CORAL GABLES RETIREMENT SYSTEM
Minutes of January 15, 2009
Youth Center – Auditorium
405 University Drive
8:00 a.m.

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

STAFF:
Kimberly Groome, Administrative Manager
Alan Greenfield, Board Attorney
Donald G. Nelson, Finance Director
Troy Brown, The Bogdahn Group
Dave West, The Bogdahn Group
Peter Brown, The Bogdahn Group

A = Absent
E = Excused Absent
P = Present

GUESTS:
Charlie Becker, Fowler White

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

1. Roll call.

2. Approval of the Retirement Board Special meeting minutes for December 12, 2008. *(Agenda Item 5).*

   **A motion was made by Mr. Goizueta and seconded by Mr. Easley to approve the special meeting minutes of December 12, 2008. Motion unanimously approved (9-0).**

3. Approval of the Retirement Board Special Emergency meeting minutes for December 23, 2008. *(Agenda Item 6).*

   **A motion was made by Mr. Goizueta and seconded by Mr. Huston to approve the emergency meeting minutes of December 23, 2008. Motion unanimously approved (9-0).**

4. Report of Administrative Manager. *(Agenda Item 8).*
**A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Goizueta and seconded by Mr. Garcia-Linares. Motion unanimously approved (9-0).**

1. For the Board's information, there was a transfer in the amount of $2,250,000.00 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 November 2008 for the December 2008 benefit payments.

2. For the Board's information, there was a transfer in the amount of $2,200,000.00 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 December 2008 for the January 2009 benefit payments.

3. For the Board's information, there was a wire transfer in the amount of $5,932,432.00 from the City of Coral Gables' bank account to the Coral Gables Retirement Northern Trust Cash Account for the City's 1st quarter retirement contribution of 2009.

4. For the Board's information, the Retirement System received a check in the amount of $113,712.20 from Enron Corporation Securities Litigation which was deposited into the Retirement's bank account. This check is the pro-rata share of the 1st partial of the net settlement fund in the ENRON Corporation Securities class action.

5. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:

   - Payroll ending date October 26, 2008 in the amount of $78,623.22 was submitted for deposit on November 14, 2008.
   - Payroll ending date November 9, 2008 in the amount of $73,766.64 was submitted for deposit on November 21, 2008.
   - Payroll ending date November 23, 2008 in the amount of $80,849.28 was submitted for deposit on December 12, 2008.
   - Payroll ending date December 7, 2008 in the amount of $79,414.95 was submitted for deposit on December 18, 2008.
   - Payroll ending date December 21, 2008 in the amount of $71,793.37 was submitted for deposit on December 31, 2008.
   - Payroll ending date January 4, 2009 in the amount of $80,352.99 was submitted for deposit on January 9, 2009.

6. For the Board's information:

- Charlie Thompson, Sr. of the Public Works Department passed away on September 4, 2008. He retired on January 1, 1992 with Option 2B and 66-2/3%. His beneficiary began receiving post-survivor benefits on October 1, 2008.
- Joseph Shewchuk of the Fire Department passed away on September 25, 2008. He retired on January 1, 1985 with Option 2 and 66-2/3%. His beneficiary is deceased therefore his benefits cease.
- Tony Gonzalez of the Public Works Department passed away on October 15, 2008. He retired on November 1, 1999 with Option 2B-75%. His beneficiary began receiving post-survivor benefits on November 1, 2008.
- Vernon Tinsman of the Parks and Recreation Department passed away on October 18, 2008. He retired on October 1, 1995 with No Option. His benefits have ceased.
- James Hush of the Automotive Department passed away on November 7, 2008. He retired on April 1, 1997 with Option 2B-100%. His beneficiary began receiving post-survivor benefits on December 1, 2008.
- Stenneth Adamson of the Automotive Department passed away on November 21, 2008. He retired on June 1, 2008 with No Option. His beneficiary began receiving post-survivor benefits on December 1, 2008. She will receive these benefits until June 1, 2013.
- Sylvia Wallace of the Public Works Department passed away on November 6, 2008. She retired on January 1, 2004 with No Option. Her beneficiary began receiving post-survivor benefits on December 1, 2008. This was his only payment and payments have ceased.
- William Kuykendall of the Parks and Recreation Department passed away on September 23, 2008. He retired on July 1, 1999 with No Option. His benefits have ceased.
- Robert Zahner the past City Attorney passed away on November 27, 2008. He retired on January 1, 2005 with Option 2B-100%. His beneficiary began receiving post-survivor benefits on December 1, 2008.
- Harold Benson of the Fire Department passed away on December 5, 2008. He retired on April 1, 1988 with Option 2B and 66-2/3%. His beneficiary began receiving post-survivor benefits on January 1, 2009.
- Thomas Springer of the Public Works Department entered the DROP on April 1, 2007 and passed away on November 1, 2008. His beneficiary received his DROP rollover and began receiving post-survivor benefits on December 1, 2008.
- Leon Hill of the Public Service Department entered the DROP on September 1, 2007 and left the DROP on September 18, 2008. He received his first retirement benefit on October 1, 2008.

- Orgina Iglesias of the Police entered the DROP on October 1, 2000 and left the DROP on September 30, 2008. She received his first retirement benefit on October 1, 2008.
- David Brown the past City Manager entered the DROP on May 1, 2006 and left the DROP on November 6, 2008. He received his first retirement benefit on December 1, 2008.

7. A copy of the detailed expense spreadsheet for the month of November 2008 and December 2008 is attached for the Board's information.

8. A copy of the Summary Earnings Statement from the Northern Trust Securities Lending Division for billing period October 1, 2008 to October 31, 2008 and November 1, 2008 to November 30, 2008 are attached for the Board's information.

9. Attached for the Board's information are the Statements of Pending Transactions and Assets as of October 31, 2008 and November 30, 2008 from JP Morgan.

10. Attached for the Board's information are the Statements of Settled Transactions from October 1, 2008 to October 31, 2008 and November 1, 2008 to November 30, 2008 from JP Morgan.

11. The Berwyn Group Death Check Verification Services dated December 15, 2008 is attached for the Board's information.

12. A copy of a memorandum from Walter Foeman, the City Clerk, is attached for the Board's information regarding the Board election results for the General Employee Representative and the Firefighter Representative.

13. A copy of a letter dated December 5, 2008 to Julie Browning of the Municipal Police Offers' and Firefighters' Retirement Trust Funds responding to her letter of November 6, 2008 is attached for the Board's information.

14. A copy of an email from John Milne of JK Milne Asset Management is attached for the Board's information explaining their market outlook for 2009.

15. A copy of a letter from Stanley Holcombe & Associates dated December 22, 2008 is attached for the Board's information informing the Retirement System that the retirees will not receive a cost of living increase for 2009.

16. An article dated December 12, 2008 from FundFire.com is attached for the Board's information regarding Congress passing the Pension Relief Bill.

17. An invitation to the National Conference on Public Employee Retirement Systems (NCPERS) Annual Legislative Conference in Washington, D.C. from February 1, 2009 through February 3, 2009 is attached for the Board's information.

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.

5. Employee Benefits:
(The Administrative Manager recommends approval of the following Employee Benefits.) *(Agenda Item 9).*

Retirement Benefits:

Retirement application of Mary T. Long of the Police Department, 22 years, 4 months, No Option, effective January 1, 2009.

RESOLUTION 3106
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
MARY LONG

WHEREAS, Mary Long has applied for retirement effective January 1, 2009, and,

WHEREAS, Mary Long requests to take No Option with her last working day December 27, 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 Mary Long retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning January 1, 2009 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

**A motion to approve Ms. Long's retirement application was made by Mr. Goizueta and seconded by Mr. Huston. Motion unanimously approved (9-0).**

DROP Benefits:

DROP application of Angelo Prat of the Fire Department. Effective date December 1. 2008.

**A motion to approve Mr. Prat's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).**

DROP application of Joe Hamilton of the Fire Department. Effective date December 1. 2008.

**A motion to approve Mr. Hamilton's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).**

DROP application of Michael Hope of the Fire Department. Effective date January 1, 2009.

**A motion to approve Mr. Hope's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).**

DROP application of Andrew Clute of the Building and Zoning Department. Effective date January 1, 2009.

**A motion to approve Mr. Clute's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).**

DROP application of J.B. Patterson of the Public Works Department. Effective date January 1, 2009.

**A motion to approve Mr. Patterson's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).**

<u>Vested Retirement Benefits:</u>

Eugene Scott, Parks and Recreation Department (14 years, 11 months), effective at age 52, effective date May 1, 2009.

**A motion was made by Mr. Goizueta and seconded by Mr. Easley to approve Mr. Scott's vested retirement application. Motion unanimously approved (8-0).**

Robert Wells, Parking Department (22 years, 3 months), effective at age 52, effective date September 1, 2011.

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

6. Disability reviews: The Administrative Manager recommends approval of the continued disability benefits for Obie Dunn. *(Agenda Item 10).*

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to approve Mr. Dunn's continued service connected disability benefits. Motion unanimously approved (9-0).**

7. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices). *(Agenda Item 11).*

The Bogdahn Group invoice no. 3553 dated December 29, 2008 for Performance Evaluation and Consulting Services from October 1, 2008 to December 31, 2008 in the amount of $33,750.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008.

**The Board approved The Bogdahn Group invoice in the amount of $33,750.00. Motion unanimously approved (9-0).**

Stanley Holcombe and Associates invoice no. 3579 dated November 20, 2008 for actuarial consulting services from August 8, 2008 through November 11, 2008 in the amount of $8,321.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on October 9, 2003. This invoice was received before the signing of the new contract on December 17, 2008.

**Discussion:**

Mr. Space is concerned about what happened at the last meeting when the firefighter's union requested Mr. Stanley to do work for them. The last time Mr. Stanley did work for the Police union a mistake was made that was later corrected. When that happened the Board got pretty well targeted. Every time Mr. Stanley does work for a group in the City the Board is exposed so he is not crazy about Mr. Stanley doing work for other groups in the City. Chairperson Sibley understands. He explains that the reason the groups in the City use the Board's actuary to do research that might affect employee benefits is because that firm has all the information regarding the retirement system. Mr. Space states that if an innocent mistake gets made the Board is tarnished. Chairperson Sibley responds that Mr. Space's concern is duly noted. Mr. Space points out that he is 100% satisfied with the work Mr. Stanley has done for the Board.

**The Board approved the Stanley Holcombe & Associates invoice in the amount of $8,321.00. Motion unanimously approved (9-0).**

8. Investment Issues. *(Agenda Item 12).*

   a. Attendance of Brad Mayer and Chris Harlin of The Northern Trust Company.
   Brad Mayer was not able to attend the meeting due to the weather delays in Chicago. Chris Harlin gives his presentation to the Board. He explains the

securities lending program. Securities lending has two moving parts to it. There is the client and Northern Trust as the lending agent and the borrower. If Coral Gables owns a 10 year treasury and a broker dealer wants to borrow that security, Northern Trust goes out and lends that security to the broker and the broker charges a rebate rate to Northern Trust because they are giving them a percentage of that yield that will go back into a investment pool so they to pay them for the use of their cash. Mr. Brown informs that the idea is when the security is lent out the client still retains all the interest and ownership rights so they don't lose anything. Chairperson Sibley understands that they aren't lending out the money but are letting a broker borrow a security for a limited period of time which is usually a day and the broker pays a fee. Mr. Harlin explains that normally what happens is the broker is using that money for delivery purposes. Someone may have sold something that the broker is unable to deliver so they loan that security to the broker, they broker makes the delivery and as soon as that is delivered they return the securities back. Northern Trust has the right to call those securities back every night if the client's manager sold that security. Northern Trust would just take the client out of the securities lending pool and replace them with another client's treasury. Mr. Geraci asks why they would look at this type of strategy for the investment. Mr. Harlin responds that they are generating revenue off of the securities they are lending.

Mr. Harlin informs that there are four main risks involved with securities lending. The first one is borrower risk. If you lend a security to a broker/dealer and that broker/dealer over collateralizes that security where they are giving 2% more in cash than what is lent out you are picking up an extra 2% but if the broker/dealer goes bankrupt, like Lehman Brothers, Northern Trust indemnifies the client against that. It is Northern Trust's responsibility as the custody agent to get those securities back for the client. Mr. Space asks about the cash flow. Who is paying who? Mr. Harlin explains that when they lend these million treasuries to a borrower like Goldman Sachs and say they trade at 100, Northern Trust hands $1 million in securities and Goldman Sachs hands them 1.02% of that cash which is $1,020,000 of cash. That money comes to Northern Trust and goes into a fixed income investment pool for a period of time until that loan comes off. So that $1,020,000 goes into the most conservative pool they offer for this fund so that cash sits in there. What Northern does every day is mark to market. That loan comes out and stays out for five days so Goldman has that money out for five days and the client's money sits in that pool for five days but every evening Northern marks to market so if the value of that security goes up Goldman has to give Northern more collateral but if the value of the security goes down Northern sends some of that collateral back to Goldman. Mr. Brown informs that how the fund makes money is Goldman is giving them $1,020,000 and that money is invested in that collateral pool to the extent of that collateral pool earns more than the rebate rate of 2% and that is the profit the fund splits with Northern Trust. The rebate rate is based on the Feds fund rate.

Mr. Harlin continues explaining the risks involved with securities lending. The second risk is a collateral investment risk. There are really two functions of securities lending. There is the lending activity and then there is what the investment pool is comprised of. The investment pool the fund is in is comprised of short duration bonds. The money is going in there and sitting there and collecting yield. When the trade is returned from the broker the money goes back to the broker and Northern Trust books the yield and splits the money with the client. Mr. Goizueta asks if anyone has lost money in the investment pool the fund is in. Mr. Harlin responds that in this investment pool which is called Basic, no one has lost money. Mr. Garcia-Linares asks what happened with FedEx. Mr. Harlin explains that FedEx was in a pool that was further on the risk curve and the investments of the bonds that were in the investment pool could not support a dollar so they traded in the vicinity of $98.50. To be fair for all participants Northern shut down the investment pool and didn't allow people to come out of the pool. If FedEx wanted to jump in front of someone else Northern would have had to sell securities in a depressed market place or eaten up the liquidity in the pool which allows transference back and forth from the borrower community and it would have affected the other borrowers in the pool. What it incurred was when Lehman Brothers went bankrupt, Northern's senior management's main concern was that there was going to be a run on the pool because people were extremely concerned that the market environment was so disrupted that it would have been unfair to everyone else in that pool for people who essentially get in the front line and get out and beat people to the punch. Mr. Goizueta clarifies that the pool this fund is in is not as risky. Mr. Harlin confirms that the pool the fund is in is the most conservative fund Northern Trust offers. He explains that in this Basic fund the short-term rated securities comprise 77% of the total cash portfolio and all are rated Tier 1. The remaining 23% of the portfolio represents long-term rated securities in which 20% are rated AAA and 3% are rated AA. There is no direct exposure to subprime residential mortgage-backed securities, Structure Investment Vehicles debt, direct monoline debt or collateralized debt obligations. Mr. Space asks if they can change pools quickly. Mr. Harlin answers affirmatively. They are in the process right now of developing new pools moving forward.

Chairperson Sibley recalls that they went into Securities Lending with Northern in 2004 on the recommendation of their investment consultant at the time and they have been making money with this program. Mr. Space comments that the fund made $226,892 in 2008. Ms. Groome informs that the Board receives information on the securities lending program and the amount of money the fund makes in the Administrative Manager's Report each month.

b. The Bogdahn Group Strategic Overview of Private Real Estate, Infrastructure, Hedge Fund Strategies and Other Diversification Alternatives.

c. December 2008 Flash Report

Dave West informs that part of their goal at The Bogdahn Group is to assign appropriate people to their relationship with their clients. Peter Brown their real estate expert is in attendance at this meeting to give information to the Board on private real estate and infrastructure. He reviews the flash report for December 2008 with the Board. The return for the month of December was 2.98%. The market low at this point was November 20th. The market has rebounded about 20%.

Mr. Space states that they had a crash in 2000 because of the tech stocks and now they have a crash because of the bankers. Why haven't they ever explored looking at trailing stops for this fund? Mr. West responds that a trailing stop strategy basically, for example, if the S&P goes down so far and reaches "x" per value they liquidate the portfolio or make a reduction in cash. This method or variations of this method would be typically employed in individual stock portfolios as part of a defensive mechanism. The industry position when they look at it in an asset allocation strategy unless they were actively strategically trying to market time they would stay within their rebalancing parameters and stay within those mechanisms with the notion that they are really not in a position to call a market. If they technically follow the discipline they have to reinvest and they are not just reinvesting into equity or a handful of equities in a target equity manager portfolio they are talking about a huge amount of securities that are going to bought and sold and they will incur a significant transaction cost by doing that. The concept is interesting from a portfolio standpoint but for the whole plan they have to weigh the cost of doing that.

Mr. West continues with the December flash report. For the month of December domestic equities were up 2.02%. Aletheia was the one that was best positioned in the sector and participated heavily in that rally. The international equity portfolio in aggregate was up 5.44% and the managers were around the benchmark. December was a big month for bonds. Corporate spreads have started to narrow. He spoke with Mr. Milne of JKMilne who is working on the Loomis portfolio. He was able to move quite a few securities he was uncomfortable with and get prices for that reflected the prices on the custodial statement. That is encouraging because the actual price versus the listed price is very different. The bond aggregate was up 4.38%. Regarding the real estate it looks like the fund is projecting a loss of about 9% for the quarter which puts them at a loss of 5.9% for December and 8.7% for the quarter. That fund will start to show a decline. The queue now stands at 12% of the net asset value of the aggregate fund. JP Morgan has taken the position that this is an open ended fund and they are going to protect the investments of the participants which is first and foremost. JP Morgan has an obligation to make liquidity available as requested but the underlying assets for the participants of the fund is paramount. They are not going to sell off any marquee properties to meet liquidation. They are going to pay out pro-rata based on the amount of distribution in the fund.

Peter Brown makes a presentation regarding real estate. Private equity real estate acts as a shock absorber between bond and stock portfolios. It has a strong income component that comes from the rental stream. It provides current income yield and potential appreciation similar to bonds and stocks. It serves as a hedge against inflation and has a low correlation with other asset classes. Real estate houses the economy so as the economy grows and as population grows they have to build places for people to work, live and shop. Real estate has had a great run. It has done very well in the last five to seven years. Interest rates were low that provided liquidity and easy financing. Institutional buyers were able to go in and pay higher prices. There was job growth and population growth so occupancy was high and rental rates grew. All of that combined real estate generated doubled digit returns for the last five years. Real estate generally generates single digit returns. Going forward he expects the returns to revert back to the norm of single digit returns. The dramatic fallout in the capital markets and slowing economy will affect all the sectors of the real estate market. The current banking has led to a dramatic withdrawal of credit for real estate. The deterioration of market fundamentals from the slowing economy may create a downward cycle over the next few years. Financing availability is difficult and expensive as banks clean up their balance sheets. The US REIT market remains very volatile, down over 40% in the past year, with some offering attractive yields and significant discounts to net asset value, however risk remains toward the downside. Commercial underlying fundamentals have held up to date, and the limited amount of new supply delivered in recent years and currently in the pipeline may allow the market to recover more quickly from the downturn. They expect a prolonged period of little or no new supply and excess demand after the market records.

Mr. Peter Brown informs that this fund is invested in core real estate which has the lowest risk of the different types of real estate offered. The return of this type of fund is generally 4% to 6% real return. Given that they see the core sector is fully priced they anticipate there are going to be some downturns but he can't say how long or how deep those downturns are going to be. Going forward if they are going to place new capital they want to look for new opportunities to buy into this distress. They want to buy into properties where there is something to fix, re-lease, expand or turn around. Instead of it being a buy and hold it is a buy, fix, sell and harvest the gains. You buy it, fix it up and sell it to an investor like JP Morgan. The types of returns they are looking for would be in the low double digits like 10% to 14%. These are often in funds that have a closed end feature which means you would be locked in for a 7 to 10 year period. You give them the capital and then it takes about 4 years to find the deals and another 2 to 3 years to reposition the properties and release them and get them up to a certain operating standard. Then they begin to sell them. It is different than the buy and hold.

Money goes out over a long period of time they are only invested in that amount of capital for a couple of years and the money begins to flow back as they liqudate assets.

Mr. Troy Brown informs that this presentation is for educational purposes only for the Board to consider down the road. Infrastructure, the next item Mr. Peter Brown will be discussion, is a separate asset class.

Mr. Peter Brown reviews infrastructure. Infrastructure is essentially everything that moves goods and services. They classify it in two main categories, economic and social. Economic infrastructure is transportation, utilities and communications. Social infrastructure is everything else related to public works like parks, prisons, and schools. Infrastructure is not a new investment strategy but it is for the US. The US is a couple of decades behind Australia and Europe. It really began in the Thatcher administration in the UK in the 1980's for a way to get them out of an economic recession and begin to prime the economy, free up capital and continue with improvements. It has been very strong. The infrastructure projects have had a strong return in the double digits of 15% to 20% in England and Australia. The trend in infrastructure is public to private partnerships. These institutions raise capital and go out and buy and put together contracts with Cities and Counties and States to help them finance. They are helping finance cash flows. Many of these projects are very large in size and very complex. The local governments don't want to give up control so there could be 99 year leases and a sale with a call option where they have to sell back to the municipality. They are very complex legally. Governments like this asset class because it allows them to free up capital for other projects and helps them maintain existing infrastructure. It also removes a long term liability. They are starting to see an emergence in the US for the last 4 to 5 years. The Chicago Skyway was sold for $1.8 billion and the Indiana Toll Road was sold for $3.8 billion to Macquarie. Recently announced deals are the New Jersey Turnpike for an estimated $10 billion to $40 billion and the Chicago Midway Airport for an estimated $2 billion to $3 billion. It is an imperfect market place. It is not like a home run deal.

He explains the infrastructure sectors. With transportation infrastructure you are buying long term stable cash flow from toll roads, bridges and ports. It is considered a core plus investment. With communication infrastructure you are buying the cash flows but there is development and implementation in management those assets. It is considered more of a value added component. With the water and energy infrastructure you are looking at the long term utilities and the long term cash flow is considered a core or core plus if you add development. Social infrastructure is considered the most conservative of all because you typically have a long term contract with a City or a County for the assets. The advantages of infrastructure is that it is an extremely large opportunity. It is a huge market and it roughly represents one-third of the GDP and half of the stock market. It is a new emerging asset and there are a lot of opportunities out there because there is not a clear market.

Chairperson Sibley informs that some Board members need to leave the meeting so they are going to interrupt the presentation on investments and do the elections for the Board.

9. Election of a Chairman for the Retirement Board [Retirement Ordinance Section 50-88(a)]. *(Agenda Item 2)*

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to nominate Mr. Huston as chairman. There were no more nominations. The motion passed unanimously (9-0).**

Mr. Sibley asks how long Mr. Huston has been on the Board. Ms. Groome informs that Mr. Huston and Mr. Garcia-Linares have until May 2009 to stay on the Board. The appointed Board members have a limit of 8 years to sit on the Board. Mr. Sibley thinks that Mr. Nelson realizes the importance of Mr. Huston and Mr. Garcia-Linares on this Board because they have experience regarding the Board issues. What would be the chances of the Commission changing the rules for this Board to have the appointed Board members stay longer than 8 years? Mr. Nelson informs that the ordinance limits Board members to be appointed for 8 years. The Board members cannot serve past the 8 years until they are replaced. They can stay until they are replaced. Mr. Sibley asks if a new Commissioner who gets elected could appoint them to the Board. Mr. Nelson answers negatively. They have stayed their allotted 8 years and must leave the Board. They can continue until they are replaced by another person. Mr. Naclerio states that they are in troubled times here and they have a great candidate to be their Chairperson. He thinks the Commission should explore changing the ordinance. Mr. Nelson explains that it can be a recommendation from this Board to the Commission. Mr. Naclerio believes they should make that recommendation. Mr. Nelson states that the ordinance has been very firm and a lot of members are rolling off because of the two commissioners elected 8 years ago. They are all concerned throughout the City of other Boards who are going to have to leave their Board in May. Mr. Space informs that he has been attending schools regarding investment issues. When you start sending Board members to get educated and are spending money on them it doesn’t make sense to replace them with someone with no experience especially with this Board. Mr. Sibley explains that they are not diminishing the importance of other Boards but this Board deals with a high dollar on the City budget and it is so important that they have experienced people on this Board that have been around and been through different things regarding the investment issues. Mr. Easley asks what they need to do to move forward with this. Mr. Sibley suggests that the appointed Board members get together with the Commissioners who appointed them and let them know there are concerns on the term limits and why it is important that they have experienced and educated members on this Board to make informed decisions regarding proper due diligence. Mr. Huston points out that his appointer is running for election and has been challenged. If she loses then he loses his seat anyway. Mr. Sibley responds that they will deal with that if that happens at that time.

10. Election of a Vice-Chairman for the Retirement Board [Retirement Ordinance Section 50-88(b)].

**A motion was made by Mr. Sibley and seconded by Mr. Garcia-Linares to nominate Mr. Diaz. There were no more nominations. The motion passed unanimously (9-0).**

11. Election of Investment Committee members [Retirement Ordinance Section 50-121].

Chairperson Sibley informs that the members of the investment committee shall be the trustee, a commission-appointed retirement board member, the administrative manager and two participant retirement board members selected by the retirement board. The chairman of the investment committee shall be the administrative manager.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to re-appoint Mr. Naclerio, Mr. Diaz and Mr. Easley to the Committee. The motion passed unanimously (9-0).**

The presentation on the investments continues.
Troy Brown reviews hedge funds. There are a couple of hedge funds that their clients use. At Bogdahn, they have always felt that a fund to funds vehicle was a safer way to do hedge funds until the Madoff situation which proves that the due diligence being done may not be sufficient. They are going through the process right now of their own due diligence regarding hedge funds so they can get a better handle on whether or not they are effective in their due diligence before they bring any opportunities regarding hedge funds before their clients. So at this time, they are not recommending any type of fund to funds.

Mr. Troy Brown reviews an alternative investment called the BNP PARIBUS Alpha Spectrum CD. This is truly a unique product that is structured like a CD. It is $250,000 per participant of the plan and the idea behind the investment is a vehicle to deliver a spectrum index. The investment, as far as how the plan's auditors will value it, is a bank deposit at SunTrust for a 5 year CD with a 1% coupon. It will be carried at par and there will be no change in value. They will get the 1% at least every year. The good part is you also get 100% participation in the upside of the spectrum index. The spectrum index is a market neutral strategy that consists of a long/short position in a US index future. The Spectrum index's annual performance since 2000 has not had a negative annual return. If they were in this investment for all of 2008 they would have gotten a coupon of 3.46%. If SunTrust fails the fund would be guaranteed their 1% coupon and the maturity value of that CD from the FDIC. They have designed this CD product for public funds. The index is a momentum based index so there are four strategies which are value, growth, market and dividends. They look at the moving averages of those four indices and they are using S&P BAR value, S&P BAR growth, S&P Total Return for their market they use Dow Jones dividends as the index. They rank those strategies based on momentum; what is adding the most value and what is adding the least value. They take the best performing ones and go long and they take the worst performing and go short. It is based on 120 days moving momentum. The targeted volatility of the entire strategy is 8% with 4% from Europe and 4% from the US. That is significant because when you look at the best performing index and the worst performing index the next step in that process is to judge the volatility in each of those indices over the trailing 20 day period. If the volatility between the positive momentum and negative momentum is 5% and the target is 40 of the notional value for example of a $100 investment, that index is long 80 and short 80. It is not involving your money. It is a transparent strategy. It is calculated by S&P. It has a Bloomberg ticker. It prices every 15 seconds. There is no manager making decisions. It is a purely systematic and mathematical way to institute a market neutral strategy. They are getting a market neutral strategy which means they are getting exposure to a strategy that is involved in the equity market based on momentum trading strategy. BNP has been trying to get into the US market. They have been in the US market for two years and they came up with this strategy. The only way they are able to do this type of strategy is to put some type of lasso around it that makes it attractive to institutional investors and that is why they came up with this FDIC insured deposit. Worst case scenario for this Board is that it is a 5 year lock up with a 1% return. The due diligence they have put into this product is significant. They would like for BNP come in and talk to the Board about this strategy.

**A motion was made by Mr. Sibley and seconded by Mr. Easley to have BNP come in and make a presentation regarding this strategy. Motion unanimously approved (9-0).**

12. Items from the Board attorney. *(Agenda Item 7).*

Alan Greenfield gives his report. He and Mr. Nelson have been working on the transition agreements with Northern Trust and Barings. The written agreements will be presented to the Board for their review and execution. Regarding the disability issues, Mr. Thompson and Ms. Harmon have been presenting issues based upon what Mr. Garcia-Linares asked for. They did research and did a memo and made a recommendation to the Board as to what he believed to be the factual situation for the Board to consider. Whenever the Board feels it has the time to devote to these things other than the matters involved with the investments it will be on the agenda and the Board can decide on how they want to rule. Regarding the UBS case, they have depositions that are scheduled for this month and for next month. The matter is proceeding forward. He spoke with Mr. Carlson and it is his recommendation that they have a Shade session relative to the discussion of matters that are permitted to be discussed during a shade session. Regarding Piñon, based on the recommendation the Board made, he sent emails to both Mr. Piñon's attorney and the City's attorney suggesting that they agree to some mediation to the dispute before the matter comes before the Board again. He did not receive any response from Mr. Piñon's attorney but he did receive a response from the City's attorney that he and Mr. Piñon's attorney were engaged in their own settlement discussions and did not feel that a formal mediation session was necessary because they are talking and they are trying to get the issues resolved. There is nothing the Board has to schedule at this time until they hear from both counsel on whether they have reached an impasse or a settlement. The fact they are talking doesn't bind this Board to anything. He received a letter from Mr. Stanley in regards to David Brown's retirement. This matter resulted from the fact when a person retires and leaves the DROP it has to go to Mr. Stanley to certify the amount from the DROP and based upon his figures there may be a problem with the Internal Revenue Code relative to excess of payment made over and above what is permitted by the Code. He is looking into it and he will report on it at the next meeting.

13. Old Business.

Mr. Naclerio states that a matter that concerns him is getting help for Mr. Nelson in the financial end of the pension plan. On the brighter side of things there are a lot of people looking for employment at the moment. He would like to make a motion that the Board encourages the City Commission to get some financial assistant to help the Board with these pension issues. He really thinks that Mr. Nelson has a lot of responsibility and if they can get another financial professional working with the Board it would help them as well. Mr. Geraci asks if Mr. Naclerio wants to create another position. Mr. Naclerio informs that he just thinks they need more financial help. He read a report that Yale University's Endowment has 25 professionals working in the financial area. He thinks that Mr. Nelson has a number of responsibilities and the pension fund is a major responsibility. They are a part-time Board under the Sunshine Law and they can't talk to each other between meetings. In his opinion they should get more help. He would like to move that they ask the City Commission to consider this. Mr. Nelson states that what has been recommended could be taken two ways. One would be that the Board would be hiring a financial administrator/advisor at the Board's expense which the Board has a right to do. They can hire professional help. Mr. Diaz asks if they already have that with their consultant. Mr. Nelson answers affirmatively. That is why the Board hired Bogdahn to give them financial advice and answer all their questions. The second would be that if it was requested that the City provide professional assistance and fund that through additional staff that would be a request from the Board to the Commission and that would have to go through the budget process. They are in a very tight budget and are not looking to add any new positions with the City at this time. In fact they are looking at all positions in the City when employees retire or get terminated in order to consolidate those positions except for with Police and Fire. Mr. Naclerio asks for the City to look at it. He thinks it is incumbent upon him as a Board member to bring up the situation. They do have a professional overworked and they do have consultants who are great and have been tremendously helpful. In his opinion they need more City help in this area at this particular moment.

Mr. Diaz thinks the problem with that is they are an independent Board and if they go to Mr. Nelson and their consultants for advice and then they hire another person that person would really be another consultant who would not work specifically for the Board. The Board is supposed to be independent and that is why they set up a Board of appointees and elected people. Mr. Naclerio states that they are not independent from Mr. Nelson because Mr. Nelson is the Trustee of this plan. If this Board is independent and had its own staff and could meet when it wants on a regular basis of full time employees it would be one thing but they can't do that. They have volunteer people who are serving on this Board and can't talk to each other between meetings and in his opinion they need a full-time professional by the City to help them monitor these investments.

Mr. Geraci thinks Mr. Naclerio is right. They really can't communicate with one another. Is there some way between meetings to have a posted breakfast meeting so they can sit down as a group and discuss something like the information they received this morning on the alternative investment issues presented to them? Mr. Naclerio informs that when he joined this Board and saw the requirements of the Sunshine Law versus every other Board he has served on his entire life he asked the City Attorney to make some attempts at modifying the Sunshine Law at least with teleconferencing and other things and there have been no results. Chairperson Huston states that the Sunshine Law comes from Tallahassee. Mr. Naclerio understands but the City Attorney could get with other City Attorney's and try to amend the law. Mr. Geraci states that if they aren't bringing anything to a vote then they don't need a quorum. Mr. Huston informs that his interpretation of the Sunshine Law is that they can't talk about things with each other unless there is a posted meeting. Mr. Geraci states that if they wanted to have a breakfast type of meeting the second Thursday of every month then all they would have to do is post it and then they could sit and talk. They aren't voting on anything. They are just looking for another opportunity to chew on this information. Is there a way they can structure this? Mr. Greenfield informs that the Commission can have a workshop that is not recorded. It is informal. They aren't making any decisions or voting on anything. They are just discussing issues. He will check to see if the Board can have the same type of workshop.

Mr. Diaz asks Mr. Naclerio to explain exactly what he is asking for. Mr. Naclerio responds that he wants a City person to help Mr. Nelson focus on their finances at this particular time. There are a lot of financial people looking for work at the moment and if they can get somebody to help Mr. Nelson to evaluate these things and monitor these things of all the information that their consultants bring to them he feels that someone working on a day to day basis doing those things would give this Board a lot more confidence in the direction it wants to take as opposed to meeting once a month and trying to figure it all out. He does not know how long it is going to take to understand what Mr. Troy Brown presented and all the ramifications of it. If they had another financial professional it would greatly assist them in those types of activities. Mr. Huston states that the City could not hire an employee unless they had a new budget. Mr. Naclerio states that they could if they knew someone was retiring and they could reallocate that position when someone retires or leaves.

Mr. Goizueta asks if there was concern from the Commission regarding the Board's request to bring someone in with that magnitude into the Investment meetings as a volunteer. The Board talked about that a while back for the investment meetings. Mr. Nelson informs that there was a recommendation from the Board that they bring in a volunteer into the Investment meetings to work with the Committee and the Board in reviewing pro bono to assist and evaluate different types of investment options brought to the Committee and Board by the consultant. That was discussed but it is hard to find someone who will do a part-time and volunteer job. To have someone come in from the outside is difficult. This is why you have a consultant. Chairperson Huston suggests that they table this discussion.

Mr. Diaz thinks they need to listen to what their consultant says. They are paying them over $100,000 a quarter so why bring on someone else to do the job of the consultant. They already have a professional and if they don't like them anymore then replace them. If they don't agree with what they are saying and don't trust them then find another consultant for the fund. He also recommends to the other Board members that they attend the Trustee Schools offered by the FPPTA. If they don't understand what the consultant is presenting then they need to get themselves educated. When the consultants talk about these things he understands what they are talking about so maybe that is the key. They need education.

14. New Business.
There was no new business.

Set next meeting date for Thursday, February 12, 2009 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 11:57 a.m.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR