CITY OF PHOENIX
EMPLOYEES' RETIREMENT BOARD
200 West Washington Street, 10^{th} Floor
Phoenix, Arizona 85003

December 14, 2011

MEMBERS PRESENT:	Ms. Elizabeth Bissa, Chairperson Ms. Linda Reidenbach, Vice Chairperson Mr. Ray Bladine, Board Member Mr. Jeff DeWitt, Board Member Mr. David Hensley, Board Member Mr. Rick Naimark, Board Member Mr. Corey Williams, Board Member
ABSENT:	Ms. Janet Smith, Board Member One Vacancy
ALSO PRESENT:	Ms. Donna Buelow, Retirement Program Administrator Ms. Paula Whisel, Recording Secretary Ms. Jackie Temple, City of Phoenix Employees' Retirement System (COPERS) Mr. Greg Fitchet, COPERS Ms. Jodi Nicholson, City of Phoenix Finance Department Atty. Cassie Langford, Yoder & Langford Ms. Cathleen Gleason, Retiree Mr. Ryan Harvey, R.V. Kuhns & Associates Mr. Les Scott, City of Phoenix Audit Department Ms. Baya Sommers, Disability Applicant Atty. Daniel Bonnett, Atty. for Ms. Sommers Ms. Kim Grant, City of Phoenix Finance Department Ms. Anna Martinez, COPERS Ms. Whitney Cox, Stone Harbor Mr. Jon Fischer, Stone Harbor Ms. Claire Husson-Citanna, Franklin Templeton Mr. Bill Makris, Franklin Templeton Ms. Karen Jordan, MFS Mr. Michael Adams, MFS

The City of Phoenix Employees' Retirement Board met at 17 S. 2nd Avenue, 2nd Floor Subcommittee Room, Phoenix, Arizona on December 14, 2011 at 9:30 a.m., to conduct regular business.

1. **Call to Order**

   Chairperson Bissa called the meeting to order at 9:35 a.m. She stated Ms. Smith was unable to attend the meeting.

2. **Approval of Meeting Minutes:**

   a) September 21, 2011 (Retirement Board Meeting)
   b) November 4, 2011 (Legal Review Committee Meeting)
   c) November 9, 2011 (Investment Committee Meeting)

Mr. Hensley moved approval of the minutes of the September 21, 2011 Retirement Board, the November 4, 2011 Legal Review Committee and the November 9, 2011 Investment Committee meetings. Mr. Williams seconded the motion. The motion carried unanimously.

3. **Charter Amendments/Policies & Procedures Committee Report**

The Charter Amendments/Policies & Procedures (CAPP) Committee met on November 30, 2011. Ms. Buelow stated Ms. Smith requested she present the CAPP Committee report.

b) Consideration of Possible Revision of Policy 30: Signatures on Vouchers

Ms. Buelow stated the Committee recommends the Board approve a policy revision to allow the Finance Director to be one of two required signatures in the event of a vacancy in the City Treasurer position.

c) Consideration of Possible Revision Regarding Board Member Candidate Communication

Ms. Buelow stated the Committee recommends the Board approve a policy revision which would prohibit unsolicited distributions from individuals running for the Board using the City's e-mail or other communication resources.

d) Consideration of Possible Recommendations for Charter Changes

Ms. Buelow stated the Board previously supported a recommendation from the Committee to pursue a Charter change to grant the Board the authority to hire internal legal counsel and obtain outside legal counsel. She stated after further consideration, the Committee recommends the Board approve excluding this item from the potential Charter changes.

Mr. Naimark moved approval of items b, c and d. Mr. Bladine seconded the motion. The motion carried unanimously.

Ms. Anna Martinez entered the room.

a) Consideration of Appeal from Baya Sommers Regarding Disability Assessment Committee's Denial of Application for Non-Duty Disability Retirement Benefits

Ms. Baya Sommers and Atty. Daniel Bonnett entered the room.

Ms. Buelow stated the CAPP Committee considered Ms. Sommers' appeal. She stated the Committee reviewed the Charter eligibility requirement of total and permanent disability resulting in the inability to perform in the service of the City. She stated the Committee also reviewed an independent medical examination (IME) report conducted at the direction of the Disability Assessment Committee (DAC) along with medical information provided by Ms. Sommers.

Ms. Buelow stated during the Committee meeting Atty. Bonnett indicated Ms. Sommers' physician and the IME physician had not adequately addressed her conditions of chronic fatigue syndrome (CFS) and fibromyalgia. She stated Atty. Bonnett also referred to the approval of disability benefits from the Social Security Administration (SSA) as support for the potential approval of COPERS' benefits. Ms. Buelow stated the Committee discussed the nature of the conditions and by a majority vote recommends the Board deny Ms. Sommers' appeal.

Atty. Bonnett stated he believed there was some concern among the members of the Committee regarding the findings of the IME report. He stated the IME report is one piece of evidence to be considered along with the other evidence which has been presented.

Atty. Bonnett stated Ms. Sommers' disability was not based just on the fibromyalgia and CFS but also a number of impairments which Ms. Sommers has had for a long time. He stated these specific things are benchmarks which the Center for Disease Control (CDC) looks at to determine whether there was a presence of CFS.

Atty. Bonnett stated there are conditions which have been documented going back for quite some time. He stated Ms. Sommers has suffered from many conditions and all affect her in varying combinations including her inability to perform any job within the City. He stated what motivated the Social Security Administrative Law Judge to find Ms. Sommers was disabled was the combined affect of the impairments. He stated he tried to address the concerns from the CAPP Committee in the supplemental material.

Atty. Bonnett stated the Administrative Law Judge found Ms. Sommers' conditions fit the definition which COPERS uses in determining whether an individual is disabled. He stated there was the testimony of a Vocational Rehabilitation Expert who stated there were no jobs in the national economy which Ms. Sommers could perform. Atty. Bonnett stated Ms. Sommers has experienced and continues to experience degenerative disc disease, bilateral knee pain, sciatica, bilateral greater trochanteric bursitis, osteoarthritis in the shoulder as well as thoracic, cervical and lumbar spine, low stamina and fatigue accompanied by pain, shortness of breath, gastroesophageal reflux disease (GERD), hypothyroidism, carpal tunnel, temporomandibular joint disorder (TMJ), migraine headaches, changes in vision, chest pain, varicose veins, swelling of the legs, irritable bowel syndrome, numbness in the extremities, tingling in the extremities, loss of balance, progressive weakness, shooting pains, difficulty walking, muscle weakness, depression and difficulty sleeping.

Atty. Bonnett stated all of those things were documented in various medical records submitted with the application. He stated the effects of the combination of those things were not fully addressed in the IME to the degree they were in the SSA findings.

Atty. Bonnett stated he was asking the Board to reconsider the prior ruling and find Ms. Sommers disabled. He stated if the Board was not prepared to do so, as an alternative he would suggest the Board recommend another doctor take a look at Ms. Sommers and take into consideration the additional information including the SSA findings.

Mr. Naimark asked if the information referenced by Atty. Bonnett was shared with the IME doctor. Atty. Bonnett stated there was no reference to it anywhere in his report. Ms. Buelow indicated she believed the documentation was included in the materials submitted to the doctor. Atty. Bonnett stated he is not sure if the doctor looked at the reports even if they were submitted because there was no mention in his findings.

Atty. Bonnett stated there was an error in the report which stated Ms. Sommers was a Police Dispatcher when in fact she was a Police Aide. He stated it does not appear a written job description was examined by Dr. Anghel to determine whether Ms. Sommers could perform all of the essential job functions.

Mr. DeWitt stated in the report dated June 29, 2011, the doctor states the patient should be able to return to full work duties. He asked Atty. Bonnett if he thought the examination had been thorough. Atty. Bonnett stated he was not there so he cannot speculate whether it was thorough or not. He stated he does not read in the report any analysis of the combined effect of the impairments to the degree which was examined by the SSA Law Judge. He stated there are a number of things which were not addressed in regards to the impairments, specifically the CFS.

Mr. Hensley stated he would prefer getting some clarification from Dr. Anghel regarding whether he considered the total combined effect. He stated the other element is the latest MRI, the results of which were released after November 30, 2011.

Mr. Williams stated the SSA report lists four illnesses, not the long list provided by Atty. Bonnett. He asked if there was additional documentation. Atty. Bonnett stated he did not represent Ms. Sommers at the SSA proceeding but understands the Administrative Law Judge focused on the things she was able to identify as meeting the criteria outlined in the various regulations cited in the decision.

Mr. DeWitt asked if CFS was listed as one of the disabilities for COPERS. Ms. Buelow stated COPERS does not have a list of specific conditions. She stated the requirement is the individual must be totally and permanently disabled from performing any job in the employ of the City.

Mr. Williams stated Ms. Smith had previously indicated normally an assessment is conducted by the Human Resources Department to determine if an employee can perform in any position within the City. Atty. Bonnett stated early in the process, when Ms. Sommers was receiving Long Term Disability (LTD) benefits, there had been some discussion about different employment options.

Mr. Hensley moved to direct staff to request Dr. Anghel provide a clarification to his original report taking into consideration the recent MRI of the left shoulder, the job description, the combined effect of fibromyalgia and CFS and the totality of Ms. Sommers' conditions. Mr. Bladine seconded the motion. The motion carried unanimously.

Atty. Barnett and Ms. Sommers left the room.

e) <u>Future Agenda Items</u>

No new future agenda items had been requested.

f) Call to the Public

There was no response to the call to the public.

4. **Update Regarding Pension Reform Task Force**

Mr. Naimark stated the Pension Reform Task Force (PRTF) had completed its recommendations. He stated the PRTF's recommendations were made by a strong majority vote.

Mr. Naimark stated the process, if adopted by Council, would seek to create a two tier system. He stated the current rules with regard to retirement eligibility would go away for new hires and there would only be a normal retirement age for any employee who starts after the effective date of these changes. He stated the proposed change for retirement eligibility would be 63 years of age with a minimum of 10 years of service. He stated there would be an early retirement age of 55 with at least 10 years of service and the benefit amount would be actuarially reduced from age 63. He stated the recommendations also included the provisions vacation and sick time payouts would no longer be included in pensionable earnings for new hires. He stated pensionable earnings for new employees would also not include travel, communications or other technical allowances.

Mr. Naimark stated the Charter includes a minimum threshold on how many working days in the month equal a month of service and how many working days in a year equal a year of service. He stated the PRTF's recommendation is the calculation would specify 20 days a month for one month of service and 240 days a year for a year of service for new hires.

Mr. Naimark stated the recommendation is also to eliminate the minimum pension provision for new employees, which is not utilized very often.

Mr. Naimark stated the PRTF also recommended applying an escalating multiplier, for new employees. He stated the graduated multiplier would be 1.85% for up to 14.99 years of service, 1.9% for 15 to 19.99 years, 1.95% for 20 to 24.99 years, 2% for 25 and 29.99 years and 2.1% for 30 or more years of service.

Mr. Naimark stated for existing employees the focus was on the contribution rates, which would also apply to new hires. He stated there will be no grandfathered group among existing employees for this recommendation. He stated the proposed change is the fixed employee contribution rate of 5% would increase. He stated after the annual required contribution is determined the percentage would be split 50/50. He stated the rate for new employees would immediately go to the 50/50 split. He stated for existing employees the rate of increase would not go up more than two percentage points a year until it reached the 50/50 split.

Mr. Naimark stated in four years it was estimated the City employees would be paying the same contribution rate as new employees and the City's savings would exceed $50 million.

Mr. Naimark stated the PRTF recommendations will be presented to the City Council.

5. **Potential Discussion of Funding Implications and Legal Ramifications of Possible Plan Changes**

6. **Consideration of Timing, Process and Review of Possible Changer Changes**

Ms. Reidenbach moved to convene in executive session at 10:37 a.m. for discussion of items 5 and 6. Mr. Williams seconded the motion. The motion carried unanimously.

[Executive Session took place]

Ms. Reidenbach left the room during the Executive Session.

The Board convened in open session at 11:01 a.m.

No action was taken.

10. **Consideration of Requests for Purchase of Service Credits Pursuant to Board Policy 180**

Mr. Bladine moved approval of the service purchase requests. Mr. DeWitt seconded the motion. The motion passed unanimously.

a) In-State/Out-of-State/Military

1) Gary Gidak
2) Walter Jackson
3) Charlotte Mr. Fischeres
4) Mani Kumar
5) Brian Malone
6) Stephen Wetherell

b) City of Phoenix Full-Time Temporary

1) Raymond Mora

11. **Bills to be Paid**

Mr. DeWitt moved approval of the payment of the bills. Mr. Hensley seconded the motion. The motion carried unanimously.

	Plan Expenses	
a)	Dimensional Fund Advisors 3rd Quarter 2011 Fees	$ 77,010.19
b)	Elkins McSherry 3rd Quarter 2011 Fees	$ 2,500.00
c)	Mondrian 3rd Quarter 2011 Fees	$ 76,147.24
d)	State Street September 2011 Fees	$ 9,372.83
e)	Yoder & Langford, P.C. Professional Fees	$ 4,410.00

7. **Consideration of Response to Public Records Request From Taxpayers United of America**

Ms. Buelow stated this item was informational.

8. **Consideration of Potential Emerging Markets Debt Managers and Possible Investment and Asset Allocation Policy Revisions**

c) Stone Harbor

Ms. Whitney Cox and Mr. Jon Fischer entered the room.

Mr. Fischer stated he worked in client services at Stone Harbor. He introduced Ms. Whitney Cox, one of ten emerging debt portfolio managers employed by Stone Harbor. He stated the product they were going to review was Stone Harbor's emerging market debt mutual fund. He stated currently Stone Harbor manages about $28 billion in emerging market debt.

Ms. Cox stated Stone Harbor uses a team approach. She stated Stone Harbor has one of the longest track records in the industry and the core group has been in place for two decades. She stated the driving force behind everything Stone Harbor does is fundamental credit analysis. She stated they have a more quantitative approach to their actual security selections for the bonds versus the index. She stated Stone Harbor was benchmark aware. She stated Stone Harbor was comfortable having a zero allocation in a country where they think the credit fundamentals are not up to their standards. She stated diversification was very important to their investment process. Ms. Cox stated Stone Harbor has been managing emerging markets hard currency, local currency and corporate securities since the early 1990's.

Ms. Cox stated in terms of investment philosophy Stone Harbor is a fixed income firm with over 70% of revenue from the emerging markets. She stated Stone Harbor was a 100% employee only owned firm, which aligns their interest with the clients' interest.

Ms. Cox stated credit was the first line of defense in risk management. She stated Stone Harbor has invested in developing risk management systems. She stated the systems were completely proprietary to Stone Harbor.

Ms. Cox stated the disciplined process has been in place for over 20 years. She stated the process begins with Stone Harbor's investment policy committee meeting, where all of the portfolio managers develop the framework. She stated they review every country in the investment universe and their credit fundamentals. She stated they also meet on a bi-weekly basis with the London office, the Chief Investment Officer and the emerging markets team. She stated this process results in a decision on the country and currency analysis. She stated a more in-depth corporate analysis is then completed.

Ms. Cox stated Stone Harbor wants to make sure they are lending to people who are going to pay them back. She stated they determine the country's ability to pay their debt. She stated Stone Harbor has a database managed by their chief economist. She stated Stone Harbor was constantly going through the credit fundamentals. She stated Stone Harbor supplements their research with frequent travel to the regions and typically visit about 30 countries a year. She stated each portfolio manager has local contacts they can call to make sure they know what was going on locally. Ms. Cox stated also important was a country's willingness to pay.

She stated it involves having an idea of what was going on politically, the level of influence of the export sector, what sort of reforms are being put into place and whether the reforms are being reinforced at the ballot box. She stated Stone Harbor goes over every country and come to a judgment based on credit fundamentals, the willingness to pay and valuations between hard currency and local currency.

Ms. Cox stated Stone Harbor's corporate analysis is done to make sure they were compensated for the risks being taken. She stated Stone Harbor has a team of corporate analysts dedicated to emerging markets who are doing the bottom-up, in-depth corporate analysis.

Ms. Cox stated Stone Harbor's portfolio review and risk management team approach is important. She stated their clients can talk to any of the ten portfolio managers regarding their portfolio. She stated Stone Harbor has invested in their attribution system which allows them to identify which positions are working in a fairly quick manner. She stated a report goes out to clients on a monthly basis.

Mr. Harvey asked if the product would have exposure to sovereign, corporate, hard currency and local currency. Ms. Cox stated this was correct. She stated typically Stone Harbor has a little more local and corporate exposure because of the valuations. She stated Stone Harbor does not put a hard stop on their allocations with respect to any underweight or overweight positions on a country basis. She stated a 4% overweight would be a large overweight.

Mr. Fischer stated as of December 13, 2011, Stone Harbor's corporate exposure was 16%, local currency exposure was 13% and hard currency exposure was 69%.

Mr. Naimark asked how Stone Harbor deals with clients who do not want to invest in a certain country. Mr. Fischer stated Stone Harbor manages separate accounts for those clients.

Mr. Harvey stated the vehicle would be an institutional mutual fund so the Plan would be subject to the guidelines of the fund. He stated the main reason for using a mutual fund was to avoid the operational expense of opening custodial accounts in every country.

Mr. DeWitt asked if Stone Harbor has a maximum weight in any region or country. Ms. Cox stated there were no maximum weights.

Mr. DeWitt asked what the current maximum weight was in any country. Ms. Cox stated Brazil was Stone Harbor's biggest overweight, which was around 4%.

Mr. Harvey asked if the fees were 75 basis points and if they included custody costs. Mr. Fischer stated the 75 basis points included custody costs.

Mr. Naimark asked Stone Harbor to elaborate on the reliability or value of their benchmark. Ms. Cox stated the benchmark was a good guideline. She stated many countries included in the benchmark currently had a zero weight. She stated Stone Harbor does not follow the benchmark at all times.

Mr. Harvey stated none of the three managers the Board was meeting with today are especially concerned with the benchmark. He stated of the three Stone Harbor would be in the middle with a long-term tracking error of about 5%.

Ms. Cox and Mr. Fischer leave the room.

a) Franklin Templeton

Mr. Bill Makris and Ms. Claire Husson-Citanna entered the room.

Mr. Makris stated Franklin Templeton was a publicly traded global investment firm. He stated Franklin Templeton has about 9,000 employees and 50 offices in 32 countries. He stated Franklin Templeton offers financial products and services to retail and institutional investors in 128 countries.

Mr. Makris stated they would focus on the Franklin Templeton Fixed Income Group. He stated each of Franklin Templeton's investment management groups is completely autonomous with their own investment processes, analysts and portfolio managers. He stated the only thing these people are tasked with within these investment management groups is investment management and research. He stated the ancillary business functions are handled at the corporate level. He stated the Franklin Templeton Fixed Income Group have been around since 1970 and focus on everything from money market funds to emerging market debt strategies. He stated Franklin Templeton currently manages around $300 billion in fixed income assets globally.

Ms. Husson-Citanna stated there are three main reasons to invest in this asset class. She stated the first reason is the fundamentals of emerging markets are historically strong. She stated the public indebtedness of emerging markets is about 40% to 60% of gross domestic product (GDP), which is much lower than the public indebtedness in the U.S. and Europe. She stated the second reason is emerging markets are still a niche asset class. She stated every year the International Monetary Fund (IMF) publishes a table which shows the world in terms of assets. She stated according to the IMF, fixed income globally is about $43 trillion actual investable assets. She stated emerging market debt represents about $2.6 trillion. She stated the third point was this asset class, despite the fact that it has a relatively low weight in the broad scheme of global distinction, is in full extension.

Ms. Husson-Citanna stated Franklin Templeton has been present in this asset class since 1996 with a stable team. She stated Franklin Templeton excludes all high income economies from their opportunity set. She stated there are about 210 countries in the world including about 60 high income economies.

Ms. Husson-Citanna stated Franklin Templeton's investment process was based on financial research while acknowledging the importance of technical factors. She stated Franklin Templeton has their own country risk models and do not rely on rating agencies or market prices to assess country risks. She stated once they have assessed the country risk of each emerging market they will automatically cap their risk exposure to a given country. She stated Franklin Templeton has a scale of one to three and a country which they deem the least risky will be a category one and would represent up to 16% of the investments. She stated they rarely go beyond a 10% percent country concentration. She stated a category two country would not represent more than 8% percent. She stated the category three country, which is the riskiest, would not represent more than 4%.

Ms. Husson-Citanna stated the first step in currency selection is risk control. She stated the second step was a very simple interest rate differential approach. She stated the third step is to decide whether they want to invest in pure sovereign risk or corporate risk. Ms. Husson-Citanna stated the risk controls have been in place since 1996 when Franklin Templeton launched this strategy. She stated individual country concentration was a reflection of the first step in their investment process. She stated the second step was regional diversification. She stated they want to make sure they achieve diversification in having at least 20% in local currency. She stated for corporate risk they do not want to have more than 20% of the investment vehicles in emerging markets of private companies. She stated if the company is AA rated they should not have more than 5% in a given company and single B rated they have no more than 2.5% in the company.

Ms. Husson-Citanna stated Franklin Templeton has a very large opportunity set of countries. She stated the investments include countries not found in any indices or amongst competitors.

Mr. Naimark stated in comparison to the other firms Franklin Templeton was substantially lower in their investments in Latin America and the Far East except for China. Mr. Harvey stated Franklin Templeton starts out with a different universe than the benchmark. He stated they define their investment universe as basically all lower income countries in the world which will include some smaller than those found in the benchmark, but will also include some which are in the developed markets benchmark.

Ms. Husson-Citanna stated Franklin Templeton excludes all high income economies. She stated two-thirds of asset allocation in the strategy is not represented in any emerging markets debt indices.

Ms. Husson-Citanna stated Franklin Templeton has long-term experience, a stable team and long-term performance. She stated they insist on achieving real diversification across countries and currencies. She stated Franklin Templeton has stringent risk controls which mirror their fundamental research approach. She stated they have valuable resources across the globe in emerging markets.

Mr. Harvey asked if the vehicle being considered was a commingled fund and for a confirmation of the fees. Mr. Makris stated the vehicle was a commingled fund. He stated the fees on the first $100 million investment were 85 basis points, which included a management fee of 60 basis points and the various custody agreements. He stated the fees on the second $100 million investment were 70 basis points.

Ms. Husson-Citanna and Mr. Makris left the room.

18. **<u>Recognition of Outgoing Board Members Ray Bladine and Corey Williams</u>**

Chairperson Bissa thanked Mr. Bladine and Mr. Williams for their service to the Board.

8. **<u>Consideration of Potential Emerging Markets Debt Managers and Possible Investment and Asset Allocation Policy Revisions - Continued</u>**

b) <u>MFS</u>

Ms. Karen Jordan and Mr. Michael Adams entered the room.

Ms. Jordan introduced Mr. Adams, a member of the emerging market debt team. She stated Mr. Adams was the Institutional Product Manager. Ms. Jordan stated she was Director of Institutional Sales and lives in Arizona.

Ms. Jordan stated MFS manages assets for the City of Phoenix Medical Expense Reimbursement Plan (MERP) and the Long-term Disability (LTD) Plan. She stated MFS has a long history of money management and have been managing emerging market debt assets for over 15 years.

Mr. Williams left the room.

Ms. Jordan stated MFS' main office was in Boston with another business office in Phoenix. She stated MFS' research offices were located in London, Tokyo, Singapore, Mexico City and Sydney, Australia. She stated total assets under management were $206 billion as of September 30, 2011, with $5.5 billion in emerging market debt.

Ms. Jordan stated even though emerging markets debt was a risky asset class adding it to a portfolio reduces the level of risk in the entire plan. She stated since COPERS has a restriction on U.S. below investment grade securities, the emerging markets debt allocation would be a good compliment to the overall plan.

Ms. Jordan stated one of MFS' key distinguishing factors was the unique experience of the investment team. She stated Mr. Matthew Ryan and Mr. Ward Brown are lead portfolio managers for the strategy and they have been working together for many years. She stated Mr. Ryan joined MFS in 1997 and has been on the portfolio since inception. She stated Mr. Brown joined MFS in 2005. She stated as lead portfolio managers they jointly make the buy and sell decisions in the portfolio. She stated Mr. Ryan, Mr. Brown and Mr. Erik Weisman, one of the sovereign analysts, worked at the International Monetary Fund (IMF), an entity which monitors world economies. She stated Mr. Ryan and Mr. Weisman also worked at the United States Treasury Department. She stated Mr. Robert Hall and Mr. Adams support Mr. Ryan and Mr. Brown in their functions and are the key spokespersons for the strategy.

Mr. Adams stated it was very topical to be talking about emerging markets debt. He stated there are headlines on a daily basis regarding the imminent issues facing Europe of high levels of debt. He stated the situations in the developed markets of Europe, the U.S. and Japan are detrimental to bond prices. Mr. Adams stated the emerging markets do not have high levels of public debt. He stated emerging markets are growing at two to three times the rate of the U.S. and Europe.

Mr. Adams stated it was MFS' objective with this product to develop long-term, consistent track records and not expose clients to undue volatility. He stated MFS uses a two-tiered investment approach intended to capture risks and opportunities. He stated one level is top-down and the second level is bottom-up at an individual emerging market country level analysis. He stated it was intended to capture the risks and opportunities of individual emerging market economies.

Mr. Adams stated the toolbox available to the emerging market debt manager is comprised of three sub-asset classes with different characteristics which can have a dramatic impact on the liquidity, risk and return of the portfolio. He stated these sub-asset classes are U.S. dollar-denominated sovereign bonds, U.S. dollar denominated corporate bonds and local currency denominated sovereign bonds. He stated the dollar-denominated sovereign bonds, called country bonds, are the most liquid and safest of the three sub-asset classes. He stated managers will also add corporate securities and local-currency denominated debt for diversification and return, which adds risk. He stated corporate securities can add liquidity risk, increased beta and increased volatility to the portfolio during times of stress. He stated country bonds denominated in local currency add currency and liquidity risks to the portfolio. Mr. Adams stated MFS adds corporate securities and local currency denominated debt to add diversification and to add return to the portfolio. He stated MFS is careful with managing the risks involved with these sub- asset classes.

Mr. Harvey asked about any limitations on the allocations to corporate securities and local currency. Mr. Adams stated MFS can include up to 20% of each with a typical target of 10% to 20%. Mr. Adams stated in August 2011, MFS saw the global economy slowing with a mixture of fundamentals and risks in the global environment. He stated currency fundamentals were deteriorating slowing growth globally and policy rates were being cut which was detrimental to currency. He stated globally it was turning from a risk on to a risk off environment because of heightened risk coming from Europe. He stated MFS brought their currency positions to zero.

Mr. DeWitt asked what would have to happen to cause MFS to bring their currency positions back up. Mr. Adams stated MFS sees progress in Europe where global economic conditions are stabilizing. He stated MFS would need to see Europe make sustained and relatively quick progress towards resolving their issues. He stated MFS would also need to see firming economic conditions and policy rates stabilize in emerging market economies before they would add currency back into the portfolio.

Ms. Jordan stated MFS' performance emphasizes their strategy and how they try to provide consistent returns with downside protection for their clients. She stated MFS has outperformed the index every year over the last 10 years reaching the goal of providing strong performance with a focus on risk.

Ms. Jordan stated MFS' advantages are the unique experience and background of the investment team, their adherence to risk management and their focus on liquidity to be able to move in and out of the countries quickly.

Ms. Jordan stated MFS would like to have the opportunity to work with the Board. She stated MFS understands their duty as a fiduciary would be to manage the Plan with care and prudence and invest their assets consistent with the investment objectives.

Mr. Harvey stated the vehicle which Kuhns would recommend would be the commingled product to avoid the custody expense. Ms. Jordan stated the management fee was 53 basis points plus 10 basis points for administrative fees for a total of 63 basis points. She stated any additional assets over $75 million would have a fee of 55 basis points.

Ms. Jordan and Mr. Adams left the room.

A discussion ensued regarding the performance, investment strategy and fees of the managers.

Mr. DeWitt stated he would like to have Kuhns present a report to the Board regarding the Plan's performance and other plans' asset allocations which allow them to outperform peer plans. Ms. Buelow stated Kuhns was preparing a report on these topics.

It was the consensus of the Board to review the Kuhns report prior to addressing this asset class and to take no action at this time.

9. **Presentation of Election Results for Employee Members**

Chairperson Bissa stated this item was informational. Elizabeth Bissa, David Hensley and Leslie Scott were elected to the Retirement Board.

12. **Refunds (through November 30, 2011)**

Chairperson Bissa stated this item was informational.

13. **Report of November 2011 Retirees and December 1, 2011 Payroll**

Chairperson Bissa stated this item was informational.

14. **Pending Legal Opinions**

Chairperson Bissa stated this item was informational.

15. **Administrator's Report**

a) Update Regarding January 1, 2012 Pension Payments

Ms. Buelow stated this item was informational.

b) Plan History Regarding Participants

Ms. Buelow stated this item was informational.

c) Results of COPERS' Database Comparisons Against Database of Deceased Individuals

Ms. Buelow stated this item was informational.

d) Budget Report

Ms. Buelow stated this item was informational.

16. **Discussion with Atty. to Consider Position and Instruct Atty. Regarding Lawsuit CV2002-020383 Regarding Former and Current Head Start Workers**

No action was taken.

17. **Future Agenda Items**

No new items were requested.

19. **Call to the Public**

There was no response to the call to the public.

20. **Next Board Meeting: Wednesday, January 18, 2012 at 9:30 a.m.**

Chairperson Bissa stated this item was informational.

21. **Close Session**

The meeting adjourned at 12:20 p.m.

Ms. Donna M. Buelow
Retirement Program Administrator

Paula Whisel
Recording Secretary

Lollita Cordova
Transcriber

APPROVED:

Ms. Elizabeth Bissa, Chairperson
COPERS Retirement Board

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