

CORAL GABLES RETIREMENT SYSTEM
Minutes of October 30, 2008
Youth Center Conference Room
405 University Drive – 2nd Floor
8:00 a.m.

MEMBERS:	J F M A M J J A S O N D	APPOINTED BY:
----------	-------------------------	---------------

Steven Naclerio	P P P P P P - P P P	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	P P P P E P - P P P	Vice Mayor William H. Kerdyk, Jr.
Tom Huston, Jr.	P P P P E P - P P P	Commissioner Maria Anderson
Sal Geraci	P E P P P P - P E P	Commissioner Rafael "Ralph" Cabrera
Leslie Space	P P P P E P - P P P	Commissioner Wayne "Chip" Withers
Agustin Diaz	P P P P P E - P P P	Police Representative
Troy Easley	P P P P P P - P P P	Member at Large
Victor Goizueta	P P P P P P - P P P	General Employees
Wayne Sibley	P P P P P P - E P P	Fire Representative

STAFF:

Kimberly Groome, Administrative Manager
Alan Greenfield, Board Attorney
Donald G. Nelson, Finance Director
Dave West, Bogdahn Consulting

A = Absent
E = Excused Absent
P = Present

GUESTS:

Richard Sicking, Esquire
Eugenio Arencibia
Jose Torres
Charlie Becker, Fowler, White, Burnett, P.A
Christopher Greenfield, Esquire
Marjorie Adler, Human Resources Director

Chairperson Sibley calls the meeting to order at 8:14 p.m. There was a quorum present.

1. Roll call.
2. Report of Administrative Manager (*Agenda Item 3*).

A motion to accept the Administrative Manager's report without discussion was made by Mr. Huston and seconded by Mr. Easley. Motion unanimously approved (8-0).

1. For the Board's information, there was a transfer of \$1,700,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of September 2008 for the October 2008 benefit payments.
2. For the Board's information, there was a deposit of \$3,249,307.00 to the Northern Trust Cash Account from the City of Coral Gables on October 9, 2008 for the City's

outstanding retirement contribution.

3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account (fiscal year spreadsheet attached):
 - Payroll ending date August 31, 2008 in the amount of \$72,711.65 was submitted for deposit on September 10, 2008.
 - Payroll ending date September 14, 2008 in the amount of \$78,523.46 was submitted for deposit on September 25, 2008.
 - Payroll ending date September 28, 2008 in the amount of \$74,553.33 was submitted for deposit on October 8, 2008.
4. A copy of the detailed expense spreadsheet for the month of September 2008 is attached for the Board's information.
5. A copy of the Summary Earnings Statement from the Northern Trust Securities Lending Division for billing period August 1, 2008 to August 31, 2008 and September 1, 2008 to September 30, 2008 are attached for the Board's information.
6. Attached for the Board's information are the Statements of Pending Transactions and Assets as of August 31, 2008 and September 30, 2008 from JP Morgan.
7. Attached for the Board's information are the Statements of Settled Transactions from August 1, 2008 to August 31, 2008 and September 1, 2008 and September 30, 2008 from JP Morgan.
8. A copy of the September 2008 NCPERS Newsletter "The Monitor" is attached for the Board's information.
9. For the Board's information emails are attached from JP Morgan and Eagle Capital Management are attached regarding the market events of early September 2008.
10. Attached for the Board's information is information from Northern Trust regarding a Market Update of September 17, 2008 of their Securities Lending program
11. A copy of an email from JP Morgan regarding their Strategic Property Fund dated September 19, 2008 is attached for the Board's information.
12. Attached for the Board's information is an email from Burgess Chambers regarding an article about the Florida State Board of Commission and the Lehman bankruptcy.
13. A copy of a letter from The Bogdahn Group dated September 25, 2008 is attached for the Board's information regarding their assurance that the fund's investment managers are following the requirements outlined in the Investment Policy.
14. An email from Northern Trust is attached for the Board's information announcing three actions they took in late September to support their clients during the turbulent market conditions.

15. For the Board's information is a copy of a letter from Winslow Capital dated October 6, 2008 reporting that the portfolio they manage for the fund is in compliance with the investment policy.
16. Attached is a copy of an email dated October 8, 2008 from JP Morgan regarding their market update.
17. A copy of a letter dated October 10, 2008 to Julie Browning of the Municipal Police Officers' and Firefighters' Retirement Trust Funds responding to her letter of September 30, 2008.
18. Copies of the City Beautiful e-News newsletters giving the latest news and information about the City of Coral Gables are included for the Board's information.

3. Employee Benefits:
(The Administrative Manager recommends approval of the following Employee Benefits.)

Retirement Benefits:

Retirement application of Eleanore Lyons of the Police Department, 20 years, 6 months, No Option, effective October 1, 2008.

RESOLUTION 3103
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
ELEANORE LYONS

WHEREAS, Eleanore Lyons has applied for retirement effective October 1, 2008, and,

WHEREAS, Eleanore Lyons requests to take No Option Retirement with her last working day September 8, 2008.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF THE CORAL GABLES RETIREMENT SYSTEM;

That the Custodian of the Coral Gables Retirement System, is hereby authorized to pay Eleanore Lyons retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning October 1, 2008 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

A motion was made by Mr. Goizueta and seconded by Mr. Space to approve Ms. Lyons' retirement application. Motion unanimously approved (8-0)

Retirement application of Brigitte Hodge of the Building and Zoning Department, 22 years, No Option, effective November 1, 2008.

RESOLUTION 3104
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
BRIGITTE HODGE

WHEREAS, Brigitte Hodge has applied for retirement effective November 1, 2008, and,

WHEREAS, Brigitte Hodge requests to take No Option Retirement with her last working day October 31, 2008.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF THE CORAL GABLES RETIREMENT SYSTEM;

That the Custodian of the Coral Gables Retirement System, is hereby authorized to pay Brigitte Hodge retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning November 1, 2008 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

A motion was made by Mr. Goizueta and seconded by Mr. Huston to approve Ms. Hodge's retirement application. Motion unanimously approved (8-0)

DROP Benefits:

DROP application of Norman Blackwood of the Automotive Department. Effective date October 1, 2008.

A motion to approve Mr. Blackwood's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Garcia-Linares. Motion unanimously approved (8-0).

DROP application of Marc Stolzenberg of the Fire Department. Effective date November 1, 2008.

A motion to approve Mr. Stolzenberg's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Huston. Motion unanimously approved (8-0).

Vested Retirement Benefits:

Yamilee Dubois, Human Resources Department (12 years, 3 months), effective at age 52, effective date July 1, 2018.

A motion was made by Mr. Goizueta and seconded by Mr. Space to approve Ms. Dubois' vested retirement application. Motion unanimously approved (8-0).

6. Disability reviews: The Administrative Manager recommends approval of the continued disability benefits for Tyra Hearns.

Ms. Groome informs that Ms. Hearns was approved by the Retirement Board for service connected disability in the 1990s. Every year the Retirement System asks the disability retirees to update their information and get verification from their doctors that they are still disabled due to their job injuries.

A motion was made by Mr. Goizueta and seconded by Mr. Naclerio to approve Ms. Hearns' continued service connected disability benefits. Motion unanimously approved (8-0).

7. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices).

Carlson and Lewittes/Henry Dressler (expert for important testimony & insights) invoices for costs and expenses in the amount of \$12,350.00. These invoices are in accordance with the contract between Curtis Carlson and Coral Gables Retirement System signed on June 10, 2004. Specifically Section 8 "Client agrees to pay all costs, such as court filing fees, mediator fees, subpoenas, trial graphic presentations, depositions and court reporters, transcripts, reports, investigation, expert witness fees, witness statements, photocopying, long distance telephone calls, travel, computer research, and other expenses directly incurred in investigation or litigating the claims."

A motion was made by Mr. Garcia-Linares and seconded by Mr. Huston to approve the payment. Motion unanimously approved (8-0).

The Bogdahn Group invoice #3293 dated September 30, 2008 in the amount of \$33,750.00 for consulting service fees for third quarter 2008 (July 1 to September 30, 2008). This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Huston to approve the payment. Motion unanimously approved (8-0).

Carlson & Lewittes, P.A. invoice no. 11224 dated October 7, 2008 in the amount of \$2,308.06 for costs and expenses. These invoices are in accordance with the contract between Curtis Carlson and Coral Gables Retirement System signed on June 10, 2004. Specifically Section 8 "Client agrees to pay all costs, such as court filing fees, mediator fees, subpoenas, trial graphic presentations, depositions and court reporters, transcripts, reports, investigation, expert witness fees, witness statements, photocopying, long distance telephone calls, travel, computer research, and other expenses directly incurred in investigation or litigating the claims."

A motion was made by Mr. Goizueta and seconded by Mr. Huston to approve the payment. Motion unanimously approved (8-0).

Alan E. Greenfield invoice dated October 20, 2008 for legal services from June 11, 2008 to October 20, 2008 in the amount of \$9,675.00.

A motion was made by Mr. Goizueta and seconded by Mr. Huston to approve the payment. Motion unanimously approved (8-0).

8. Discussion of recommendation from the Administrative Manager to approve the Service Connected Disability application of Eugenio Arencibia based upon the doctors' reports submitted by the applicant and Board appointed doctor.

Ms. Groome informs that the doctor reported in his Independent Medical Evaluation that as a result of the review of the medical records and the physical examination his assessment is that Mr. Arencibia has post-traumatic cervical herniated nucleus pulposus on the left at C4-C5 with stenosis of the cervical spine, left cervical radicular, myofascial pain, status post motor vehicle accident with residual posttraumatic disorder. His personal opinion was that Mr. Arencibia is disabled secondary to his work-related injury sustained as a result of a motor vehicle accident on December 4, 2004.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to approve the service connected disability retirement of Mr. Arencibia. Motion unanimously approved (8-0).

9. Discussion of recommendation from the Administrative Manager to approve the Service Connected Disability application of Jose Torres based upon the doctors' reports submitted by the applicant and Board appointed doctor.

Ms. Groome reports that the doctor informed in his Independent Medical Evaluation that as a result of his review of the medical records and the physical examination that his personal opinion is that Mr. Torres is disabled secondary to his work-related injury sustained to his lumbar spine. Mr. Torres has received orthopedic and neurological care. He has chronic back pain, not relieved by epidurals or rhizotomy, or intense physiotherapy and pain management program. He has comorbidities of obesity which would make lumbar surgical intervention a high-risk procedure.

A motion was made by Mr. Goizueta and seconded by Mr. Space to approve the service connected disability retirement of Mr. Torres. Motion unanimously approved (8-0).

10. Items from the Board Attorney.

Mr. Greenfield reports on the UBS case. The case is moving forward and his opinion they will be going to trial sometime in 2009. The case was set for trial and the judge said she wanted a pre-trial conference with the attorneys before she would refer the case to the retired judge to set it for trial. That is scheduled for December 12th. The pre-trial judge asks how many witnesses, how long the case would take to try, are there any issues that need to be resolved and they have

a general discussion. The judge indicated that after that pre-trial conference the judge would send the case to the retired senior judge who would put it on their calendar for trial. Mr. Garcia-Linares doesn't understand why the judge who wants to hear the case for pre-trial would have to hear the discussion if she is not going to try the case. Mr. Greenfield explains that after the pre-trial they should know where the case will go. Mr. Garcia-Linares asks if they indicated how long they think the trial will last. Mr. Greenfield believes it will take a week or two. Mr. Garcia-Linares asks if they can convince the judge who wants a pre-trial to try the case herself. That judge has already heard the case and he encourages Mr. Carlson to convince her to put it on her trial calendar. Mr. Greenfield remembers that the Board wanted to get the case tried so it can be done faster. Mr. Garcia-Linares doesn't think that faster is better. Mr. Nelson agrees that the same judge would be the best all the way through. Mr. Greenfield informs that he will take that direction back to Mr. Carlson. Anyone of the Board members can call him individually with that suggestion also.

Mr. Greenfield informs that the next issue is the Thompson matter. This is a matter regarding the time of disability for retirement. Mr. Thompson is being represented by Attorney Zientz who took over from Mr. Sicking. The City is represented by David Miller. He has been in contact with Mr. Zientz and Mr. Miller. They are both going to present this issue at the November 13th meeting.

At this time Mr. Diaz arrives at the meeting.

Mr. Greenfield continues. The next issue is the Piñon matter. The decision of the Third District upheld the decision of the appellate division of the Circuit Court. The Circuit Court said that it didn't believe the Board's decision was equitable to Mr. Piñon and it should go back to the Board to determine what the Board believes is equitable. Their appeal was that the Board heard the matter and made a decision and that the Court shouldn't substitute its feelings for what the Board does because they are second guessing the Board. That issue went to the Appellate Court and the Appellate Court believes that the Circuit Court was correct that the matter should go back to the Board for the Board's determination as to what the Board believes is a proper equitable remedy and that the Board take into consideration the attorneys fees Mr. Piñon incurred as the result of the litigation. They didn't put in their decision that the attorney fees should be granted. All they said was that is something the Board should consider.

Mr. Greenfield continues. Mr. Piñon's attorney filed a motion for relief. He has been in touch with Mr. Miller who represents the City and Mr. Miller is in the process of preparing a response to this to present to the Board. They should be getting that on or before the November 13th Board meeting. He thinks the proper thing to do would be for the Board to receive Mr. Miller's response and then the Board at that point in time would decide how the Board wants to further proceed. The Board may want to have a special session and not include it as a part of the regular Board meeting. At this point there isn't any action that the Board needs to take.

Mr. Geraci thinks that due to the financial situation and the economy they need to focus on the investments until the 2nd quarter of next year. They need to be really focused on the investments and their time is so limited.

Mr. Huston points out that with all these proceedings back and forth the Board tried to reach an equitable distribution which gave Mr. Piñon more money than he is receiving. One of the things that he has not seen come out is the fact that Mr. Piñon put his statements of his DROP in a drawer for a number of years. No lawyer has ever said that there was culpability on both sides. Mr. Greenfield informs that issue was in the briefs and the argument and the Court never ruled on it. Mr. Garcia-Linares thinks that in their next decision they need to make it clear that then Board has taken everything into account and tried to make their decision based upon all the evidence given to them. Mr. Naclerio agrees. It has been a personal frustration on his part during this matter that they have not been able to have the courts deal with the issue and how the Board came to their decision of being equitable by looking at all the circumstances. He tried his best to get that into their legal papers through their litigating attorneys and they did not register with the Court on that issue. If they have to go through this once more and the City can't come to some compromise with Mr. Piñon and his attorneys then they have to be a lot more explicit in their findings that they make. Mr. Space thinks equitable adjustment has to do with Mr. Piñon and not with the Retirement Board. Mr. Naclerio disagrees. Mr. Space asks Mr. Greenfield what it means when the Court says that the Board has to make an equitable adjustment to Mr. Piñon. Isn't it specifically talking about Mr. Piñon? Mr. Greenfield explains that the equitable adjustment specifically deals with Mr. Piñon but in taking into account what is that equitable adjustment you have to take into account the position of both the City and Mr. Piñon otherwise there wouldn't be equity if you didn't listen to both parties.

Mr. Diaz states that this is typical of the City. They have probably spent ten times the amount in legal fees rather than giving Mr. Piñon what he wants. Mr. Naclerio appreciates that but he thinks those comments are better directed to the City Attorney, the Commission, the City Manager and it is not up to this Board that they shouldn't oppose this matter. He does appreciate Mr. Diaz and Mr. Space's position and he has followed and participated with this case in every step of the way and Mr. Piñon's superiors have disagreed and fought with the positions Mr. Piñon has taken in this litigation. They felt it was not right and they have filed papers and they have never taken the position that they should save some money and litigation costs. They feel that they want to contest the matter and they have contested it vigorously.

A motion was made that the Board not hear anything but financial issues until the second quarter of 2009 by Mr. Geraci and seconded by Mr. Naclerio.

Discussion:

Mr. Geraci thinks they have no time for these other issues until after the first quarter of next year. These issues take away so much time. Mr. Sibley asks if they should keep focused on the finances other than time sensitive issues. Mr. Garcia-Linares suggests that the Investment Issues be moved to the top of the agenda as opposed to putting it at the end of the agenda. Then if they don't have the time to get the other issues then they can postpone those issues until the next meeting. He doesn't think they should decide that they aren't going to listen to the other issues. Mr. Geraci agrees. He withdraws his motion.

11. Investment Issues.

Dave West of The Bogdahn Group reports that as of September 30th the fund declined 10.2%. It looks like the median plan return was down for the fiscal year about 14% to 15%. The

diversification into the real estate was beneficial and it gave the plan some offset. As they look across the domestic equity manager allocations it looks like they are running about a 3% to 5% allocation in aggregate in the smallest cap; around 23% in the mid-cap area and the balance in the large and in the mega-cap they have about a 7% exposure.

Mr. Garcia-Linares asks why they would consider at this point any change. He sees that they are interviewing these managers at this meeting and he doesn't know why they would make any changes at this point unless they can take their assets and keep them. He does not want to start selling the assets and move any money with the way the market is now. Mr. Geraci agrees. Mr. West states that he is also in agreement. As fiduciaries the important thing for them to do is stay on policy and follow the written procedures they have set forth. That suggests not running for cover in US treasuries or something like that. They need to stay on the long term plan. It is a long term liability. The asset allocation has been set up based on long term assumptions which include all the bear markets of significance including the Great Depression.

Mr. Garcia-Linares asks where they are getting the money to pay the retirees. Ms. Groome informs that for October the money was raised by the fixed income managers. Right now they have money in the cash account because the City paid the \$3.2 million outstanding contribution to the Retirement fund. That amount will cover payments the rest for November and December. Mr. Nelson informs that the City currently contributes \$21 million to the pension plan for this fiscal year. The City budgeted \$24 million for the annual contribution to the Retirement fund. Because the City budgeted the \$24 million and the annual requirement is \$21 million they were able to pay to the Retirement fund the \$3.2 million which was the reduction in the actuarial valuation which caused the increase funding requirement. That was funded at the beginning of October as Ms. Groome indicated that money will provide cash flow. Another change they made instead of funding the \$21 million up front they now fund that amount quarterly. Chairperson Sibley asks if that is what the State recommended. Mr. Nelson answers affirmatively. It is a State requirement that they fund quarterly instead of yearly up front which is a good recommendation from the State. Now they have cash flow every quarter that provides funds that pay the monthly benefits and the monthly benefits are about \$14 million a year. The monthly benefit amount averages about \$1.4 million to \$1.5 million. That \$14 million on an annual basis compared to the \$21 million they fund of the annual contribution more than covers the benefits. That is assuring to the retirees. He has had calls from the retirees about what is going to happen to their pension and they can rest assure that their benefits are safe. The investments will fluctuate and that is long term but the monthly benefits will continue and that is guaranteed. The excess amount of the \$7 million going into investments they are invested at a weighted average and as the market is down you are buying cheap and now they are going to get into the discussion regarding Mr. Garcia-Linares' concern. The concern is when they move into a new manager and liquidate one manager should they liquidate or should they ask them to take the assets as they are.

Mr. Space asks if their allocation is positioned as well as they can be for the recovery. Mr. West responds that their recommendation today is to rebalance the investments to policy. Mr. Geraci informs that it has always been his opinion that it is not a loss until you sell it. Chairperson Sibley agrees with what Mr. West has said to rebalance to policy. That has been in a number of financial journals and they need to stay within their policy guidelines. If they

have to rebalance then that is what they have to do. Their professional consultant has said it and that is what they pay them. They have to stay within their guidelines. Mr. Geraci points out that timing is everything and to sell in a down market and then try to buy on the upside they will have to balance that. Chairperson Sibley states that they are moving in a low market and buying on a low point. There is a reason that they stay within their bounds and have so much in equities and so much in fixed. A lot of thought went into that policy. That is a major portion of the return that you stay on target and rebalance as needed. About 20% of the return on a fund is staying within those investment guidelines. Mr. Geraci asks how far out of balance they are. Mr. West responds that as of September 30th the allocation was at 60% equity versus a target of 65%. The fixed income allocation is over the target and the real estate allocation is over the target. Through October the number is going to be even more exaggerated regarding the overage which is actually bringing the fund down to the outer bands of the policy. They are getting to the outer band they need to rebalance. What that suggests is that they are going to be liquidating the better performing assets and moving into the other performing assets which are equities. Mr. Geraci asks why they would do that now. Mr. Garcia-Linares believes that the markets are going to react after next Tuesday depending on who gets elected. Mr. Geraci states that in his opinion if they are in equities at 60% now and they want to put us back at 65% he would not vote for that. That is too much of a gamble. They need to stay focused on this. After the election next month they can sit down and try and figure out when they have to move because it is all about timing. Mr. West explains that they would still be in policy if they put off the rebalancing until the next meeting. They are approaching the band.

Mr. Garcia-Linares asks how liquid the real estate allocation is. Mr. West informs that there is a queue to liquidate real estate for rebalancing because a lot of programs are seeing their real estate allocation out of balance. Mr. Space believes that they have luxury. They have a cash flow coming out of citizen's taxes in the City's contribution. The downside is that the payment maybe \$30 million coming out of the tax payer's pockets next year but there will be cash flow. They are sitting on a decent situation as long as they are programmed right when this market bounces back. Mr. Garcia-Linares has less of a problem with taking the new money the City is contributing and using that to buy low than to sell assets that are now making money into something that is losing. What they are proposing is to take some of the new cash and buying low and making it right that is one thing to raise the equities but to just go blindly and start selling something that is better than the other he is against that. Mr. West states that they have a contribution to work with and that absolutely goes into the equation. Chairperson Sibley points out that if they don't have to sell and they have cash coming in then they can use that cash to buy low. Mr. Garcia-Linares thinks they have to be smarter and not use the full \$3.2 million now to buy. They don't have to make a decision now and they can wait until voting day and see how the market reacts to the election. Mr. Geraci states that the important thing they see today is that they see how critical everything is but going forward he has to agree with Mr. Garcia-Linares that they need to hold on for now until after the elections. They can talk about it but he doesn't think they should do anything yet.

Mr. West thinks they would be operating within their fiduciary bounds if a rebalancing occurred that took into consideration available cash notwithstanding the withdrawals. They are close to the outer ends of the bands and he would expect by the November meeting it will be critical because they will be at the band limits and by policy they will be forced to enact some rebalancing at that time and that will be consistent. Mr. Geraci agrees but the investment

policy has to be like a rubber band and have some elastic on it. Mr. Nelson explains that the Board can do what they want to and can change the policy and because of these times the Board has a fiduciary liability. Mr. Space thinks they need to go more conservative with these big losses. Mr. West states that the rebalancing that is done can be done to get the fund back into the stated bands. They can't operate below the target.

Chairperson Sibley asks Mr. West what their other clients are doing. Mr. West responds that in aggregate everyone is holding off in the current environment. Also in aggregate all their clients are still within their bands. There is an expectation that when the outer limits are hit that they will rebalance according to their policy. Every asset has taken a hit. Gold is down. Commodities have crashed. This has been a huge whole asset sell off. What they have been working with the Investment Committee is the gradual introduction of additional asset classes. They have the first big diversifier in commercial real estate which has held up well for the plan. The second step in process is the introduction of one or two other alternative asset classes which they have been working on with the Investment Committee. At the end of the day what does a conservative fund do, they diversify with discretion so they don't have a concentration in any single asset and they slowly but surely minimize the dependence on equity if possible because that is the most volatile asset class.

Mr. Naclerio states that they were told they pay the fees for the money managers because they are nimble when the market goes down and they ride up and down. What are the examples of their nimbleness in helping the plan during this time? He also wants to be assured that someone is talking to the money managers weekly to make sure they are on top of all these things and not waiting for the Board meetings once a month to take the temperature of exactly what is going on with the money in each one of the allocations. Mr. West responds as far as nimbleness given the broad decline where they have been no assets delivering a positive return the first quarter the managers had energy and material exposure that worked very well. He thinks that everyone is aware in the second quarter where it was a mirror reversal where financials squeaked out a positive return and some of the defensive sectors which the managers shifted into where they performed well. The problem was in any active strategy there was such a violent shift in a manner of days that if you have a strategy in place there is not time. The capitalization nimbleness across the board the fund did get some value added. They do run attributions on the managers on an ongoing basis so that communication is going on basically. Most of the value from the managers came from their exposures to the mid-cap area by default through their stock selection and they ended up collectively with about 20% to 23% allocation in aggregate. Their stock selection put them in those sectors and those sectors were actually the better performing sectors. The mid-cap and small/mid-cap fared better during this period of time. Unfortunately on the margin when they look at the comparative returns since the first two-thirds of the market went down in the first quarter and second quarter in question the rest went down in aggregate and the returns end up approaching the index results.

Mr. Naclerio asks if they can summarize that they are not getting value from the managers in this particular down market. Mr. West thinks that unfortunately if they look at the specific returns Aletheia and Winslow declined more for the quarter than the Russell 1000 Growth benchmark and Eagle and MD Sass for the last three months compared to the Russell 1000 Value benchmark also declined. They did receive the benefit from their allocation from the

mid/small-mid space but in aggregate their stock selection offset that so for the quarter they underperformed. Mr. Naclerio points out that even the bond managers didn't make the index.

Mr. Space states that the thing that bothers him the most is that this thing has been driven by crooked bankers. That is what has driven the market down. Mr. West adds that they have also had a major crash in commodities. The managers are trying to move appropriately across the Board. Even Mr. Greenspan is in shock that the investment banking community self destructed. Mr. Geraci thinks the issue is the companies that have performed and continue to perform are being choked by the credit companies.

Mr. West informs that they did step up their communications with the managers and have asked them to respond with any concerns or policy deviations. The Retirement Board should be receiving direct communications from the managers to that effect. Mr. Naclerio asks if Mr. West is disappointed that they pay all these fees to the money managers and they can't do as well as the indexes. Mr. West agrees that it is disappointed. At the same time this has been a wash. The managers have hung in there but the market has moved into the final phase of the bear market and that is trading on fear. There is no rhyme or reason. As they talk to these managers, there is a fairly common investment theme in place and that is they are looking at companies and cash flow requirements and their outstanding debt maturity schedule. There is a strong issue in participating in companies that don't have to go to market and don't require financing because right now if you have big refinancing required you are insolvent because you can't go to market to raise any debt. The companies they are buying have good solid cash flows for the most part with very low debt so there is no need to go to market to refinance. A flip side of that for international stocks they are looking at a P/E of 7 and a question for the international manager today he would bet that most of the stocks they are buying are probably around a 4 or 5 multiple compared to the EAFE at a 7 multiple and that is outrageously inexpensive. You have the domestic equity trading not much above that.

Mr. West explains why they are they looking at change today. They are looking at the fixed income manager Loomis Sayles. Loomis was down 6.9% versus the benchmark down .5%. They have a manager performance concern here. As far as liquidating assets the recommendation is to ask the manager to take the assets in kind. That is what they are doing now with all their fixed income managers. If the managers take that on and transfer assets in kind then they can continue to oversee those assets and the manager will sell the assets they see are problematic. That is what they want.

Interview of International Equity Manager Barings Asset Management

Michael Brown, President and Eric Maskalunas, Vice President of Barings Asset Management give their presentation. They are an international global expertise in terms of their capabilities. They tap into a lot of alpha sources in terms of their capabilities overseas in managing portfolios. They have a local presence overseas. That is important because they get to know the companies hands on, they have their troops on the ground and they really get to know the companies. They think that is a real valuable asset. They have their headquarters in London with offices in Hong Kong and Tokyo as well as the main office in Boston. They hire locals in the international markets. They hold \$44.6 billion in assets under management. They would be honored to have Coral Gables as a client. Some of their local clients are City of Hollywood Firefighters, City of South Miami and City of West Palm Beach. They have a lot of expertise

in managing government and public fund entities. They also manage CalPERS. They have 45 analysts on the ground with half in Asia and half in Europe. They visit about 27,000 companies a year. They target about 2/3 of the market cap of EAFE. They manage money All Cap in nature which is a very broad market cap portfolio they have put together which is important when they talk about return and in managing market volatility. They have a very broad, diversified process; 2/3 of value added comes from value up. One-third of their value added comes from top down looking at countries and sectors. They have a strong buy and sell discipline. They manage \$3 billion in this product now and the capacity is to \$12 billion. In this last quarter they made a lot of changes to protect their clients and it helped critically.

They know that managing a lot of money under management is difficult to do. The fund has a capacity restraint at \$12 billion and they will close it for new mandates. They want their first clients to have the same process as the last client. The reason it has to be capacity constraint is because they invest in small and mid-cap space and if you get \$10 billion to \$15 billion in management and you take 2% equal positions for companies that are \$2 billion to \$3 billion suddenly you are getting close to owning 5% to 10% of the company. From a management point of view you can do very well by your clients by playing in the small to mid-cap space which is what they have done but from a selfish business perspective a lot of investment managers don't want to do that because it means they can only raise \$12 billion to \$15 billion therefore what they do is say they are going into large cap only and not play in the small or mid cap. For them it is an all cap product and they like to take that opportunity for their clients.

Mr. Geraci asks in the international market what is the success currently as it pertains to the credit markets. Where are the companies they invest in getting money? Mr. Maskalunas responds that in terms of the credit and lending freeze that is an international phenomena and it is taking place across the globe. One of the issues is that it does tend to have more exposure to the small and mid-cap areas so they have reduced their exposure to that area. When their teams look at companies and sectors they have a member of their fixed income team sit in with the sector evaluation team so part of the evaluation of buying any company from an equity point of view is to have a fixed income evaluation as to their credit worthiness. That is how they deal with it in their process. Mr. Space asks where they are year to date. Mr. Brown informs that they are down about 24 points. That is the danger of the markets, there is no doubt about it. They believe that international is a core asset class that is a very important diversifier for anyone's portfolio. The long term growth perspective is there and emerging markets are quite good.

Mr. West informs that the fee for this manager is .90% for the first \$10 million and .80% for \$10 million to \$50 million. This manager will replace Alliance Bernstein. The reason for replacement is that they interviewed Alliance Bernstein extensively at the Investment Committee meeting and the recommendation was that this was a change in process that is not beneficial to the current program and they concluded that at the interview during the Committee meeting. This was the only manager the Committee recommended to interview after the review of other international managers. As far as the transfer this is a fund liquidation and a fund purchase. The investors of the Alliance Bernstein fund incur the cost of the liquidation. Mr. Space explains that the reason Barings impressed him was that they have number a people around the world compared to Alliance. Mr. Nelson agrees. He also points out that this manager had good performance.

Mr. Garcia-Linares believes that the question is do they do the change now and take the hit now. Mr. West explains that they aren't taking a hit. It is going to be transferred to the other manager. Mr. Nelson agrees. Now the new manager will manage the assets and hopefully have a better return than Alliance Bernstein has had. Mr. West informs that they are maintaining the same dollar investment. Mr. Garcia-Linares disagrees. They are investing \$10 million in the new fund when they invested \$15 million with Alliance so they have lost \$5 million. Mr. Easley informs that everyone has lost \$5 million. Mr. Garcia-Linares thinks they can wait until next month to see if they can recover some of what they lost. Mr. Nelson explains that they will be moving the assets to a manager with a better track record in the performance. Would they rather keep it with Alliance Bernstein that hasn't had a historical good track record of earning or move the assets to a better manager that has a historical performance and let them move it from \$10 million to \$15 million. Mr. Garcia-Linares wonders why they don't move it out of international completely. Mr. West informs that their recommendation is to stay on policy. One thing that did not come out of this presentation is the issue of currency. One of the other two international managers specifically did not engage in active currency hedging. Part of the attraction with the Investment Committee is that there is an active currency element to the Barings process unlike some of the other managers that were reviewed. Mr. Geraci agrees with Mr. Garcia-Linares that it may not be at this point in time that they should be heavily invested in international because they have a lot of money in the international allocation.

Mr. West references a set of statistics. From 1928 to 1935 during the Great Depression the duration of the equity market decline was 34 months and you lost 76% and if you held you recovered in 150 months. If you rebalanced but doubled down you recovered in 42 months and at the end of a year after the market bottomed you gained 74%. They don't know where the bottom is. Their suggestion is that they stay on policy. They have had some 10% up days and they don't know when they are going to happen. When they look like they are in the worst part of the recession that is historically when equities start to take off. They don't know when that is going to be. The purpose in offering perspective of those statistics if they deviate then they risk locking in the 76% with no opportunity to recover. This is an extreme example but it is worth putting on the table. In this case if they are changing from one international manager they are realizing a loss from a \$15 million allocation to a \$10 million allocation if they remove themselves from that space they are lost forever. If they in turn put in simultaneously a new more appropriate manager they haven't left the space and they stay on policy and maintain their chances of recovery.

Mr. Space states that all they are doing is taking \$10 million from Alliance and giving it to Barings to do what they think is best with the assets. Mr. Garcia-Linares suggests that without committing to changing managers do they want to at least start negotiating with them first. Then they can see where the market is after the contract has been negotiated. Mr. Geraci thinks that the issue is with the international markets in general. He is not sure that the emerging markets are going to have access to the credit markets they will need to stay in business. Mr. West appreciates the point. He thinks that bringing in a manager like Barings they are investing in developed and non-developed and emerging markets. They are putting their faith in them to make the decision on which countries have liquidity. They are actively moving away from the areas that have liquidity and financing concerns and moving to the areas with surplus.

He thinks that as fiduciaries they are putting that decision in the hands they have proved to be very qualified in that forum. Mr. Geraci doesn't think that international is the place to be with that \$10 million. Mr. West states that from an allocation stand point the international has declined as a percentage of the portfolio at a greater rate but as far as an allocation goes the international equity has declined below target as of September 30th.

Mr. Huston asks how much of the decline is currency and how much is valuation. Mr. West explains that if you look at the decline since September there was a decline of 20% in currency and if you look at the EAFE you are looking at it in US dollars when you look at EAFE returns in local currency the return is far worse. They lost 20% as a US investor because the US dollar appreciated about 20%. He thinks that as of October the US dollar has appreciated about 25%. That is working against them but part of the attraction of this particular strategy they do employ currency hedging to actively attempt to offset those declines. Mr. Geraci thinks that maybe they shouldn't be in international anymore. Mr. West asks what Mr. Geraci is proposing. Chairperson Sibley asks where they are going to put the money if they take it out of international. Mr. Geraci responds that he is voicing his concerns to the consultant and hopefully he can address that. He thinks that the international market is not the place to be for the next three years. Mr. West informs that the reason they are recommending change is because the Alliance Bernstein product has changed materially as what they presented to the Board when the Board hired them.

A motion was made by Mr. Huston and seconded by Mr. Space that they move the assets from Alliance Bernstein to Barings.

Vote:

Mr. Diaz – Yes	Mr. Easley – Yes	Mr. Garcia-Linares – No
Mr. Geraci – No	Mr. Goizueta – No	Mr. Huston - Yes
Mr. Naclerio – No	Mr. Sibley – Yes	Mr. Space - Yes

Motion approved (5-4).

Mr. Garcia-Linares asks for the consultants to come back at the next meeting with a review of the current target in the international allocation. He personally feels that the current target needs to be reduced.

Interviews of candidates for an investment grade domestic fixed income mandate:

Davis Hamilton Jackson and Associates

Janna Woods, Principal and Gilbert Garcia, Managing Partner and Director of Fixed Income Investments of Davis Hamilton Jackson and Associates make their presentation to the Board. Ms. Woods inform that they were founded in 1988 and have \$2 billion in assets for institutional and high net worth clients. Over 50% of their investments are in public funds. Most of their public funds are in Florida. Mr. Garcia informs that their goal is simple. They are trying to outperform their benchmarks, net of fees, over a full market cycle using a high quality strategy with less risk and low turnover. Their full market cycle is approximately three years. Their investment results come from three core principals, preserve principal, maintain liquidity and maximize their current income. They invest in high quality. Their portfolio is dominated by

US treasuries and agency securities, corporate securities rated A or better, and they spread their product concentrated in the short to intermediate maturity range to reduce credit risk. Most of their spread product or non-treasuries would be in the 2 to 10 year area and for their interest rate exposure or duration they would be in long treasuries to accomplish that. That is their philosophy to minimize their credit risk. To minimize any big surprises in the market they do not do any non-dollar bonds, they do not do any high yield securities or BBB's, they do not do any zero-coupon debt or derivatives of any kinds. They do not do any CMOs and that is not because of this current market they just have not because of their philosophy. They do not do any leverage of any kind. Regarding their flexibility because they are able to quickly adjust to changing market conditions they can exploit smaller markets by mortgage balloons, inflation protected securities (TIPS/CIPS) and callable securities. Mortgage balloons are just agency mortgage backed securities. Regarding their proprietary models, they have a dedicated quantitative strategist that does nothing but model things for them on a fixed income and their equity portfolio. They also have proprietary software that they use not just to tell them what their exposure is in different sectors but also to tell them what their yield curve exposure as well as their duration contribution. They add value by limited interest rate anticipation, sector rotation and yield curve exposure. There are five key factors that have subjected data that they follow to support each individual item and they also have objective data that the modeling person models. They have market sentiment which is used as a contrary indicator, market expectations are monitored through various services. Monetary policy model future Federal Reserve policy shifts to anticipate the slope of the yield curve and level of interest rates. Economic surprise model is used to identify and track the difference between consensus economic forecasts and the level of real activity. Specifically what does the market expects and is it a surprise to the high side or the low side. Valuation model is used to estimate fair value based on historic interrelationships between inflation, real interest rates, and economic growth. The last one is inflation which monitors shifts in aggregate price levels through government statistics, private sector surveys and market prices. The most important variables over this particular cycle over the last three years has been sentiment. How many times did they hear people telling them to get out of bonds because the rates were rising? That would not have been a good idea especially looking at where they are today. They have a qualitative component and a quantitative component. The qualitative component is fundamental research and analysis where they review the five factors and historical data. The quantitative is their model review, portfolio construction and risk control. The model reviews liquidity, duration and spread models versus their qualitative findings. The portfolio construction sets target portfolio ranges for duration, yield curve, sector percentage and sector duration contribution. Their risk control continuously monitors portfolios for market exposure, guideline changes, cash needs, brokerage activity and compliance.

Ms. Woods revies their performance. They have outperformed in the 1 year, 2 year, 3 year, 5 year, 7 years and 10 years except for the recent quarter. They have done this with less risk and better returns than the index. This quarter they have underperformed a little bit relative to the market. Mr. Space asks how they have performed year to date. Ms. Woods responds that they are down approximately half a percent. Mr. West asks how they have been able to successfully maneuver through this current environment. Mr. Garcia informs that they have had a very challenging quarter also. What they would have seen in corporate bonds is that they underperformed significantly in 2007 and into 2008 they underperformed even more. They began to buy some banks and brokerage papers unfortunately a quarter too soon. Even in a high quality

space this has been a treacherous market but he thinks the key you have to be willing to make the tough the decisions and you have to be willing to look at your portfolio and not change your risk profile mid-stream. Mr. West asks if they would accept a customized mandate. Mr. Garcia answers affirmatively. Mr. West asks if the would manage a TIPS portfolio and at what type of fee schedule. Mr. Garcia replies that they would manage a TIPS portfolio and they would aggregate the two fees together or they could separate the fee. Mr. West asks what fee they are proposing. Ms. Woods responds that they are proposing .30% of the first \$10 million and .25% after \$10 million but they are willing to waive the .30% of the first \$10 million. Mr. Space clarifies that year to date they are down half a point. Ms. Woods answers affirmatively. Mr. Garcia responds that through October 29th they are approximately -75 and the index is approximately -130. They do have a negative number in the overall performance. They have seen some minor improvement from the recent activities by the government but they anticipate it will work through the system and they think that virtually all spread product (agencies, mortgage backed securities or corporate bonds) are now very attractive. Ms. Woods informs that they have underperformed for the recent quarter but they have underperformed far less than what their peers have done. Mr. Geraci asks where they think things are going for the next twelve to eighteen months. Mr. Garcia replies that they will see significant improvement. He thinks that ultimate what the Fed is doing for the short term market will be a wonderful plus.

Eaton Vance

Thomas Luster, Director of Investment Grade Fixed Income from Eaton Vance make their presentation. They are a Boston based investment manager. That is all they do. What happens with Eaton Vance employees after one year they get stock options so they do own the firm. They own about 20% of the flow of the firm so it keeps people entrepreneurial in nature. People tend to stay with Eaton Vance due to stock performance and also it is a good place to work. They have about 1000 employees but it still feels really small. They are dedicated to the public funds market in Florida. They have been managing for the Jacksonville Police and Fire fund for about 20 years. They also manage for the City of Kissimmee and the City of Ocala firefighters. They are dedicated to this market.

Mr. Luster describes the team that will be working for the fund if they are hired. They all have a diverse background and experience. They have a consistent investment process, stable team and disciplined approach. They employ a relatively conservative style and focus on capital preservation and risk management. They take a defensive approach to traditional value investing and seek to achieve total return while also seeking to preserve capital. They also take a complementary approach to most fixed income managers that emphasize yield and capital appreciation. They have an inherent flexibility that facilitates customized solutions to a wide range of investment policy requirements. Their core bond investment philosophy is derived from two observations one about the markets and one about their clients. With regard to their market bonds, there are two parts. They get issued at par and mature at par. In the meantime they can go down a lot more than they go up by the nature that they work. That is what they call asymmetric risk/return trade off and it is something they need to be cognizant of in order to be successful in this business. The second observation is about their clients. Clients usually look to their investment grade bond manager to play a stabilizing force in their investment program. Those two observations present them with their two goals. One is risk-focused approach and at the same time they have to produce competitive returns. How do they do that? The notion of value added investment is basically at the core of it. They employ structural

advantages in managing their portfolio. They spent a lot of time assess risk and choose bonds to build the portfolio that uniquely address those risks that they think are important that face them. They do it by employing a unique mix of instruments. They often employs bonds with imbedded put options which is a contract to sell the bond in the future at a fixed price. Depending on what risk they see they will also use floating rate bonds or inflation linked bonds. They will chose bonds with change in control options in there so when a company is sold they can get out if they need to. They actively manage their portfolios because risk changes from time to time and they have seen that in stark contrast over the past year. Communication is the life blood of their process. They have daily informal interaction, weekly strategy meetings, bi-weekly credit meetings; they have a proprietary system with all their research stored by their analyst and have monthly macro strategies.

They have a top down macro assessment that they employ and they are otherwise fundamental investors so they do a lot of bottom up and fundamental and quantitative analysis to construct diversified portfolios seeking to deliver competitive returns versus an appropriate performance benchmark and control risk in order to provide a stabilizing influence in a client's diversified investment program. They manage a diversified portfolio between 50 and 70 line items. They are pushing the top end of that today. When markets are turbulent they can rely on the value of diversification. As a measure of interest rate risk they are always +/- 20% of their duration target of their designated buy out index. They only focus on investment grade bonds rated BBB or above. The important aspect of what they do is to be able to make a logical and intuitive connection between their philosophy, the fact that it drives their process and that their performance track record should be related to it in a reasonably obvious and intuitive way. When markets are falling they have only captured about 66% of the downside and when markets are rallying they capture just under 100% of that. That is protecting the downside and participating in the upside. That is exactly what they are attempting to achieve.

Mr. West asks what tangible things were done to the portfolio to successfully maneuver through the current environment. Mr. Luster responds that they did not own a subprime mortgage. That never thought that made sense in any way, shape or form. They also generally had an under weight to the indirect exposure to subprime mortgage which is generally large banks and brokers. He thinks those are the two most important aspects that what they did. The way to think about their approach, when times are good they are going to basically going to keep up with the pack and when times are rough the notion is that is when their process really separates itself from the field. It is why they say they have a complementary approach to the way many managers approach this because many managers have run into trouble with some historically bad things they have dealt with. The standard fee schedule is 40 basis points on the first \$25 million and 30 basis points on the next \$25 million.

JKMilne

John K. Milne makes his presentation to the Board. JKMilne asset management is a purely fixed income institutional operation that was built in 2004. JKMilne Asset Management creates value and strong business results for institutional clients through applied attention, provided by a tightly woven team of accomplished listeners, direct communicators, expert investment innovators and rapid custom solution providers. They have a client comes first culture that they live every day. They have a seasoned proven team with an average experience of 20 years. They have key money managers that have worked as a team for a cumulative of 42

years. They have smart people working together in a partnership with clients that think big. They are employee owned giving them pride in their business and the results delivered for their clients. Some of the clients they manage money for are the California Law Enforcement, California Professional Firefighters, Hershey, and Penn State University. Their foundation is in endowments and non-profits and that represents about 74% of their business. Their performance comes from the ability to have an understanding of how the global economy impacts the macro outlook for curve, spread and basis. There are opportunities to capitalize on short-term mis-valuations or mis-interpretations of microeconomic circumstances for issuers of debt. In terms of philosophy they manage what they can measure. They look at the shape of the yield curve in terms of monetary and fiscal policy. They look at the sectors of indexes and look for the value in that. They look for value and then build the portfolio. Performance comes from a top down to bottom up process. They have a macro outlook. They minimize interest rate timing but they are not interest rate timers. They have a reasonable diversification to distribute risk but minimize transactions. They only buy securities that are in the index. They believe there is enough alpha within the indexes where they can have transparency and accurate pricing and security details of large companies. They are an interdisciplinary group of people. They have a proprietary execution of strategy. The business result of sound philosophy is the manufacture of repeatable performance. They use outside and internal research. They work off a buy list and get 250 different names on their buy list that they like buy on the corporate credit side. The tools they use are term structure, credit spread, convexity, basis, duration and proprietary trading. The structure of their firm they have portfolio management and risk management. They use Lehman Brothers Point and that is a risk management tool. They use Bloomberg as a trading platform and use third party credit research. They use Advent on the backend. These are important things for a boutique. Their firm is in a small room with about 10 people with 30 screens talking and communicating to each other and they have smart people looking for solutions every day. They outsource everything. They believe they are a powerful and experience organization and are driven by their client policies. They have a flexible process and detach themselves from the indexes working from true value back into the benchmark risk. Their performance through September was down 1.02 compared to the index down 2.08. Their performance is very good and has been consistent over time. It has to be a repeatable process. Mr. West asks about the fee. Mr. Milne informs that the fee would be 25 basis points.

Chairperson Sibley informs that they are going to voting on changing the fixed income manager at the November 13th meeting. They also will be discussing equities, rebalancing and the portfolio allocation. Then in December they will be having a special meeting due to the financial situation with the market. Mr. West requests that they also have another Investment Committee so they can continue discussing alternative investments.

12. Old Business.

There was no old business.

13. New Business.

Mr. Naclerio understands that the City Manager plans to resign and that the City will begin searching for a new City Manager. The financial situation is in perilous times and he does not know what Mr. Nelson's particular situation might be and the other responsibilities he may have during this transition. He does not feel comfortable with the Retirement System's trustee

taking on more responsibilities during the transition unless the Board has more help with this particular pension matter. Mr. Nelson reports that the City Manager did give notice to the City Commission that he would be resigning after 28 years on January 31, 2009. It is the intention he stay on until that date and the Commission has requested that the Procurement Division which is under the Finance Department seek a request for proposal to hire a professional search firm to conduct the search for a new manager. They are in the process of issuing that request for proposal out and evaluate a search and then that search company will go out to the market place for a national search of a City Manager. The timeframe of that may take them past January 31st depending on how quick that firm does its search and how many applicants and the process with the Commission. He hopes that will not interfere with anything that the Board does or in his capacity of Finance Director. Mr. Naclerio wants his concerns in the record that he does not feel comfortable in having the Finance Director having more responsibilities than he already has with this situation.

Set next meeting date for Thursday, November 13, 2008 at 8:00 a.m. in the Youth Center Conference Room.

Meeting adjourned at 12:00 p.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR