

CORAL GABLES RETIREMENT SYSTEM

Minutes of November 10, 2011

Youth Center – Auditorium

405 University Drive

8:00 a.m.

MEMBERS:	N	J	F	M	A	M	J	A	S	O	N	APPOINTED BY:
	10	11	11	11	11	11	11	11	11	11	11	
Raul Chao	-	-	-	-	-	-	P	P	A	P	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	E	E	P	P	P	P	P	Vice Mayor William H. Kerdyk, Jr.
John Lindsay	-	-	-	-	-	-	-	E	P	P	E	Commissioner Maria Anderson
Sal Geraci	P	E	P	P	E	E	P	P	E	P	P	Commissioner Rafael “Ralph” Cabr
James Gueits	-	-	-	-	-	-	P	P	P	P	P	Commissioner Frank Quesada
Daniel DiGiacomo	P	E	E	P	P	P	P	P	P	P	P	Police Representative
Randy Hoff	P	E	E	P	P	P	P	P	P	P	E	Member at Large
Donald R. Hill	-	P	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative

STAFF:

Kimberly Groome, Administrative Manager
 Diana Gomez, Trustee/Finance Director
 Alan E. Greenfield, Board Attorney
 Troy Brown, The Bogdahn Group
 Dave West, The Bogdahn Group

A = Absent

E = Excused Absent

GUESTS:

Richard Sicking, Esquire
 Rushant Sanathara, PIMCO
 Kevin M. Gray, PIMCO

Chairperson Troy Easley calls the meeting to order at 8:09 a.m. He welcomes the new Trustee/Finance Director, Diana Gomez.

1. Roll call.
2. Approval of the Retirement Board meeting minutes and Executive Summary minutes for October 13, 2011.

A motion was made by Mr. DiGiacomo and seconded by Mr. Garcia-Linares to approve the Retirement Board meeting minutes and Executive Summary minutes of October 13, 2011. Motion unanimously approved (7-0).

3. Report of Administrative Manager.

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

1. For the Board's information, there was a transfer in the amount of \$3,100,000.00 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 2011 for the November 2011 benefit payments.
2. For the Board's information:
 - John Kentala of the Fire Department passed away on October 20, 2011. He retired on service connected disability on February 16, 1987. His spouse began receiving 50% of his benefit on November 1, 2011.
 - Charles Shove of the Police Department entered the DROP on November 1, 2006 and left the DROP on October 31, 2011. He received his first retirement benefit on November 1, 2011.
 - Donald G. Nelson of the Finance Department entered the DROP on November 1, 2006 and left the DROP on October 31, 2011. He received his first retirement benefit on November 1, 2011.
 - Katrina Eckenroth of the Police Department entered the DROP on May 1, 2009 and left the DROP on October 31, 2011. She received her first retirement benefit on November 1, 2011.
3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
 - Payroll ending date October 9, 2011 in the amount of \$135,429.44 was submitted for deposit on October 17, 2011.
 - Payroll ending date October 23, 2011 in the amount of \$145,430.22 was submitted for deposit on October 28, 2011.
4. A copy of the detailed expense spreadsheet for the month of October 2011 is attached for the Board's information.
5. For the Board's information, a copy of a letter dated October 21, 2011 is attached from Nyhart informing of their role and responsibility with respect to the City of Coral Gables.
6. A copy of a letter dated October 27, 2011 from Nyhart regarding the calculations on the maximum benefit limitations under Section 415(b) of the Internal Revenue Code for Donald G. Nelson's 2011 benefit is attached for the Board's information.

7. For the Board's information, a copy of a letter dated October 31, 2011 is attached from Nyhart informing of their invoice to the City for activity from October 9, 2011 through October 14, 2011 regarding their work on the actuarial impact statement.
8. A copy of a letter dated November 4, 2011 from Nyhart is attached regarding the 2012 COLA for the Retirement System.
9. A copy of the October 2011 Florida Public Pension Trustees Association monthly E-newsletter is attached for the Board's information.
10. A copy of the September/October 2011 NCPERS Newsletter "The Monitor" is attached for the Board's information.

Mr. Chao asks about the status of Mr. Thompson's Independent Medical Evaluation. Ms. Groome responds that he is waiting for his doctor's appointment. Mr. Chao states that in the meantime his report was not approved. Ms. Groome informs that he is still receiving a benefit and since he has been asked to see another doctor by this Board he shouldn't be penalized. Mr. Chao believes this started in April. Ms. Groome explains that it was in June and sometimes the doctors cancel the Independent Medical Evaluations and reschedules the appointments. Ms. Groome expects for the report to be ready by the independent doctor for the January meeting.

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

DROP Benefits

DROP application of Boriana Cloutier of the Public Works Department. Effective date October 1, 2011.

DROP application of Stephen Rogers of the Police Department. Effective date November 1, 2011.

DROP application of Michael James Grant of the Public Works Department. Effective date December 1, 2011.

DROP application of Antonio Silio of the Development Services – Building Division. Effective date December 1, 2011.

A motion was made by Mr. Hill and seconded by Mr. DiGiacomo to approve all applications for DROP. Motion unanimously approved (7-0).

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

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

Application of Joseph York of the Public Works Department requesting to buy back 1,825 days (5 years) of Other Public Employer Service time.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Gueits to approve all applications for buy back of other public employer service time. Motion unanimously approved (7-0).

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

Goldstein Schechter Koch invoice #87141 dated October 10, 2011 for audit services for year ending September 30, 2011 in the amount of \$2,500.00. This invoice is in accordance with the contract between Goldstein Schechter Koch and Coral Gables Retirement System signed on February 4, 2010.

A motion was made by Mr. Gueits and seconded by Mr. DiGiacomo to approve the Goldstein Schechter Koch's invoice in the total amount of \$2,500.00. Motion unanimously approved (7-0).

The Howard E. Nyhart Company, Inc. (formerly Stanley Holcombe & Associates, Inc.) invoice #0081636-IN dated October 31, 2011 for actuarial consulting services from June 29, 2011 through October 14, 2011 in the amount of \$10,986.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on December 17, 2008. Stanley Holcombe & Associates merged with Nyhart in June 2011.

Discussion:

Mr. Geraci asks if Mr. Stanley is planning on retiring since he sold his business to Nyhart. Ms. Groome recalls that Mr. Stanley had stated that he did not plan on retiring for another three years or so. Mr. Garcia-Linares states that Mr. Stanley came before the Board with the owner of the company he was merging with and said he would be around for another two or three years. He is still doing the work. Mr. Geraci asks if at the time when Mr. Stanley leaves will the Board make an assessment as to whether or not to continue with the Nyhart Company. Ms. Groome informs that they are coming upon the end of the three year contract. Mr. Garcia-Linares suggests that the Board make a decision at that point. Mr. Geraci asks Mr. Greenfield if they should go on by a month to month basis with their contract until they discover whether they want to have a bid for other companies. Mr. Greenfield responds that the Board has a right to do that. Mr. Garcia-Linares points out that Mr. Stanley will be presenting to the Board in December so they can have that conversation at that time. Mr. Easley advises that the special meeting is scheduled for December 1st and is located in the Police Station Basement.

A motion was made by Mr. DiGiacomo and seconded by Mr. Hill to approve the Howard E. Nyhart Company's invoice in the total amount of \$10,986.00. Motion unanimously approved (7-0).

6. Request from Richard Sicking on behalf of Frank Pascarella, service connected disability retiree, regarding a question about his salary at the time of date of his accident (*Agenda Item 7*). Mr. Sicking states that this is for informational purposes. Frank Pascarella is a disabled retiree who was a firefighter and after he retired there was a settlement with the Fire Union and the City that included retroactive pay. He would like to sit down with the Administrative Manager and then report back to the Board about the issue at the January meeting. Mr. Garcia-Linares asks Ms. Groome if she knows what Mr. Sicking is referring to. Ms. Groome answers affirmatively. Mr. Garcia-Linares asks if she thinks there is an issue that will come to the Board. Ms. Groome responds that she does not know.
7. Items from the Board attorney (*Agenda Item 6*).
Mr. Greenfield informs that there are no issues to report to the Board.
8. Investment Issues (includes presentation of the DiSCO 2 strategy from PIMCO) (*Agenda Item 9*). Dave West informs that they are looking at the PIMCO DiSCO 2 fund which is the distressed senior credit opportunities option. This is a Bogdahn Group recommendation and is an alternative to the portfolio. As discussed at the last meeting the objective here is to make an allocation of 5% of total plan assets which is about an \$11 million to \$12 million investment. A portion of the City contribution was allocated to the S&P 500 index fund and the remainder was in reserve for pension distributions. The remaining cash was put on hold pending whether or not they were going to invest into the PIMCO fund.

Rushant Sanathara states that he has been with PIMCO for 10 years and that he is based out of the Newport Beach office. He has worked with Mr. Brown and Mr. West at the Bogdahn Group. He introduces Kevin Gray who is an account manager who focuses specifically on public municipality clients. They are going to tell the Board about the distressed senior opportunities fund called DiSCO. They feel that this is a unique opportunity given that it can really take advantage to offer a high quality yield in the portfolio without taking as much risk in their investment portfolio. He will touch base on how the portfolio will be structured, the process they have in place and the resources they have invested so that this product is a profitable endeavor for their clients. Mr. Gray will introduce the strategy.

Mr. Gray thanks the Board for the opportunity to present this product. Senior credit assets remain cheap and what they are talking about is liquidity risk in a portfolio. The DiSCO 2 story started in 2008 with the DiSCO 1 product during the financial crisis. What is structured credit? It includes residential mortgage backed securities, commercial mortgage backed securities and asset backed securities which is largely student loans,

auto loans and credit cards. So if you take a pool of 30 year fixed rate mortgages and look at those across the borrowing base and rank them by credit score you see that there are people at the very top and they move down the capital structure. You pool those together as its own security vehicle and those flows provide cash flows. That is essentially the monthly mortgage payment they make on their own homes. They are talking about the very top of the capital structure for a fund like this, not the lower tiers. That is important because cash flow from these vehicles flow through the top. The AAA borrower receives principal and interest on their payment. They don't believe there is a lot of credit risk but they believe there is a lot of liquidity risk. Can you hold the security for a period of time to realize the return? It is taking advantage of a dislocation in the market. If there is default in the mortgage pool the losses will come up through the bottom so you essentially have credit support coming up below the top of the capital structure investment.

Mr. Sanathara explains that this is an opportunity they see that is out there for two to four years. It is not an opportunity that is out there in perpetuity. They wish they could get more access to these types of bonds but the market is largely dried up as far as issuance. There are many high quality securities out there and that is why they feel this is an attractive opportunity for their clients.

Mr. Garcia-Linares asks if DiSCO 2 is buying DiSCO 1 so whatever new money is coming in is buying off the people invested into DiSCO 1. Is that what is essentially happening? Mr. Sanathara explains that the initial DiSCO portfolio is going to serve the base for the DiSCO 2 investors and new investors. The rest would be sold off in cash to the investors who did not want to continue their allocation. They started DiSCO 1 with a three year lock-up and that lock-up is coming to an end in December 2011. Given the fact that the market opportunity continues to exist in addition to the fact that their clients came back to them and wanted the product to continue on, about half of the clients in DiSCO 1 have continued in DiSCO 2. The other 50% wanted to cash out. They had another private offering called BRAVO where a lot of their clients used some of the commitments to fund those portfolios and secondly liquidity conditions in August and September dried up and some of the clients wanted to use the proceeds from DiSCO 1 to shore up their own balance sheets.

Chairperson Easley asks what the lock up is for this product. Mr. Sanathara informs that it is a one year lock up with quarterly liquidity. DiSCO 1 had a three year lock up but liquidity issues have improved relative to where they were in 2008. They reduced the lock up to only one year and then there will be quarterly liquidity so you can liquidate on a quarterly basis if you want to get out of the fund.

Chairperson Easley asks if they feel that since this type of investment will become obsolete if that time frame will fall to one year or one and half years. Mr. Sanathara responds that their best case is two to four years where two is the earliest and four is the latest as far as how long they see the opportunity. The objectives are 10% to 12% returns net of fees. If they see conditions where they can't have the 10% or 12% returns they will return proceeds to their clients and tell them that this product is not something they

can ethically charge a fee to continue to manage the portfolio in order to get the client the returns they are expecting. Mr. Gray informs that they have a history of doing that with some of their other private vehicles. With their TALF vehicle the returns were very powerful but at the end of the day the opportunity in the market closed much faster than they anticipated and so they closed the vehicle and returned the capital to the investor. They will return the capital to their clients if they can't do what they have outlined in the fund.

Mr. Sanathara reviews the structure of the fund. The major exposures in the fund are about 45% in US residential mortgage backed securities which is 450 basis points over treasuries and is a very attractive level. The US commercial mortgage backed securities is 25%. One of the reasons that the spreads are still wide and the opportunities are very attractive is that the large part of traditional buyers have left the market place. Banks typically held this type of debt and they are deleveraging at a very consistent basis. They are required to sell off a lot of their assets and increase their capital requirements. That is happening in the US and happening in Europe. For example, Fannie Mae and Freddie Mac used to buy these types of securities and they no longer can buy these securities. The lack of demand in the market place has created a dislocation. For a manager like PIMCO with considerable amount of resources they are able to find pockets of value where they can add a high quality yield for the portfolio. This portfolio will yield in a range around 11% or 12% with that light leverage they utilize. The other exposures in the fund are collateralized loan securities at 8%, core European asset backed securities at 15%, consumer asset backed securities at 3% and other securities at 5%. Regarding European asset backed securities they will not be in Greece, Portugal, Ireland or Spain. They are focusing more on Germany and UK prime residential.

Mr. Sanathara informs that they have a strong track record in these mortgage and asset backed opportunistic strategies. The first two were distressed mortgage funds and those focused on lower tiered subprime mortgages. DiSCO 1 returned 13% since inception on an annualized basis, the TALF fund returned 34% and the BRAVO fund they introduced recently is off to a strong start at 9%. They have invested heavily in the resources on their teams to ensure that they are not taking any undue risks in any specific parts of these markets. They have also invested heavily on their proprietary technology and do not rely on the Wall Street models that didn't work in 2008. They do a significant amount of underlying, low-level analysis within these underlying securities to ensure they are not taking any undue risks in the portfolio.

Mr. Sanathara states that they talked about a one year lock-up and after that they have quarterly liquidity. The initial investment is a minimum of \$5 million. The leverage is typically in the range of two to three times. The time frame is going to be open-ended but they see this as a two to four year type of opportunity. The fees have been reduced from DiSCO 1 to DiSCO 2. In DiSCO 1 they had a management fee of 1% and in DiSCO 2 it is 75 basis points. The administrative fee was 30 basis points and now it is down to an average of about 17.5 basis points. It is a tiered schedule. The performance fee has come down from 20% to 15% and the performance fee is 15% above the hurdle rate which is one month LIBOR plus the management and administrative fees. Those are

the overall terms of the fund. They are targeting 10% to 12% net of fees return in this portfolio. They feel this is a unique opportunity where they can get high quality yield in the portfolio without taking much credit risk. They are taking liquidity risk. To build this type of portfolio would be very difficult to do based on the fact that there isn't as much issuance in the market place. Having the DiSCO 1 as a source is very critical funding and creating the DiSCO 2 portfolio and the resources they have in place they feel are very important and very broad and have allowed them to have the strong returns they have had for their other opportunistic strategies. They think this will be a similar fashion for their clients.

Chairperson Easley asks about the investors in the DiSCO 1 fund. It was mentioned that about 50% of those investors are carrying over their investment into the DiSCO 2 fund. Have they received a commitment from these people to go into the fund? Mr. Sanathara responds that they have received the commitment and the fund is live. It is up to \$1 billion in investments. DiSCO 1 has been selling off. They have been selling it off for the past four months. The final proceeds are going to end in December 2011. Chairperson Easley asks how many other pension funds that Bogdahn serves are in this vehicle. Mr. Brown informs that West Palm Beach and the Orlando Utilities Commission are signing up. They also have Florida non-public clients. Chairperson Easley confirms that this will fall under alternatives. Mr. Brown agrees. Chairperson Easley asks PIMCO if they have other pension funds in this vehicle besides West Palm Beach and Orlando Utilities Commission. Mr. Sanathara responds that about 40% of the funded commitments are with public pension plans. A few that have come out publically they can mention are San Jose Police and Fire, Illinois Teachers, New Mexico Education Retirement Board. They are spread out across the country.

Mr. Hill states that basically they will be buying mortgages that have been issued five to six years ago. Mr. Sanathara agrees. Mr. Hill states that the interest rates were around 6% to 7%. Mr. Sanathara agrees. Mr. Hill asks what is the risk that now mortgages are going to 3% and 4% that these people refinance. Mr. Sanathara responds that if people refinance it would shorten the life of the fund. It is questionable whether that is negative or positive. It would mean that a lot of these prices the fund would be paid back at par so they will be making money on the investment. It would just shorten the life of the investment.

Mr. Garcia-Linares asks Mr. Greenfield if they can invest in this type of vehicle. Mr. Greenfield replies that there is no legal impediment for making this investment and there is nothing in the investment policy that prohibits the Board from investing into this type of vehicle. The Board members need to understand the presentation by PIMCO; they need to have done their due diligence and to rely upon the investment advisor. Then they are exercising their fiduciary responsibility. There is no legal impediment. He pointed out some of the potential problems. He also takes into account that he knows PIMCO has a fine reputation. He has no advice to give the Board as to the financial part of the investment.

Mr. Brown informs that they do have a side letter between West Palm Beach and PIMCO regarding venue provisions for any dispute the Board may have with PIMCO which would be Palm Beach County; anything to do with most favored nations so if anyone else negotiated a stronger side letter rather than they do they would get the provisions as well; indemnification which is acknowledgement that the Board cannot indemnify and the last one is confidentially because of the public meetings. Those are the four major components of the side letter with West Palm Beach. Mr. Garcia-Linares asks PIMCO if they would be in agreement of a like side letter for this fund with Mr. Greenfield's involvement so it is reciprocal so that any action either way the venue would be in Miami-Dade County. Mr. Sanathara thinks they can do something similar for Coral Gables. They will have to go check with their legal department.

Mr. West informs that the standing recommendation for the allocation is 5% of total assets. Mr. Brown informs that they held back \$12 million from the contributions to fund this vehicle if the Board approves it.

Mr. Chao asks if the most risk or pessimistic outlook is a return of 6.4%. Mr. Brown explains that is the yield of the bond without leverage. Once they put two times leverage it would get up to 12%. Mr. Chao states that if something goes wrong the tax payers in Coral Gables will have to come up with a lot of money and as a Coral Gables tax payer he is very leery about this investment. He asks the members of the Board what would be less risky; this investment or putting \$12 million on a horse with the best odds at the next Kentucky Derby. How do the odds of this investment compare with the odds of the Kentucky Derby? He is saying this as a tax payer in Coral Gables. Someone proposing to them a guaranteed return of 6.4% when the market is all over the place is a risk that as a tax payer in Coral Gables and as a member of this Board is not willing to take.

Mr. Easley disagrees. He informs that he has done research regarding this investment opportunity with PIMCO as he did the past with another opportunity that a number of Board members agreed as Mr. Chao does with this investment stating that it is risky. Every investment has risk. His feeling is that they missed an opportunity before and they have their consultants working diligently to try and provide the fund with investments that afford them a better opportunity than what is out there now. This investment seems a little more solid to him than what is going on out in the market.

Mr. Chao states that he is talking about the tax payer. Mr. Garcia-Linares informs that they are not here as tax payers for Coral Gables. They are here as members of the Retirement Board. Mr. Chao understands but he is also a tax payer of Coral Gables which is not the case for many of the members of the Board. Mr. Garcia-Linares doesn't know if he is right on that or not but the duties as a Board member are the fiduciary duties for the fund and not an individual position as a tax payer for the City. Mr. Chao thinks that it is. He is a tax payer of Coral Gables which is not the case for some of the Board members but it is his case. He cannot disassociate his position as a tax payer trying to do the best for Coral Gables as a tax payer and as a member of the Board. He cannot separate both positions. Chairperson Easley understands his position.

Mr. Garcia-Linares states that he was one of the Board members who was very concerned about investing in the TALF. They didn't go into TALF and they have seen that they missed an opportunity. There are clearly risks in going into this fund. He doesn't think that the side letter protects the Board in terms of the location if any legal action were to be filed. However, he doesn't see any additional risk in going into this program than to continue to stay in the market the way it is. Personally he thinks it is worth the risk to go into this fund. He thinks it is enough of an upside to go into this fund than to stay the course in the stock market.

Mr. Gueits asks if they are required to invest the \$12 million. Can it just sit in cash? Mr. Garcia-Linares informs that they can go in the fund as low as \$5 million. Chairperson Easley adds that they don't have to invest in anything. Mr. Brown thinks this kind of goes back to the question that was raised by Mr. Chao at a previous meeting about how you measure your consultant because the Board members don't have to listen. They give a recommendation to the Board and the Board doesn't have to do what is recommended. Chairperson Easley points out that there have been a few missed good opportunities and the members of the Board need to listen to their consultants, weigh what they say and look at the feedback from the Board Attorney. They can't keep making the same mistakes going forward because they are worried about risk. They are at risk in their investments now by just being in the market. Mr. Chao does not think you can make a decision on the basis of what would have happened if I had made a similar decision in the past. This is too risky a proposition for the fund. He is speaking as a member of the Board and as a resident and tax payer for Coral Gables. He doesn't care if they guaranteed a 30% return or a 6% return or a 41% return. This is not the purpose of this retirement fund to take those risks. This is money that belongs to Coral Gables and the tax payers will have to put some money back if things go wrong. He doesn't think it is worth the risk.

Mr. Garcia-Linares states that based on the advice of their investment advisors and the PIMCO presentation they heard at this meeting he would like to make a motion.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Hill to invest in the DiSCO 2 fund.

Mr. DiGiacomo – Yes
Mr. Easley – Yes
Mr. Geraci – No

Mr. Gueits – Yes
Mr. Chao – No

Mr. Hill - Yes
Mr. Garcia-Linares - Yes

Motion approved (5-2).

Mr. Chao thinks it is shameful that this Board is making this decision today just after a half hour presentation. He also thinks that any references that a Board member has been on the Board for a long time is not a justification for doing this. Chairperson Easley informs that he extensively looked at all the information on this investment previous to the meeting and he feels differently than Mr. Chao. He doesn't think his decision is shameful. Mr. Chao informs that he also looked at the information before the meeting

and he is a tax payer in Coral Gables. Chairperson Easley informs that he is also a tax payer in Coral Gables. He feels comfortable in his position because they have two investment consultants and the Board Attorney and his own intuition on an investment like this. They will know who is correct in a year from now because that is the lock up time for this investment. He sees this as a more solid investment and they can agree to disagree.

Mr. Garcia-Linares asks Ms. Gomez what her recommendation is as to how much the Board should invest into the fund. Ms. Gomez responds that since she is new to the City and to the Retirement Board she has not had a lot of benefit of time to analyze the exact composition of the fund. At this point she would only be able to go with the recommendation of the advisors of putting the 5% of total assets or \$12 million into this new investment. Mr. Garcia-Linares asks Mr. West if he thinks that is the right thing to do by putting \$12 million into this investment. Mr. West answers affirmatively. That is their recommendation. They are investing the remaining funds from the \$23 million City Contribution.

Mr. Garcia-Linares states that based on the advice of their investment advisors he would like to make a motion.

A motion was made by Mr. Garcia-Linares and seconded by Mr. DiGiacomo to invest \$12 million into the DiSCO 2 fund.

Discussion:

Mr. Greenfield asks if the advisors could state for the record that the investment is in the scope of the Retirement System's investment policy. Mr. West responds that they have reviewed the investment and the investment is within the scope of the Investment Policy Statement. The Bogdahn Group receives no compensation, remuneration or compensation of any kind from PIMCO or any other product they might bring to the table today. Chairperson Easley asks the consultants to advise the Board this time next year as to the performance of this investment. He would like to make it a specific point that at the end of this one year time of contract signing that they get an indication of whether or not this was a wise decision. Mr. Greenfield advises that the decision the Board is making now has to be a wise decision based upon the information they have. Chairperson Easley states that it is the best decision they are making now but to solidify their decision they are making and to demonstrate that they are trying to do the best they can and head in the right direction it would be nice to also wrap up exactly how they did in their decision.

Mr. Chao would like to know if the gentlemen from The Bogdahn Group or the gentlemen in PIMCO have any investments, directly or indirectly, in this fund. Mr. Brown informs that he does not because he does not have \$5 million to invest. Mr. Sanathara replies that the investment for the professionals at PIMCO is somewhat lower so all their portfolio managers that are managing this portfolio are invested. Mr. Brown wants to clarify that they did pass on BRAVO that was mentioned by Mr. Sanathara because there is a social implication imbedded in that fund of actually foreclosing on

homes and kicking people out of their houses and they were not comfortable with that. The return has been very good on that portfolio so they are not just bringing forward high return products. They have put a lot of time as a firm into conference calls, discussions and going over each example not just with the other consultants but also with their research team. If they were not comfortable with a product they would not bring it to the Board for consideration. However, one year will not determine success.

Mr. Geraci informs that he holds various PIMCO investments in his personal portfolio. He did vote against going forward in investing in the DiSCO 2. He asks for the Board members to reconsider putting the whole \$12 million into this investment. He suggests that they start with the minimum of \$5 million instead and try and find some other products to invest in. There may be more PIMCO products besides the DiSCO 2 they would like to invest in. Mr. Gueits asks if there is another product they can invest in and split the \$12 million into two separate products. Mr. West replies that at this time they do not have another product they recommend. They view this as a special opportunity situation. This funding opportunity will be closed on December 23rd. They are currently participating in the PIMCO growth and income fund at a 2.5% allocation of plan assets. They endorsed and recommended participating in that fund as part of the global bond part of the portfolio. At this time they do not have any other special strategies or options on the table.

Mr. DiGiacomo – Yes
Mr. Easley – Yes
Mr. Geraci – No

Mr. Gueits – Yes
Mr. Chao – No

Mr. Hill - Yes
Mr. Garcia-Linares - Yes

Motion approved (5-2).

Mr. Sanathara thanks the Board. They greatly appreciate their existing business. Like the Chairperson mentioned with any investment there is risk involved. They think these are calculated risks they are taking for the type of high quality yield they can get with this portfolio which you can't get in a lot of different areas. When looking at where you are assessing this allocation a one year time period may not be the ultimate say-all/be-all. They look at this as a two to four year opportunity. They think this is going to be something that most of their clients will benefit from.

9. Old Business. (*Agenda Item 10*).

Chairperson Easley informs that Mr. Gueits has to leave the meeting so they are going to discuss the Old Business issue regarding the Trustee. Mr. Garcia-Linares asks Ms. Gomez if she understands the issue the Board is having in regards to a separate trustee and her role as Finance Director and Trustee to the fund. Ms. Gomez replies that Don Nelson did speak to her about this issue. Mr. Garcia-Linares doesn't know if everyone had a chance to talk to their representatives about it. He has sent Commissioner Kerdyk all the materials he had on the trustee but Commissioner Kerdyk has been out of town and he hasn't been able to speak with him about it. They do have concerns from the past and he knows that Ms. Gomez has been in this role before. Ms. Gomez does not see anything wrong the way the Trustee is currently set up in the ordinance. In speaking with

Mr. Nelson, he liked the way it is currently set up as well. She sees the benefits having the Finance Director also the Trustee. Mr. Gueits informs that his conversation with Commissioner Quesada was brief. Commissioner Quesada's response was that he was going to direct the City Attorney to prepare a memorandum to him discussing the issues that have arisen in respect to conflicts of interest that may or may not be apparent with having one person in this dual role. Mr. Geraci states that Commissioner Cabrera felt that the will of the Board should be considered. He guesses that was kind of a way saying that when the Board makes a decision and brings it before the Commissioners he would look at how adamant this Board feels about the issue and then make his decision then. Chairperson Easley thinks that some people feel there is an urgency to address this issue now and he appreciates that because he would rather get things done earlier than later one way or another. However given the fact they are missing a couple of Board members and they are under time constraints today, he thinks this is an issue that they defer to the January or February meeting. Mr. Garcia-Linares asks Mr. Chao if he has had a chance to speak to the Mayor about this issue. Mr. Chao responds that he has not had the chance. The item was deferred to the January meeting.

At this time Mr. Geraci leaves the meeting.

10. Presentation on benchmark and flash report (*Agenda Item 8*).

Mr. Chao informs that he sent an email to the Administrative Manager which was forwarded to the Board members suggesting they Google the word "benchmarking". He checked yesterday and if you put only "benchmarking" it has twelve million entries but if you put "benchmarking" and "management" it has about 200,000 entries. He doesn't know if the members of the Board have checked any of this information about benchmarking. But benchmarking management is an idea that came out in the 50's and it is an idea that came out as a result of the work of W. Edwards Deming. It replaces the concept of standard which came in the 1910's from Frederick Winslow Taylor. The standard is a rough idea relatively arbitrary of what a yield, a return, an efficiency can be from a process. They are in the process of managing the retirement fund. Every process consist of five components; manpower, machines, materials, methods and environment. They are trying to optimize the process of handling the funds in the retirement system and this is the process.

The way to manage a process is not by setting standards. It is by setting a benchmark and the benchmark is the performance of the best in class not the performance of some arbitrary chosen process. He proposes in the chart that was handed out to the Board members as a benchmark the performance of top US Registered Investment Advisory Firm in terms of the percentage of return. And second the performance of the Coral Gables Investment Advisory Firm. In this case it is The Bogdahn Group. This is the performance they are getting. It is not only the responsibility of the Bogdahn Group but it is the materials, the information and all the components of the process and then the rank. They want to know out of all the companies of the consultants that advise in terms of investment, anybody, or any group, or any association or any community what is the standing of the advisors they have. He thinks it is important to know because they are comparing the retirement system's performance with the best in class and not with a

standard. Comparing anything to the Wilshire or the S&P is management technology from the 50's. That is no longer what managers do. Of course some people in the business of advising in terms of investment would like to compare it with a standard and not a benchmark. That is not what people who know how to manage processes are doing anywhere and this is what is American management. This is something that was invented in America, both the standards and the benchmarks.

A flash report is something that lands on the desk of every person that has somebody in charge. The CEO gets a flash report. The supervisor of the Department of Quality Control gets a flash report. The vice-president for communications gets a flash report and it tells in one page everything that is important to analyze what is going on. Report requirements are set in management from the top down and not from the bottom up. The report that the Bogdahn Group submits to the Board is a report from the bottom up. It is what they have decided the Board should know. It is not what a flash report should be. A flash report is what they need to know and they ask people to submit a report according to their needs and not according to the needs perceived by the people reporting it.

The hand out he shared with the Board members is what a flash report should look like and he sketched a flash report proposal for things he thinks they need to know that they do not know now.

The report they receive from The Bogdahn Group is an operational report and it is not a flash report. He thinks they are missing a full knowledge of what is going on with the retirement fund unless they have properly defined the benchmark and properly defined a flash report. If you look at "flash report" plus "management" in Google you will get 600,000 entries because every industry and every process whether a hospital, banks, municipalities, everybody is using this terminology and is using these management tools. This is American management. It is a control of the processes and the process is a series of activities that have a basic objective at the end and whether we fulfill that objective it is important to people who are managing the process and take responsibility for the day to day and the month to month and the year to year of something that is not theirs. It belongs to the City of Coral Gables and to the tax payers of Coral Gables. That is something he wanted to present as a typical benchmarking and flash report.

Mr. Gueits thinks it is a good idea to have a snapshot of where they are for every meeting. Is there a way to populate this for the next meeting? Ms. Groome answers affirmatively. Chairperson Easley states that the items on the handout are the items in the report they receive from the Bogdahn Group. Mr. Chao states that the Bogdahn report is a myriad of numbers. What they need that report for is to refer back to it if they have any questions and see the meaning of the numbers. This is what every manager is trying to do everywhere. If you look at flash report and you look at benchmarking you look at hundreds of thousands of entries because there is one for hospitals, for newspapers, for governments. Everyone is doing that because this is American management.

At this time Mr. Gueits leaves the meeting.

Mr. Garcia-Linares thinks that the information on the chart is information that can be retrieved. He asks if there is data out there that can be populated regarding the performance of the advisors. Mr. Brown informs that there is not. Mr. West explains that the ranking for the fund is available but the database is populated anonymously of all the plans they are comparing against so they don't know who number one is but they know where the fund ranks. Mr. Chao asks what basis is that rank calculated. Mr. West responds that they subscribe to Investworks which is formally the CA Rogers Casey database and is the most common database that consultants use. They submit plan data as they calculate it and they submit their data to the company as do other consultants. The data is aggregated and populated so they have no way of knowing who is number one. They calculate the data independently. Mr. Brown states that the overriding determination on where they rank is going to be the asset allocation and there is no uniformity in the asset allocation. If equity markets do well the more aggressive plan is going to be at the top and if they don't do well then the more conservative plan will be at the top.

Chairperson Easley points out that there are a lot of plans that are split up into police, fire and general and they are much smaller than this plan which includes all employees. This plan is unique. There are not many plans that are this size. Mr. Chao states that is not an objection because the reason management looks at the benchmark is because if you are not at the top of a class then the logical question is what are these people doing they are not doing regardless of the context. You have benchmarks for hospitals and there are all sizes of hospitals dedicated to all kinds of medical attention but there is a benchmark for hospitals in terms of waiting lines, waiting times, number of deceased people. These are benchmarks. There is always a benchmark. It is illogical to compare their performance with a standard rather than a benchmark because the standard is properly arbitrary. The benchmark is a unique number.

Chairperson Easley thanks Mr. Chao for the presentation.

At this time Ms. Gomez leaves the meeting.

Dave West of The Bogdahn Group reports on the investments. October was a huge rebound month. The plan earned 6.25% for the month of October. All the management performance that lagged in the September quarter reversed during October and brought the managers back in line. It was a great start for the new fiscal year.

Mr. West notes that the fund was very active for the 10/11 fiscal year. There were eight adjustments of significance for the fiscal year. They changed Aletheia and added Wells Capital; they made an additional real estate allocation; they added two managers with managed futures and they diversified into global bonds with two additional managers. The plan finished in the top ten percentile for fiscal year ending 9/30/2011. The benchmark policy without fees returned 2.15%. They performed ahead of the benchmark and the policy itself ranked in the top 18th percentile which suggests that this was a very difficult environment for active management. The particular allocation of the policy when compared to the peer group was very helpful in getting the returns that were achieved for

the period. From a compliance standpoint there was one issue. Richmond Capital investment grade domestic bond managers did not achieve the top 50th percentile or the trailing three and five-year period. Their numbers were just below the 50th percentile for the five-year period. The peer group ranking was 53rd. They did outperform the benchmark during that period of time by 88 basis points and for the down market capture ratio for the five year they captured 170% of the down market which means they were down 7% more than the market when the fixed income market was down. Upon reviewing this manager and looking at the rest of the data and measurement tools used they have no issues. There was a compliance performance flag for the year that they needed to note. There was also a compliance issue with MD Sass. MD Sass did not achieve the top 50th percentile over trailing three and five year periods. Delaware had a compliance issue with the five year performance. This happened because of the volatility of what transpired during that period of time ending September 30, 2011.

Chairperson Easley asks Mr. West if Bogdahn has reached out to Delaware because he recalls they had a compliance issue in the last quarter's report. Mr. West responds that Delaware is their defensive oriented equity manager and they have outperformed substantially during the September quarter. The decline was a lot less given their more defensive sector larger cap orientation. Delaware did perform as they hoped during that period of time providing an offset to the more aggressive equity managers.

11. New Business.

Mr. Hill asks about the City contribution. The recommendation in the 2011 Actuarial Report was \$23,898,203 and the actual check from the City was \$23,549,000. There is a short-fall of about \$800,000. Ms. Groome explains that the reason the City paid the \$23,549,000 instead of the \$23,898,000 was because of the Impact Statement that was approved by the collective bargaining with the Teamsters and was also imposed on the Excluded employees where they do the share of contributions between the Teamster and excluded employees and the City. The excluded employees are now paying 12% into the retirement system and the Teamsters are paying 14.3% into the retirement system. She assumes that the \$800,000.00 difference stayed with the City. Mr. Hill asks if the City put the \$800,000 amount into the separate account the City created with the \$3 million from last year. Ms. Groome does not know. Mr. Hill asks her to find out. Ms. Groome informs that she will. She adds that the amount the City contributed was the required amount according to the actuary after the Impact Statement. Mr. Garcia-Linares clarifies that the actuary changed his number as a result of the collective bargaining. Ms. Groome confirms.

Mr. Chao comments that the largest loss of capital in the last ten years was made by a bunch of seasoned managers and rich people with plenty advice on investments and yet they went along with Madoff and invested because it was too good to be true and they felt that was an exception. He wants to make his comment in regard to the vote they took to put \$12 million into this investment that is too good to be true. Chairperson Easley informs that he heard that exact speech when the Board decided against investing in TALF and that vehicle returned 34%. Mr. Chao states again that the road not taken is not

a good indication for what they should do in the future. Chairperson Easley agrees but feels that they have to go with their individual gut judgment.

The next regular Board meeting date is scheduled for Thursday, January 19, 2012 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:14 a.m.

APPROVED

TROY EASLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR