vice Chairman John Charest, Pat Testa and Finance Director Chuck Powers; Mayor Thomas Ramiccio (Chairman) and Robert Lepa were absent. Also present were Board Attorney Robert A. Sugarman and Recording Secretary Valerie Hurley, City Clerk's Office.

**II. ADDITIONS/DELETIONS/REORDERING:**

**A. Employees' Retirement Board:**

None.

**B. Police Retirement Board.**

None.

**C. Employees' and Police Retirement Boards:**

Consensus was to waive the rules to reorder New Business item C.1. (review fund valuation for quarter ending June 30, 2000, prepared by Merrill Lynch Consulting Services) to immediately follow this item.

**(IV. NEW BUSINESS:)**

**(C.) Employees' and Police Retirement Boards:**

- (1.) Mr. Michael Callaway, Vice President, Merrill Lunch Consulting Services, to review fund valuation for quarter ending July 30, 2000. (was reordered and placed after Additions/Deletions/Reordering.)**

As of June 30, 2000, the fund had a total market value of \$74,469,030, including accrued income. This represented a decrease in value from the previous quarter of \$2,624,120. The total fund earned -\$624,120 for the quarter and paid out \$2,000,000.

As of June 30, 59.6% of the total fund was invested in equities, 37.7% in bonds and 2.6% in cash and equivalents. The allocation to stocks was more aggressive than the median fund in the balanced fund sample which had 56.9% of its assets invested in stocks.

For the quarter, the total fund earned a -0.8% return, which ranked in the bottom 36% of other balanced funds in the sample. The major stock indexes posted losses in the June 2000 quarter, with numerous earnings shortfalls hitting large, midcap and small stocks alike. Technology ceased to be the magic word during the quarter as investors began to look beyond the dot-com label at the earnings numbers, and even more intently at the longer term earnings prospects. At the same time, investors remained apprehensive of the Federal Reserve's actions, which sharply raised its rates in mid-May. Those events combined to cause weakness in many market indexes. The broad based Russell 3000 fell 3.5% for the quarter, while the S&P 500 was somewhat better with a loss of 2.7%. Significant performance differences occurred relative to industry groups rather than to capitalization size. The technology and telecom stocks tumbled 10-15% for the quarter, while strong gains of 20%+ were recorded by health care stocks, led by pharmaceuticals, hospitals and HMOs. Consumer staples and energy stocks also came through with good positive returns.

In the foreign equity markets, the MSCI EAFE index was off -3.9% for the June 2000 quarter, in US dollars. Few of the developed markets produced positive returns. The deteriorating economic prospects in Japan, together with some political turmoil, induced a decline of -6.2% in this market.

The Federal Reserve continued its effort to restrain the economy during the June quarter by raising interest rates a sharp ½% in May. The Merrill Lynch Domestic Bond Master index was able to advance +1.6%, largely attributable to coupon income. The Treasury's buyback program for its longer maturity bonds continued to benefit longer term Treasury bonds prices.

The total fund was down slightly more than the target index of -0.5% this quarter, attributable to the greater than 50% allocation to the equity portfolio in a declining equity market. The City's domestic equity portfolio return of -2.2% was down less than the S&P 500 of -2.7%, while the bond portfolio lagged the Merrill Lynch Intermediate Bond index of 1.7% with a 1.3% return.

The Davis Hamilton equity portfolio was down less than the S&P 500 with a -2.4% return, slightly underperforming the S&P/BARRA Growth index of -1.5%. Coupled with an aggressive equity allocation and a good relative bond portfolio return, the Davis Hamilton total portfolio returned -0.9% to rank in the bottom 36% of the balanced sample. Davis Hamilton reduced their equity allocation during the quarter to 61.6% on June 30<sup>th</sup>.

STI's total portfolio return of -0.7% ranked in the bottom 39%. In the equity portfolio, the High Grade Equity Income Fund's return of -2.3% was slightly better than the S&P 500 of -2.7% and yet considerably better than the S&P/BARRA Value index of -4.3%. Although STI lost ground in their two most heavily weighted sectors, capital goods and financials, good returns in consumer staples like Flowers Industries and Heinz kept the portfolio from sliding further. Energy stocks also provided a buffer. The STI Small Cap Value Fund enjoyed some brief success with a 5.9% return vs. -3.8% for the Russell 2000. The STI International Equity Index Fund posted a -4.3% return as compared to -3.9% for the EAFE.

STI's bond portfolio returned just 0.7% for the quarter, vs. 1.7% for the Merrill Lynch 1 to 10 year bond index. During the quarter, one of STI's major corporate holdings experienced heavy losses. Finova, a mid-market lender with collateralized loans, had a big loss at the beginning of the quarter and was downgraded to BAA. The company is looking for a buyer. STI reportedly believes that the bonds will recover by the end of the year.

For the year ended June 30, the total return of 3.7% ranked in the bottom 40% of the balanced fund sample. The target index returned 6.0% as well. Davis Hamilton's strong return of 14.2% in the last year offset STI's performance deficit to some extent, (total return of -9.0%). STI's equity portfolio return of -16.5% was poor, due to the weak performance by both the High Grade Equity Income Fund (value) and the Small Cap Value Fund.

For the three-year period ended June 30, the annualized return of 12.4% ranked in the top 49% and exceeded the target of 12.9%. The composite equity portfolio narrowly missed the S&P 500 by a 2.4% margin due to poor performance by STI in the last 2.75 years. In the five-year period the investment performance was below average, in the 61<sup>st</sup> percentile and trailed the target of 14.9%.

There was discussion regarding replacement of SunTrust as money manager. Mr. Calloway reported that the Finova bonds held by STI had been downgraded and, after his office indicated those bonds should be sold, STI continued to hold the bonds, which again were further downgraded. He believed the merger of STI with Trusco was having an impact also.

Mr. Calloway suggested that the Board consider a bond manager and two large cap equity managers, recommending that 25% of the fund be assigned to each equity manager, 40% to the bond manager, and 10% for international investments.

Consensus: The consensus was to ask Mike Callaway to provide the Boards with a short-list of six companies each, of value managers, international managers, bond managers, and obtain proposals from each for presentation at a future meeting.

**III. UNFINISHED BUSINESS:**

**A. Employees' Retirement Board:**

None.

**B. Police Retirement Board:**

None.

**C. Employees' and Police Retirement Boards:**

None.

**IV. NEW BUSINESS:**

**A. Employees' Retirement Board:**

- 1. From J. David Hunt, Public Works Department, requesting vested retirement, as set forth in Section 16-33(b) of the Employees' Pension Code, effective July 21, 2000.**

Mr. Sugarman explained that immediately prior to reaching age 62 Mr. Hunt or in the event of his death, his beneficiary, would chose the payment option and come before the Board at that time for approval.

Action: It was moved by Mr. Powers, seconded by Mr. Testa, to receive and file the request from J. David Hunt, Public Works Department, for vested retirement, as set forth in Section 16-33(b) of the Employees' Pension Code, effective July 21, 2000.

Mr. Hunt asked questions regarding vested retirement benefits, and Mr. Sugarman read Section 16-33(b) regarding his questions; there was no action taken by the Board. There was nothing Mr. Hunt needed to do at this time.

Vote: 3/0 – Aye; Mayor Ramiccio and Mr. Lepa absent.

**B. Pertained to Police Retirement Board:**

**C. Employees' and Police Retirement Boards:**

- 1. Mr. Michael Callaway, Vice President, Merrill Lynch Consulting Services, to review fund valuation for quarter ending July 30, 2000.**

Considered earlier in the meeting.

- 2. Receive and file letters dated August 30, 2000, from Michael Callaway, Vice President, Merrill Lynch Consulting Services, re SunTrust High Grade Bond Fund.**

**Action:** It was moved by Mr. Powers, seconded by Mr. Testa, to receive and file letters dated August 30, 2000, from Michael Callaway, Vice President, Merrill Lynch Consulting Services, re SunTrust High Grade Bond Fund.

**Vote:** 3/0 – Aye; Mayor Ramiccio and Mr. Lepa absent.

- 3. From Michael Callaway, Vice President, Merrill Lynch Consulting Services, re Investment Policy addendum to comply with Senate Bill 372.**

**Consensus** was to postpone until the next meeting consideration of the communication from Michael Callaway, Vice President, Merrill Lynch Consulting Services, re Investment Policy addendum to comply with Senate bill 372.

- 4. Receive and file letters dated August 30, 2000, from Robert A. Sugarman, Esq., Sugarman & Susskind, to Larry Cole, STI Capital Management, and Jack Hamilton, Davis Hamilton Jackson & Associates, re investment guidelines and amendments.**

**Action:** It was moved by Mr. Powers, seconded by Mr. Testa, to receive and file letters dated August 30, 2000, from Robert A. Sugarman, Esq., Sugarman & Susskind, to Larry Cole, STI Capital Management, and Jack Hamilton, Davis Hamilton Jackson & Associates, re investment guidelines and amendments.

**Vote:** 3/0 – Aye; Mayor Ramiccio and Mr. Lepa absent.

- 5. Consider blanket motion for FY 2000-2001 re attendance at Trustee Schools and Conferences.**

**Action:** It was moved by Mr. Powers, seconded by Mr. Testa, to authorize up to five members of the Board to attend Trustee Schools and Conferences during FY 2000-2001.

Vote: 3/0 – Aye; Mayor Ramiccio and Mr. Lepa absent.

**V. CONSENT AGENDA:**

**A. Employees' Retirement Board:**

Action: It was moved by Mr. Powers, seconded by Mr. Testa, to approve the Consent Agenda (A), in its entirety, as follows:

1. **Approve minutes of April 26, 2000 Regular Meeting, as submitted.**
2. **Authorize payment of invoice from Sugarman & Susskind, dated September 1, 2000, in amount of \$750.00 for retainer fee for month of September 2000.**

**B. Pertained to Police Retirement Board.**

**C. Employees' and Police Retirement Boards:**

Action: It was moved by Mr. Powers, seconded by Mr. Testa, to approve Consent Agenda (C), in its entirety, as follows:

1. **Ratify refunds of pension contributions as reported by Finance Department, as follows:**

Checks Disbursed 9/7/00:

Clayton A. Campbell, Waste Removal, 16Y/3M/11D, \$22,482.24, separated from service 7/27/00.

Bryon Strunk, Cemetery, 10M/17D, \$415.53, separated from service 8/21/00.

Ronald E. Lupo, Water Treatment, 11M/28D, \$2,672.62, separated from service 8/20/00.

Taya L. Baldwin, Pool & Beach, 5Y/3M/18D, \$7,583.51, separated from service 9/2/00.

Vote: 3/0 – Aye; Mayor Ramiccio and Mr. Lepa absent.

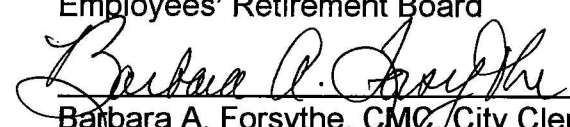
**VI. ADJOURNMENT:**

**A. Employees' Retirement Board:**

The meeting adjourned at 2:55 PM by unanimous vote of those members present, on a motion by Mr. Powers, seconded by Mr. Testa.

**MINUTES APPROVED:** 6/6/01

  
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Mayor Rodney G. Romano, Chair  
Employees' Retirement Board

  
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Barbara A. Forsythe, CMC, City Clerk  
Secretary, Employees' Retirement Board

Minutes transcribed by:  
Barbara L. Eberly, City Clerk's Office

A tape recording of this meeting will be available in the Office of the City Clerk for two years after approval of these minutes.

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