CORAL GABLES RETIREMENT SYSTEM
Minutes of February 12, 2009
Youth Center – Auditorium
405 University Drive
8:00 a.m.

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

A = Absent
E = Excused Absent
P = Present

GUESTS:
Charlie Becker, Fowler White
Richard Sicking, Esq.
Miguel Cancel
Marjorie Adler, Human Resources Director

Chairperson Huston calls the meeting to order at 8:08 a.m. There was a quorum present.

1. Roll call.

2. Approval of the Retirement Board meeting minutes for January 15, 2009.

   A motion was made by Mr. Sibley and seconded by Mr. Easley to approve the meeting minutes of January 15, 2009. Motion unanimously approved (7-0).

At this time Mr. Goizueta arrived to the meeting.

3. Items from the Board attorney.

Mr. Greenfield reports that it appears the Piñon matter will eventually be settled. He cannot discuss publically the terms of the settlement until the City and Mr. Piñon have inked an agreement. Once they have an agreement then Mr. Greenfield informs he will bring to the Board for approval the section of the agreement that impacts the retirement system Board. He thinks it may be ready for the March meeting.

Regarding the Thompson and Harmon matter, their attorney has submitted a memo on their position regarding the time of disability. The City's outside attorney previously submitted a memo on their position. Mr. Greenfield informs that he prepared a memo and presented it to the Board. If the March agenda permits he would like to put on the time of disability matter on that agenda.

Mr. Greenfield reports on the UBS case. There is nothing new to report since the executive session. The matter is proceeding along and hopefully it will get concluded as far as the discovery stage.

Regarding the 175/185 premium money from the State, Mr. Greenfield informs that he received copies of correspondence from the State, from Ms. Groome and from Ron Cohen's office. Attorney Cohen's letter brought to the attention of the Board the fact that in the past number of years the Annual Report has been late and their money has been held up by the State. The Board had said it would take precautions so the money would not be held up in the future and Mr. Cohen said that the money is still being held up. Mr. Greenfield informs that he spoke with Julie Browning at the State and Ms. Browning said that Ms. Groome has been working with the State trying to get all the matters resolved and there was one or two minor items that still needed to be resolved and then the money would be released. He hopes that by the next meeting this matter will be resolved. Mr. Garcia-Linares asks about the two letters in the Administrative Report to the firefighters and the police informing that they had not paid for the 99-1 minimum benefits. Did they ever resolve from last year when the police owed the fund money and withheld a certain amount that they claimed they deducted for the interest they lost because of the lateness of the checks from the State? He remembers that the Board had instructed Mr. Greenfield to write a letter demanding the money from the police and if the Board did not receive that money then the Board was going to sue the 185 fund. Mr. Greenfield does not recall that. Mr. Garcia-Linares asks for Ms. Groome to go back through the minutes because he remembers the Board gave directions to Mr. Greenfield to take care of this matter. The Board has a duty to this fund to recover the money from the police. Mr. Space asks how much money is owed to the fund. Mr. Garcia-Linares believes it is around $30,000.00. Mr. Greenfield knows that the City is working with them to get that resolved.

Mr. Nelson informs that the two letters the Board has in the Administrative Report are for the amounts the police and fire owes the retirement system in the fund for the 2007/2008 fiscal year. The reason the police withheld approximately $30,000 from their check is because they claim the City owes them the interest they lost because of the delay in the money from the State. In response to the City not paying the interest on the checks that the police received late from the State the police fund is saying they are going to withhold the money they owe the retirement system for above the minimum benefits. They are paying for benefits above the minimum benefits. That amount is due to the retirement system because the retirement system is providing the police and fire those added benefits. The City is not paying the interest but the fund is due the money for paying the added benefits. The two are totally separate issues and the retirement system is stuck in the middle. It is his understanding that the State believes this is an issue and they are requiring the police and fire to pay it and they will withhold the funds. Ms. Groome informs that Ms. Browning at the State asked if the State should send a letter to the Retirement System or to the police and fire funds regarding the money they owed for their minimum benefits and Ms. Browning was told that she should send the letters to the police and fire funds. Mr. Garcia-Linares thinks that they should just withhold the benefit. Mr. Nelson comments that is what it is going to come down to. Ideally they would like for them to pay for their benefits. The issue with the interest is a separate issue and one should not be withheld for the other.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Naclerio to authorize the Board Attorney again to send a demand letter to the 185 fund to reimburse the money they owe the retirement system. Motion unanimously approved (8-0).

Mr. Greenfield continues. They have the matter of finalizing the agreement with Barings Asset Management. The only thing that is holding up the final contract is having the City's insurance division take a look at the insurance information that was provided to them and give a blessing as to whether the insurance is proper or not.

Mr. Greenfield continues. In the Board's package there is a letter from the actuary about David Brown. After receiving that letter he discussed that matter with Ms. Groome and with actuary. There is a limitation under the IRS Code in giving benefits to highly paid personnel and there are certain limits set forth in the letter. In his opinion the Board can only do what the law requires the Board to do which is to follow the IRS code and grant the moneys to the participant in accordance to the IRS code. If the participant, in this case Mr. Brown, believes that the interpretation of the actuary is wrong or he believes the IRS code is wrong then it would be incumbent upon Mr. Brown to come before the Board with whatever argument or evidence he has to show he is entitled to more than the actuary has said he is entitled to.

At this time Mr. Diaz arrived to the meeting.

4. Discussion of recommendation from the Administrative Manager to send Service Connected Disability applicant, Miguel Cancel, to a Board appointed doctor as mandated in Retirement Ordinance Section 50-231. *(Agenda Item 6).*

Richard Sicking informs that he represents Officer Cancel. The Board has copies of a portion of Mr. Cancel's medical records. Mr. Cancel was involved in an accident where a van flipped over several times and one of the most immediate injuries that Mr. Cancel had was the amputation of his thumb following the accident. The doctors grafted one of his toes to his thumb and amputated his pinky finger. His hand is virtually useless. In addition to that is a summary report from Jackson Hospital as of October 22, 2008 which states "this patient is well known to our service. He has a history of severe traumatic brain injury and multiple trauma." So in addition to having a useless hand he also has severe brain injury which limits his ability to function and limits his judgment. As a consequence the City terminated his employment as of December 31, 2008 because of his disability. He was last on the payroll on February 1st. Mr. Cancel has submitted his application for service connected disability and has furnished a stack of medical records. Technically under the ordinance one of the things before the Board today is to authorize Ms. Groome to send Mr. Cancel to a Board appointed physician to examine him and read all his records and then report back to the Board with the opinion on whether or not Mr. Cancel is disabled due to his injuries and can continue be a police officer or not. He believes that there is precedent for this in the past when the injury was so severe and the City had already terminated the employee for disability where the Board could waive that requirement in view of the fact that it would be a waste of money and time to have someone read all those records and report to the Board whether or not Mr. Cancel can continue to be a police officer. The City has already taken the position that he is not and so he is asking for the Board to waive that requirement and award Mr. Cancel service connected disability retirement at this meeting. Mr. Greenfield agrees that there is precedent for a waiver of the requirement for an independent medical evaluation. It is at the Board's discretion. For example they had an employee who came before the Board as a paraplegic because of an on the job injury and the Board approved that disability without the employee having to get an independent medical evaluation. He thinks it is a matter of the Board having reviewed the medical information provided and determine whether or not that medical information would qualify a waiver of the independent medical evaluation.

Mr. Garcia-Linares asks Mr. Nelson what the City's position is. Mr. Nelson responds that the City's position is to waive it. Ms. Adler agrees.

A motion was made by Mr. Diaz and seconded by Mr. Goizueta to waive the requirement of an independent medical evaluation.

Discussion:
Mr. Naclerio asks how much the exams cost and how long they take. Ms. Groome replies that it depends on what type of doctor the employee needs to see. Every doctor has a different amount they charge for an independent medical evaluation. The cost for the last two doctors used for an independent medical evaluation was $950 for each evaluation.

Motion unanimously approved (9-0).

A motion was made by Mr. Sibley and seconded by Mr. Goizueta to approve Mr. Cancel's service connected disability. Motion unanimously approved (9-0).

5. Report of Administrative Manager. *(Agenda Item 4).*

A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Naclerio and seconded by Mr. Sibley. Motion unanimously approved (9-0).

1. For the Board's information, there was a deposit in the amount of $5,392,452.00 from the City of Coral Gables to the Coral Gables Retirement Fund's bank account at SunTrust Bank for the City's 2nd quarter retirement contribution of 2009.

2. For the Board's information:

    - Donald Arnold of the Automotive Department entered the DROP on February 1, 2001 and left the DROP on January 31, 2009. He received his first retirement benefit on February 1, 2009.
    - Clive Cork of the Automotive Department entered the DROP on February 1, 2004 and left the DROP on January 31, 2009. He received his first retirement benefit on February 1, 2009.
    - Neil Gevirtz of the Finance Department entered the DROP on July 1, 2004 and left the DROP on January 31, 2009. He received his first retirement benefit on February 1, 2009.

3. A copy of the detailed expense spreadsheet for the month of January 2009 is attached for the Board's information.

4. A copy of the Summary Earnings Statement from the Northern Trust Securities Lending Division for billing period December 1, 2008 to December 31, 2008 is attached for the Board's information.

5. Attached for the Board's information are the Statements of Pending Transactions and Assets as of December 31, 2008 from JP Morgan.

6. A copy of a letter dated January 7, 2009 from Randall Stanley to McGladrey & Pullen (the City's auditors) is attached for the Board's information.

7. A copy of a letter dated February 2, 2009 to Julie Browning of the Municipal Police Offers' and Firefighters' Retirement Trust Funds is attached for the Board's information.

8. A copy of letters dated February 5, 2009 to Robert Sportsman of the Coral Gables Firefighters' Retirement Trust and Richard Naue of the Coral Gables Police Officers' Retirement Trust Fund informing that the Coral Gables Retirement System has not received the amount for their costs of the 99-1 minimum benefits for fiscal year 2007/2008.

9. For the Board's information a letter from Eagle Capital Management (one of the fund's managers) is attached regarding an update on their portfolio.

10. A copy of a letter from Clark Winslow of Winslow Capital (one of the fund's managers) regarding an update of their portfolio is attached for the Board's information.

11. Attached is an email dated January 16, 2009 from MD Sass (one of the fund's managers) regarding an update on their 2008 4th quarter performance.

12. For the Board's information, attached is an email dated January 19, 2009 from Delaware Investments (one of the fund's managers) regarding their strategy update for 2009.

13. For the Board's information, attached is an email dated January 27, 2009 from Northern Trust regarding recent strategic initiatives.

14. Attached are emails dated January 29, 2009 and February 2, 2009 from JP Morgan regarding the real estate market.

15. A copy of the January 2009 NCPERS Newsletter "The Monitor" is attached for the Board's information.

16. An invitation is attached for the Board's information to the Opal's Fire, Police and Public Pension Fund Summit 2009 from March 6, 2009 to March 7, 2009 at Hyatt Regency Jacksonville Riverwalk in Jacksonville, FL.

17. An invitation is attached for the Board's information to the National Conference on Public Employee Retirement System's (NCPERS) Annual Conference and Exhibition from May 1, 2009 to May 7, 2009 at Hyatt Century Plaza in Los Angeles, CA.

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.

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

Retirement Benefits:

Retirement application of Patrick Williams of the Automotive Department, 18 years, 9 months, Option 2B-100%, effective February 1, 2009.

RESOLUTION 3107
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
PATRICK WILLIAMS

WHEREAS, Patrick Williams has applied for retirement effective February 1, 2009, and,

WHEREAS, Patrick Williams requests to take Option 2B-100% with his last working day January 31, 2009.

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 Patrick Williams retirement benefits under Option 2B-100% as certified by the Actuary, the first day of every month, beginning February 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 Mr. Williams' retirement application was made by Mr. Goizueta and seconded by Mr. Sibley. Motion unanimously approved (9-0).

Retirement application of James G. Jay of the Public Works Department, 17 years, 7 months, Option 2B-66.7%, effective March 1, 2009.

RESOLUTION 3108
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
JAMES G. JAY

WHEREAS, James G. Jay has applied for retirement effective March 1, 2009, and,

WHEREAS, James G. Jay requests to take Option 2B-66.7% with his last working day February 28, 2009.

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 James G. Jay retirement benefits under Option 2B-66.7% as certified by the Actuary, the first day of every month, beginning March 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 Mr. Jay's retirement application was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).

DROP Benefits:

DROP application of Juan Martinez of the Public Works Department. Effective date February 1, 2009.

A motion to approve Mr. Martinez'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 Donald C. Griffiths of the Fire Department. Effective date February 1, 2009.

A motion to approve Mr. Griffiths' 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 William Swikehardt of the Police Department. Effective date February 1, 2009.

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

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

Stanley Holcombe and Associates invoice no. 3591 dated January 14, 2009 for actuarial consulting services from November 12, 2008 through January 13, 2009 in the amount of $8,969.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on December 17, 2008.

A motion was made to approve the Stanley Holcombe and Associates invoice in the amount of $8,969.00 by Mr. Sibley and seconded by Mr. Goizueta. Motion unanimously approved (9-0).

Carlson & Lewittes, P.A. invoice no. 11265 dated January 29, 2009 for costs and expenses in the amount of $2,043.14 and letter dated January 23, 2009 from Edward S. O'Neal as a "key expert" in the amount of $6,935.00. 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."

Discussion:
Mr. Space asks how much they have invested with this case already. Ms. Groome believes it must be up to $110,000 to $120,000. Mr. Space asks for Ms. Groome to provide the Board with the breakdown they have spent. Mr. Garcia-Linares asks if the breakdown also includes Mr. Greenfield's charges to this case. Ms. Groome informs that it includes Mr. Carlson's and Mr. Greenfield's charges. Mr. Garcia-Linares asks to see the breakdown at the next meeting.

A motion was made by Mr. Sibley and seconded by Mr. Goizueta to approve the Carlson and Lewittes, P.A. invoices in the total amount of $8,978.14. Motion unanimously approved (9-0).

8. Investment Issues.
Dave West, The Bogdahn Group, reports that the December quarter was one of the worst quarters in equity market history. The small cap under performed the larger cap. International stocks declined. Financials and materials were hit the hardest. If you are employing an active management strategy in this type of a market this time is different because they have a breakdown of the financial system. This bear market has been across the board and there has been no place for active management to find positive returning stocks. Short of a manager having some sort of a cash strategy it was a very difficult quarter. The bear market of 2001 was all tech stocks and the alternative was that managers had places to go and that started the rally of value stocks especially in the small cap space. Looking at the small and mid cap performance for this quarter was hit harder than the large cap.

Mr. Naclerio informs that he received the Pension and Investment issue of January 26, 2009 which has the P&I 1000 largest retirement funds. He looked at that and wondered if they can make that list part of their minutes because virtually everyone has negative double digit returns. It is not just our fund that can't find the managers it is everyone. Troy Brown points out that they have the returns they do and the losses they do because they have a plan. Anybody that didn't have a plan got scared and got out of the market. If you have a long term strategy the returns are negative double digits now. Mr. Naclerio states that it just doesn't seem that anybody can figure out anything at this point. Mr. Brown comments that in crisis correlation goes to 1 and that is a fact.

Mr. West continues. As a former bond guy there are certain rates they like to watch and the bond managers are watching. The three month Libor is the London Inter-Bank Offering Rate and is the exchange rate between global banks around the world and sets a common rate that they are going to lend against. That is the benchmark they lend from.

That rate shot up when the credit markets were frozen. They forced that rate up so no one could lend. That rate has come back down and there is activity in the market place. That is usually a positive observation. The TED spread is the Libor rate minus the T-Bill rate. When Libor goes up the TED spread goes wide but when T-Bill yields go down that spread gets wider. The positive observation is the TED spread has come way in. Corporate bonds had a decent return this quarter. AAA was up 10.6%, AA was up 6.4%, and A was up 3.7%. Looking at the fixed income managers, Richmond had positioned their portfolio to take advantage of that activity and they get some nice outperformance for the quarter. The credit markets need to stabilize before the rest of the market turns around. They have been 14 months into this recession and they are seeing the first signs of recovery being discounted in the rate market. If past is precedent, coming out of every recession the first thing to turn around is the market starts to get a return of confidence. The critical measure to watch is the TED spread and the Libor spread. The second critical measure to watch is the bond people focus on balance sheets and not on corporate earnings. So short story typically credit spreads start to narrow which happens first and that starts to lay the stage for a more positive environment for equities. That has been the normal order for every other cycle. Mr. Brown adds that four to six months before you see an economic recovery the equity market starts to recover. It will be a lot longer than the traditional post-WWII recession. It is going to be a long time. It will be probably six months from the trough. If you watched the testimony of the Treasury Secretary the market dropped dramatically as he was speaking. The biggest thing that is going to come out of that is this private/public investment fund. When buying legacy assets, which used to be called toxic assets, is how you determine the price. That is what the TARP was supposed to do is buy those assets. When it was shady on the details the market dropped. What they need is confidence. You have consumer spending, business investment, government spending and then net exports. The government part, which is the fiscal stimulus, is getting very large and eventually that starts to filter through. Then you get pick up in the business spending and consumer spending. Why he thinks it is going to be longer, unlike the coming out of the tech bubble, you have massive amount of de-leveraging. Consumer spending is 70% of GDP so if consumer spending is not going to have a rise because the credit is not there and they are not willing to take on debt on their balance sheet the recovery is going to be longer spread out. It will probably have to come more from government and business investment than consumers.

Mr. Space points out that all of their managers are broad cap and in the last recoveries after a recession the thing that led the recovery was small cap growth and value. Would it make sense to talk to the fund's managers and see if they are going to start moving toward small cap? They can get their opinions on when they are going to start moving toward small cap and what their process is. Mr. West informs that they are monitoring those managers. If they look at the broad cap managers in aggregate between the mid and large cap buckets there is a very subtle migration increase going on. Not all the managers are migrating yet. Some still have a strategy in staying in the larger defensive stocks but he thinks they will see the migration be more pronounced as it evolves. Right now they have a significant representation so the fund would be poised for a recovery.

Mr. West informs that they finished about average for the quarter. They finished the benchmark by 1.13%. The market turned favorable for corporate spreads and the fixed income managers outperformed the benchmark. The total fixed income was up 4.87 versus 1.81. As spreads continue to come in they anticipate that they will continue to see good progress from Richmond and JKMilne. For the one year performance, Eagle Capital was in the 17th percentile, MD Sass struggled and was in the 79th percentile, Aletheia was in the 56th percentile, Delaware was in the top 5th percentile, Alliance Bernstein really struggled this quarter and dropped them to the bottom, and Thornburg was in the 49th percentile.

Mr. Space states that Delaware turned in a top five percentile and the fund is out of balance with that asset. Mr. Brown states that the fund is low on equity in general. Mr. Space doesn't want for them to be outside the fund's asset allocation according to their policy. He doesn't want them to be outside their allocation and then get criticized for not paying attention to it. Mr. Brown informs that is why they keep bringing up the issue of rebalancing. Chairperson Huston states that at the last meeting the consultants were recommending that the fund should be rebalanced and the Board made a decision to not rebalance. Mr. Space understands but since their last meeting he has had some other conversations and he knows how important it is to be within their allocation and not be criticized after the fact for not being there. Mr. Brown points out that at the end of 12/31/08 the fund is $3.1 million below where the policy says the minimum the fund should be in equities. Mr. Garcia-Linares states they also were just told that they are more than six months from recovery. Mr. Brown informs that is his personal opinion. Mr. Garcia-Linares understands. He thinks they are safe for now. They need to keep things in balance.

Mr. Naclerio thinks that if they want to allocate new money into the equity assets because they think that is prudent to do he would not oppose that but if they are going to sell their bonds to do that he is not in favor of that. Mr. West comments that recognizing that point they have two things going. They have some alternative products that are candidates or recipients of liquid cash as part of the ongoing program. That is a legitimate hold and they want to minimize transaction costs. Mr. Space asks if it makes any sense at all to increase the up and down side they have in their asset allocation to allow for some more flexibility. Mr. West feels that the ranges are pretty wide right now.

Mr. West continues. The JP Morgan fund is running about average. Chairperson Huston asks when they are expecting to get the withdraw from that fund. Mr. Brown informs that it will take about twelve to eighteen months. The queue is at about $1.9 billion now. There is a way they can get some of their money back faster. Their income is on automatic reinvestment and they can take that off to reduce the capital faster.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Naclerio to stop the automatic reinvestment by JP Morgan. Motion approved (8-1). Mr. Easley dissented.

Christopher Gross and Christophe Pochart of BNP Paribas make their presentation to the Board. Mr. Pochart states that BNP Paribas has three main divisions, banking, asset management and investment banking. They have been doing a lot in Europe for the past 10 years and a lot in Asia as well and they are fairly new in the US. The product they are offering is in the form of a CD so they can benefit from the FDIC insurance. They are using SunTrust bank to benefit from the FDIC insurance which allows two things for eligibility for 175 and 185 pension plans in Florida and that is the most restricted type of pension plan which can buy the product. It is something that has been confirmed by the State authorities. If SunTrust should fail during the investment horizon the fund would get protection from the FDIC insurance to get their principal back and some interest as well. The CD is issued by SunTrust and the CD coupon is paid every year. It would be either a 1% guarantee or the performance of the index. The 1% coupon may increase depending on when you enter into the product. It will be related to the level of interest rate. The minimum guarantee can increase. There are fees imbedded into the product but it will not affect the index performance. The way they designed the products with SunTrust is to make sure that nothing in principal is collected but the 1% minimum or whatever that figure would be in the future is protected by FDIC insurance as well. The only thing that cannot be protected by FDIC insurance is what is valuable and the interest that you can get from the BNP index is valuable. You would not get the FDIC insurance on that. If SunTrust goes under what the fund would get back from the FDIC insurance is the principal plus a portion of the 1% depending on when the bank gets bankrupt, everything that is accrued from the anniversary date to the bankruptcy date would be credited back to the fund's account.

Mr. Naclerio asks if the coupon is immediately redeemable. Mr. Pochart answers affirmatively. It is paid every year in cash to the fund's account. He explains the SPECTRUM index. It is basically the alpha engine within the CD. You have the minimum guarantee and the upside potentially from the index. That index is a market neutral strategy. It is systematic and is a transparent allocation strategy. They wanted to give an alternative to their clients that is much more transparent and liquid than what you can get access to in hedge funds. It is less active because no one makes any decision. The methodology is something they do in a three step basis. What the strategy aims at doing is trying to benefit from the moving style or the trends in the different styles which are growth, value, dividend payers and the markets. As time goes in and out some strategies and styles may be much more out performing the market and the market globally is a combination of all those styles. Trying to identify the best style is a way to get out performance from the direct investment into the equity market. They first identify the different trends. To do that on a daily basis they rank the styles based on the past performance. They will go long on the best rated one and short the worst rated one. They are trying to capture the outperforming index to the least performing. Whether the market is bullish or the market is bearish it is a market neutral strategy what matters is how the best one outperforms the worst one. If the market goes up or down you still get something positive. It is a really basic net of return market neutral strategy. The second step is the investigation. There will be a geographic investigation from US and Europe. They are looking at four indices in US and Europe which are growth, value, dividend payer and the market. Independently they will rank the different indices in US and

Europe and long and short number one and number four. Step three is volatility control. Within the index there is a volatility control mechanism to allow the strategy to benefit from the market condition and limits the downside from the market condition. If volatility spikes there is a high risk in the market. What the strategy is going to do is target at 4% in US and Europe and limit the exposure to the market. It is purely mathematical. If volatility is low you have more exposure to the strategy and if volatility is high you have less exposure to the strategy within the index. That limits the downside risk.

Mr. Naclerio asks why the returns for 2008 in this type of plan were so much better than what the managers for the plan returned in 2008. Mr. Pochart responds that there is a trend within the styles. If you look at academic research the trend is something that works better in the indices than the stocks. There is too much information for stocks so even if a stock is classified as growth or value or dividends trying to pick a stock in one of those styles you are exposed to much more risk. Doing something on an index base maybe less juicy and you get less performance but it is much more stable. Looking at the past performance and trends from 2007 the index decided to be long growth and short dividend payers. The banks are really among those dividend payers. Growth didn't look well but dividend payers looked really bad so you long something that is negative but you short something that is really negative for making a positive performance. So globally through that trend even though the market was really bearish you were able to generate out performance because you short the worst indices in the market. The thing is the volatility control. Because volatility spiked a lot in 2008 the exposure to the long shot pair was really reduced. At some point in October because of the volatility the exposure you could get to a pair in the US was less than 10%. Even though the trend was right or not right because there was so much opportunity in the market the strategy could be less predictable because you have less exposure. You don't get hit as much as the managers. If you don't apply the volatility control maybe the performance would have been negative last year. Because of this strategy they have been able to protect and maintain the upside that they were able to generate at the beginning of the year.

Mr. Diaz asks if they go long and short on the index every day. Mr. Pochart answers affirmatively. The reallocation process is done on a daily basis and every reallocation is based on closing label to minimize the friction cost. Chairperson Huston asks if they are actually shorting the index and not individual securities within the index. Mr. Pochart explains that this is not something the index does it is something that BNP does to be able to match with the performance they guarantee through this product. BNP is providing the hedge for the index performance to SunTrust to enable them to guarantee this program. BNP on the investment and banking side will deal with those stocks that are part of the different indices on a daily basis to match with that performance.

Chairperson Huston asks that recently in the markets there was a group of stocks they were short selling. How would that affect this program? Mr. Pochart informs that they look at that in the US and in all the different countries in Europe because everybody was affected. They are not short selling those stocks directly with an objective to short sell specific stocks. This is just shorting broad indices that are very liquid without any aim to damage any stock or company. They did not have any issue in doing that. People that did enter into their strategy everything is guaranteed net of fee so no matter what you get whatever you were promised you would get.

Mr. Space asks if this product is sold to other types of funds. Mr. Pochart responds that this product is sold to retail and high net worth individuals through leverage strategies. Mr. Space asks what the size of that program is. Mr. Pochart responds that it is $600 million. Mr. Space asks where the brain power is located. Mr. Pochart responds that it is in New York. They have offices in Dallas, Chicago, San Francisco, Canada and Latin America. Globally they have 15,000 people from BNP in the Americas. Recently they bought all the prime brokerage activity from Bank of America so there is a real willingness from BNP to grow and diversify from the existing activities in the west to serve all the different clients. Chairperson Huston asks how strong BNP is. Mr. Pochart replies that BNP is one of the sole AA company banks remaining in the industry with a strong investment banking. They are very strong. There is an opportunity for BNP to buy Fortis which is a big bank in Belgium and Luxembourg. It would be a great opportunity for reinforcing the global presence of BNP. The global bank has a positive return of $3 billion Euros for 2008 which is one of the most profitable banks in the world. BNP is very strong and SunTrust is a strong bank as well.

Mr. Naclerio asks about the legal relationship between BNP and SunTrust. What is it that they have to guarantee the momentum of the index? Mr. Pochart states that SunTrust is a bank so this is a bank product. It is not a fund. It is not a security account. It is a bank product. The banks are regulated to make sure that when they give a guarantee they put investment processes at work to be able to meet their guarantee. SunTrust is guaranteeing the principal back. They are not going to invest it in hedge funds to back up the product. What SunTrust is going to do when they receive an investment from a client is they will buy treasury bonds to be able to back up the guarantees. Something like 85% of the proceeds they invest will go into treasury zero coupon bonds to back up the principal guarantee and back up the 1% coupon. They will buy an option from BNP to access to the performance on an annual basis. SunTrust is regulated by FDIC and that is why FDIC wants to be sure that on the balance sheets of SunTrust for those guarantees there are zero coupon bonds to back up the guarantee so they don’t have to pay for something that is already highly risky.

Mr. Brown asks what happens if the BNP index ceases to exist. Mr. Pochart replies that if the BNP index ceases to exist then there will be a value of that option just before they cease the index. It is a lump sum they will receive and the zero coupon bond exists. It is likely that the product would be terminated and they would get the value of the zero coupon bond and the value of the option based on the performance of the index based on past years. Chairperson Huston asks what the maturity is. Mr. Pochart responds that it is five years. He explains that because it is a bank deposit the bank cannot guarantee liquidity. If they did it would be portrayed as a security and if it is a security there is no FDIC insurance.

Mr. Geraci asks if he could go to a bank and buy this product. Mr. Pochart answers negatively. You can go to Wells Fargo and find the same product with no minimum guarantee. You can find something like this for five or six years. They are not currently selling this through the SunTrust network so you couldn't go into SunTrust and buy this product directly. Every client they meet with in the US the only thing they want to buy is a CD which benefits from the FDIC insurance.

Mr. Garcia-Linares asks where they would get the money to fund this product. Mr. Brown informs that it would come from one of the City's quarterly contributions. Mr. Goizueta asks if The Bogdahn Group has presented this information to other public pension funds. Mr. Brown answers affirmatively. Chairperson Huston asks where in the allocation this product would fit. Mr. Brown explains that the idea was they would have a market neutral or alternative investment allocation which would reduce the target to equity thus keeping them in the policy so they would not have to add additional equity. It would be a policy change to go into this strategy. It would be considered a deposit. From an Investment Policy standpoint they would have a target allocation to cash.

Mr. Naclerio asks for someone to explain if they put $5 million into a deposit how it is protected by FDIC. Mr. Brown explains that the way the insurance works on plans is the current value of the largest participant. Mr. Naclerio asks if it is the largest participant who has less than $100,000. Mr. Brown responds that it is the largest participant's percentage of the total asset value of the plan or $180 million. If you have a single participant in this plan that has a $1.8 million current balance in their account they represent 1% of the interest. So you would take $100,000 and divide it by 1% and be able to have $10 million in deposit and still be FDIC insured. He comments that he saw an email from Patricia Shoemaker from the State about having this type of investment classified as a CD and the State recognizes this type of product is a deposit at a bank. So the State agrees this is a deposit.

Mr. Garcia-Linares thinks that if they put $5 million into this product for five years and the market does turn around they have $5 million in this deposit for five years and they can't invest it into something else. That is the downside for him. If they would have considered this two to three years ago it would be a little different. Mr. Brown explains that the idea is that this is a way for them to get additional exposure that isn't correlated to the way they are invested now.

Mr. West comments that this is part of an ongoing effort when they were first hired by the Board to be a source of new ideas they think are worth wild for the Board to look at regardless of the market with the intent of stabilizing returns. This would fall into the long term option to look at for low correlating diversification in the alternative space. They spent a lot of time looking at this product and they think it is a good idea to bring forward. Mr. Space asks how they explain to their Commissioner or to a retiree what they just bought. Mr. Brown responds that it is a CD.

Chairperson Huston asks for Mr. Nelson's opinion. Mr. Nelson responds that his concern is locking up $5 million for five years. He has hesitation and he needs to study the documents and the legal part of it. He is concerned about the FDIC being continued for the future and he is very concerned about locking up funds for five years. Mr. Geraci points out that they have funds locked up now. Mr. Space states that it seems to him that the five year lock up is equivalent to a bond. If you look at it as part of fixed income you still have equity money available. It isn't 25% of the fund. Mr. Naclerio asks how they can compare it to fixed income when the return is dependent on this index engine. Mr. Brown informs that he compared it to the other investments they have been looking at. Infrastructure has a six year lock up. He compares it more to alternative investments. One of the things here is a limited amount of liquidity and there is usually a lock up period on the front end of the investment.

Mr. Garcia-Linares suggests that they bring back a list of what other funds have looked at this product and what other funds are currently invested in it and then they can take it under advisement to discuss it at the next meeting so they can review the materials over the next month. Ms. Groome adds that they knew the Board would not make a decision today and they knew this group was coming in to make a presentation so the Board could get more information on the product they are offering. The Board Attorney still needs to look through all the legal documents.

Chairperson Huston thinks they need to refer this to the Investment committee and have Mr. Greenfield look at the legal documents and report back to the Board. Then they will have a report from the Board Attorney and a report from the Investment Committee. Mr. Garcia-Linares thinks they need to have an Investment Committee meeting before the next Board meeting and also look into the plan the President may sign and approve to see if infrastructure becomes the way of the near future and get ready to go into something relating to infrastructure. They have another City contribution coming in May. Mr. Brown states that their original intention was to look at infrastructure. They still think this CD product is a good plan.

9. Old Business.

Mr. Space reveals that he spoke with his Commissioner on the idea they brought up at the last meeting about extending this Board's term limits. The immediate reaction was to extend the Board's term limits to 12 years. They didn't talk about it too much though. Do they want to make a recommendation to the Commission? Mr. Naclerio informs that he spoke with the City Attorney and the Board Attorney and he was told that the Commission can extend term limits of the Board members for two years under the current ordinance assuming their Commissioner is re-elected. He also heard that the City Attorney was working on an ordinance amendment to make that crystal clear. Chairperson Huston informs that he spoke with his Commissioner and she had no problem in extending his term. Mr. Space states that the question is the Commission can make a change if they want to but should this Board send them a request to make the change? Mr. Geraci thinks it is a blanket ordinance for all Boards. Mr. Space points out that different Boards have different rules. Mr. Garcia-Linares believes that there are two Boards that don't have any term limits. The Commission can change this Board to a Board with no term limits. The two Boards with no term limits are the Construction Board and the Code Enforcement Board. Mr. Space states that the basis for wanting an extension of the Board's term limits is because people on the Board are getting educated and are getting experience and if you get someone new on the Board you have to start over again with that education and experience. Do they want to send a formal request to the Commission to change their terms? Mr. Geraci recommends that they look for the same thing that the Construction Board and Code Enforcement Board have with no term limits so this doesn't have to be addressed again. Mr. Naclerio does not disagree with that. He is concerned that the Commission keeps their Chairperson on the Board. Mr. Sibley agrees with where Mr. Geraci is going. He thinks they need to ask the Commissioners to give this Board no term limits so they don't have to address this issue again. They are in the midst of an economic crisis and they need people who have the education and the experience with the dealings of the retirement investments. This is not the time to be changing Board members. If it is not changed then they are going to lose some Board members this year because of the term limits.

A motion was made by Mr. Geraci and seconded by Mr. Sibley to request the City Commission to abolish the Retirement Board term limits. Motion unanimously approved (9-0).

10. New Business.

Ms. Groome informs that at the last Commission meeting the Commissioners indicated that they want to have a workshop with the Board regarding the investments. Mr. Garcia-Linares remembers that they went down this path before and believes there was a recommendation not to do it until after all the litigation was complete. Mr. Nelson explains that at the February 10, 2009 meeting Commissioner Anderson brought up an issue about unfunded liability. The concern is due to the market decrease in the assets of the fund significantly that will cause a significant increase in the unfunded liability. Right now they are at $144 million which is the difference between the asset value of the plan and the liabilities. The concern is that it will grow because the asset value decreasing. Commissioner Anderson was also concerned about the City's annual funding requirement which is at $21.5 million. He issued a memo to the Commission regarding the status of the retirement investments and now Commissioner Anderson is asking for a memo on the City's unfunded liabilities. Then the Commission talked about bringing the Board in for a workshop and have the actuary come in and talk about the unfunded liability and have the consultants come in and talk about the investments. Mr. Geraci asks if they could make the workshop an all day event or a two day event. They can go get a nice meeting room at the Biltmore or somewhere and spend the day and really talk about the plan. They could make it a Saturday. Mr. Garcia-Linares asks if the City Attorney was at the Commission meeting. Mr. Nelson answers affirmatively. Mr. Garcia-Linares asks if she objected at all. Mr. Nelson responds that she did not make a comment. About six years ago they had a workshop and in three hours they covered every aspect with the actuary, the consultants and the attorney. Mr. Geraci thinks they need a whole day. Mr. Garcia-Linares thinks that if the Commission wants to have the meeting that is fine but he suggests Mr. Nelson speak with the City Attorney to make sure that she has advised the Commission and is okay with going forward with this at this time. Mr. Nelson informs that they will work with the City Managers office and set it up.

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

Meeting adjourned at 10:56 a.m.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR