

CORAL GABLES RETIREMENT SYSTEM
 Minutes of November 3, 2010
 Police Community Meeting Room
 2801 Salzedo Street – Police Station Basement
 8:00 a.m.

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

STAFF:	A = Absent
Kimberly Groome, Administrative Manager	E = Excused Absent
Donald G. Nelson, Finance Director	P = Present
Alan E. Greenfield, Board Attorney	
Troy Brown, The Bogdahn Group	
Dave West, The Bogdahn Group	

GUESTS:

Chairperson Tom Huston calls the meeting to order at 8:04 a.m. There was a quorum present. Mr. Goizueta and Mr. Easley were not present at the time the meeting was called to order.

1. Roll call.
2. Approval of the Retirement Board meeting minutes for October 14, 2010.
A motion was made by Mr. DiGiacomo and seconded by Mr. Hoff to approve the meeting minutes of October 14, 2010. Motion unanimously approved (7-0).
3. Approval of the Retirement Board Executive Summary minutes for October 14, 2010.
A motion was made by Mr. Garcia-Linares and seconded by Mr. Space to approve the Executive Summary minutes of October 14, 2010. Motion unanimously approved (7-0).

At this time Mr. Goizueta and Mr. Easley arrived at the meeting.

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

A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Garcia-Linares and seconded by Mr. DiGiacomo. Motion unanimously approved (8-0).

1. For the Board's information, there was a transfer in the amount of \$1,300,000.00 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 October 2010 for the November 2010 benefit payments.
2. For the Board's information:
 - Guadalupe Martinez of the Public Service Department passed away on October 2, 2010. He retired on January 1, 1998 with Option 1 – 10 years certain. His benefits have ceased.
 - Eddie Hammerschmidt passed away on October 12, 2010. She was receiving pre-retirement survivor benefits which began on September 1, 2008. Her beneficiaries began receiving post-survivor benefits on November 1, 2010 and will continue to receive those benefits until August 1, 2013.
3. A copy of the detailed expense spreadsheet for the month of October 2010 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 September 1, 2010 to September 30, 2010 is attached for the Board's information.
5. Attached for the Board's information is the Statement of Pending Transactions and Assets as of September 30, 2010 from JP Morgan.
6. Attached for the Board's information is the Statement of Settled Transactions from September 1, 2010 to September 30, 2010 from JP Morgan.
7. For the Board's information, a copy of a letter dated October 15, 2010 is attached from Stanley Holcombe and Associates informing of their invoice to the City for activity from June 23, 2010 through October 8, 2010 regarding their work on the actuarial impact statement.
8. A copy of the January 2010 NCPERS Newsletter "The Monitor" is attached for the Board's information.

9. Copies of the City Beautiful e-News newsletters giving the latest news and information about the City of Coral Gables are included for the Board's information.
5. Employee Benefits: (*Agenda Item 6*)
(The Administrative Manager recommends approval of the following Employee Benefits.)

Retirement Benefits:

Retirement application of Paul C. Hunt of the Parks and Recreation Department, 16 years and 6 months, Option 2B-100%, effective November 1, 2010.

RESOLUTION 3140
A RESOLUTION GRANTING
NORMAL RETIREMENT BENEFITS
TO
PAUL C. HUNT

WHEREAS, Paul C. Hunt has applied for retirement effective November 1, 2010, and,

WHEREAS, Paul C. Hunt requests to take Option with his last working day October 29, 2010.

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 Paul C. Hunt retirement benefits under Option as certified by the Actuary, the first day of every month, beginning November 1, 2010 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. Hunt's retirement application was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (9-0).

DROP Benefits:

DROP application of Adolfo Sansores of the Finance Department. Effective date December 1, 2010.

A motion to approve the DROP application of Adolfo Sansores was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (9-0).

DROP application of Francisco Rodriguez of the Police Department. Effective date February 1, 2011.

A motion to approve the DROP application of Francisco Rodriguez was made by Mr. Goizueta and seconded by Mr. Hoff. Motion unanimously approved (9-0).

DROP application of Paul I. Miyares of the Police Department. Effective date February 1, 2011.

A motion to approve the DROP application of Paul I. Miyares was made by Mr. DiGiacomo and seconded by Mr. Goizueta. Motion unanimously approved (9-0).

Vested Retirement Benefits:

Monique Hayez, Police Department (10 years), effective at age 62, effective date December 1, 2039.

A motion to approve the Vested Rights Benefits application of Monique Hayez was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (9-0).

Buy Back of Prior City time, Other Public Employer Service, Military Service Time:

Application of Aldo A. Carozzi of the Police Department requesting to buy back 1,825 days (5 years) of Other Public Employer Service time.

A motion to approve Mr. Carozzi's application to purchase 1,825 days of other public employer service time was made by Mr. DiGiacomo and seconded by Mr. Goizueta. Motion unanimously approved (9-0).

6. Items from the Board Attorney. (*Agenda Item 4*).

Chairperson Huston presents Mr. Greenfield with a Certificate of Appreciation in recognition of his invitation by the South Korean Government marking the 60th anniversary of the Korean War in October 2010 through the 2010 Revisit Korea Program and Peace Corps for Youth which is the Asian nation's gesture to express gratitude and respect for the Americans who fought in the war from June 1950 to October 1954 and for his service to the Retirement System. Mr. Greenfield expresses his appreciation. It is his privileged to serve the City and the Board and it was his honor to serve his country.

Mr. Greenfield informs that there is nothing new to report. He has been working with Ms. Groome on administrative issues. Everything has been very tranquil and has been business as usual.

Mr. Naclerio asks about the new retirement ordinance. Mr. Greenfield informs that the new ordinance is in place and he has read the ordinance. Mr. DiGiacomo asks if the Board will have some type of presentation about the new retirement changes. Ms. Groome informs that she has a “cheat sheet” that was created by the Human Resources office that she can distribute to the Board at the next meeting. Chairperson Huston comments that he asked Mr. Nelson to have someone come before the Board to explain in the new retirement changes in layman’s terms. He hopes that is still on the agenda at some point. Mr. Nelson responds that it is. The author of the ordinance is a gentleman by the name of Jim Linn who is an attorney in Tallahassee who drafted the language in the ordinance and also prepared the summary that Ms. Groome will distribute at the next meeting. The Board will have a presentation but he would like to wait until the issues have been resolved with the General Employees’ bargaining unit and those are all clarified and there is a vote. They want the vote of the General Employees to occur first so there is no misinterpretation of the ordinance even though the ordinance has been approved by the Commission and the Impact Statement has been prepared by the actuary and delivered to the State of Florida for their review and comment. Everything in that regard has been finalized other than the final vote by the General Employees’ union. That is what they are waiting on.

Mr. Goizueta asks if the General Employees who are affected by this ordinance get some type of seminar on the changes. Mr. Nelson doesn’t know the conversation going on between the President of the General Employees Teamsters and the City but there ought to be communication between the two groups so there is clarification as to any questions that the union has as to what was finally agreed upon by the Commission on the August 23rd impasse hearing. That should be done first so that management of the City and the union agree and then that can be conveyed to the members of the Teamsters.

Mr. Geraci asks if it would be beneficial for this Board for the pension system in general to post all their meeting minutes and everything that impacts the Retirement System on the City’s portal every month. He would like more transparency regarding the Retirement System. Mr. Hoff thinks it would be a good idea if they look at other municipal retirement boards that have their own website and he was thinking for the same reason they can talk to IT about getting something set up. Right now all of the retirement system information is mixed in with all the other Boards. He agrees with Mr. Geraci that they need to get this information out to not only the residents but also to the employees so they can have access to the information regarding the retirement system.

A motion was made by Mr. Geraci and seconded by Mr. Hoff to have the City’s IT Department post all information regarding the Retirement System on the website. Motion unanimously approved (9-0).

Mr. Garcia-Linares asks if the City is only dealing with the General Employees now or with General Employees, Police and Fire. Mr. Nelson informs that right now they are only dealing with General Employees. On August 23rd there was an impasse hearing between the City Commission and the Teamsters. The Commission passed a resolution of specific items that the Teamster members would be bound by. Those are to be taken to a vote by the General Employee members which have not occurred yet because there is some misinterpretation as to what was actually passed by the Commission on August 23rd. Those items and issues need to be clarified by the City's management and the Teamsters President so they can convey that to the members in order for the members to understand clearly what was passed at the August 23rd meeting by the Commission. Mr. Garcia-Linares asks what the main issue is. Mr. Nelson responds that it is retirement, sale of leave, merit increases, effective dates. There are many issues. Mr. Garcia-Linares asks what is going on with Police and Fire. Mr. Nelson informs that the Police contract expired September 30, 2009. They have been without a contract for over a year. His understanding is that the negotiations haven't started between the Police and the City. The Fire has a contract through September 30, 2011.

7. Disability reviews: The Administrative Manager recommends approval of the continued disability benefits for John Norman and Eugenio Arencibia.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to approve continued service connected disability benefits for Mr. Norman and Mr. Arencibia. Motion unanimously approved (9-0).

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

Stanley Holcombe & Associates, Inc. invoice #3720 dated October 18, 2010 for actuarial consulting services from June 15, 2010 through October 8, 2010 in the amount of \$3,233.00. 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 by Mr. Hoff and seconded by Mr. Goizueta to approve the Stanley Holcombe & Associates invoice in the amount of \$3,233.00. Motion unanimously approved (9-0).

Goldstein Schechter Koch invoice #76577 dated October 11, 2010 for audit services for year ending September 30, 2010 in the amount of \$1,500.00. This invoice is in accordance with the contract between Goldstein Schechter Koch and Coral Gables Retirement System signed on February 4, 2010.

A motion was made by Mr. Goizueta and seconded by Mr. Garcia-Linares to approve the Goldstein Schechter Koch invoice in the amount of \$1,500.00. Motion unanimously approved (9-0).

9. Appearance of Chief Richard Naue, representative of the Police 185 Board, presenting the 99-1 Benefits Payments.

Chief Naue informs that he is the current Chairperson of the Coral Gables Police Officers' Retirement Trust Fund. On behalf of their committee and the members of their fund he thanks the Board for the efforts over the past years that corrected some of the inefficiencies and in hiring The Bogdahn Group, Stanley Holcombe and Associates and Goldstein Schechter Koch. For the first time he can remember the State Report was submitted on time with the State which in turn gave the Police Fund their money as well as the Fire Fund. He wanted to personally hand deliver a check in the amount of \$93,559.00 for the 99-1 benefit supplement as dictated by the Florida Legislature.

10. Investment Issues.

Mr. Garcia-Linares asks if they should make any changes in the portfolio because of the elections that happened yesterday. He thinks there could be something happening between now and the end of the year. Mr. West informs that if there is a change as events evolve they will call that to the Board's attention to schedule a special meeting. Right now they feel that short of the managed futures issues they have no changes or recommendations to the fund at this time. They feel the work that has been done to date has addressed some of the longer term issues. He thinks the outcome of the elections were well polled and obviously the election will likely result in a shift in policy. Two of the big things that have been holding up the economic recovery are the treatment of regulation and taxation and how that will unfold. He thinks the market will anticipate positively a shift in the current policy direction and will be beneficial for investment assets going forward. Mr. Garcia-Linares wants to make sure that just because they don't have a December meeting and they think something will change that the Board is available to meet and he doesn't want to find out in January if they had done something and had a meeting they would be in a better position. Mr. West understands.

Dave West reports that for the fiscal year they had an exceptional period of high correlating assets. Equities were unusually similar in their performance. It was also an unusual period where the top-down market themes shifting from double dip to recovery. It was a very top-down oriented market. It was a very challenging period for managers that were doing fundamental work looking to buy quality companies with whatever quality metrics they were using. The market was not rewarding that type of research and analysis. It was much more thematic and volatile. He thinks the other theme that weighed over the year was the quality factor particularly in fixed income where the lowest yielding and lowest quality security garnered the preponderance of return. Looking at the one

year performance chart clearly bonds rated less than BBB or the high yield sector of the bond market was up 18%. The highest quality investment grade of AAA bonds only cornered 9.6% return. It was a very good year for fixed income. They experienced a good decline in interest rates which bumped them higher into the single digit rate of return for fixed income. The international equity investment was driven by the emerging market exposure. Foreign equities clearly trumped domestic equity investments with the S&P as a proxy up 11.3%. Across the board before they got to the September close the capitalization equalized a little bit but they still had the mid-cap area producing a preponderance of return. The rate of return for the fiscal year for the fund was 9% net of fees and that put them in the 60th percentile for the year. The total equity was above the benchmark by 1.02%. Domestic equities performed just under a percent and put them in the 39th percentile. The international equities outperformed a full 3% and put them in the 58th percentile. The domestic fixed income outperformed by $\frac{3}{4}$ of a percent but the peer group ranking was unusually low in the 86th percentile which was a large part due to the fixed income portion of the portfolio with roughly 35% of the assets.

Mr. West reports on MD Sass. They were up 9.41% for the quarter and in the 80th percentile. Looking at the three year number they were down 7.08% versus 9.04% relative to the benchmark and in their peer group they finished in the 71st percentile. That level of outperformance wasn't as much as others in their universe. In the rolling three year basis they have outperformed the benchmark but the level of outperformance given the recent one year of performance has closed the gap a little. To reiterate their recommendation as communicated at the last meeting is to retain this manager and give them more time to improve. They will continue to watch this situation.

Chairperson Huston informs that he read the overview of the MD Sass process of picking stocks. Have they just gotten it wrong? Their process sounds pretty good when you read the write up. Their performance has been lagging. Mr. Brown responds that because of the way they make their selections in their long process they are focused on a much longer period of time and unlock value that is not yet recognized by the market. There are going to be sections for a year or two where the selections they pick and the value they see may not develop as quickly as investors may want it to. It doesn't mean the process is invalid. They are still comfortable and still think that their process will add value. Mr. Space understands but he has a problem with the industries. If you pick the best of the worse industry because your process allows you to be there then you are picking the best of the worse and if you pick the best of the best then you hit a home run. From his point of view maybe they are in the wrong industries as opposed to their process. Mr. West points out that MD Sass is clearly a contrarian manager and Eagle is a value manager. MD Sass in their research wants negative sentiment. That is one of the things they dial up and makes the situation attractive to them to look at. That potentially makes some of the short-term views they are going to be in completely what the market perceives to be the worst performing stocks.

Mr. Space asks when they are looking at someone down in the 71st percentile and they have been there for three years and they can't seem to get their selection process where it works, how long do they stick with them? Mr. Brown responds that they would be happy to bring in a search however it would not be their recommendation to replace them. He could not recommend replacing a manager that over ten years has beaten the benchmark by 2% no matter where they rank. To him a universe is the worst evaluation criteria. The best one they have is the benchmark criteria and MD Sass has beaten it by 2% and that is what they hired them to do. They did not hire them to be an above the 50% percentile manager. If the Board would like to look at value candidates they can bring that list of candidates they are recommending. You will find MD Sass on that list.

Mr. Garcia-Linares asks if there are any managers they would recommend over MD Sass. Mr. Brown replies that there are a few that have done very well. Mr. Garcia-Linares asks how much it costs to replace a manager. Mr. West answers that they would use the rule of thumb which is 1% in and 1% out. Mr. Brown adds that is being conservative.

Mr. Space thinks they need to have more thought than they have given regarding moving money from one manager to another manager they currently have in the same category. If one value manager is doing better than the other value manager why not move money into the value manager that is doing better rather than hiring a new manager to replace the manager not doing well now. He doesn't think that is market timing he thinks that is looking at the individual managers' processes. He wants them to think about that. Mr. Brown informs that he has thought about it because it is an issue that continually comes up during these meetings. At the last meeting he thought Mr. West made a very good point which is as a consultant and a fiduciary to this Board and the public fund he can't come up with a justification to do that. He can tell them what they should have done a year ago by looking at what has happened in the last year but he can't tell them or justify to them enough to make a recommendation for what is going to happen over the next 12 months. They don't know so they can't make a justification to shift but what they try to do is put in strategies to have two managers in the same category that don't invest the same way. They try to put in strategies as evidenced by their lack of cross held position that don't always move together. Look at the three years they are looking at. They had huge sell offs in 2008. They had a huge run up in 2009. They have had plus or minus 5% volatility in 2010 which is arguably the most volatile market on record over the last three years. Mr. Space states that under all circumstances during those three years the strategy of MD Sass did not equal the strategy of Eagle. He doesn't think it is market timing he thinks that if one guy is hitting and one guy is not you bench the guy who isn't hitting and use the guy who is.

Mr. Easley agrees with a lot of what Mr. Space is saying but he thinks they are looking at this issue too much from a micro perspective. They invest for the long

term and they don't have to cash out at the end of the year. He asks if the consultants have talked to MD Sass about their plans for the next year and how they plan on guiding their investments. Mr. Brown responds that any indication they have given them is usually general because neither manager is selecting stocks based on what they think is going to happen with the economy or with taxes. What they base their decision on is what they think is going to happen in the next five years of the company they buy. They cannot predict what will happen in the future.

Mr. Naclerio thinks the fundamental question is there is something called momentum investing. He looks to see what manager is making money for the fund and if one manager is doing better than another manager then why don't they put more money into that manager that is doing better. They don't have to terminate the manager not doing well at the time but they can reduce their funding until they do start to do better. Mr. Space agrees. They can do that so easily in the organization. They don't have to hire someone new just move the money around. Mr. Easley thinks they need to have faith in what their consultants are telling them. That is why they were hired. Mr. Naclerio responds that he does have faith in them they just have a difference of opinion. Mr. Brown explains that their job is to tell the Board what they think and the Board does not have to listen. The second part of their job is to help the Board do what they want to do regarding their investments as efficiently as possible. They are not going to make a recommendation unless it is a risk based decision to allocate other than 50/50. If a process was broken to the point they wanted to move money out and put it with someone else they would make a recommendation to replace the manager they were taking money away from.

Mr. Nelson suggests that they look at the 4th quarter performance with the idea that the consultants will be prepared to show the Board other managers as a comparative and then make a decision at the beginning of the year regarding MD Sass. Mr. Brown believes that a one quarter of information will not make the Board more comfortable with MD Sass so a September 30th long term look back is sufficient to make a decision. Chairperson Huston informs that the bottom line is the Board has lost confidence in MD Sass and they want to see an alternative manager to MD Sass. Mr. West responds that they will come prepared when the quarter closes so the Board can make a decision.

Mr. Hoff asks about the status of managed futures. Mr. Greenfield remembers that two or three meetings ago he reported that he review the prospectus' for Princeton and Abbey. There were certain problems he thought with illiquidity with one manager. There was a question on whether Abbey was registered with the SEC. He was told by Mr. Brown that they are now registered with the SEC. As far as he is concerned he brought to the Board's attention a couple of items they needed to know about and at that time the Board wanted to have presentations made by these companies. He has no problem with the investment from a legal point of view. Mr. Garcia-Linares asks if the City Attorney has to

approve this type of investment. Mr. Greenfield responds that she does not have to approve it. Mr. Garcia-Linares thinks they need to discuss managed futures and make a decision on it at the next meeting.

Mr. Greenfield comments that he has listened to the discussion regarding MD Sass. They have investment advisors and they are the Board's fiduciary and they have a responsibility to give the Board the best advice. If the Board chooses not to follow their advice then the Board has liability. If the Board doesn't follow their advice it has to be based on the fact that the Board members have made such a thorough investigation that their investigation proves to them that what the fiduciary is telling them is not correct. If they make that thorough investigation then they would be acting in good faith and probably avoid liability if that investment went bad. He thinks that all the dialog the Board has is really directed to Mr. West and Mr. Brown to try and get them to change their minds as to the strategy so the Board has to convince the consultants that maybe they aren't right and they will then give their advice based upon the fact they have been influenced by what the Board has said. They have the responsibility as the Board's fiduciary and the Board is absolved from that responsibility.

Mr. Geraci doesn't agree with anything Mr. Greenfield just said. He thinks that they are a bunch of citizens trying to do the right thing with the retirement fund and Mr. Greenfield is just scaring them. They are trying to be responsible. They are all on the Board to do the best they can. If the managers aren't doing a good job for the fund then they should get rid of them and find someone else. Mr. Garcia-Linares thinks that is a totally different issue than what Mr. Greenfield said to the Board. What Mr. Greenfield said is if the Board decides to do something against their consultants' advice and things go south and action is brought against the Board the first thing they are going to ask the Board members in a deposition is why they didn't follow the advice of the consultants they hired. They better have a good response to that question. Mr. Goizueta adds that the consultants told them the manager met the benchmark according to the investment policy.

Mr. Garcia-Linares informs that he is concerned with how MD Sass is performing but he is not willing to lose 2% to switch a manager when there is no guarantee as to whether another manager will do better going forward when they are talking about a difference of 2% in the benchmark at this point. He wants to listen to where they are at the end of the year and he wants to see what other managers are out there. But right now he is not convinced based upon their consultants' recommendation that they need to automatically switch managers. Mr. Naclerio thinks that what Mr. Greenfield said was absolutely correct. His point of view is if they disagree with their advisors and they have no reasonable basis to do that and they make a mistake they are liable. But they are nowhere near that point at the moment and he thinks their advisors realize that there are a group of options out there and the Board has the absolute right to keep probing the consultants to make sure their decisions are taking into account all the things they read including

what the consultants bring them. They are doing the correct thing. He would argue with Mr. Greenfield that if they didn't do what they are doing then they are violating their responsibility to the retirement fund. They have had other advisors that have guided them into places that they didn't want to be. They have the fiduciary responsibility to be questioning these things and they should be challenging the advisors. Mr. Greenfield agrees. The Board has the responsibility to ask questions to try and convince their advisors that maybe they aren't looking at the issue correctly. Ultimately if they don't convince them to that point and they don't have sufficient evidence to the contrary they are going to have to go with what the advisors say otherwise they take the responsibility.

Mr. Garcia-Linares asks if they should have a special meeting in December to only discuss managed futures instead of waiting until January. Mr. West responds that they would be happy to do that. The Board agreed.

11. Old Business.
There was no old business.
12. New Business.
There was no new business.

Set next meeting date for Thursday, January 13, 2011 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:15 a.m.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR