

CORAL GABLES RETIREMENT SYSTEM
 Minutes of October 13, 2011
 Youth Center – Auditorium
 405 University Drive
 8:00 a.m.

MEMBERS:	O	N	J	F	M	A	M	J	A	S	O	APPOINTED BY:
	10	10	11	11	11	11	11	11	11	11	11	
Raul Chao	-	-	-	-	-	-	-	P	P	A	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	E	E	P	P	P	P	Vice Mayor William H. Kerdyk, Jr.
John Lindsay	-	-	-	-	-	-	-	-	E	P	P	Commissioner Maria Anderson
Sal Geraci	P	P	E	P	E	E	E	P	P	E	P	Commissioner Rafael “Ralph” Cabrera
James Gueits	-	-	-	-	-	-	-	P	P	P	P	Commissioner Frank Quesada
Daniel DiGiacomo	P	P	E	E	P	P	P	P	P	P	P	Police Representative
Randy Hoff	P	P	E	E	P	P	P	P	P	P	P	Member at Large
Donald R. Hill	-	-	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative

STAFF:

Kimberly Groome, Administrative Manager
 Donald G. Nelson, Trustee/Finance Director
 Alan E. Greenfield, Board Attorney
 Troy Brown, The Bogdahn Group
 Dave West, The Bogdahn Group

A = Absent
 E = Excused Absent

GUESTS:

Ari Sass, MD Sass Associates, Inc.

Chairperson Troy Easley calls the meeting to order at 8:08 a.m.

1. Roll call.
2. Approval of the Retirement Board meeting minutes for September 8, 2011.
3. Approval of the Retirement Board Executive Summary minutes for September 8, 2011.

A motion was made by Mr. Hoff and seconded by Mr. Lindsay to approve the Retirement Board meeting minutes and Executive Summary minutes of September 8, 2011. Motion unanimously approved (9-0).

Mr. Chao states that he was not present at the last meeting but there are two items on the previous minutes of August 26, 2011 that he would like to correct. On the first page of the August 26th minutes it says “Mr. Chao clarifies that Mr. Huston’s removal was the result of the vote that happened at the last meeting.” That is a misstatement because he found out about that issue when he came to that meeting so it is not possible that he

would clarify Mr. Huston's removal was a result of the vote that happened at the last meeting because he had no knowledge of that. And at the end of the meeting he asked for the action that had been taken on Mr. Thompson which is not in the minutes. Chairperson Easley asks Ms. Groome to correct the August minutes.

4. Report of Administrative Manager.

1. For the Board's information, on October 3, 2011 (first business day of October) there was a deposit in the amount of \$23,000,549.00 from the City of Coral Gables to the Coral Gables Retirement Fund's bank account at SunTrust Bank representing the full amount of the City's 2011-2012 fiscal year contribution. The \$23,000,549.00 was transferred to and received by the Northern Trust Cash Account on October 11, 2011.
2. For the Board's information, there was a transfer in the amount of \$2,500,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of September 2011 for the October 2011 benefit payments.
3. For the Board's information:
 - Muriel Darling passed away on September 9, 2011. She was receiving Post Retirement Survivor benefits since September 1, 1971. Her benefits have ceased.
 - James Kay of the Public Works Department entered the DROP on February 1, 2010 and left the DROP on September 30, 2011. He received his first retirement benefit on October 1, 2011.
 - Mark Ginn of the Police Department entered the DROP on November 1, 2003 and left the DROP on September 30, 2011. He received his first retirement benefit on October 1, 2011.
4. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
 - Payroll ending date September 11, 2011 in the amount of \$120,305.65 was submitted for deposit on September 20, 2011.
 - Payroll ending date September 25, 2011 in the amount of \$117,430.23 was submitted for deposit on October 7, 2011.
5. A copy of the detailed expense spreadsheet for the month of September 2011 is attached for the Board's information.
6. Attached for the Board's information is a copy of a letter to the Division of Retirement from the Coral Gables Retirement System regarding Ordinance No. 2011-08 and impact statement which implements the pension provisions of the

2010-2012 Collective Bargaining Agreement between the City of Coral Gables and the Teamsters Local Union 769.

7. A copy of the August 2011 Florida Public Pension Trustees Association monthly E-newsletter is attached for the Board's information.
8. The Berwyn Group Death Check Verification Services dated September 21, 2011 is attached for the Board's information.

Mr. Garcia-Linares asks Mr. Nelson or Mr. Greenfield to explain Ordinance 2011-08. Mr. Nelson responds that the collective bargaining between the City of Coral Gables and the Teamsters Local Union 769 reached an agreement whereby the contribution by the City if there was any increase from 2009 to 2010 it would be shared between the members of the Teamsters Local 769 and the City. So if the contribution increased it would be split. The General Employees were contributing 10% of their salary to their pension. The result of the Actuarial Impact Statement to the General Employees was that it increased from 10% to 14.3%. So there was a 4.3% increase of payroll from 2009 to 2010 for the General Employees. This was also passed onto the non-bargaining members which are the Excluded Employees and the impact to that group increased from 10% to 12%. This was effective on October 1, 2011. It is currently in the collective bargaining agreement between the Teamsters and the City. The agreement expires September 30, 2012. From now until that date if it is renegotiated or changed it is in the ordinance and the ordinance was adopted by the Commission. It will go forward thereafter. Any subsequent increase or decrease will be based on the 2011 valuation. The contributions will not go below 10% because that is the base amount.

Mr. DiGiacomo asks how does the \$3 million that was set aside in the City's Retirement Sustainability account affect the 4% increase. Mr. Nelson replies that it has no relationship to it at all. It is a separate issue. Mr. DiGiacomo asks if the Retirement System received the \$3 million would it not reduce the 4% increase. Mr. Nelson explains that the \$3.3 million was a result of changes in collective bargaining the previous year. It was a reduction in the City's contribution and the \$3.3 million sustainability has no affect on future valuation reports. Each year stands upon its own. What the City did with that money has no bearing going forward.

A motion to accept the Administrative Manger's report was made by Mr. Hoff and seconded by Mr. Garcia-Linares. Motion unanimously approved (9-0).

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

Retirement Benefits:

Retirement application of Maria Gala, Communication Operator for the Police Department, 20 years and 10 months, No Option, effective December 1, 2011.

RESOLUTION 3151
A RESOLUTION GRANTING
NORMAL RETIREMENT BENEFITS
TO
MARIA GALA

WHEREAS, Maria Gala has applied for retirement effective December 1, 2011, and,

WHEREAS, Maria Gala requests to take No Option with her last working day November 30, 2011.

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 Maria Gala retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning December 1, 2011 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. Gala's retirement application was made by Mr. Hoff and seconded by Mr. Garcia-Linares. Motion unanimously approved (9-0).

DROP Benefits

DROP application of Jeffrey Stone of the Fire Department. Effective date February 1, 2012.

DROP application of Stephen Turpin of the Fire Department. Effective date August 1, 2012.

Mr. Chao asks if they have a feeling regarding the economic impact for the DROP. It was a practice that started in the 1980s that any construction will have an environmental impact statement. These days when a company approves something that has an impact they have to have an economic impact statement. Is there an impact statement of the DROPS they are approving all the time? Mr. Garcia-Linares replies that the DROP is according to the ordinance so the Board has to approve the applications. Chairperson Easley states that they can talk to the actuary to see if they can get an impact of each application.

Mr. Nelson informs that he was involved when the DROP was developed by the actuary. The actuary's answer was that when an employee enters the DROP that it is actuarially cost neutral. The employee has already reached their retirement age and the City has funded the amount of money necessary to reach the retirement age for that employee so

therefore the funds are in place whether the employee DROPs or stays with the City or the employee retires and leaves the employment of the City. Actuarially the impact is the same which is why it is cost neutral. There is not an actuarial impact for each application.

Mr. Chao states that the retirement moneys are set aside in an account that earns a certain interest rate and that is very peculiar to every City. Mr. Nelson comments that is why it is actuarially determined in a report of how much the City needs to contribute each year and how much the employees need to contribute based upon the age and the census and the number of employees and type of employee group in order to provide sufficient funds every year to calculate. It makes no difference actuarially. Mr. Chao asks if there is a way that every time they have a DROP application to have the economic impact of that application in terms of the expenses that are saved because the employee is no longer in the benefits and the interest paid for the account. Do they have an idea of the economic impact? He thinks they need to know in order to discipline themselves to know every time there is an expense of any kind or an approval of concept to have an economic impact. Mr. Nelson responds that there is an actuarial impact every year as to how much they are funding the employees' retirement. Whether they are in the DROP or they retire there is no difference, they are both considered retired. It is just a different name. They have both reached eligibility for retirement and have been funded over the year by the City and the funds are sufficient. Once an employee reaches their retirement eligibility they are can retire. It doesn't matter if they are in the DROP or if they retire and move away to another City. There is no difference between a DROP participant and a retiree.

Mr. Chao states that the City is guaranteeing a certain return for the employees in the DROP. Mr. Nelson agrees. Mr. Chao asks who decides the rate of return of the money in the DROP. Mr. Nelson explains that when an employee enters the DROP their benefit is calculated at that time. They can make a choice to stay with the City and continue for 5 years if they are a police officer, an excluded employee or a general employee and 8 years if they are a firefighter. Or an employee can make a decision to retire and leave the City's employment. So either way an employee's retirement benefit is calculated and that is the amount an employee receives for their retirement no matter what. If an employee is in the DROP then every month an amount gets deposited in an employee's name and the funds stay within the Retirement System. The moneys are not transferred to a separate account. It stays in the Retirement System's assets. After the term of the DROP that amount accumulates with interest and that amount is paid out for the period of the DROP. Mr. Chao asks who decides the interest amount. Mr. Nelson replies that it is based on the return of the fund at the end of the calendar year. It used to be a guaranteed rate and now it varies on the return of the plan. It can be as high as the actuarial assumption rate of 7.75% or as low as 3%. Mr. Lindsay comments that in the interest of time he asks if the actuary could put some of this information in writing. Chairperson Easley informs that it is in writing in the ordinance. Mr. Nelson suggests that they discuss this further with the actuary when he is at the December special meeting.

A motion was made by Mr. Hoff and seconded by Mr. Garcia-Linares to approve all applications for DROP. Motion unanimously approved (9-0).

Vested Retirement Benefits:

Michael Fernandez, Communication Operator for the Police Department (12 years) effective at age 52, effective date May 1, 2030.

A motion was made by Mr. Garcia-Linares and seconded by Mr. DiGiacomo to approve Mr. Fernandez's vested retirement applications. Motion unanimously approved (9-0).

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

The Bogdahn Group invoice no. 6680 dated September 22, 2011 for Performance Evaluation and Consulting Services from July 1, 2011 to September 30, 2011 in the amount of \$36,250.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008 and in accordance with the fee increase approved by the Board and signed by the Chairperson on April 28, 2011.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Hoff to approve the Bogdahn Group's invoice in the total amount of \$36,250.00. Motion unanimously approved (9-0).

7. Items from the Board attorney.

Mr. Greenfield reports that Ms. Groome met with some attorneys with a securities monitoring law firm when she was recently at a conference in Orlando and she has forwarded information regarding that law firm to him. In the past they have had two or three law firms approach the Board about securities monitoring and now they have received a package from another law firm. He doesn't want to waste any time with it if it is not the Board's feeling to consider retaining a private securities monitoring law firm. In the past they discussed it and said it is duplicitous of what Northern Trust is doing for the fund. It seems that it is a solicitation to be a lead plaintiff. If the Board wants him to go forward with it he will contact this firm and get some more information and bring that to the Board. Otherwise they will just let it drop. Mr. Garcia-Linares suggests that they just pass on it. They have discussed this several times. Northern Trust does the same exact service and he doesn't think the members of this Board want the Retirement System to be the lead plaintiff in these actions. They take whatever benefit comes out of the class actions through what Northern Trust does for them.

8. Investment Issues.

Ari Sass from MD Sass Associates (Broad Cap manager) thanks the Board for having him at the meeting. He is the Senior Portfolio Manager at MD Sass. It is a very

interesting time and The Bogdahn Group invited him down to go into more detail on their performance, how they position the portfolio and how they are positioning the portfolio in this macro environment. They have had a disappointing year on a calendar year basis. So far this year they are down about 7.3% which is worse than the market, the Russell 1000 value, which is down 4%. They have outperformed the Russell 1000 value in their inception to date record. They have gone through one bear market and are approaching another.

They invest in a concentrated portfolio of about 25 to 40 stocks. They invest in companies they think they know better than most on the street but they have a perception they think is different. In environments that are driven more by panic or emotion or heightened fears where stocks move together indiscreently they tend to underperform. Stocks are moving together in correlation where the percentage of movement determined by the market as opposed to the individual stock correlations are at record levels, even higher than in 2008. When correlations are very high in extreme levels stock pickers like MD Sass that rely on fundamentals to drive a stock's performance will underperform because technicals and emotions are driving the market not fundamentals. He is not saying it is unreasonable it is just a reality. They tend to outperform in periods that are driven by fundamentals. They tend to not talk a lot about macros because they are stock pickers but in this environment you can't help it.

Mr. Garcia-Linares asks if there is anything in the fund's investment policy affecting the way they are investing and therefore the policy is holding them back. Mr. Sass doesn't think that is the case. In 2008 this Board was very flexible because they were able to go into 25% cash at one point and in 36 years that had never been done. The Board was supportive of that move. The Board has shown flexibility and he thinks the guidelines are very reasonable. If they ever think they need to go outside the limits they will communicate that proactively with the Board as they did in late 2008. He thinks they are in great shape in that respect.

Mr. Sass continues. As long as the sovereign issues in Europe are around the market will be highly volatile and very choppy. The market hates uncertainty. The market likes certainty and stability and likes to look into the future. It is very difficult to have visibility in the future right now because a lot of the market's move depends on what happens in Europe and Greece in particular. Greece has aggregate debt of about \$335 billion Euros. What they need is quick access by the EU to do a number of things. They need to capitalize and stand behind their banks. If Greece defaults that leads into what they are very concerned about and that is Italy. Italy is \$1.5 trillion in debt. This is a much bigger issue. It is driving the market. They don't think that the panic is unreasonable but the indiscriminate nature of the sell off is. They believe the EU will take the right steps in back stopping banks and restructuring Greek debt but the problem is when. Does the EU need to see a total collapse and panic before they act or will they act quickly? That is what the market doesn't know. It is their belief that the EU will work it out but they just don't know when that will be. He thinks the good news is they understand the problem. During these difficult times the market is extremely volatile based on rumors, statements, and anticipation of what may happen within a week or two

weeks. The market is very choppy. He can tell them about individual stocks but it doesn't matter. It is all backseat to whether or not they are going to end up in a global recession because of Europe. He thinks that is the issue today.

Correlations among stocks and amongst sectors in the market are at levels they haven't seen in 15 years. It passes what they saw in the financial crisis in the U.S. The macro driven return environment is very challenging for them. The quicker they get a resolution the quicker they can turn out performance for the plan. They are up about 8% versus 6.5% in the market. When fundamentals take over they feel very good about the portfolio. It is a matter of when that will matter again.

For the first time in 57 years the dividend yield on the S&P 500 is higher than the yield on treasuries. If the S&P yield is higher basically the market is telling you that dividends won't grow and earnings won't grow and they may decline because the yield is higher than treasuries. The market is pricing in a very negative scenario. They have taken a lot of pains and the market is pricing a no growth environment. If they can get out of this quickly he thinks they will see a significant rally but again he doesn't know when this will happen. They think that the dividend yield of the S&P being higher than treasuries is actually bullish. Companies are paying out the smallest percentage of dividends in the last fifty years so the yield is higher and the companies aren't paying out as much as they used to. They think that companies have the ability to pay out more dividends. Companies in this environment are cautious with their cash as they should be but they think with some clarity they can see a return of capital from companies. The dividend payout ratio is at its lowest and the yield relative to treasuries is at its worst and that is a good set up going forward.

They don't know when things will get better and they know things could get worse before they get better and when you are dealing with a union of 27 other countries and multiple political parties and cultural differences acting fast it is not easy. They are not optimistic that things will act quickly in the EU. They are trying to position themselves in themes they think will work regardless of the economic recovery. In other words, situations that they think are uncorrelated with GDP growth. For example, they have an exposure now in generic drug manufacturers. If you look at the market for prescription drugs today, Lipitor is the largest drug in the world and it is going off patent in about a month. That will be followed by a wave of blockbuster drugs going generic which is about \$150 billion dollars worth of drugs over the next few years. It will be a major opportunity for generic drug manufacturers. They don't think Wall Street appreciates this because drug distributors benefit too. When a drug goes generic the price drops 80% to 90% however drug manufacturers make about a 1% profit margin on branded drugs and about 5% to 6% on generic drugs. They like this theme because it doesn't matter what the economic recovery looks like because people will buy generic drugs instead of branded if they can and there will be players who will benefit from this. They think these companies will grow earnings double digits over the next couple of years. They are trading at 10 times earnings.

The other theme they like is the emergence of smart phones. About 50% of shipments today are smart phones and it will probably go to 100% in the next five years. If you look at China and India they just opened up 3G licenses. 3G is technology for data connectivity that you need for smart phones. They think it is a powerful secular theme. One way they are playing that is through a company called Qualcomm which is typically a growth stock and they are value investors. They think other growth companies are trading at value prices in this environment. They think companies will grow even in a recession that has huge cash balances. When you strip out the cash the operating business is ten times earnings and this is a company that is going to their top line and bottom line double digits. They get a royalty on every single smart phone sold in the world because they have the patent on 3G and 4G technology. These are the kinds of opportunities they are looking at.

Mr. Geraci asks what stocks have they sold and what stocks are they choosing to buy. Mr. Sass responds that in a market like this that is very volatile they tend to turn over more of the portfolio more than normal. That is because when you are getting big spikes it creates better entry and exit points. Rather than selling off positions they have shifted their exposure. They have taken down their energy exposure. If they hit a recession oil is going down and if oil goes down then oil service names will get hit. The reality is if oil goes to \$50 then oil service stocks will go lower. They like oil service long term but they think it is prudent to take down exposure short term because in an environment like this you don't want to be cyclical. Instead of name turnover they have shifted their portfolio.

Mr. Chao states that this good news depends on price to earnings ratios projections. These are very soft numbers for 2011, 2012 and 2013. Mr. Sass thinks it is positive. The numbers for 2011, 2012 and 2013 are their estimates for the companies' portfolios. The price to earnings of nine and half times on a weighted average basis for 2012 earnings estimates their stocks are trading at 9.5 times earnings. If their earnings estimates are right there is no way these stocks will stay at 9.5 times earnings. On a weighted average basis they think the earnings are growing 15%. They think they are extremely cheap. If their earnings estimates are right they think the multiples go a lot higher. The historic market multiples say 14 to 16 times and the S&P historic earnings is 7%. If they double the historic average of the S&P in earnings growth they shouldn't be trading at 9.5 times. He agrees the multiples are very low and when fundamentals return and they are right they will get rewarded and the stocks will go higher. Having a low multiple in an environment where fundamentals matter is a very good thing.

Mr. Chao states that any of the companies shows the price as of September 30th earnings per share estimate for 2011 is a soft number. These are just projections. He is skeptical. Mr. Sass informs that their job is to forecast earnings on companies and then to invest in companies where their earnings expectations are a lot higher than consensus. That is their job. They have been hired to forecast estimates and to be more right than wrong and if they are right they believe the stocks will outperform. Their ten year track record in this strategy they have doubled the performance of the market because generally they have

been able to pick companies that have earnings much higher than consensus. All the estimates are their estimates.

Mr. Garcia-Linares asks how they get to that estimate. Mr. Sass responds that the crux of what they do, which is about 99% of his day, is meeting with management teams of companies, meeting their suppliers, their customers, their competitors and build very elaborate financial models on companies. Mr. Garcia-Linares remarks that they are getting hard information from the actual company and based other information they get from the company they are doing these projections. Mr. Sass agrees.

Mr. Chao states that the bottom line is they need to compare the performance they have with a true benchmark. They are using the term benchmark too loosely. He sent an email to send to all the Board members. If you Google benchmark management you get 100,000 mentions. You get about 200 books because words have meaning and benchmark is a term in management that has a specific meaning which is what the performance of the best in class is. Aside from all the estimates the benchmark is what the system that is performing the best is doing and what are we doing. That is the benchmark in management and it is a very precise term and words have meanings. A benchmark is a performance of best in class. He presumes there are perhaps 160 companies like The Bogdahn Group that hire managers. He thinks they need to know what the performance of the best in class.

Chairperson Easley understands Mr. Chao's sentiment but he doesn't want to get too far off of the subject. He suggests that Mr. Chao contact Mr. West and Mr. Brown and bring sustenance to the Board so they can streamline the ideas. He thinks they are getting too off target. He does understand what he is talking about the benchmark. Mr. Chao does not think that the Russell 1000 is a benchmark. It is a standard guiding a company. It is not what people do today in management. Chairperson Easley thinks they need to streamline their ideas and bring it to the consultants. Mr. Chao does not want to bring it to the consultants. He wants to bring it to this forum because in this forum the benchmark is established by the management and not by the people who contribute to the management.

Mr. Garcia-Linares asks Mr. Sass who he thinks they should be comparing MD Sass to. Mr. Sass explains that what they look at internally is they benchmark themselves against other managers and these benchmarks and he does think they are benchmarks. If you look at PSN which is a composite of all managers they benchmark themselves against 300 managers over a 1, 3, 5, 7 and 10 year timeframe. Over that timeframe they are comparing themselves against their peers because there is no one else to benchmark against. They have been top decile over a ten year period. They have demonstrated being a top ten percentile of 300 managers over ten years that have invested in large cap investing style. They benchmark themselves against their peers, the S&P 500, the Russell 1000 and the Russell 3000. In his mind a good benchmark is your peer set and he thinks fortunately they have been in that top decile. As part of their guidelines they are to be in the top 50% of the same universe of managers and they are in the top 10%. He

agrees they should be benchmarked against their peers and he can provide the Board with this information.

Mr. Chao remembers that Mr. Garcia-Linares mentioned that some years ago this plan was in the 82 percentile and now they are in the top 10%. Why were they dealing with a company that was in the 82 percentile? It is because they didn't have as their management tool a true benchmark and a true benchmark is the best company that can manage and do the same thing they need to be doing here by hiring people like The Bogdahn Group. It is nothing against The Bogdahn Group. This is the way that today businesses are managed by two things they are not doing. First is the concept of a benchmark and second is the concept of a flash report. They do not have a flash report. They may have something they call a flash report but it is not a flash report. A flash report is something that has one page. It is the fundamental of a flash report. It gets to the supervisors, the managers and the top of the company. Mr. Garcia-Linares asks what Mr. Chao would like to see on a flash report. Mr. Chao responds that he would like to see many things for instance what is their total burden for retirement of people that they have in the system, what are the total expenses in management of the portfolio including the sales commissions, the buying commissions of the Bogdahn Group. What are the projections of the contributions of the people to the system? What is the total value of the portfolio and this trend over a few months or a year so that they don't have to worry if the lines are coming together? These are things they are not dealing with and these are things that make companies go broke. Chairperson Easley informs that they deal with these things every year in the Actuary Report. Mr. Chao states that they are getting so many numbers that they cannot interpret what is going on.

Mr. Hoff thinks that they need to let Mr. Sass finish with his presentation. Mr. Chao explains that he was asking a question that has to do with all these projections that he doesn't believe in any of the projections because there are many elements in the market. Mr. Geraci agrees with what Mr. Chao is saying and he would like to schedule in a separate meeting to discuss this because it is very important. Chairperson Easley agrees but feels that today is not the day to do it. Mr. Geraci would like to spend a few hours on it and maybe bring in someone in that field to talk to them about it.

Mr. Chao doesn't think Mr. Sass believes in it either. Mr. Sass responds that he absolutely does believe in it. He would not be sitting in front of the Board today if he did not absolutely believe in what he does. He stands behind it 100%. They are estimates. He did not say they were fact. They were hired because the Board believes in their investment process to come up with an investment strategy to build a portfolio that they think will outperform and that is what they have done. He thinks that when he started he said he didn't know what will happen in the market. He does not know what is going to happen. Mr. Garcia-Linares comments that no one knows what will happen. They have put together a system they believe in, that they have proven works for them for the last 10 years and they either buy into that system or buy into another system and that is the bottom line. No one knows the future. Mr. Sass agrees. He is not telling them what is going to happen, if the earnings are correct or where the market is going. He is telling them how they are positioning themselves in a very difficult environment the very best

they can. Then it is up to the Board to make a judgment on whether they buy into it or not. He can tell them that they feel very strongly regarding the numbers he put before them and if they ever want to go into deep detail on any specific name in their portfolio he encourages them to do so. They have put a tremendous amount of effort in the research they do on the companies. This is what they do all day and he stands behind that process.

Mr. Chao states that in the late 1960s there was a study by a professor from MIT and he came up with a technique for buying stocks which consisted of buying the Wall Street Journal and throwing a dart and buying a stock where the dart hit on the paper. Then he put a list of the stocks he bought and threw a dart at the list of stocks to sell a stock. He did this from a period of 1965 to 1969 and beat the market. He is not saying that is what they are doing but he is saying they need a true benchmark which is who is the best in this business and who is performing the best and why because as a management tool it insights people to find out why these people are doing so well. That is how businesses improve. That is the reason if you look at benchmark and management in Google you will see thousands of websites and books. This is a very old technique that was brought about in the 1960s and this has gone away with the standard and the standard is meaningless. The same thing happens with the concept of the flash report which is one page so you can see the whole picture on one page. Chairperson Easley understands what Mr. Chao is saying. He asks if Mr. Chao could present his ideas in a streamlined format at the next meeting as to how he would like to see the flash report to be and then they all can talk about it then. He doesn't think now is the time when they have one of their money managers at the meeting.

Mr. Brown asks if Mr. Sass can explain in general how they are doing things differently and if they evolve their process because trading in 2000 is not the same as it is today. Mr. Sass explains that one thing they believe is happening is when correlations go up as they have and everything comes down together indiscriminate selling creates opportunity. When all stocks are selling off in tandem at the same rate that shouldn't be but there are certain companies they think in an economic recession should do better than others. When you see indiscriminate selling they think it creates opportunities to add to certain positions that they like. These are great opportunities to buy companies they love even cheaper. Assuming their thesis hasn't changed in their companies and they do revise their earnings estimates based on economic growth but when they see indiscriminate selling they do see that as an opportunity to add to certain positions that they think were unjustifiably beaten up. They look at it as an opportunity because they think long term and not buying stocks for a day or two. They think of the long term. On the other side if stocks swing to the upside to quickly it is too much too fast and if things hit their target price because of irrational exuberance for other reasons they will use that as an opportunity to trim positions and use that as an opportunity to reduce exposures to names that they think are much closer to fair value. They trade more in that environment and given that they have a long term outlook will tend to selectively add to positions they think are really attractive in an indiscriminate sell off.

Mr. West comments that from time to time discussion comes up on downside protection. He asks for Mr. Sass to share their approach of protective strategies. Mr. Sass explains that in this portfolio they don't use any options or futures. They are strictly long equities. They have other tools they use. In a sell off they don't use stop losses. That is not their style because if they think they are right on a company they want to buy the stock on a sell off. You want to buy when everyone hates it. Mr. Hoff asks if there are any significant management changes. Mr. Sass informs that everything is the same. They did add a new analyst. When they analyzed their returns over the last ten years they felt their biggest weakness was in health care which they think takes specialized knowledge and the analyst they hired is a health care specialist who has brought a tremendous amount of knowledge to them in an area they thought they were quite weak in.

Mr. Sass completed his presentation and the Board thanked him for his time at the meeting.

Mr. West reports on the investments. They have had a very volatile quarter and a very exceptional time in the market place. There was a huge swing in currency. They had a lack of a bond market rally. Corporate bonds underperformed by huge margins so they did not get that boost on the bond side that you usually get in a big washout in the equity market like they have had. The total fund fiscal year ended up 2.42%. The total policy benchmark that they are using was up 1.49% so they finished ahead of that measurement benchmark. The big negative influence was the one month return of -5.23%. The alternative allocations in the portfolio provided a huge boost to the return in support to offset the declining equities. Fixed income for the month and quarter had very lack luster returns in general. If they had a portfolio that was 100% U.S. Treasury securities you underperformed at this period in time. The total fixed income was 3.5%. Real estate returned 21% for the fiscal year. For the quarter the two managed futures funds performed at 2.28%. It was a good allocation adjustment because a portion of the funding came from equities and domestic fixed income.

Mr. Chao asks where he can find the amount they pay in fees to the managers. Mr. Brown responds that it those fees are shown on the custodial statement. Mr. Chao would like to see in the flash report how much they have paid in commissions in and out of the market. Why don't they have access to that number? Mr. Brown informs that the Board does have access through the custody bank, Northern Trust. Mr. Chao states that they don't have anyone from Northern Trust at this meeting submitting a report. Mr. Groome informs that she will contact Northern Trust to set up the new Board members to the online access. Mr. Chao informs that number should be part of a one page flash report.

Mr. West states that they need to address the City's contribution amount. Mr. Brown informs that the City made its contribution to the fund of \$23 million and the Board needs to allocate that money to the investments. Mr. West explains that the recommendation is to allocate \$15 million to the S&P 500 index fund. That fund is used as the no cost transaction for the monthly payments of retirement benefits and expenses. The international equities allocation would be \$1.1 million to Delaware and to Baring and \$1.8 million to Thornburg and the remaining allocation would stay in the cash account at

\$4 million. Mr. Garcia-Linares comments that the international volatility is incredible with what is going on over there. They are going to put \$19 million of the \$23 million straight into the equity. He understands about rebalancing to where they are at but he questions whether this is a good time to do this. Mr. Brown thinks this is a discussion for the Board to have. He informs that Ms. Groome sent him the amount that was contributed and they could have allocated it like what they just recommended without bringing it to the Board's attention because it would be according to the policy. This is their recommendation. Mr. Garcia-Linares is personally concerned about putting \$19 million of the \$23 million into any asset class that is the most volatile right now than anything that is out there. Mr. Brown states that from a timing perspective he wishes he hadn't thought they were going to have this discussion because he would have invested the money and they would be up 7% now. They have had these issues before. He thinks the prevailing culture is the big unknown as to what is going to happen in Europe. Mr. Garcia-Linares informs that he would feel more comfortable in putting some of it into real estate. Mr. West explains that they are over-allocated to real estate now. Mr. Brown states that he is confident that this is the right thing to do but he is not confident in the timing of doing it. Because of that lack of foresight as to what is going to happen the best advice to give is to stick with the policy. They are down to \$6.7 million in the S&P account and they do want to fund that back up to \$20 million. They draw from the S&P about \$2.1 million on a regular basis. Mr. Garcia-Linares asks if that is the amount they draw every month for benefit payments. Ms. Groome informs that it varies depending on who is leaving the DROP.

Mr. Chao asks that given the very low returns they are getting in the cash account does it impact what they pay in the DROP for people in the DROP. Mr. Nelson responds that the total return is what impacts what is paid to the participants in the DROP. Mr. Chao asks what the level of return is that they are paying now. Mr. Nelson responds that the return is determined based upon the December 31st returns of the fund as to what they pay to the DROP participants and that amount can be as low as 3% or as high as 7.75%. The September 30th return determines whether or not they give a cost of living adjustment to the retirees. Mr. Chao asks if that is negotiable. Mr. Nelson responds that it is a contractual issue with the bargaining units. Mr. Chao asks when the agreements are coming for revision. Mr. Nelson replies that all agreements have separate expiration dates. Mr. Chao asks if what the sense of management is regarding whether the DROP percentage should be negotiated to a level that is equal to the returns of CDs because every instrument today is paying 1% or less.

Mr. Lindsay asks for a point of order. This discussion is for management and the City Manager. It is not the purview of the Finance Director. Mr. Nelson informs that it is an item that is negotiated between the City management and the unions and he does not sit at the table during negotiations. Mr. Garcia-Linares remembers the last time this Board discussed these issues they got a speech from the City to not get involved or not to discuss these types of issues. They have to move on and get off this topic. He thinks Mr. Chao should approach the Mayor and tell him this is something that should be considered. He does that with Commissioner Kerdyk. Chairperson Easley points out that there is a flip side to that coin when the fund does extremely well the limitation of return

for participants in the DROP is held at 7.75% so when the fund does a return of 12% that extra amount above the 7.75% is put into the fund. It is a pro and con on both ends of the spectrum.

Mr. Brown informs that their goal is to introduce a new investment to the Board and ideally they would like to have PIMCO come in and make a presentation to the Board rather than a presentation to the Investment Committee. If this asset is something the Board would entertain they are talking about a \$12 million investment and they can support keeping \$12 million out of the allocation to fund this investment. Mr. West informs that this is an investment opportunity that has been created by dislocations of the current environment. This is not a TALF. There is no government involvement. It is a distressed senior credit opportunity but the nature of the distressed is a little different. This is essentially a fund of fixed income securities. They are collateralized debt obligations (CDO). CDOs have some negative connotations. CDOs were part of the root of the mortgage problem but not all CDOs are the same. A CDO is a fund that is comprised of asset backed securities, credit card securities, mortgage backed securities, and residential mortgage securities. All these loans or bonds are put into a pool. They are in the hands of a trustee. The trustee follows the indenture and pays the interest and the principal into the bucket and it gets allocated across the structure. If you are a senior in the structure or the cash flow you are always guaranteed whatever the allocation of the payments are and it is a preset formula. It looks like a regular corporate bond. If you are short principal payment for a period or there are defaults in the loans then that gets absorbed by the bottom because you are still collecting the bulk of the principal and interest and you will not be affected. The risky trenches are absorbing the defaults and other problems. It is pure fixed income.

Mr. Brown informs that the opportunity exists because of 2008. The market has a lack of price discovery. The truly unique opportunity is that the primary source of assets in this fund is going to be the resolution of the existing DiSCO product. They are getting assets that in PIMCO's opinion can't be bought in the open market. They are giving up liquidity risk but the expected rate of return they are holding for is 10% net of all fees. These are higher yielding securities. They think this is a great opportunity and they are recommending it to all their clients.

Mr. Garcia-Linares thinks they should talk to PIMCO at the next meeting but would like for Mr. Greenfield to review the contract and the product and if he is comfortable with it then PIMCO should make a presentation at the next meeting. Mr. Brown informs that they are making a recommendation to allocate 5% which is about \$12 million. Mr. West states that the intent was if the Board goes forward with this product that they would fund it out of the domestic fixed income managers. Mr. Brown explains that they will hold back \$12 million from the \$23 million contribution and that would give them \$11 million to allocate to the S&P 500 fund. They are still within policy.

Mr. Greenfield asks Bogdahn if there are any remunerations, commissions or other things paid by PIMCO to Bogdahn for Bogdahn to recommend this product to the Board. Mr. West responds that the Bogdahn Group received no compensation whatsoever from this

product or any other product, manager or vendor that they bring to the table. Their compensation is solely based on the invoice the Board approves. Mr. Brown adds that 100% of Bogdahn's revenues are the hard dollar fees they charge their clients.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Hoff to hold \$12 million of the \$23 million City contribution in cash and invest \$11 million into the S&P 500 index fund at Northern Trust and to have PIMCO present the DiSCO product if Mr. Greenfield is comfortable after reviewing the contract. Motion approved (8-0).

Mr. Chao abstains. Mr. Garcia-Linares asks what basis. Mr. Chao informs that he doesn't know about the product. Mr. Garcia-Linares doesn't think that is a valid reason to abstain, you have to either vote for it or against it. Mr. Greenfield affirms that he cannot abstain. Mr. Chao asks why he cannot abstain. Mr. Greenfield responds that it is the law. He has to vote or he can leave and not be present for the vote but if he is present he has to vote. Mr. Chao informs that he is leaving the meeting. Mr. Geraci thinks Mr. Chao misunderstood. Mr. Chao explains that he has not misunderstood and that this is something he is not comfortable with voting on. Mr. Geraci suggests that Mr. Chao vote no on the motion. Mr. Chao doesn't want to vote no because he does not know enough to make a decision.

Mr. Chao left the meeting at 10:15am.

9. Old Business.

Chairperson Easley asks Ms. Groome on the status of the Board packages being paperless. Ms. Groome informs that she has been in touch with the IT Department about that issue. Chairperson Easley asks if they have given her a timeline yet. Ms. Groome answers negatively.

Chairperson Easley reminds the Board members that the special meeting in December has been set for December 1st.

Chairperson Easley states that the last issue is the ordinance regarding about the Trustee being the Finance Director or an outside contracted individual for the fund's Trustee. Mr. Garcia-Linares asks Mr. Nelson when he is officially retired. Mr. Nelson responds that his last day is October 31st. Mr. Garcia-Linares asks if the City already hired a Finance Director. Mr. Nelson answers affirmatively. Her name is Diana Gomez and she is the Finance Director from the City of Miami. She will start October 17th. Mr. Garcia-Linares asks if Ms. Gomez had the function as Trustee to the Retirement system with the City of Miami. Mr. Nelson responds that he does not know.

Mr. Garcia-Linares thinks that Mr. Greenfield drafted a well written ordinance amendment. He provided it to Commissioner Kerdyk and asked him to put it on the agenda. Commissioner Kerdyk told him that he would review it and he has not heard anything back yet. He asks the other Board members if they have spoken to their

Commissioners. It is his understanding that the City Manager is 100% against this ordinance amendment. Mr. Gueits informs that he also provided Commissioner Quesada a copy of the ordinance. Commissioner Quesada had a conversation with the City Manager and the consensus is not favorable. The City Manager is opposed to it and is recommending that the Commission not accept the Retirement Board's recommendation. Mr. Garcia-Linares asks what Commissioner Quesada thinks. Mr. Gueits doesn't think Commissioner Quesada knows enough about the issue. They had a discussion about the function of the Trustee and what the Trustee does because the concern on behalf of the City has to do with control and that the City would lose a measure of control if an outside person was brought in as the Trustee. The discussion he had with Commissioner Quesada was to do some due diligence as far as what the functions are of the Trustee and what control does the Trustee have and why it is an issue because he doesn't understand it himself. As far as Commissioner Quesada concerned is he needs to understand why the Trustee would have such influence over the functions of this Board that it would make it a concern for the City not to have one of their employees as the Trustee. Mr. Garcia-Linares informs that there have been times where the Finance Director/Trustee was in the middle of a conflict because he had duties as Trustee that was conflicting with what the City wanted to occur in the position of the Finance Director. That happened several times where Mr. Nelson was torn between one position and another. There were several times that this Board and Mr. Greenfield have made a decision and the City through the Finance Director/Trustee overruled decisions made by this Board.

Mr. Greenfield explains that if the Board makes a written requisition it goes to the Trustee and the Trustee has the responsibility to make payment. Mr. Nelson has taken in the position in the past that because the Board says give money to John Doe if he as Trustee felt the Board was wrong and it was contrary to what he believed was the intent of the plan and the provisions of the ordinance he was not going to sign the check or pay the bill. It puts the Trustee into the position of feeling the Trustee has some super priority over the Board. Obviously the Commission has ultimate authority over the Board.

Ms. Groome informs that she will send information regarding the Trustee to the Board members. Mr. Nelson informs that the Trustee is between the Board and the Commission. If the Trustee felt that the Board carried out a vote on something that is contrary to the ordinance then the Trustee would deny what the Board said to do. The Trustee has that power and then the Trustee would take it to the Commission for their decision. The Trustee makes sure that the Board follows the obligations of the ordinance.

Mr. Garcia-Linares thinks they should divide the Trustee and the Finance Director but the question is does the Board still feel it would be in the best interest of this plan to have the Trustee be a separate person from the Finance Director. Mr. Geraci agrees. It is fortunate that they have a candidate in Mr. Nelson. It would be up to the Board to do a search for a Trustee. What is the pool of Trustees? Is there someone else in Miami that is a Trustee? Mr. Garcia-Linares informs that the ordinance amendment provides that the Trustee can be either an outside person or the Finance Director. Does the Board think that is still the best thing? Mr. Hoff adds that they have three individuals who just left the

Board with experience so as people progress through it gives you people with the experience to draw from candidates for Trustee. That gives them possibility.

Mr. Garcia-Linares suggest that all of the Board members reach out to the Commissioners who appointed them and try and figure out where they stand on the issue and then they can discuss it at the next Board meeting. Mr. Hill points out that the ordinance may never be heard by the Commission because it would be blocked from getting on the Agenda. Mr. Garcia-Linares thinks that if that happens then in his opinion they have a bigger problem than this issue. At that point he will consider whether or not he will give any more time to this Board.

10. New Business.

There was no new business to discuss.

The next regular Board meeting date is scheduled for Thursday, November 10, 2011 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:39 a.m.

APPROVED

TROY EASLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR