CORAL GABLES RETIREMENT SYSTEM
Minutes of December 17, 2008
Youth Center Theater/Auditorium
405 University Drive
8:00 a.m.

MEMBERS:	J	F	M	A	M	J	J	A	S	O	N	D	APPOINTED BY:
Steven Naclerio	P	P	P	P	P	P	-	P	P	P	E	P	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	P	P	P	P	E	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	Commissioner Maria Anderson
Sal Geraci	P	E	P	P	P	P	-	P	E	P	P	P	Commissioner Rafael “Ralph” Cabrera
Leslie Space	P	P	P	P	E	P	-	P	P	P	P	E	Commissioner Wayne “Chip” Withers
Agustin Diaz	P	P	P	P	P	E	-	P	P	P	P	E	Police Representative
Troy Easley	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	General Employees
Wayne Sibley	P	P	P	P	P	P	-	E	P	P	P	P	Fire Representative

STAFF:
Kimberly Groome, Administrative Manager
Alan Greenfield, Board Attorney
Donald G. Nelson, Finance Director
Dave West, Bogdahn Consulting

A = Absent
E = Excused Absent
P = Present

GUESTS:
Mike Chickillo, Coral Gables Fire Department
Elba Gonzalez, Fowler, White, Burnett, P.A
Marjorie Adler, Human Resources Director

Chairperson Sibley calls the meeting to order at 8:07 a.m. There was a quorum present.

1. Roll call.

2. Approval of the Retirement Board monthly meeting minutes for November 13, 2008.

   A motion was made to approve the monthly meeting minutes of November 13, 2008 by Mr. Huston and seconded by Mr. Goizueta. Motion unanimously approved (7-0)

Mike Chickillo of the Coral Gables Firefighters asks the Board for permission to use Randall Stanley, the Board’s actuary, for some work they want to do for their retirement funded by the 175 money. Chairperson Sibley asks if there will be any cost to the City or the Retirement System. Mr. Chickillo responds that there will be no cost to the City or Retirement System. Chairperson Sibley asks for all the information to be disclosed to the Board. Mr. Chickillo agrees. Chairperson Sibley asks if there are any concerns from the City. Mr. Nelson informs that there is no opposition from the City.

A motion was made by Mr. Huston and seconded by Mr. Goizueta to allow the 175 fund to use the Retirement System’s actuary, Stanley Holcombe & Associates. Motion unanimously approved (7-0).

3. Items from the Board Attorney.

Alan Greenfield, Board Attorney, reports on the Piñon case. At the last meeting they talked about his contacting both attorneys and getting them to give their thoughts as to how the case should proceed. At the January or February meeting he will report as to his recommendation as to how they are to proceed. In the interim before the January meeting there is nothing for the Board to do regarding the resolution of it. This case is only one of the cases that exists between Mr. Piñon and the City. He has other claims against the City. Mr. Garcia-Linares asks what was the suggestion by the lawyers in terms of what they would want. Mr. Greenfield informs that the City would like to have a hearing on all issues and would like to present evidence. Mr. Piñon's attorney has said that the Board has been directed by the Court on what to do and doesn't think they need to have any more hearings, that it is a mathematical calculation from the actuary and that the only issue he believes the Board needs to deal with is the amount for attorneys' fees. Mr. Garcia-Linares states that they have just heard for the first time that there are three pending cases between Mr. Piñon and the City. Are there any pending cases in the State court regarding Piñon? Mr. Greenfield informs that there is one pending in the State Court that was in Judge Freidman's division. He is not familiar with the complaint and the responses but he knows that it is being litigated. There is also a worker's compensation case. Mr. Garcia-Linares knows that the case with Judge Friedman has to go to mediation prior to going to trial. Is there a way they can suggest to the City and to Mr. Piñon that they go to mediation before a third party and try to resolve all this at one time before the Board goes through another hearing that will obviously be appealed to the Circuit Court and then to the Appellate Court. Mr. Greenfield thinks that is a good suggestion. They can't order mediation but certainly it is a valid suggestion to make so the matter is resolved.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Geraci that the Board recommends to the City and to Mr. Piñon's counsel that prior to coming back before the Board that they attend mediation on all three cases or at least on the retirement matter.

<u>Discussion:</u>
Mr. Greenfield informs that he was just told by a City representative that in the past the City has made overtures about getting all three cases together and resolved and they haven't gotten any place with that. He thinks this is a little different because what Mr. Garcia-Linares has suggested is that they have those discussions in the presence of a third party mediator who might facilitate a settlement. Mr. Naclerio points out that even though the Board is suggesting this it should not be interpreted as any kind of a comment on the case.

Motion unanimously approved (7-0).

Mr. Greenfield reports on the UBS case. A pre-trial conference was held by Judge Esquiroz to see how the case was going to go forward and whether it was going to be with Judge Esquiroz or a senior judge, the amount of time will be needed to hear the case, etc. Judge Esquiroz determined based upon what she heard from the attorneys that the case would probably take about five weeks to try. She did not refer it to a senior judge. That was not ruled on because the attorneys for UBS said that they were not ready and complete with all the discovery. There are still 17 depositions that UBS wants to take. There is a hearing next week that Mr. Carlson will attempt to compel UBS to provide some discovery but the judge made a calculation based upon the amount of time that would be needed for the trial and the amount of depositions that still have to be taken that she was not going to set the case for trial. She was not going to anything more than to give the parties 150 days to complete discovery. They have at least another 150 days of waiting. At that point in time the judge will decide about the trial. They have no control over the matter he is just reporting it to the Board. Mr. Naclerio asks if they vigorously opposed 17 new depositions at this point. Mr. Greenfield responds that they not only vigorously opposed but they were shocked that there are that many depositions that have to be taken. A lot of the depositions that are going to be taken are depositions of persons who have already been deposed but have not been concluded. The judge has permitted them to do this and has given 150 days to complete it. Mr. Garcia-Linares requests that Mr. Carlson file a renewed motion with the judge to set a trial sometime after May. If a representative from this Board needs to go to express to the Court that they would like this case tried he would be happy to be the representative of the Board to appear in front of the judge along with counsel to request that the Board would like a trial date.

Mr. Greenfield continues. They have concluded the contract with JK Milne which will be signed today. He has been working with Mr. Nelson this past week and they have concluded their negotiations with Barings. Regarding the Barings investment, they are investing in a fund that is different than making an investment through a money manager. There were a few things they asked for that Barings conceded to but wouldn't do it in the contract. They gave a separate side letter which they felt was not circumventing the SEC and was not detrimental to other fund participants. Barings agreed in their procedures not to discriminate and agreed to let the Board know if there was a change in the Barings management team that they would give the Board notice of the change and let the Board opt out of the if they wanted. He expects to receive a signed agreement from them any time.

Mr. Greenfield informs that he has been working with Mr. Nelson and Randall Stanley on the contract with the actuary. Mr. Stanley has been working without a contract for about two years. They came to an agreement and he received the final draft of the agreement last night. Mr. Stanley has agreed with the requirements that Ms. Groome and Mr. Nelson requested.

4. Investment Issues.

November 2008 Flash Report and Rebalancing Allocation Follow-Up Discussion

Dave West, The Bogdahn Group, reports that at 11/30/08 the fund was at $191,152,520. From the investment standpoint the total fund investment declined 3.16%. On a dollar basis they were down $6 million. That was the investment experience for November. During the month of October they did shift $1 million from Loomis and $1 million from Richmond to the S&P index fund. That was the rebalancing that took place during November. Mr. Easley asks if the majority of the loss they took was contributed to the rebalancing. Mr. West thinks that very little was contributed to the rebalancing. Mr. Easley asks if they made an error with the rebalancing. Mr. West responds that $3 million in the grand scheme of the assets is a very small percentage. Mr. Garcia-Linares asks if they lost $3 million because of the rebalancing. Mr. West answers negatively. The largest impact came from domestic equity in aggregate which declined 6.6% so it was the aggregate investment experience that led to that decline. Mr.

Easley confirms that their judgment to do the rebalancing did not have such a large impact as suggested. Mr. West informs that it was a marginal percentage. The $3 million was moved from fixed income and basically $1 million was moved from Loomis and $2 million was moved from Richmond to the S&P 500 index fund. Mr. Garcia-Linares points out that the S&P fund went down the largest percentage. So they moved from the fixed income into domestic equity which took the largest hit which is what they were talking about at the last meeting. Mr. West states that it is not tied to the rebalancing. They are looking at a dollar cost averaging and rebalancing maintenance of the portfolio right at the minimums that they set forth. Mr. Geraci informs that it is his opinion that they should be invested like little old ladies and be all in fixed income and not be in equities. Mr. Garcia-Linares states that they took $3 million from fixed income and put it into domestic equity. At the same time the City gives the fund $5 million and they are down $2 million. He doesn't know what they are doing. Mr. West agrees it was a difficult month in the equity markets. Mr. Geraci thinks they are going to have difficult months until at least June 2009. He thinks the market is going to keep going down until this time next year. He thinks they are going to go down to about 6200.

Mr. Garcia-Linares states that the Board was told at the last meeting that if they lost money they would have to shift another $2.5 million. According to the end of the month report they are at 38% when they should be at 45%. Is Mr. West going to recommend at this meeting that they move more money into domestic equity? Mr. West informs that their recommendation remains unchanged and that the fund should be rebalancing to the targets. This is not an individual retirement portfolio. He respects their opinion. This is an infinite pension program to which they are managing the assets to the liability and it should be viewed very differently than the old ladies portfolio. This is an ongoing viable program. Their position remains the same that they should rebalance to the target. They are comfortable if the Board is more comfortable in rebalancing to the minimum target allocations of the policy. Mr. Geraci thinks during these times that it would be in the best interest of the pension fund to stay within these boundaries. He thinks at this point in time it is not in their best interests to rebalance yet and that they should wait a few months before doing anything. The market is not going to go back to 12,000 in three months. Mr. Garcia-Linares understands that the consultants are recommending that the Board move $7 million out of real estate and pull $8.9 million from fixed income to increase domestic equities by $12 million and increase international equity by $9 million. Why would they do that at this point?

Mr. West explains that if someone was looking in from the outside they would check to make sure the plan had an investment policy, if that policy was being followed, if there was latitude in the policy and if there was ongoing review. All those items exist and the Board is doing their heightened level fiduciary oversight responsibility. The policy was designed so that the Board has latitude. They have a significant amount of latitude and an active decision has been made to defer rebalancing. They are on the low end of the rebalancing which is significantly less equity allocation on the long term target and more significantly less allocation than the upper end of the band. For someone looking to criticize what has been done he does not see a basis. The Board has done ongoing reviews and they have been very diligent. They did make an active decision to be more defensive in this environment and when they pull the numbers they are at the lower end of the longer term balance. In response to Mr. Garcia-Linares question to get to the target would involve rebalancing and adding $12.7 in equity. Alternatively to rebalance to the absolute minimum then there is a required number which would be a movement of $3.2 million. The real estate target to rebalance has already been put in the queue. The portfolio is very close to minimum and the difference is the $3.2 million. He recommends that they rebalance the portfolio to the targets or at least to the minimums.

Chairperson Sibley explains that they have three options; rebalance to the target, rebalance to the minimum or don't do anything at all. Mr. Naclerio thinks they also have a fourth option which is they have old money and new money. For old investments that seem to be doing well the question could be do they have to liquidate those investments. With the new money that comes from the City then they have the question of whether they are going to allocate that money to the policy targets or some other way. In his opinion they don't have to treat both of them the same way. Mr. West informs that the recommendation is to rebalance but how you get there is open to discussion. If the agreement is to move to the minimum threshold then by getting there by investing new contributions in the areas that are short then that is a viable solution. Mr. Geraci understands that Mr. West is saying is as the contributions come in that normally go into the portfolio to put that into the equities to try and balance. Mr. Naclerio states that it is sort of counterintuitive to him. If an investment is doing well which throws their balance off they take money out of that investment and put it into an investment that is not doing well. From what he understands Mr. West to be saying is to not look at it as of right now but to look at it for the long term because you are going to be better and stick to the policy parameters they have. However, there is nothing in the policy that says they have to be in balance every single minute and as soon as something goes out they have to change things.

Mr. Nelson explains that at the last meeting they made a decision to liquidate some assets out of JP Morgan and take that money which was performing well and put it into equities. Do they agree with still doing that? The second decision is to not take any money out of fixed income and move it into equities. The City will be contributing $5.2 million in January which is new money. He recommends that at the January meeting they take a look at the portfolio and use that new money and possibly invest it into equities or put it into fixed income depending on the way the market is at that time. He does not recommend taking from fixed income and putting that money into equities right now. He is also concerned about liquidating JP Morgan and putting that money into equities. Mr. Garcia-Linares thinks that if they liquidate JP Morgan now they are taking a loss so why would they liquidate real estate at this point. His recommendation is to not do that not. He thinks they need to wait until January and look at it. They still need to pay the retirees for January, February and March. Mr. Nelson informs that it is an option and in January they will look at the cash flow and the market and see if they want to make an investment into the equities and fixed income.

A motion was made by Mr. Geraci and seconded by Mr. Garcia-Linares to stay in real estate and pull the request from the queue to liquidate in order to rebalance.

Discussion:
Mr. Huston informs that he is a little confused. They have talked about the $2 million loss at JP Morgan. Mr. Nelson explains that if they liquidate then they will be taking a loss. Mr. Goizueta states that last month when they made their decision to liquidate they were making money with JP Morgan and this is the first month they started to lose money. Mr. West agrees. They are essentially booking a gain. Mr. Naclerio asks what is the sense of booking a gain in a pension. Mr. Nelson states that it is cost versus market. Mr. Naclerio agrees. The problem he

is having is one thing if you say they are going to sell the real estate because they think equities are going to be better in the future and that is why they are doing it so even though they might be losing money in real estate they might be making money over in the equities. That doesn't seem to be what they are saying. What they are saying is they have this policy and they are out of balance. They have to get back into balance whether or not they think at this particular moment they think that is a good thing to do so he agrees with the motion. Mr. Goizueta points out that right now real estate is down 3% and if they get out of the queue instead of taking the 3% loss then in six months down the road if real estate goes down 12% and they decide to get out then they will take a bigger loss. Mr. West asks for the Board members to keep in mind that the objective is to use the rebalancing tool as a way of adding value over time. What they are doing is they are lightening up on assets that have out performed disproportionately to assets that have underperformed disproportionately with the expectation that they are going to have some aversion over time. By doing that they are able to pick up a small amount of incremental value from that activity over time. They are not going to see that in a month or a quarter but over time. That is the objective. By setting the policy parameters they are setting a framework for which they are going to attempt to add a small amount of additional value from that. Mr. Goizueta informs that he is in favor of rebalancing to the bear minimum.

Mr. Huston comments that there is another shoe to drop in this mortgage market and it is going to be commercial real estate. He is not comfortable with the real estate arena at this time. If they are going to pull the money out of JP Morgan and they made that decision a month ago why do they change their decision today? He doesn't understand what has caused some Board members to back up on that decision. Chairperson Sibley asks for Mr. Geraci to explain his decision for his motion. Mr. Geraci explains that it is his opinion that those the money that is performing in the real estate lost 3% compared to the other asset classes that have lost 30% to 40%. To take something they are losing 3% on, liquidate it and put it into an investment that they are losing 30% doesn't make any sense to him at this point in time. He thinks it would be nice to have that money at this time next year so when they all recognize when the market starts to move up they can take the money from real estate and put it in there.

Mr. Huston suggests that they pull the money and keep in it cash. Mr. Garcia-Linares explains that is not the recommendation made to them by the consultant. The consultant has recommended to take the money and put it back into equities. Mr. Huston thinks they can do it half way. They can take the money out of JP Morgan and put it in a money market fund. Mr. Geraci asks why would they take it out of a performing asset class like real estate. Mr. Garcia-Linares explains that Mr. Huston is concerned that real estate will be going down. Mr. Huston states that if real estate goes down 10% then they will have lost what they were going to pull out. Mr. Nelson knows they are all looking at safety and security and liquidating some of the real estate. Instead of putting it into equities they can put it into fixed income. That way it stays in fixed and it will earn money. That is an option. If it stays in fixed you are still in the upper boundaries of the target.

Mr. Naclerio asks if they are having this discussion now because between now and January they may get in front of the queue and have to liquidate. Why don't they stay in the queue and revisit everything at the January meeting? Then they can decide whether they want to put the money into money markets or bonds or leave it where it is. Mr. Garcia-Linares asks if it is possible between now and the January meeting that the fund will be getting the money from the

JP Morgan queue. Mr. West responds that it is possible but not likely. Mr. Garcia-Linares states that if it is not likely that they will get the money from JP Morgan from now to the January meeting and at the January meeting if they still want to get out of the queue, can they get out at that point? Mr. West informs that he would need to get back with JP Morgan for any change in the request. Mr. Goizueta points out that the motion they have on the floor is to get out of the queue with JP Morgan.

Mr. West explains that it is a work in process based on their suggestion that they diversify the holdings in the real estate away from one single manager. There has been some work in process with the Investment Committee and they would like to continue moving forward to provide an alternative source for those funds. The notion of investing those proceeds into fixed income is fine within the policy then the decision for those additional investments can be made going forward. It also satisfies the desire to defer any additional investment into equities if that is the Board's comfort level. Mr. Goizueta states that they started with $20 million with JP Morgan and now have $25 million and it is starting to go down. Mr. Geraci comments that it is going down slower than every thing else. Mr. Goizueta thinks that if they keep on waiting they are going to lose the $25 million. They are only asking to take $3 million. Mr. Geraci asks what they will do with the $3 million. Mr. Goizueta responds that they will put it somewhere. Right now they have to decide if they are going to take the $3 million or not. Mr. Garcia-Linares states that they are currently up about 4% on fixed income on their asset allocation. The way this market is going domestic equity will probably continue to drop so that percentage with fixed income will probably go further up versus the rest of the portfolio. The City is going to contribute to the fund about $5 million in January. If they pull the $3 million from JP Morgan and put that into fixed income is there a point that they will have too much in fixed income and then they won't have a choice but to put it in equities? Mr. Naclerio comments that they keep talking about a long investment. There is no way they are going to get to their assumption rate of 7.75% with fixed income.

Mr. Geraci asks what are the citizens going to say when they take that contribution from the City and put it into equities. They are going to say this Board is crazy! Mr. Nelson doesn't think they would be criticized for putting the money into a safe harbor of higher fixed income and going above the target. Mr. Garcia-Linares informs that his concern is pulling the money out of JP Morgan. He understands the issues Mr. Huston has raised. However, he doesn't think a majority of the Board members would vote to put that money into equities right now. Then they are going to put it into fixed income which usually makes less than what the real estate asset has made. Are they putting themselves in a worse position by pulling the money out?

Chairperson Sibley informs that the motion is on the table to leave the money with JP Morgan and get out of the queue. Mr. West explains that they can go back into the queue at any time but the concern is that the queue is building. As they look across the country at other institutional investors' real estate allocation is a disproportionate portion of their portfolio and other programs are rebalancing. That is why there is an exit queue. That is a primary source of funds as people rebalance and stay on their long term target. Chairperson Sibley thinks that Mr. Huston brought up a very valid point. Can they leave their name in the queue and change their minds if the queue comes up? Mr. Goizueta remembers that at the last meeting they were told that once JP Morgan sends them a letter they cannot pull their name from the queue. Mr.

West explains that once a request is sent in there is a date certain. Mr. Garcia-Linares states that they haven't gotten that letter yet. If they don't vote on getting out today they can call an emergency meeting and make a decision on whether they want to stay in or out. They don't have to make a decision today. Mr. Goizueta makes an amendment to the motion that if the queue is called before the January meeting they get out and if not they wait until after the January meeting. Mr. Geraci believes that everything is going to fall and there is no where to hide. He would rather be in a slow fall than a free fall. Chairperson Sibley informs that Mr. Geraci's motion was that they get out of the queue with JP Morgan and the motion was seconded. Mr. Garcia-Linares withdraws the second. He is okay with Mr. Goizueta's amendment to wait until January. If it comes up between now and the next meeting they will pull out of the queue but if it hasn't come up between now and January then they can revisit the issue. Mr. Geraci withdraws his motion.

A motion was made by Mr. Goizueta and seconded by Mr. Easley that if the queue is called by JP Morgan before the January meeting then they have an emergency meeting to decide whether or not they want to get out of the queue and if the queue is not called by JP Morgan then they can decide what to do at the January meeting.

Discussion:
Mr. Huston asks if everyone is pulling their money to get out of real estate then the queue to get in has probably disappeared. Mr. West answers affirmatively. Mr. Huston asks if they do get out and don't know what to do with the money then they can go ahead and put it back into JP Morgan. Mr. West answers affirmatively. Mr. Goizueta asks for Mr. Nelson's opinion on the motion. Mr. Nelson responds that he is in agreement with the motion.

Motion unanimously approved (7-0).

Mr. West reports on the JK Milne contract. They are ready to proceed with the assumption of assets. JK Milne will assume the assets in the Loomis portfolio. The second item is the movement to the Barings fund from AllianceBernstein. That is contingent on receiving the side agreement Mr. Greenfield spoke about. Another item on the table is the allocation to the international equities. What was proposed is that this a fund liquidation and a fund purchase so there is no cost. The recommendation is to take the AllianceBernstein allocation in its entirety, liquidate it and invest it into the Barings fund. Mr. Garcia-Linares states that by doing that they are taking the $8 million hit. It cost them $15 million to get into Alliance and now they are putting $7 million into Barings. Mr. West agrees. Mr. Garcia-Linares asks if they are realizing a loss. Mr. West replies that they are taking their place marker out of the race and putting another driver in that place.

A motion was made by Mr. Huston and seconded by Mr. Naclerio to liquidate AllianceBernstein and move it into Barings dollar for dollar. Motion approved (6-1) with Mr. Goizueta dissenting.

Mr. Naclerio states that they have been reading with a great deal of interest the Madoff situation in New York. What are they doing to insure that none of their managers are playing the same sort of game that Madoff is in terms of investigation to make sure they are doing what they claim to be doing? Mr. West responds that there are several things on the custodian level.

In this case they have 100% transparency and they can see the underlying assets. He thinks that is the main point. The custodian will be coming to the January meeting and that may be the appropriate time to touch on this issue regarding the custody's role on that oversight. He thinks the main response is that they have full transparency. In the Madoff issue there was zero transparency. The fund receives statements that make sense and are getting audited on an ongoing basis. From what he understands from the interview of the various groups involved in the investigation is that there were not any clear accurate statements of investor holdings or holdings of the fund in that matter. Mr. Naclerio understands but with the Barings fund where they own a share of someone's fund that would not be the case, would it? Mr. West responds that in that case they have a full look at the fund holdings and the holdings are held by a third party independent custodian. Mr. Naclerio asks if someone looks to make sure that the shares they own are really in the fund. Mr. West answers affirmatively.

5. Old Business.

Mr. Garcia-Linares asks if Mr. Greenfield is going to give his opinion on the service disability versus non-service disability issue that was discussed at the November meeting. Mr. Greenfield informs that he will report to the Board at the January meeting.

6. New Business.

Ms. Groome informs that their client relationship manager from Northern Trust will be at the January meeting.

7. Adjournment.

Meeting adjourned at 9:45 a.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR