

CORAL GABLES RETIREMENT SYSTEM
Emergency Meeting Minutes of December 23, 2008
Finance Director's Office
City Hall – 405 Biltmore Way
8:30 a.m.

MEMBERS:	J F M A M J J A S O N D D2	APPOINTED BY:
Steven Naclerio	P P P P P P - P P P E P P	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	P P P P E P - P P P P P P	Vice Mayor William H. Kerdyk, Jr.
Tom Huston, Jr.	P P P P E P - P P P P P P	Commissioner Maria Anderson
Sal Geraci	P E P P P P - P E P P P P	Commissioner Rafael "Ralph" Cabrera
Leslie Space	P P P P E P - P P P P E E	Commissioner Wayne "Chip" Withers
Agustin Diaz	P P P P P E - P P P P E 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 P - E P P P P P	Fire Representative

STAFF:	A = Absent
Kimberly Groome, Administrative Manager	E = Excused Absent
Donald G. Nelson, Finance Director	P = Present
Troy Brown, Bogdahn Consulting via teleconference	

Chairperson Sibley calls the meeting to order at 8:35 a.m. There was a quorum present.

1. Roll call.
2. Discussion of whether or not to cancel the current distribution request at JP Morgan. The request to cancel the distribution must be received by the JP Morgan client manager before December 24, 2008. The fund's consultants continue to recommend that the Retirement System should accept the January 6, 2009 distribution of \$255,771.36 and leave the remaining \$6,744,228.64 of the original distribution request in the queue.

Troy Brown asks why the Board changed their mind to get out of the queue. Mr. Garcia-Linares replies that it was the fact that they lost \$2 million by doing all the transfers they did. Mr. Brown goes over the structure of how the investments operate and the reason that they are seeing relatively stable values in the real estate pool. The depreciation values in the market place are not fully reflective in the pricing. He had the opportunity to meet with the portfolio manager of the Principal Fund. The Principal Fund is structured very similarly as the JP Morgan fund. He asked very poignant questions regarding open ended real estate pools and what they would be facing going forward. What he came away with was a much greater understanding of how these various investments are valued and he got answers to some of the more nagging questions like with all the consolidation happening in the financial industry what is that going to do to their ability to continue to generate this high level of income which is what this

investment is supposed to do over time. What he came away with was the fact that there are no comparable sales going on. The JP Morgan fund is made up of a number of properties and it also has a huge amount of marquee properties with \$15 billion market value and only 147 properties. Some of them are multi-hundred million dollar properties and there hasn't been a sale in a long time of any of those properties. All the transactions you are seeing are all very small deals because people can't get financing. A big source of demand has been for governments coming in and buying out the last real estate buys in the early 90s because the strength of the dollar in the global recession. That entire pool of demand does not exist so there is no way for the assets to be valued. They hire a company to value the properties and how you value the properties is by comparables. There just aren't any comparables. Only 25% of the portfolio is getting the formal evaluation every quarter so the other 75% of the portfolio, unless there is a significant lessee that leaves for a significant new lease that is written that property, stays at a completely stable value for three-quarters of a year. That is why they are still generating because they are at about a 90% lease rate. They are still generating about a 4% to 6% income which is buffering the capital losses which are occurring on 25% of the portfolio each quarter but what he is seeing is that the values that are representative toward the marquee properties do not reflect the true market price and so they have an artificially stable value in this particular segment of the portfolio. He asked JP Morgan if the \$1.8 billion queue is because people are liquidating or rebalancing distributions that are coming out. They did not have those statistics. They do estimate that the queue may be a little inflated because of the situation they are in right now where they put in \$7 million and they are only getting \$255,000 for this particular distribution period. A lot of times people ask for more than they need, then they hope their allocation will fill their needs and then they remove themselves from the queue. The original reason for doing it was looking at rebalancing the portfolio knowing that they weren't going to get their assets out immediately when they made that request. With what was going on in the market they anticipated the real estate being over valued. Further one of the recommendations that Bogdahn was making was to diversify that core real estate portfolio and look at either an infrastructure investment or something of a value added real estate. That is something that Bogdahn has been consistently going around to all their clients that have core real estate as part of their portfolio and introducing that as a diversification tool. He spoke with JP Morgan about going into another one of their products and if they could shift their money from one investment to another and not have to wait in line. The answer he got back was that they could not do that.

Mr. Garcia-Linares asks if they pull the money out, and he agrees that they should, where would they put it. That was part of the concern at the last meeting that the recommendation was to put this money into more equities and that is what really concerns the Board because they keep putting money in equities that seem to keep going down. If they pull the money out can they keep it in cash for a while? Mr. Brown understands their fear. He is dealing with it more and more with other clients. Putting something in when you are feeling it is going to go down is an incredibly uncomfortable feeling. When he spoke to JP Morgan they feel that the queue is going to get larger and the Board doesn't have to make a commitment to equity. One of the things the Board doesn't see is that he and Ms. Groome rebalance the portfolio monthly with distributions

of the monthly benefits. They can leave the \$255,000 in the cash because it is not worth the transaction costs to shift \$255,000 toward equities because it will not make a dent in the asset allocation. Mr. Garcia-Linares states that he was talking about the \$6 million they hope to get and according to the email from JP Morgan it says they will possibly get the lump in four quarters. Mr. Brown states that JP Morgan is going to have a big queue all throughout 2009. If the fund gets \$2.5 million from them in the next quarter they will be doing one of two things. One of the things they wanted to pursue going forward are some of those diversification ideas in terms of infrastructure and a newer real estate. That would be the perfect amount of money to make that initial investment. It would be a good starting point for some of the diversification that they would be doing in the portfolio and they will be educating the Board on that decision. They do have some time because they do not have another distribution until early April before they get the capital and they will find out about that in early March. That gives the Board two to three meetings to decide where they want to deploy those assets in terms of real estate. If they didn't move forward with any of the other investment alternatives there are also a couple of interesting investments like income alternatives. He thinks fixed income is going to be pretty underweighted. The same evaluation explanations he gave on the real estate side will also apply to fixed income. If you have a bunch of bonds that aren't traded during a quarter the value you get on your custodial statement reflects what the matrix price should be. Say it is worth 70 but if you try and sell it in the market it may be worth 50. They don't want that situation either so they are looking at some income alternatives. There are at least four other good ideas on the table for deploying that money that would be consistent with the investment policy.

Mr. Geraci comments that since issue this came up he did a little studying on this particular market, especially the JPMorgan fund. It is some of the bigger properties and they are obviously leased where none of the leases come up at the same time. The leases are spread over time. Some are 30 year leases and some are longer. The companies are pretty big companies so from a stability stand point he feels kind of safe there as opposed to the equities. They have one market, the equities, that is a free fall and then you have this particular fund they are in with JP Morgan that is in a slow fall. That is why he took the position he did to leave the money with JP Morgan because in his opinion it is a better investment than taking that money out and putting it in equities. Now Mr. Brown has brought up the fact that there is some new real estate fund opportunities but that is an unknown. They don't know what those funds are or what their leasing structures will be. They do know that as the fund develops the leasing structure will be executed all around at the same time and he is not sure of the stability of the smaller funds. Mr. Brown explains that core real estate has good stability, big properties, long term leases and is structured where there is going to be downward pressure on even some of the marquee leases. It is a possibility that some of that income isn't going to be as stable going forward. With the value added you are not looking at building up some major holding. What you are trying to do is make some type of capital improvement. Any new real estate or value added portfolio is income but also you do have get a capital appreciation. Mr. Geraci appreciates the explanation. His point is that he would like to pull out of the queue and leave the money in the JP Morgan fund for the foreseeable future. He does not see a turn around in the equities market until the last quarter of 2009 or the first quarter of

2010. He thinks the market is going to hit 6200 and he is deathly afraid of the equities market. That is his personal opinion. He doesn't think this is the time to rebalance especially from the equities standpoint.

Mr. Huston informs that he receives a publication called the Kiplinger Letter. In the last issue it said commercial real estate is going to perform really poorly. If you look at yesterday's Wall Street Journal the lead article was "Developers Ask US for Bailout as Massive Debt Looms," and the whole thing is doom and gloom about commercial real estate. They have the opportunity to pull this money out and they have the opportunity that if they don't want to go back into equities they can sit in cash. To say they want to leave it in a real estate firm when the experts say it is a declining market doesn't make sense. They ought to get their money out of the queue and then decide what they want to do with it.

Mr. Naclerio wants to be clear on why they are doing this. Are they doing this because someone feels they are out of balance because the equities have sunk so low or are they doing this because they are afraid of the real estate investment? With all these people pulling their money out of the real estate JP Morgan can't execute their strategy. He is concerned that if all this money has to come out of the real estate then this fund will not do as well as it used to. Is that a concern? Are they doing this because they have a dim view of the commercial real estate market? Mr. Geraci interjects that in this particular fund there are 120 properties that are long term, well developed properties under lease. He thinks it is a safe haven during the storm right now. Are there going to be real estate properties in jeopardy? He thinks so but probably not in the fund they are in right now. Mr. Huston points out that if they look at shopping centers and he knows there are shopping centers in the JP Morgan fund. If you go by a shopping center now they have stores all over that are going out of business like Linen's and Things and Sound Advice. Who is going to go into those spaces? There is not a demand for commercial real estate at this time.

Mr. Brown responds to Mr. Naclerio's questions. The original reason for the recommendation was that they were looking at the diversification opportunity that Bogdahn originally put into their proposal which was infrastructure investments and other real estate investments. The second reason was because of depreciation in other parts of the portfolio. They knew there would have to be a rebalancing event. It was for diversification and rebalancing and it was not a statement that the JP Morgan fund is not a good place to be. Mr. Naclerio asks if there is no concern that the people in the queue who get their money will be hurting the fund's performance. Mr. Brown states that if the queue gets bigger than 12% of the NAV, which is what they are saying they are at, it will hurt.

Mr. Geraci agrees with Mr. Huston that there are a lot of real estate properties in jeopardy. There are obviously a lot of changes in businesses that is going on but the equities are in a free fall and the real estate is in a slow fall. He just doesn't think that the real estate fund will plummet like the equities did and he doesn't think they have seen the bottom of the equities. Mr. Easley comments that Mr. Geraci keeps talking about the equities but they don't have to put the money into equities they can keep it in a money

market. Mr. Goizueta points out that they are only going to get \$255,000 now and they can keep that in cash. They are going to get another amount maybe in April so what Mr. Brown is saying is that they have a couple of months to look into which asset they want to put that money. They can look at different areas and then they can move forward. Mr. Garcia-Linares believes that President-Elect Obama has indicated that he will increase jobs and invest money into the infrastructure. Mr. Goizueta states that they only are taking out \$6 million from JP Morgan. They originally invested \$20 million and now they have about \$25 million. They are just taking out their profit so the actual base is still there. Mr. Geraci explains that he doesn't want to take the money and put it into equities. Mr. Garcia-Linares agrees. He is in favor of pulling their profit out of this investment and thinks that real estate will continue to decline but not at the rate of the stock market. He is 100% against putting it into the equity market. He thinks they need to put it into somewhere more stable but at this point what they are being asked to do is they have \$255,000 that they are going to get in January. They can take that money now and put it into cash and then in March or April they can decide depending on how much money they are going to get whether or not to take it.

Mr. Sibley asks what is the amount of their monthly cash flow. They are doing cash distributions every month. Mr. Goizueta responds that they pay out \$1.1 million to \$1.4 million a month. Mr. Sibley states that they have been told that Mr. Brown and Ms. Groome are rebalancing the portfolio every month when they need to do the distributions to the retirees. This money will be just part of the pay outs. Mr. Nelson agrees that this will provide them cash flow. The City contributes \$21.5 million a year which is \$5.4 million a quarter. So every quarter the City is giving a cash flow to the fund of \$5.4 million. That basically more than covers the monthly benefit requirement which is \$1.1 million to \$1.4 million a month. Regarding the real estate, what they are doing every quarter is repricing the portfolio and every quarter it is going to be going down. Why not take their profits out which is \$6.7 million over four quarters which is really \$1.8 million every quarter. That combined with the City contribution will provide sufficient cash flow. They can make decisions every quarter when this money becomes available where they want to place it. They should stay in the queue and pull out the quarterly distributions over the next year and take their profit because they are going to see the real estate portfolio every quarter drop down in value. Why not stay in the queue and pull out that money now.

A motion was made by Mr. Goizueta and seconded by Mr. Huston to stay in the distribution queue at JP Morgan. Motion approved (7-1) with Mr. Geraci dissenting.

Chairperson Sibley states that Mr. Nelson brought up that the City will make their contribution to the fund in January and Mr. Goizueta brought up that they are only getting \$255,000 from the queue in January. Others are concerned that they don't want to put the money from the JP Morgan queue into equities. Mr. Garcia-Linares thinks the message they can send is to pull the \$255,000 and put that into cash at this point. When they get the next distribution then they can decide what is happening with the market. Mr. Naclerio thinks they have to go a bit further. They are getting the contribution from the

City and they don't want the consultants to stay that the portfolio is too low on equities. He thinks they are all saying the same thing. Mr. Nelson explains that right now they have sufficient funds in the cash account to provide for the January monthly benefit. The Board will be meeting on January 15th and at that Board meeting they will assess what they want to do with the City's contribution which will be \$5.4 million at the end of January. The Board will provide direction. They will look at the portfolio whether they want to place it in cash or invest it in whatever they decide. The Board can make that decision on January 15th. It doesn't have to be made now. Mr. Geraci clarifies that the contribution disbursement will stay in cash until the Board makes the decision in January. Mr. Naclerio believes they all agree with that. He wants to be sure that there will be no further investments for purposes of rebalancing until they meet again in January. Ms. Groome informs that cannot be done without approval from the Board. Mr. Goizueta asks Mr. Brown to provide him with the information on the infrastructure and the other alternative investments. Ms. Groome informs that they have to have an Investment Committee meeting. Mr. Garcia-Linares thinks they need to have a presentation of that information with the entire Board. Mr. Nelson asks Mr. Brown for that to be ready for the January meeting. Mr. Garcia-Linares strongly suggests that at the January meeting they make time for discussion on the investments and try not to deal with other issues.

Mr. Garcia-Linares states that when the Board initially hired The Bogdahn Group, Mr. Brown was not part of that group. He believes Mr. Bogdahn indicated that he would come to the Board meetings. He has not come to one meeting. The Board was very happy when Mr. Brown was hired by Bogdahn. He requests that it is Mr. Brown and no one else who attends the Board meetings. This Board seems to have a lot of confidence in Mr. Brown and he answers the Board's questions directly. He requests that Mr. Brown is the only representative from Bogdahn to come to the Board meetings. Mr. Goizueta agrees. Ms. Groome informs that she forwarded the email from Mr. Garcia-Linares to Mr. Brown and she received an email back from Mike Welker of Bogdahn informing that Mr. Brown would be at all the Board meetings. Mr. Garcia-Linares states that they have had Mr. Brown at meetings and it seems that Mr. Brown has people above him who decide that they are going to run the meetings and they are the ones who will give the explanations. He is asking for Mr. Brown to be the one at the Board meetings and for Mr. Brown to be the one addressing the Board. Mr. Nelson explains that when Bogdahn presented before the Board there were three individuals, Mike Welker, Joe Bogdahn and Dave West, and they indicated that they would be the primaries for the account. Then Mr. Brown was hired by Bogdahn and added to the team. They understand that Mr. Bogdahn is the sales guy and does a great job and really leaves it up to Mr. Brown, Mr. West and Mr. Welker to run the fund's portfolio. There was a presentation that Mr. West, Mr. Bogdahn and Mr. Welker would be present at the Board meetings at various times. They haven't seen Mr. Welker since that presentation. Ms. Groome informs that they Mr. Bogdahn and Mr. Welker did come to one Investment Committee meeting. Mr. Nelson remembers but that was the only time after the initial presentation that they saw them. He doesn't know how they do their business or divide up their clients and he doesn't even know if Mr. Welker is involved with their portfolio but the Board has just indicated that they want Mr. Brown at their meetings. They are not sure where Mr. Welker was left off with other clients. Mr. Brown informs that Mr. Welker is a front man at Bogdahn and he does have numerous client service responsibilities. He believes that is why they haven't seen Mr. Welker back to any meetings because they understand that this is a technical

and very astute Board so they assigned Mr. West on the account. When he was hired by Bogdahn the Board seemed comfortable with him so the group at Bogdahn thought adding him with Mr. West to this account would be a good step. Because of the email that was sent requesting that he attend every meeting Mr. Welker made that commitment.

Mr. Garcia-Linares informs that at the last meeting Mr. Brown did not attend, the questions that the Board was asking Mr. West were not being answered. They were getting “probably” or “I think” and it was a run around. They never got direct answers and he for one felt very uncomfortable making decisions based on the answers he was getting. It is not the first time he felt that way. He doesn’t know how to make his point any clearer that he would like for Mr. Brown to be the person addressing the Board and giving them advice. Mr. Goizueta adds that the reason why they are in a bit of conflict right now is because a lot of things were not answered directly as Mr. Garcia-Linares indicated. It really put the Board in turmoil. Chairperson Sibley asks if Mr. Brown needs that in writing they can have Ms. Groome type up a letter and he will sign it. Mr. Brown informs that he will be attending all the Board meetings and that is a commitment he will make to the Board. He apologizes for Mr. West because the information on the real estate portfolio was promised to them by JP Morgan on December 6th. After the meeting he called JP Morgan as they were getting the figures at that time. All that information was not available before the meeting. If he was at that meeting he wouldn’t have had that information either. Mr. Goizueta remarks that Mr. West should have told the Board that instead of giving the Board the run around. That is how he feels. Mr. Diaz comments that he doesn’t have a problem with Mr. West or Mr. Brown. He thinks they are both sharp individuals.

3. Adjournment.

Meeting adjourned at 9:20 a.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR