

CORAL GABLES RETIREMENT SYSTEM

Minutes of November 13, 2008

Youth Center Conference Room

405 University Drive – 2nd Floor

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	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	P P P P E P - P P P P	Vice Mayor William H. Kerdyk, Jr.
Tom Huston, Jr.	P P P P E P - P P P P	Commissioner Maria Anderson
Sal Geraci	P E P P P P - P EP P	Commissioner Rafael "Ralph" Cabrera
Leslie Space	P P P P E P - P P P P	Commissioner Wayne "Chip" Withers
Agustin Diaz	P P P P P E - P P P P	Police Representative
Troy Easley	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	General Employees
Wayne Sibley	P P P P P P - E P P P	Fire Representative

STAFF:

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

A = Absent

E = Excused Absent

P = Present

GUESTS:

Stephanie Harmon, retiree
David Miller, Bryant, Miller, Olive, PA
Mark L. Zientz
Elba Gonzalez, Fowler, White, Burnett, P.A
Christopher Greenfield, Esquire
Marjorie Adler, Human Resources Director

Chairperson Sibley calls the meeting to order at 8:10 a.m. There was a quorum present.

1. Roll call.
2. Approval of the Retirement Board monthly meeting minutes for September 11, 2008. (*Agenda Item 3*).
A motion was made to approve the monthly meeting minutes of September 11, 2008 by Mr. Huston and seconded by Mr. Goizueta. Motion unanimously approved (8-0)
3. Approval of the Retirement Board monthly meeting minutes for October 30, 2008. (*Agenda Item 4*).
A motion was made to approve the monthly meeting minutes of October 30, 2008 by Mr. Huston and seconded by Mr. Goizueta. Motion unanimously approved (8-0)

4. Report of Administrative Manager. (*Agenda Item 6*).

A motion to accept the Administrative Manager's report without discussion was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (8-0).

1. For the Board's information, there was a transfer of \$2,250,000.00 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 2008 for the November 2008 benefit payments.
2. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
 - Payroll ending date October 28, 2008 in the amount of \$86,382.01 was submitted for deposit on November 6, 2008.
3. A copy of the detailed expense spreadsheet for the month of October 2008 is attached for the Board's information.
4. Attached for the Board's information is a letter from Nancy Clark, Senior Vice President, Institutional Sales & Consultant Relations of Eagle Asset Management informing that effective November 1, 2008 Eagle Asset Management, Inc will become the advisor to the Heritage Family of Funds. The funds will be renamed the Eagle Family of Funds.
5. 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:

(The Administrative Manager recommends approval of the following Employee Benefits.) (*Agenda Item 7*).

Retirement Benefits:

Retirement application of Paul M. Goyette of the Police Department, 12 years, 11 months, No Option, effective December 1, 2008.

RESOLUTION 3105
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
PAUL M. GOYETTE

WHEREAS, Paul M. Goyette has applied for retirement effective December 1, 2008, and,

WHEREAS, Paul M. Goyette requests to take No Option Retirement with his last working day November 7, 2008.

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 M. Goyette retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning December 1, 2008 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

A motion was made by Mr. Goizueta and seconded by Mr. Space to approve Mr. Goyette's retirement application. Motion unanimously approved (8-0)

DROP Benefits:

DROP application of Jeffrey Fabyan of the Fire Department. Effective date November 1, 2008.

A motion to approve Mr. Fabyan's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Huston and seconded by Mr. Goizueta. Motion unanimously approved (8-0).

DROP application of Walter Reed of the Fire Department. Effective date November 1, 2008.

A motion to approve Mr. Reed's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Huston and seconded by Mr. Easley. Motion unanimously approved (8-0).

DROP application of Pio Sirolli of the Fire Department. Effective date November 1, 2008.

A motion to approve Mr. Sirolli's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Space. Motion unanimously approved (8-0).

6. Disability reviews: The Administrative Manager recommends approval of the continued disability benefits for James Thompson. (*Agenda Item 8*).

A motion was made by Mr. Space and seconded by Mr. Garcia-Linares to approve Mr. Thompson's continued service connected disability benefits. Motion unanimously approved (8-0).

7. Attendance of attorney Mark L. Zientz on behalf of James Thompson and Stephanie Harmon regarding the definition of "time of disability" in Retirement Ordinance Section 50-231. (Item continued from March 8, 2007 and September 11, 2008. (*Agenda Item 9*).

Mr. Greenfield informs that David Miller is at the meeting on behalf of the City and he will present the City's position after Mr. Zientz presents Mr. Thompson and Ms. Harmon's position.

Mr. Zientz explains that when he got involved in this issue he thought there might be a need for a change in the ordinance however when he got further into the issue he noticed that what they were really dealing with was a construction of the ordinance by the Board which goes back to 1974 construing the term "time of disability". In the memo he distributed to the Board he presented the Board various cases as to what other courts around the State in connection with disability issues whether they be worker's comp or pension disabilities construed "time of disability" to mean and definitions of disability as it pertains to different definitions to disability around the State. Disability is generally defined as the point when you are no longer able to earn the money you were earning before you became disabled. What the Board has done is to construe "time of disability" differently for service connected disability as it applies to non-service disability. He pointed out this inconsistency in his memo. For service connected disability the Board looks to a date of an incident or event which begins the process toward becoming disabled. Sometime that event is so severe that people become disabled immediately and if they qualified under the ordinance they receive their disability pension. The issue they are here about today is for individuals who after suffering an accident or occupational disease that is service connected who continue to perform useful and efficient service to the City. Then the original injury progresses to the point where it becomes disabling where they stop working and come before this Board for a pension. They qualify but the amount of the pension is determined by their income as of the date of their injury. During this period of time they are working after their injury they are contributing to the fund and have contributions made for them to the fund so actuarially the fund pension plan has benefited from the contributions the employee contributed based on their earnings a number of years after their accident. The employees' benefit is determined by the date of injury which is really not mentioned in the ordinance. That is not the time of disability. That is a date that was arbitrarily picked in the construction of the ordinance. If a person becomes disabled due to a non-service disability when you calculate their pension benefits you use a formula as of the date they became disabled but not as of the date of their injury. You are treating them differently and it is rather arbitrary and discriminatory because you are treating them better than those who have a service connected disability because of a result of an accident at their place of work.

Mr. Zientz asks for the Board to be uniform in how they determine the time of disability to give the employees the credit for the work that the individuals who manage to continue working and give them credit for what they earned and what they contributed and determine their pensions the same way the Board determines the pensions of a person with a non-service connected disability by using the time that they were no longer able to earn as the time of disability as opposed to using the arbitrary date of the time of accident which does not have the connection to the onset of disability which they are assuming it does. He asks for them to consider adjusting the pensions of Ms. Harmon and Mr. Thompson to account for their many years of service after an accident as they would for an employee who receives non-service disability.

Mr. Miller reports that this is the first time he has heard from Mr. Zientz or Mr. Sicking that there is a difference in the way service connected disability and non-service connected disability is treated for purposes for the issues he raises. Mr. Miller informs that he has not looked at that and thinks that is something that needs to be investigated to see if it is true. Mr. Zientz refers to the interpretation of the retirement ordinance as arbitrary and discriminatory. The Board is entitled as a duty to interpret the ordinance and he doesn't think that the Board

has arbitrarily taken some number or some interpretation out of order. This is an interpretation that has been going on since 1974. It may well be a term and condition of employment of the represented employees here that if it were changed it would have to be bargained with the employee unions further. To the extent there are employees out there who would be disadvantaged by the change that Mr. Zientz is advocating. Those people might well have a lawsuit against the Retirement Board and the City on the basis that they were expecting one thing and now they will get something else. They did a study and there are numbers of people who benefit either way. Some people benefit if you put it at the time of termination and some people benefit if you put it at the time of injury. That would affect especially police officers and firefighters who when they are on active duty may incur large amounts of overtime which is credited toward their pensionable income. If they are on light duty they are working 40 hours a week and are not getting overtime. The benefit at the time they are finally declared disabled may be less than it was before they incurred their injury. There are a number of people that would be disadvantaged by the changes being advocated.

Mr. Miller explains that the last letter sent by Mr. Zientz stated that the Board should pick which ever time is more advantageous to the employee. He is not sure that this Board can discriminate among the employees that way. He thinks they will be asking for trouble if they do that. Mr. Zientz says that it would not require a change to the ordinance to change the Board's interpretation of the ordinance but this practice has been ongoing for 34 years. He is not sure that he could agree with that position. He urges the Board to allow him to find out if there is a difference between service connected and non-service connected disability. Also he thinks the Board needs to look long and hard before they change the interpretation that has been around for 34 years. Probably the best way if the Board decides to change their interpretation is to propose a change to the ordinance. Also, as stated by Mr. Zientz that the employees who are receiving service connected disability are being treated disadvantageously than the employees who receive non-service connected disability; the formula for those benefits are very different than the service-connected disability formula. The non-service disability is significantly lower than the service connected disability benefit.

Mr. Garcia-Linares asks Mr. Miller what his interpretation of the ordinance is. Mr. Miller informs that his interpretation is in the letter that he sent to the Board last year when this issue first came up. The ordinance is silent on this. It simply does not define the term. When Mr. Sicking he wrote the initial letter on this issue, he cited a number of court cases and administrative cases from around the State that interpret similar terms in other cities' pension ordinances. It is based on the language of the ordinance and those cases are not what is before the Board. The Board must interpret this ordinance. It may be constructive to look at other cities' ordinances but it is not binding on this Board. What it boils down to is that this Board has a duty to do what it has been doing by interpreting this ordinance one way for at least 34 years. That is in the absence of other indications of the intent of the ordinance. The City Commission has amended this section of the ordinance over time for many years and it never found the intent to speak on the subject or direct the things they have done other ways. That is also a indication under law that the City Commission knows and approves of this interpretation. It is presumed that the Commission knows what the Board is doing. If it doesn't change the ordinance especially over that long period of time and they have had many opportunities to do so then it is presumed to approve of that interpretation. He thinks this would be best to be addressed by the City Commission and let them decide if they want it that way then they need

to point it out in the ordinance. If the Board changes their interpretation after 34 years he thinks there will be a problem.

Mr. Goizueta thinks that what Mr. Miller is saying that for an employee who is still working on their job after their injury and tries to get better that they are penalized for that. Also when the City sends a letter saying they are going to be terminated for going on disability they are being penalized. Mr. Miller doesn't think they are being penalized at all. He thinks that is an emotional way to characterize the situation and this is the way this Board has interpreted this ordinance for many years. There are policy reasons behind it. One of which is employees cannot get overtime at the time they are hurt while they are trying to rehabilitate. What he suspects may happen is if you change the interpretation to make it date of disability approval it will be a disincentive to the City to try and rehabilitate anyone and offer light duty to those employees. It will potentially cost the City and the System money in order to let employees rehabilitate and what may happen is the opportunities for the rehabilitation and light duty will go away.

Mr. Space asks if they have any idea how many people they are talking about over the last 34 years. Mr. Nelson informs that in the actuarial report they have the number of total disability participants receiving a monthly benefit. This change would affect some of them positively and some negatively. Mr. Space informs that he would like to know specifically what they are talking about over the last 34 years regarding the people who were hurt on the job and then went out on service connected disability. Ms. Groome informs that she did a spreadsheet which shows the current service-connected disability retirees and their date of injury and date they were approved for disability by the Board. Mr. Space believes that it is not who is right but it is what is right and they need to do right by the employees.

Mr. Geraci asks Mr. Greenfield if this decision is based on collective bargaining. Mr. Greenfield responds that the ordinance is being questioned. This issue is in the purview of this Board to determine if there is an inconsistency. He thinks that what Mr. Miller is saying is that this practice has been going on for 30 years and it might be a benefit that the employees bargain for but that is not the Board's responsibility. The Board interprets the ordinance that is before them.

Mr. Garcia-Linares asks Mr. Greenfield for his interpretation of the ordinance. Mr. Greenfield answers that when Mr. Sicking brought this issue to the Board he felt it was a persuasive argument and Mr. Sicking had to back out because some of his clients would benefit from this argument and some would have not. That is why Mr. Zientz is now the representative. Mr. Zientz has an arguable position and the City has an arguable position. The City's position is based upon past practice. The Board should follow that past practice because that practice is well engrained. There is some suggestion that if they didn't continue to follow past practice the overall detriment to employees might be great because it might cut out light duty. The Board has no control over that. Mr. Garcia-Linares agrees that is a City issue. They have to consider that whatever decision the Board makes one of these two attorneys are going to oppose the decision. Mr. Greenfield is the Board's counsel and in looking at the case law cited by Mr. Sicking and interpreting other ordinances that may or may not be similar to the Board's ordinance the Board needs an opinion from their counsel as to taking into account the case law that is out there and what is a reasonable interpretation of which way this Board should go so

that if the City or Mr. Zientz takes this up to the Circuit Court that the Board's decision gets upheld this time. He wants a legal opinion from the Board's counsel before the Board makes a decision on this issue.

Mr. Zientz believes that the Board may have gone off on the wrong track. By interpreting the term "time of disability" as suggested in his memo none of the employees suffer a reduction. Mr. Sicking was incorrect in thinking that some of his clients would suffer by creating this "time of disability" definition to be the actual time of disability. What Mr. Miller has talked about are employees who worked a substantial amount of overtime now as a result of injury on the job report back to work and are given desk jobs where they do not get overtime. Those people are disabled as of the date that they come back to work on light duty because their wages are being decreased. They are considered disabled and their calculation of disability will be at the time of their injury or the time they come back to work at light duty that lowers their wages. Disability is connected to wages. Once that individual comes back to work if they don't make less than what they are making at the time of their injury they aren't disabled and those who make less are disabled. They are talking about a very select few that come back to work after an injury whose pay increases. He is talking about those employees who manage to increase their pay over the period that they work after an injury and then the disability sets in.

Mr. Space would like to get a good briefing on what the Board's options are regarding this issue. They have been unintentionally misled in the past on what their options are when considering an issue. He wants to do right by the employees and make sure they do something that is fair for everyone. Mr. Garcia-Linares asks how the ordinance defines disability. Is it a reduction in time or reduction income? Mr. Miller informs that disability is defined as the inability to do your job so it is not connected how much you are making.

A motion was made by Mr. Goizueta and seconded by Mr. Space to defer this issue to Mr. Greenfield.

Discussion:

Mr. Garcia-Linares asks for Mr. Greenfield to come back to the Board with the following: 1) a legal interpretation of the City's Retirement ordinance based upon case law and other ordinances; 2) service disability versus non-service disability and how they may affect each other; 3) whether there are any State standards they need to look at.

Motion unanimously approved (8-0).

8. Investment Issues (*Agenda Item 2*).

Dave West reports that they will be discussing the fixed income manager decision, the international equity decision and rebalancing.

A motion was made by Mr. Space and seconded by Mr. Easley to hire JK Milne as their fixed income manager.

Discussion:

Mr. Diaz would like to hear the consultants' opinion before the Board votes. Mr. West informs that they would be absolutely comfortable with that selection. All three candidates were brought in and all three should be considered good decisions. Given the desire to deal directly with the main individual involved is 100% with JK Milne. When you look at the differences in strategies compared with the current incumbent fixed income manager, Richmond Capital, they both provide a different approach to bonds. He thinks JK Milne's approach is a little different with Richmond than the other candidates. Chairperson Sibley asks if any of Bogdahn's other clients use JK Milne. Mr. West responds that this fund will be the first client to use JK Milne.

Mr. Space asks for Mr. Nelson's opinion on hiring this fixed income manager. Mr. Nelson informs that he liked Mr. Milne's perspective on the market, his past history and that there will be direct contact with the man in charge. He highly recommends the firm as the fixed income manager.

Mr. Diaz asks if they have any exposure to CBOs in Loomis the manager the fund is terminating. Mr. West responds that they don't have exposure in the toxic CBOs but they do have some collateralized debt obligations. Mr. Brown informs that any mortgage backed security is classified as a CBO. He doesn't think that Loomis has done a horrible job. They were caught in a market dislocation. For example, a Morgan Stanley bond that matures in 2015 with a 6% coupon trades at 62 cents on the dollar which means that the yield is about 13-1/2. That is a ridiculous value. He thinks with equities versus fixed income that fixed income is going to come back further. He thinks that this firm is the best fit for this portfolio; for someone to take a look at it if there is bad debt in there or debt that is questionable whether or not it is going to ultimately mature at par value that is what they want looking after the portfolio. Mr. West informs that the fee schedule for JK Milne is 25 basis points.

Motion unanimously approved (8-0).

Vote:

Mr. Diaz – Yes	Mr. Easley – Yes	Mr. Garcia-Linares – Yes
Mr. Geraci – Yes	Mr. Goizueta – Yes	Mr. Huston - Yes
Mr. Sibley – Yes	Mr. Space – Yes	

Mr. Greenfield informs about the contract process with Barings, the international manager the Board hired. He points out that he is working with Barings towards an agreement and he informed Mr. West that he has a concern about the liquidity. This is a pooled investment and it is not the type that if the Board decides to get out that is the end of it. There is a great amount of authority on behalf of the manager of the pooled investment to suspend trading if they want to. It is in the agreement. In his opinion it makes it illiquid. He had the same objection to The Boston Company's contract when they were first hired. There is that liquidity problem and it may or may not be a problem to them but it is up to the consultants to advise them whether the liquidity problem is real. Mr. Space asks if they can change the deal. Mr. Brown responds negatively. It is like a mutual fund, they are buying into their prospectus and it is written very open ended. All mutual funds prospectus are written the same as an equity fund but it can buy fixed income if it wanted to. The whole idea of a commingled product is if they were going to change any of the covenants they have to go back to all the share holders once the fund is open

and they aren't going to do that so they write it from a very flexible standpoint. From a liquidity standpoint Mr. Greenfield is right and under normal circumstances liquidity is an issue but in instances like with JPMorgan where if they wanted to take out money from that account a year ago they would have given the money quickly but now they want to take out money and they have to stand in line with everyone else. When you need it is when liquidity becomes an issue. Mr. West explains that there is a difference between going separate managed versus a pooled fund. Barings does offer a retail mutual fund. This fund the portfolio will have is at 90 basis points. They are participating with other institutional investors and the trade off is the monthly liquidity and other provisions of the monthly liquidity. If they were to opt for the retail mutual fund approach which they do not recommend now they would have that liquidity but the fee goes up to about 120 basis points and now they can trade it over the exchange and are subject to the whims of the retail investor which can decide to flee at any time from the fund. While it is liquid it puts the same type of sale pressure on the underlying assets and it is a forced liquidation which is what the market is going through right now and they are still subject to that. From their perspective the liquidity issue has been identified and it is a valid point but they recommend for the international component going into the commingled fund because the cost and the economy of scale are so much lower than if they went with separately managed. Mr. Nelson thinks that this is a matter of balancing liquidity between the two international managers. He is not fearful of having to rush in and pull out the equity. They have the real estate where they haven't had to rush in and pull out money. They have a long term perspective on the fund and they aren't going to change. He likes Baring and he thinks they have a good track record and recommends that they continue with the contract negotiation.

Mr. Garcia-Linares asks if they are going to take the fund's assets in-kind. Mr. West responds that they are liquidating one commingled fund and buying another commingled fund so the short answer is no, there are no assets in-kind to transfer.

Chairperson Sibley asks what the consultants' recommendation is for the fund's allocation in international equity. Mr. West suggests that they rebalance the portfolio to the policy targets. Mr. Brown informs that domestic equity is \$11.7 million so it is about \$8.2 million to go back to 20% in international. The idea of rebalancing to the policy is simply to remove the emotion from the current situation. He thinks that rebalancing is the right thing to do and that they should stay at 20% in international. They made a decision at the beginning of this year to go to 20% in equity and it was a strategic decision. He cannot recommend going back to 15% based on 6 months of market performance. When they looked at going to 20% in international they looked at the asset allocation model and the worst case one year return was 15.8% and they are inside of that now. They made passing reference that the fund could lose 15.8% in this asset allocation but the reality is they are within the band they accepted when they decided they were comfortable with this allocation. Globalization hasn't ended. The rest of the world is about 36 months behind the United States. It is all interconnected and globalization is not going away so having 20% allocated to international equity and 45% allocated to domestic equity is not out of the norm with what other people are doing. They are not recommending to any other clients that they reduce their exposure to international.

Chairperson Sibley understands that it is so important that they stay within their parameters and targets that are set. Mr. Garcia-Linares asks if by increasing international aren't they increasing what is going to be further issues internationally over the next few months. Mr. Brown

responds that if they were indexing they could make that argument. They have active managers in those areas searching out value. Mr. Space asks if they knew the market was going to bottom out at 6000 what would they do. Mr. Brown informs that if he knew for a fact that the market would bottom at 6000 he would not rebalance and would take all his money out of equity put it in 13.5% yield Morgan Stanley bonds. Mr. Geraci is concerned that the market will continue to fall and he doesn't think that 6200 is out of the question. Mr. Brown responds that it doesn't change the fact that he thinks they should go back to their policy because he does not know if 6200 is a certainty. They are out of policy in large cap equity. They are about \$2.5 million underweighted to large cap equity now.

Mr. Brown shows the Board a chart of historical bear markets. During the tech bubble if they had known that October 9, 2002 was the absolute trough and would have put all their money in equity he thinks the thing they would have missed is that the next six months were ridiculously volatile. They aren't going to get an all clear signal and everything is going to go up but there will be things trading at such an unbelievable valuation that everyone who is a bear it is the few people that are going to be in there that are going to recover the fastest and make the most money. A classic signal that the recession is over is when they decide to call it a recession. Why would you invest in stocks at all? Unlike lagging indicators the stock market is a forward looking mechanism and it sees an end to a recession six to nine months before it actually occurs. They will still have job losses. It will still be bleak but valuations are going to be so attractive that some of these companies are going to start to get some appreciation. What do you look at in a classic recession period? You look at large cap companies that have stable earnings and those are typically the companies that get bid up in a recessionary period. When you have a period of market dislocation like this it starts with hedge funds with redemptions then it moves quickly into individual investors and margin calls and what are you going to sell? You are going to sell the most liquid that you are not going to get hit in terms of bid ask spread and that is unfortunately large cap names that have stable earnings and are the most liquid stocks in the portfolio.

Mr. Brown thinks this portfolio is very well positioned. The emotional thing to do is to rebalance to the minimum. What they have done in the past is rebalance to the target. You can choose to rebalance to the minimum and you will be back within the policy. His recommendation is to rebalance back to policy. During the technology bubble from 2000 to 2002 the bear market occurred for 25 months and it lost 45%. If you had let your money sit after 49 months you were back to even. If you went fully in equity you shortened your recovery in 16 months and one year later from market bottom the market gained 24%. They have taken a loss but if they want to grow the portfolio back to what it once was they have to recommit to equity.

Mr. West takes the Board through one more example on the chart showing historic bear markets. The Depression was from 1928 to 1935 and the duration of the equity decline was for 34 months and during that period you lost 76%. If you held on and stuck to policy you recovered in 150 months and if you doubled down you shortened that period to 42 months and one year later from the market bottom the market gained 74%. For them as fiduciaries if they deviate from their policies and they are not in the position for any gain then they will open themselves up to criticism because they deviated from their policy and missed recovery. They don't know what the bottom is or where it is going to be and they need to stay on policy.

Mr. Brown thinks there is one market caveat that they have to look at the portfolios they have in terms of fixed income because what he wouldn't want to do from an immediate stand point is how much it will impact their portfolio because they do not want them selling bonds at 62 cents on the dollar that are going to go back to par.

Mr. Garcia-Linares asks if they have an issue with getting money out of real estate. Mr. Brown informs that they will have to put that redemption in today if the Board decides to rebalance. He believes they can get the money out of real estate by April 2009. Mr. Space asks if they put the request in now to take money out of real estate and they decide not to rebalance in April can they change their mind. Mr. Brown answers affirmatively. Mr. West informs that there is a queue to get money out of real estate but what they are looking at is that they are tiering the queue so if you are legitimately rebalancing as opposed to a strategic reallocation the legitimate rebalancings are put at the top of the queue.

Mr. Nelson states that if they put that queue in and rebalance it may take until January or February. During that time they can look at international and see about placing that money into international. It would give them time to look at international because they have concerns about the market. It will take them time to get the money out and then they can decided to put that money into the international in January or February. Then they are going to take out Loomis because they just hired JK Milne as the fixed income manager. Instead of funding him the \$28 million that is in Loomis they may fund \$18 million and move \$10 million into domestic equity and as they go forward they can fund JK Milne additional money in the future as opposed to reallocating Richmond Capital and take some assets from them. They don't have to do it right away because it will take some time to get JK Milne on board. It will give them time to move assets and get the new managers in line.

Mr. Geraci voices his concerns about rebalancing. Mr. Brown informs that rebalancing is fine when everything is working but the definition is taking from a winner and giving to a loser and it is never comfortable when you have to do it. It is the right thing to do. Chairperson Sibley agrees. It is the right thing to do and it is an emotional thing. It is being recommended by their financial consultants. Mr. Brown would like to go to Richmond and tell them that they were thinking about raising \$5 million and ask them what they can do without impacting the portfolio.

A motion was made by Mr. Goizueta and seconded by Mr. Easley to get in the queue at JP Morgan for \$7 million.

Discussion:

Mr. Geraci understands that instead of staying where they are right now for another couple of months the majority of the Board members want to pull this money out and put it into the domestic equities and some into the international equities. Chairperson Sibley informs that they are not moving any money today they just need to get into the queue at JP Morgan and then they are going to have to wait several months to get that money out of the real estate and if they want to they can change their decision in several months. Mr. Brown explains that once they receive a letter from JP Morgan informing of how much money they are taking out of the real estate portfolio then you do not have the choice of changing that amount. Mr. Geraci

explains that in his opinion he thinks they do need to rebalance but he doesn't want to rebalance in a down market. He doesn't think they are near the bottom yet. They are safe right now. Mr. Brown explains that if the 10-31-08 allocation didn't show below 40% in equities he would not be talking about rebalancing however he would be setting the Board up that in the future they may have to rebalance once they are outside the policy. He is telling the Board, as their consultant, that they are outside the range of their policy and his recommendation any time they move out of that range is to go back to target. Mr. Geraci is afraid of taking that fixed income, the money that he knows is sort of safe, and in a down market they are going to take \$8 million and put it into equity. He feels that money is going to be gone. Mr. Huston states that Mr. Geraci is giving his personal opinion. There is a discipline to all of this and the discipline is to go back to your targets they set up a long time ago. He feels that Mr. Geraci is not allowing the discipline to work because he is putting his personal fear into the mix. Chairperson Sibley understands that this is a difficult thing to do but you have to take emotion out of the situation when it comes to the market. Mr. Space thinks they should keep it in the minimum range during this time of turmoil. Mr. Brown informs that they only have to rebalance to the minimum range but their recommendation is to rebalance to the target.

Chairperson Sibley asks what conservative approach they can take. Mr. Brown responds that the most conservative approach is to add about \$2.5 million to equity and if it goes down further they will probably have to move another \$2.5 million when they meet in December because they will be below 40 again. Mr. West states that rebalancing now would be in sync with what the fund's fixed income managers are doing and what the bond managers are doing in aggregate. They look across the board with the bond managers and they are starting to buy some of these corporate bonds that are cheaper than they have seen in their entire careers. Mr. Nelson thinks right now they can take \$2.5 million out of Richmond which they have in cash and put it into the domestic equity and bring it up to a minimum of 40% to bring it up to compliance and put a queue in for the \$4 million for the real estate. Mr. Garcia-Linares asks if they will have enough money to pay for benefits at the end of the month if they take the money out of Richmond. Ms. Groome informs that she received a \$5 million check from the City that has gone into the cash account at Northern Trust.

Motion approved (7-0) with Mr. Geraci dissenting.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to take \$2 million out of the \$5 million from the City and \$2.5 million from the fixed income managers up to a total of \$4.5 million and put that into domestic equity. Motion approved (8-0).

Mr. Garcia-Linares would like for the consultants to let the Board know when they are going to get the money from JPMorgan. He would like to have enough time to make a decision as to what they are doing. Mr. Brown recommends that they put the money into the S&P 500 index fund. They have kept all five managers typically weighted and putting the \$4.5 million into the S&P 500 will make all five managers in the index roughly equal.

A motion was made by Mr. Huston and seconded by Mr. Goizueta that the \$4.5 million be put into the S&P 500 index fund as recommended by the consultants.

Discussion:

Mr. Garcia-Linares asks if putting the \$4.5 into the S&P 500 index gives them the ability to have a manager looking out there for the best investments. Mr. Brown responds that it is essentially giving them the ability to be fully invested and what he thinks is going to be the best place in a recessionary environment which is large cap companies. From a policy standpoint they have five elements to the portfolio and they keep them equally weighted and the S&P is the most underweighted not because of performance but because it has been the best performing piece of the portfolio when they had to take money out of that index to fund benefits during the transitions and when the fund needed the cash. It was the fastest way to get money and they didn't have to impact from a transaction cost standpoint in the portfolio. It is underweighted because of some issues they have done. That is where he thinks the money should go. Mr. Garcia-Linares thought they were trying to get in this environment the opportunity to have a manager looking for a very good buy. Mr. Brown informs that his recommendation is to rebalance and to put the money to work into the S&P index.

Motion approved (6-2) with Mr. Garcia-Linares and Mr. Geraci dissenting.

9. Items from the Board Attorney (*Agenda Item 5*).

Mr. Greenfield informs that he is working on the renewal contract of Randall Stanley and also working with Barings on their contract.

Regarding Piñon, he received the City's response to Piñon's motion of relief late yesterday afternoon. Basically what he thinks they need to do at the next meeting is invite the City and Mr. Piñon's attorney to come in and present their respective positions as to how they believe the case should go forward. He thinks they should hear them both and then make a decision. Mr. Garcia-Linares asks what Mr. Greenfield's recommendation is as to how they should go forward. Do they have to hear the case all over again? Mr. Greenfield responds that the City requests that there be a hearing so they can present evidence relative to other facts relative to things they believe are pertinent of what they believe the Board should to hear in order for the Board to come up with an equitable decision. Mr. Garcia-Linares states that the City is asking for another hearing. Is Piñon's attorneys asking for another hearing? Mr. Greenfield informs that Piñon is asking the Board for the relief they believe they are entitled to. Mr. Garcia-Linares doesn't understand why they have to come to the Board at the next meeting. He thinks the Board needs to make a decision as to whether or not they want to have another hearing. The Board has already made a decision that they are going to be concentrating on the investments so they won't be able to deal with the Piñon issue until after January. Chairperson Sibley agrees. They may have to have a special meeting. Mr. Garcia-Linares would like to go back to the City's attorney and tell them to put in writing whatever it is they want the Board to hear so Piñon has an opportunity to respond in writing and there are no surprises. If they have a hearing then they all of a sudden they find out at the hearing that the City has x, y and z they want to argue to the Board then Piñon's attorneys are going to need time to respond to what the City just presented. He thinks they need to get it all up front in writing now and then they can set up what they need to set up.

Chairperson Sibley asks if they should table this issue until February. Mr. Space thinks they need as much information as they can before they get into it again. They have \$500,000 of tax payers money tied up in this issue. The court has told the Board twice to give Piñon an

equitable solution. Mr. Garcia-Linares would like at the next meeting in December to spend about 15 to 30 minutes of this Board's time making a decision as to how they are going to deal with this issue so they can get it done with and then schedule for a later time. He thinks the first step is after they read everything is to decide whether or not they think Mr. Piñon is entitled to any attorneys fees and if the answer to that is no then they don't go forward anymore and they issue an order that has all the requirements they need in order to insure that it gets upheld. If they decide it is yes then they go to the next step. Chairperson Sibley thought there was more to the issue than just attorneys fees. The court did not like the settlement. Mr. Greenfield states that the Court has told the Board to decide on equitable relief. They have to have a meeting in public to decide on the equitable relief. Mr. Garcia-Linares asks if the Court determined there was a City error. Mr. Greenfield answers affirmatively. Mr. Garcia-Linares responds that the issue is gone. The Court is telling the Board that it is an error of the City. The issue is how they make the man whole. That is the issue. He doesn't think they need a full blown hearing on that issue. He thinks it is as simple as having the Board's actuary come in and say under this he would have received A and under this he would have received B. They don't need any more presentations. They just need to send it out to the actuary to figure out the differences.

Mr. Greenfield states that the litigating parties have suggested that they should have a hearing to bring facts or evidence before the Board. He thinks the Board should listen to them and decide whether or not they should have the hearing. Mr. Space thinks that this thing was driven by the City through the City Manager who is no longer the City Manager. They may get a different opinion now.

Mr. Goizueta asks if the City has any type of insurance that would cover this instance. Mr. Greenfield doesn't believe that the City has insurance that would cover this type of situation. It is not a matter of negligence it is a matter of equity.

Mr. Garcia-Linares states that they have been before this court twice and they were never able to get a judge to go the Board's way to say what they have done is equitable. Chairperson Sibley thinks they need to table this issue until the December meeting. Mr. Garcia-Linares asks Mr. Greenfield to try and get the City's attorney and Piñon's attorney to talk and see if they can come to an agreement as to what they think the Board needs to do. Can they come to an agreement that the court has now said that the City was wrong and therefore that the only thing that needs to be determined is to how to put him back to an equitable position. If they can both agree to that then it is a matter of just dollars and it makes what the Board has to agree on simpler. They can also give them a recommendation as to how they can come up with that dollar figure. If they can't agree he assumes they will probably defer this issue into February for them to come before the Board.

10. Old Business.

There was no old business.

11. New Business.

Mr. Easley states that Mr. Space and Mr. Geraci have been to the FPPTA events but he thinks it is really important for all the Board members to attend at least one of those events a year. Most

people think it is a lot of recurring information but a lot of times they bring in new people and they give different views on different ideas.

Mr. Easley thinks that the City needs to consider having a fixed yearly contribution to the retirement system. That way they will have a set number they know they have to budget and it is expected. They can have one fixed figure, the City will know where they are coming from and the Board knows what they are getting. They can talk to the actuary about it. Chairperson Sibley states that Houston is a prime example right now. When gas was going through the roof and people were selling their mineral rights and they banked their money for a rainy day and now gas is bottoming out and all the contracts got cancelled and the Mayor is sitting back saying they have nothing to worry about because they planned. Now Mr. Nelson is going to have new direction and new input with the new management. Mr. Nelson thinks that budgetary wise it is a good idea.

Meeting adjourned at 10:43 a.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR