CORAL GABLES RETIREMENT SYSTEM
Minutes of May 13, 2010
Youth Center – Auditorium
405 University Drive
8:00 a.m.

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

STAFF:
Kimberly Groome, Administrative Manager
Donald G. Nelson, Finance Director
Troy Brown, The Bogdahn Group
Dave West, The Bogdahn Group
Alan E. Greenfield, Board Attorney
Randall Stanley, Stanley Holcombe & Associates

A = Absent
E = Excused Absent
P = Present

GUESTS:
Stephen W. Starnes, Mondrian Investments
John Grieco, Delaware Investments
Elsa Jaramillo-Velez, Human Resources Director
Patrick Salerno, City Manager

Chairperson Tom Huston calls the meeting to order at 8:05 a.m. There was a quorum present. Mr. Diaz and Mr. Garcia-Linares were not present when the meeting was called to order. Chairperson Huston welcomes Troy Easley as the new firefighter representative to the Board and informs that this will be Mr. Diaz's last meeting because he is retiring from the City. He welcomes the new police representative Daniel DiGiacomo who will attend his first meeting as a sitting Board member in June.

1. Roll call.

2. Approval of the Retirement Board meeting minutes for April 8, 2010.
A motion was made by Mr. Hoff and seconded by Mr. Space to approve the meeting minutes of April 8, 2010. Motion unanimously approved (7-0).

3. Approval of the Retirement Board Executive Summary minutes for April 8, 2010.
A motion was made by Mr. Hoff and seconded by Mr. Goizueta to approve the Executive Summary minutes of April 8, 2010. Motion unanimously approved (7-0).

4. Items from the Board attorney.

Alan E. Greenfield reports to the Board. On the issue of the Attorney General's question as to whether or not the Board could have an electronic quorum, at the last Commission meeting the Commission unanimously passed a motion directing the City Attorney to request an opinion from the Attorney General as to whether or not the City has a right to pass an ordinance that would allow for an electronic quorum.

At the last meeting Mr. Space asked a question in regards to the spousal acknowledgement of option of participant forms and whether or not the Retirement system was required to have this form. Mr. Diaz brought up the fact that the State of Florida had a spousal acknowledgement form and based upon that he and Ms. Groome created a form to be used by the Retirement System. The matter was put on hold at the last meeting. Mr. Space asked whether or not the Retirement System was bound to what the State was doing in the State plan. He researched it and found that the State Plan promulgated such a form in 2008 and it was done by virtue of a rule made by the Department of Management Services which is a part of the FRS. It was based upon the fact that there was a statute that gave the Department the right to make its own rules and regulations. So this form is part of the rules and regulations that was made by the Division of Retirement through the Department of Management Services and is not something that a municipal plan like theirs that is bound to have. That doesn't mean that they shouldn't have it. They can have it and the Board will discuss whether it is a form they want to have or not. The Board has complete discretion to make rules and regulations for the Retirement System. If this is a form the Board believes would be beneficial or not the Board can make that decision.

Mr. Greenfield brings up the fact that with Mr. Diaz leaving the Board that the Board will not have a Vice-Chairperson. He believes it is appropriate to have a new Vice-Chairperson elected from the employee group.

A motion was made by Mr. Geraci and seconded by Mr. Hoff to nominate Mr. Goizueta as Vice-Chairperson effective June 1, 2010. Motion unanimously approved (7-0).

5. Report of Administrative Manager.

A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Goizueta and seconded by Mr. Naclerio. Motion unanimously approved (7-0).

1. For the Board's information, there was a transfer in the amount of $2,300,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of April 2010 for the May 2010 benefit payments.

2. For the Board's information:

   - Julian Ingram of the Fire Department passed away on April 13, 2010. He retired on April 1, 1988 with Option 2B-50%. His beneficiary began receiving her benefits on May 1, 2010.

- Betty Blotcher of the Finance Department passed away on April 18, 2010. She retired on July 1, 1999 with No Option. His benefits have ceased.
- Ferdinand Samek of the Fire Department passed away on April 4, 2010. He retired on August 1, 1997 with Option 2 and 2/3%. His beneficiary passed away on December 25, 1992 so his benefit cease.

3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:

   - Payroll ending date April 11, 2010 in the amount of $102,657.00 was submitted for deposit on April 21, 2010.
   - Payroll ending date April 25, 2010 in the amount of $102,169.23 was submitted for deposit on May 4, 2010.

4. A copy of the detailed expense spreadsheet for the month of April 2010 is attached for the Board's information.

5. A copy of the Summary Earnings Statement from the Northern Trust Securities Lending Division for billing period March 1, 2010 to March 31, 2010 is attached for the Board's information.

6. Attached for the Board's information is the Statement of Pending Transactions and Assets as of March 31, 2010 from JP Morgan.

7. Attached for the Board's information is the Statement of Settled Transactions from March 1, 2010 to March 31, 2010 from JP Morgan.

8. For the Board's information a copy of the Commission Analysis prepared by Knight for the first quarter 2010 is attached.

9. A copy of a letter dated April 14, 2010 from the Coral Gables Police Officers' Retirement Trust Fund is attached for the Board's information regarding the payment of Chapter 99-1 benefits for fiscal year October 1, 2006 through September 30, 2007 in the amount of $31,096.00. This is the remainder of the amount owed to the Retirement Fund by the Coral Gables Police Officers' Retirement Trust Fund.
10. A copy of a letter dated April 14, 2010 from the Coral Gables Police Officers' Retirement Trust Fund is attached for the Board's information regarding the payment of Chapter 99-1 benefits for fiscal year October 1, 2008 through September 30, 2009 in the amount of $93,559.00. This is the total amount owed for above fiscal year.

11. A copy of the Florida Public Pension Trustee Association's Monthly E-Newsletter for April 2010 is attached for the Board's information.

12. An invitation to the Florida Public Pension Trustee Association's 26th Annual Conference in Naples, FL from June 27 – June 30, 2010 is attached for the Board's information.

13. 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.

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

Retirement Benefits:

Retirement application of Elio Quintero of the Public Works Department, 20 years and 5 month, No Option, effective May 1, 2010.

RESOLUTION 3135
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
ELIO QUINTERO

WHEREAS, Elio Quintero has applied for retirement effective May 1, 2010, and,

WHEREAS, Elio Quintero requests to take No Option with his last working day April 30, 2010.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF THE CORAL GABLES RETIREMENT SYSTEM;

That the Custodian of the Coral Gables Retirement System, is hereby authorized to pay Elio Quintero retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning May 1, 2010 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

A motion to approve Mr. Quintero's retirement application was made by Mr. Goizueta and seconded by Mr. Geraci. Motion unanimously approved (7-0).

DROP Benefits:

DROP application of Thomas Carrigan of the Police Department. Effective date July 1, 2010.

A motion to approve the DROP application of Thomas Carrigan was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (7-0).

DROP application of Alan Matas of the Police Department. Effective date August 1, 2010.

A motion to approve the DROP application of Alan Matas was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (7-0).

Vested Retirement Benefits:

Agustin Diaz, Police Department (15 years), effective at age 50, effective date June 1, 2015.

<u>Buy Back of Prior City time, Other Public Employer Service, Military Service Time:</u>

Application of Alfred R. Fernandez of the Police Department requesting to buy back 1,461 days (4 years) of Active Military Service time.

A motion to approve Mr. Fernandez's application to purchase 1,461 days of Active Military service time was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (7-0).

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

Stanley Holcombe & Associates, Inc. invoice #3688 dated April 8, 2010 for actuarial consulting services from January 30, 2010 through April 4, 2010 in the amount of $20,517.00. This invoice is in accordance with the contract between Stanley Holcombe & Associates and Coral Gables Retirement System signed on December 17, 2008.

A motion was made by Mr. Naclerio and seconded by Mr. Goizueta to approve the Stanley Holcombe and Associates invoice in the total amount of $20,517.00. Motion unanimously approved (7-0).

Alan E. Greenfield invoice dated May 10, 2010 for services rendered November 4, 2009 to May 10, 2010 in the amount of $7,325.00.

A motion was made by Mr. Goizueta and seconded by Mr. Hoff to approve the Alan E. Greenfield invoice in the total amount of $7,325.00. Motion unanimously approved (7-0).

8. Attendance of Steve Starnes and John Grieco of Delaware Investments (international equity manager) reviewing the portfolio's performance, their view of the market and how Delaware is positioning the portfolio to take advantage of opportunities and protect from risks.

John Grieco of Delaware Investments thanks the Board for having them come and present. He introduces Steve Starnes who is a portfolio specialist with Mondrian Investments, which is a sub-advisor of Delaware Investments. Delaware Investments is located in Philadelphia. The background with the relationship between Delaware Investments and Mondrian Investment Partners, which is the investment advisor, dates back to 1990 when Delaware Investments created the international equity investment team. Between 1990 and 2004 the Delaware International Advisor's Group grew to approximately $20 billion in assets and in 2004 the investment team that continued sub-advising Delaware asked if they could become a private company. They agreed to allow them to a manager buy-out which was executed in 2004. So since 2004 the relationship has been using Mondrian Investment Partners, which was formerly Delaware International Advisors, as a sub-advisor.

At this time Mr. Garcia-Linares arrived at the meeting.

Steve Starnes informs that they are a deep value manager using one yard-stick across the world. They use something called a dividend discount methodology for investing in stocks. All that means is that they are asking their analysts to look at companies around the world and find companies that cannot only distribute cash to their investors in the form of dividends but grow that dividend stream. They use a 50 year horizon for their discount strategy and then they take all those cash flows and discount it to today's value and make comparisons between a German company and a Japanese company or an auto company and a bank because they use the same method across the whole world. That simplicity of process is what creates the ability to make portfolios that are focused on saving money in difficult environments and making a reasonable return in good market environments. They make assumptions over what happens in the next 50 years in countries. They know the companies very well before they buy them. They buy large and brand name companies.

They use a 5% discount rate which is a standard discount rate across the world. It appears to be a useful and practical discount rate. To calculate they use the growth of the dividend. They are asking if you started today what could the company earn and after all the expenses what they have available to pay out and what they are willing to pay out and the growth ability of the dividend looking at the economic environment. They take US dollars and move them into overseas investments. The difference between the US dollar value and the same dollar converted into the British pound is a meaningful difference when looked at and they have to take that into account. Companies operate globally so they need to have an understanding of how currency will affect their business. They have no interest in trading currencies. When they are taking money from the US client base and moving into Europe they take the currency differential into account. They have extensive world-wide fundamental research with the emphasis on company visits being the central focus of the research process. That leads into an understanding of what countries and industry groups are doing. They have a portfolio of about 30 to 50 stocks.

At this time Mr. Diaz arrives at the meeting.

Mr. Starnes continues. They spend their time on predicting inflation for every country over the next 18 months. That is where the market has not anticipated it yet. It allows an analyst or a CFO of a company to understand the environment that they need to predict their business going out over a reasonable period of time. They don't think inflation is a major issue in the developed world for the next 18 months but do think inflation is an issue for China. If China's imports continue to grow then their imports will exceed their exports. They are exporting inflation because of the importation of commodities.

There are four industry groups in their portfolio that shift due to their overweight or underweight and performance or non-performance. They are underweight in financial stocks and material stocks because the banks went into this mess in 2008 and early 2009 to suffer performance-wise and asset-wise. The same thing was happening to banks overseas. Banks increase in risk as they decline in value in the stock market. They increase in risk so much that governments have forced bank mergers or have taken over. They haven't had that particular situation happen or they have backed out of the way when it has. They got out of British banks and stayed out of British banks and allowed that underweight in financials to continue to grow. That is a good thing because in 2008 their performance was better than the benchmark. In 2009 the market decided that risk was what they wanted to buy. They don't buy risk. They buy conservative long term investments that deliver portfolio performance. That strategy works as long as you don't stray from it. The bank stocks went up and they didn't have a big weight in bank stocks so their portfolio didn't go up as much as the market in 2009.

They are underweight in materials. They haven't seen for two years a systematic overflow for materials companies and have the ability to buy those companies at a reasonable price. The two underweights were the reason the portfolio lagged. They are overweight in energy, telecoms and health care. They underperformed in the market when the market was rallying in those sectors. Now the surviving telecoms companies are delivering unbelievable yields. Their dividends are incredibly strong and that is good cash flow to protect the portfolio as the market becomes more difficult. They think health care companies are going to benefit because of the aging population of the world. Health care companies are a good way to invest and they deliver decent returns and dividends.

The Board thanks Mr. Starnes and Mr. Grieco for their presentation.

Mr. Easley leaves the meeting due to a previous appointment before being elected to the Board.

9. Attendance of Randall Stanley of Stanley, Holcombe and Associates to present the 2009 Actuarial Valuation Report.

Randall Stanley of Stanley Holcombe and Associates presents the 2009 Actuarial Report. As of October 1, 2009 the market value of assets was at about $219 million and they had an actuarial value of $262 million. That means that for all intent and purposes they were pretending that they had $262 million in the trust as of October 1 as far as calculation of the City contribution requirements. The $262 million is 120% of market and under State law they can smooth asset values. They believe in smoothing asset values but the State says you can't go above 120% of the market or below 80% of the market. The asset smoothing method that had been used preceded his firm's involvement with the Board.

The actuarial accrued liability is $460 million. It is all the liability for the inactive members and for each active member it is a piece of their liability. If you compare that to the smoothed actuarial value you get $198 million as the unfunded actuarial liability which is an increase of almost $30 million from last year. At 10/1/09 if you compare the actuarial asset value with the actuarial accrued liability you get a ratio of a little less than 60%. If you used market value instead of the smoothed asset value the ratio would be a little less than 50%. Their target is to try and have an 80% ratio.

The funding target is $526 million. The funding target is the result of all the assumptions they use to project benefits and then develop a present value of those benefits. That present value is derived from looking at all the benefits until the end of time and bringing them back to the present. They use the 7.75% assumption to get to that present value. If at 10/1/09 there was $526 million in the trust theoretically there would never have to be another dollar of contributions for any present member including all the actives. That is the target. They don't intend to hit the target but they always tend to be pointed toward that target.

$9.7 million is the cost under the actuarial cost method of service for the year for active members. That is about 18% of pay. The past service cost is the amortization of the unfunded liability components and that is $17.2 million which is about 33% of pay. They adjust for interest which takes away the amount that comes back from this trust from the share plans of $145,000 and subtract 5% member contribution and you get $26 million. If you took 18% normal cost and subtract the 5% member contribution you have a measure of the ongoing cost of the system. Assuming the assumptions are right then the ongoing cost would be 13% of pay. The current cost is 50% of pay. The big difference is the amortization of the unfunded liabilities. The year ending 9/30/09 there was a $27.6 million net loss and the annual debt service for that mortgage is $2.2 million. Any assumption change or methodology change will add another line of positive or negative. These are 30 year mortgages. He thinks that paying for it for 30 years is too long. Maybe they should pay for it in 10, 15 or 20 years. Every time you see a pattern of consistent losses it raises some question as to whether the assumptions are sufficiently conservative.

The investment return assumption is only one of the assumptions they use. They have methodology that impacts things also. The amortization period is a methodology. The assumption that gets far and away more than its share of press is the investment assumption. Under the actuarial cost method the investment return assumption is conceptionally a year and they have to use it as interest discount present value calculation and that makes it 50 years. What they are using as a back drop for what he anticipates as a discussion item at this meeting is 7.75% assumption per present value and they are saying that ¾ of that is inflation and 4% is real return.

Mr. Space asks if $17 million is the payment on the mortgages of $197 million. Is the interest on that past service $2 million for a total of $19 million? Mr. Stanley answers affirmatively. Mr. Space states that if they found $197 million someplace would that reduce the City contribution by $17 million? Mr. Stanley responds that it would reduce it by $17.2 million but it would also reduce it by a portion of the $2 million interest. The ongoing cost of the system is not 50% of payroll cost but it is 18% minus 5% cost assuming that all the assumptions are reasonably accurate.

Mr. Garcia-Linares asks if Mr. Stanley thinks a 7.75% is a reasonable assumption for the Board to continue to keep. Mr. Stanley thinks so. He remembers that Mr. Garcia-Linares was at the table when he spoke to the Board about lowering the assumption from 9% to 7.5% and the Board finally got down to 7.75% which is where most of his clients are at right now. They are not recommending that clients make that more conservative at this point. They do like to make more things conservative when they have the money to do it with. Mr. Naclerio believes that Mr. Stanley's position is not to change the assumption rate but he believes his position is not to manage the fund so they achieve the 7.75% assumption rate. Mr. Stanley agrees. Don't chase the assumption. If you can't see getting pretty close to the assumption then at some point they will have to talk about changing the assumption. The assumption is a tail and they don't want it wagging the dog.

Mr. Huston remembers that Mr. Stanley had said something about them shorting the amortization. Mr. Stanley explains that he would like to see it happen. He can't see much happening to reduce the contribution requirements but shortening the amortization would increase that requirement. Having a 30 year amortization for all these pieces is why they have so much unfunded liability. Mr. Huston asks what Mr. Stanley would like them to go to. Mr. Stanley informs that he is not suggesting they do it today but it is something they should think about. It will increase the contribution. Anytime you shorten your mortgage you are going to pay more money. Mr. Garcia-Linares asks if they should cut the years of the mortgage gradually. Mr. Stanley thinks that times are going to be more favorable for making things more conservative and hopefully not too long in the future. Everything he is saying today is to not put less money into the trust.

Mr. Stanley explains that the ratio of the smoothed asset value to the actuarial liability is 57% and when they reduce the interest assumption it makes the ratio worse. Reducing the assumption increases the liability. They haven't increased the asset yet so the ratio decreases further. Mr. Huston asks where Mr. Stanley would like for the Board to take the amortization period to. Mr. Stanley thinks they should go down to 10 or 15 years. Maybe the experience gains and losses he would do shorter because the experience gains and losses are a source of volatility and going shorter makes the volatility work. He would look at the payroll growth assumption to see if they could justify it based on history and use a shorter period but with a payroll growth assumption. They are using 3-¾% as inflation assumption. They are using it not only in their building block for investment return interest discount but they are also using it for projecting salary increases. You got one going against the other. They reduce the inflation component of the investment return and they would probably make the same reducing in the salary increases so it is not a traumatic change.

They are using a 1983 mortality table and at some point he would like to get that up to date. He would like to do that during a period of found money. There is a 2000 table out now that they are moving toward and it has longevity predictions in it. In the new table longevity for males has increased significantly but for females it hasn't changed. The speculation is that more women are subjected to more stress in today's economy and more work pressures so their longevity hasn't improved like the male's longevity has. Under their retirement assumptions they have police and fire back at the same assumption since the police got the Rule of 70 eligibility for DROP.

The investment return increased the unfunded liability by $22 million and increased the annual contribution by almost $2 million. It increased the cost of percentage of payroll by almost 4%. That is the reason it gets the bulk of the publicity because it is the most powerful of the assumptions. That is on the smoothed basis. Mr. Geraci asks when Mr. Stanley suspects the period of time it will be that the City doesn't have to continue to come up with the large sums of money each year to make the program whole. If they continue to do the same thing based on the actuarial tables when can they be whole? Mr. Stanley responds that their tables are that the fund is going to earn 7.75%. You can argue that when they started that assumption since then the fund has earned less. If it is a good assumption then it implies the fund will earn more so that over time the fund will average out to 7.75%. Mr. Space states that in the $22 million there is a period of time where the assumption rate was 9%. His point is that it didn't happen in a short period of time. Mr. Stanley agrees.

Chairperson Huston states that the fund is 57% funded. Where Mr. Stanley's other clients funded at? Mr. Stanley responds that their other clients average at about 75%. Mr. Geraci asks how the Board can help the City and the plan to get whole again. Mr. Stanley replies that he can't answer that. They have to tell him how they think they are doing on their investments and then he can give them a guess. Mr. Geraci states that for the past 7 years they have earned a little over 4%. They need some goals and some targets based on the actuarial reports so they can do something intelligent as far as the investments go. Mr. Stanley thinks they will catch up. They can solidify some of the assumptions and methods. Maybe they can tighten the amortization schedule.

Mr. Naclerio states that according to the numbers the past year has been worse for the fund compared to years before. Mr. Nelson explains that the City has been contributing more money each year. The percentage of increases has leveled out but it still not a good indicator. Mr. Stanley points out that the asset smoothing method helped out a lot more in the year ending 9/30/08 than it did in the year ending 9/30/09. Mr. Naclerio understands.

Mr. Naclerio asks about the idea of floating these bonds and paying off some of the money to make the pension fund better. Why don't they want to do that? Is it because they don't want to book the interest on the bonds on a continuing basis whereas this you can pay off as much each year without having a continuing obligation on the books. Is that the driver? Mr. Nelson answers that they talked about the market value of the assets of $218 million as of 9/30/09. As of 3/31/2010 the fund is at $244 million. That is a significant increase. He can't predict the future but if they continue on the track it will change significantly. Ten years ago they were overfunded. You can't look at one or two years. You have to look at the long term. Using pension obligation bonds is a fix today that you think is going to help the future. When you have to borrow money today on a fixed rate say at 5.5% then you have to assume a 5.5% return consistently for the next 25 years. That is a big risk. You take that money and place it in investments and he doesn't think they will earn 5.5% returns for the next 25 years. You are going to work with the equity market. You are not only meeting your debt payment obligation in the market which is an added burden on the fund, you are hedging on the future market and timing it today. He does not recommend they do that. He believes in paying as you go and what the actuary mentioned to not adjust the actuarial assumptions today but to look at it as they go forward. This is not a financial time to do that. Mr. Garcia-Linares asks what Mr. Nelson thinks of the idea of lowering the amortization assumption from 30 years down to 10 or 15 years. Mr. Nelson responds that he would like to look at it down the road when financial capabilities occur.

Mr. Garcia-Linares asks Mr. Nelson that if things continue well this year and the contribution comes down would he be comfortable with the Board speaking with the actuary at that time to consider making the changes to the assumptions and methods. Mr. Nelson responds that if they get to a point where the contribution goes down because of favorable investment return the goal of the City would be a level funding going forward. The goal of the City is to ultimately level off the payments so they don't have huge spikes. Mr. Goizueta states that the history of the City is that they funded whatever they needed and in the days where they only had to put $4 million in the fund if they put $6 million in the fund instead it would be in better shape than it is today.

Mr. Goizueta points out that in the report there was an increase in the amount of retirees which created a result of $3.4 million increase in the unfunded liability. Is that a number that is predicted? Mr. Stanley explains that when a general employee crosses the Rule of 70 they start assuming they are going to retire. 20% will retire at that point and 20% will retire each year after that until you get to the Rule of 85. At that point all of them are assumed to retire. For the year ending 9/30/09 they assume there would be 36 new retirees. Mr. Goizueta asks if 55 people retired how that would affect the fund. Mr. Stanley responds that if it is significantly more than the 20% assumption then it would increase the City's contribution.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Space to approve the 2009 Actuarial Report. Motion unanimously approved (8-0).

10. Investment Issues.

Dave West of The Bogdahn Group reports that they had a very productive four hour Investment Committee meeting and they came up with some good conclusions. First he will review investments for the month of April. The funded at the beginning of April was at $244,289,373. The fees for the period totaled $218,115 and expenses were $4,269. The income component for the month was $471,668. They had a nice month for appreciation when you mark to market at just under $2 million. When they closed April 30th they have a value of $244,233,544. On a fiscal year to date the portfolio has earned a 7.48% return.

Mr. Geraci states that the strategy for all businesses is that if you look at a bell curve all businesses will increase at an increasing rate, increase at a decreasing rate or decrease absolutely. It is an economic theory and it happens unless you change your business model. At some point they are going to have to change their business model. Right now they are increasing at a decreasing rate. Would it be far fetched at some point in this plan to maybe buy a 30 year treasury so they know that for 30 years they can make at least 4.68% for a US Treasury bond? Mr. West responds that they have an actuarial accounting issue. If they were to put a certain portion in a long-term treasury bond they would still have to recognize there will be years where the treasury bond has gone down 14% in total return and if that was 40% of the portfolio when they were forced to mark to market for accounting purposes for the actuarial valuation they will be looking at 40% of the portfolio down 14% even though it was in a US Treasury bond. The way the GASB account process works is their target is the required rate of return at 7.75%. If they were in the private sector under FASB the discount rate mechanism is not fixed so it is not a target of 7.75%. Under that circumstance you have the opportunity to do a liability driven investment because your liabilities are moving and you need to manage that and your assets are moving. Under that accounting you have some ability to do what you are talking about. You can determine how much you want to match up and how much risk you want to take to mitigate the contribution requirement. But under GASB accounting the way the rules of the game are played the primary target is to meet the actuarial rate of return with the least amount of suspense. So their goal is to construct a portfolio of assets that will get them there with the greatest likelihood with the least amount of suspense along the way. They are looking to make decisions on required rates of return for the plan coming off a 70 year disaster event. They suggest they are on the threshold of the next positive cycle.

Mr. West reports that at the Investment Committee meeting the committee recommended to the Board to approve a revised investment policy statement. They provided procedural updates to the document and some additional updates requested at the meeting. Mr. Naclerio would like to approve the document provisionally so that the other Board members can take their time reviewing the changes and then at the next meeting they can approve the final document.

A motion was made by Mr. Naclerio and seconded by Mr. Goizueta to approve the Investment Policy provisionally. Motion unanimously approved (8-0).

Mr. West reports on the second item that was approved at the Committee meeting. The Committee recommended that the Board approve an alternative bond strategy. The source of funding would be the domestic core fixed income allocation. The objective is to diversify away from the U.S. yield curve risk. They are also diversifying globally. When they look outside the U.S. it is generally government bonds and sovereign issuers that comprise that. They have no exposure there and there is great opportunity there. The two funds that were reviewed and recommended are the Templeton Global Bond fund and the PIMCO Diversified Income fund. The Templeton Global Bond fund benefit is that the manager's focus is minimal in the Euro zone. They have no Greece, Spain or Italy. Their focus has been in emerging markets. The manager has moved the bulk of the assets over to countries with better balance sheets and better credit quality. They are getting an active manager that is looking outside for opportunities and getting significant increase in income in the investments. The PIMCO Diversified Income fund is a combination of three markets they are participating in; global investment grade, global high yield and global sovereign investments. The benefit of this fund is that they are getting active management. The PIMCO team makes a determination of how much credit risk they are going to take and then determines which of those three areas they want to over emphasize or under emphasize. They are getting additional value added and additional yield advantage. They are reasonably low correlated assets to the domestic fixed income and domestic equities. They are recommending investing $5 million into each manager. Mr. Greenfield requests that the Board not approve the hiring of the managers until he is able to review their prospectuses.

A motion was made by Mr. Naclerio and seconded by Mr. Goizueta to approve the recommendation of the Investment Committee to hire Templeton and PIMCO with an investment of $5 million to each manager with the money coming from domestic fixed income subject to the approval of the Board Attorney.

<u>Discussion:</u>
Mr. Space doesn't know if they should put in $5 million into each manager. Mr. Naclerio responds that once they get into the funds then they can readjust the amounts in the future. Mr. Goizueta agrees. They should see how it goes first and then they can move the money around if they see the need in the future.

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

Mr. West informs that the Investment Committee recommended further pursuit of the managed futures concept as a space they should be looking at. They will continue to vet managers for this and once they find those managers they will forward the engagement agreements to Mr. Greenfield for his review. Also, JP Morgan will be attending the June Board meeting. The Investment Committee recommended looking into JP Morgan's value added real estate and JP Morgan will present that product at the June meeting.

Mr. Diaz asks for Mr. West's opinion on the pension obligation bond. Mr. West thinks that the pension obligation bond is a unique solution however he thinks of it this way if they are making the minimum payment on a credit card and they are having a hard time making that minimum payment they go out and open up a new credit card and use that credit card to help with the payment of the other credit card. They have done two things. They have increased their cash flow burden and have leveraged their liability by the extent of the borrowing.

11. Old Business.
Chairperson Huston informs that the old business they have is the Spousal Acknowledgement forms which can be postponed until the next meeting.

12. New Business.
Chairperson Huston asks if the City Manager would like to say anything to the Board. Mr. Salerno responds that he is at the meeting to enjoy the visit and observe the important business the Board had at this meeting. Chairperson Huston informs that the Board is honored to have the City Manager at this meeting and that he is welcome to attend any meeting in the future.

Chairperson Huston presents Mr. Diaz with a Certificate of Appreciation from the Board because he is retiring from the City and moving to Greenville, SC.

Mr. Goizueta recognizes the new Human Resources Director, Elsa Jaramillo-Velez.

Meeting adjourned at 10:47 a.m.

Set next meeting date for Thursday, June 10, 2010 at 8:00 a.m. in the Youth Center Auditorium.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR