CORAL GABLES RETIREMENT SYSTEM
Minutes of August 7, 2008
Police Community Meeting Room
2801 Salzedo Street – Police Station Basement
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	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	P P P P E P - P	Vice Mayor William H. Kerdyk, Jr.
Tom Huston, Jr.	P P P P E P - P	Commissioner Maria Anderson
Sal Geraci	P E P P P P - P	Commissioner Rafael “Ralph” Cabrera
Leslie Space	P P P P E P - P	Commissioner Wayne “Chip” Withers
Agustin Diaz	P P P P P E - P	Police Representative
Troy Easley	P P P P P P - P	Member at Large
Victor Goizueta	P P P P P P - P	General Employees
Wayne Sibley	P P P P P P - E	Fire Representative

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

A = Absent
E = Excused Absent
P = Present

GUESTS:
Gene Gibbons, President of the Fraternal Order of Police Lodge #7
Linda Russell, Bryant Miller & Olive, PA
Elba Gonzalez, Fowler White

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

1. Roll call.

2. Approval of the Retirement Board monthly meeting minutes for June 23, 2008.
A motion was made to approve the monthly meeting minutes of June 23, 2008 by Mr. Goizueta and seconded by Mr. Space. Motion unanimously approved (8-0)

3. Items from the Board Attorney.
Alan Greenfield, Board Attorney, reports on the Piñon case. The City and the Board filed their reply memorandums. Oral arguments were requested of the 3rd District Court of Appeals and they have not heard from that court. He believes the Court will grant their argument but because of the summer months they will probably get the oral arguments in either September or October. The Court doesn’t have to grant oral argument they can look at the briefs filed by all the parties and determine that they want to rule without oral arguments except the history of the 3rd District is they are fairly liberal in granting oral argument when asked.

Mr. Greenfield reports on the UBS/Paine Webber case. He had inquired from Mr. Carlson as to the current status of the case. The final portion of UBS's motion for summary judgment is going to be heard in August. There have already been several hearings on the motion of summary judgment. It was not concluded but it will probably be concluded in August. The Court indicated that it did not want to send the matter to a senior judge for a trial date until after the summary judgment was concluded. The judge who has the case feels that this is going to be a case that will take a couple of weeks to hear and she doesn't feel that she has the time to devote to the trial so she is sending it to a senior judge. A senior judge is a retired judge who has come back and hears court cases and the trial judge is going to ask that a senior judge be assigned to try the case. They will probably get a faster trial having it tried by a senior judge than waiting for a trial judge's calendar. As far as the mediation is concerned the mediation was not terminated but was suspended. At the Board's last shade meeting certain matters were discussed and direction was given to Mr. Carlson. Mr. Carlson has been in touch with the mediator and is looking towards having the mediation relatively soon.

4. Report of Administrative Manager.

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

1. For the Board's information, there was a transfer of $2,000,000.00 from the Northern Trust Cash Account for the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of June 2008 for the July 2008 benefit payments.

2. For the Board's information, there was a wire transfer of $5,850,911.75 from the City of Coral Gables' bank account to the Coral Gables Retirement Northern Trust Cash Account for the City's 4th quarter retirement contribution of 2008. Part of the City's contribution was used for the payment of monthly annuities and expenses at the end of July 2008 for the August 2008 benefit payments. The remainder was transferred to the Eagle Capital and MD Sass accounts as well as the S&P 500 index fund at Northern Trust

3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account (fiscal year spreadsheet attached):

   - Payroll ending date June 22, 2008 in the amount of $73,468.40 was submitted for deposit on July 14, 2008.
   - Payroll ending date July 6, 2008 in the amount of $75,026.57 was submitted for deposit on July 14, 2008.
   - Payroll ending date July 20, 2008 in the amount of $74,667.06 was submitted for deposit on August 1, 2008.

4. For the Board's information:

- Katherine Holcombe of the Personnel Department passed away in July 2008. She retired on July 1, 1980 with Option 2B and 100%. Her beneficiary is deceased therefore her benefits have ceased.
- Martha Kucks of the Police Department passed away on June 30, 2008. She retired on May 1, 1987 with Option 2B and 2/3 joint. She was also receiving post retirement survivor benefits which began August 1, 2005. Both benefits have ceased.
- Glenn Arp of the Police Department passed away on July 23, 2008. He retired on January 1, 1988 with Option 1 – 10 years certain. His benefits have ceased.
- Irene Laforgia of the Police Department passed away on June 24, 2008. She retired on February 1, 1991 with No Option. Her benefits have ceased.
- Wanda Bender-Linero of the Public Works Department began receiving her vested retirement benefits on August 1, 2008.
- Robert Jolly of the Parks and Recreation Department began receiving his vested retirement benefits on August 1, 2008.
- James Shaw of the Fire Department entered the DROP on July 1, 2000 and left the DROP on June 30, 2008. He received his first retirement benefit on July 1, 2008.
- Joseph Robinson of the Fire Department entered the DROP on September 1, 2004 and left the DROP on July 21, 2008. He received his first retirement benefit on August 1, 2008.
- Richard Neal of the Public Service Department entered the DROP on August 1, 2006 and left the DROP on July 31, 2008. He received his first retirement benefit on August 1, 2008.
- On July 22, 2008 Dr. Jose Joy was paid $900.00 for the independent medical evaluation of Eugenio Arencibia, disability applicant.
- On July 22, 2008 Dr. Jose Joy Arriaga was paid $900.00 for the independent medical evaluation of Eugenio Arencibia, disability applicant.
- On July 22, 2008 Dr. Jose Joy Arriaga was paid $900.00 for the independent medical evaluation of Jose Torres, disability applicant.
- Joan Bailey and Associates was paid $715.00 for the attendance of a court report and transcription of the June 23, 2008 Shade Meeting minutes.

5. A copy of the Summary Earnings Statements from the Northern Trust Securities Lending Division for billing period June 1, 2008 to June 30, 2008 is attached for the Board’s information.

6. Attached for the Board’s information are the Statements of Pending Transactions and Assets as of June 30, 2008 from JP Morgan.

7. Attached for the Board’s information are the Statements of Settled Transactions from June 1, 2008 to June 30, 2008 from JP Morgan.

8. For the Board’s information, attached is a copy of the Northern Trust securities lending report for May and June.

9. For the Board's information, attached is a copy of the JP Morgan Strategic Property Fund snapshot for the second quarter of 2008.

10. A copy of an email dated June 2, 2008 from MD Sass is attached for the Board's information informing that Tom Damato recently joined the company.

11. A copy of a letter dated June 20, 2008 from Randall Stanley to Donald G. Nelson, Finance Director, regarding invoice number 3547 for activity involved with the actuarial impact statement and the release of State premium tax monies.

12. A copy of an article dated June 19, 2008 and the Cypen and Cypen newsletter regarding the Kentucky Retirement Board case which relates to Kentucky permitting hazardous position workers (police officers and firefighters) to receive normal retirement benefits after working either 20 years or 5 years and attaining age 55 and pays disability retirement benefits to workers meeting specified requirements, is attached for the Board's information.

13. A copy of an article dated June 20, 2008 from FundFire regarding defined benefit plans earning better returns on investments than defined contribution plans.

14. For the Board's information a copy of an article dated June 27, 2008 from the New York Times is attached regarding the top securities regulator in Massachusetts suing UBS on the grounds of fraud.

15. A copy of an article dated July 7, 2008 from FundFire regarding public plans taking a hit in the fiscal year, is attached for the Board's information.

16. A copy of an article dated July 9, 2008 from The Wall Street Journal is attached for the Board's information regarding T. Boone Pickens' plan to escape the grip of foreign oil.

17. A copy of an article dated July 17, 2008 from FundFire regarding defined benefit plans in the future being less risky and better funded is attached for the Board's information.

18. An invitation to the 4th Annual New England Public Employee Retirement Systems Forum from October 2, 2008 to October 3, 2008 at The Colonnade Hotel in Boston, MA is attached for the Board's information.

19. An invitation to the Consultants and Institutional Investor's Roundtable from October 20, 2008 to October 22, 2008 at the Four Seasons in Chicago, IL is attached for the Board's information.

20. An invitation to the 2008 Defined Benefit Investment Summit from October 27, 2008 to October 29, 2008 at Dora Arrowwood in Ryebrook, NY is attached for the Board's information.

21. An invitation is attached for the Board's information to the Institutional Investor's Infrastructure Investment Forum from February 3, 2008 to February 4, 2008 at The Union League Club in New York, NY.

22. 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.

A motion was made by Mr. Naclerio and seconded by Mr. Garcia-Linares that the Administrative Manager attach a spreadsheet to the report showing the Retirement System's monthly expenses rather than listing them in the report. Motion unanimously approved (8-0).

5. Employee Benefits:
(The Administrative Manager recommends approval of the following Employee Benefits.)
<u>Retirement Benefits:</u>

Retirement application of Roland Masdeu of the Public Works Department, 20 years, No Option, effective October 1, 2008.

RESOLUTION 3101
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
ROLAND MASDEU

WHEREAS, Roland Masdeu has applied for retirement effective October 1, 2008, and,

WHEREAS, Roland Masdeu requests to take No Option Retirement with his last working day September 30, 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 Roland Masdeu retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning October 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. Easley to approve Mr. Masdeu's retirement application. Motion unanimously approved (8-0)

Retirement application of Judith Kries of the Parks and Recreation Department, 16 years and 6 months, Option 2B-66-2/3%, effective August 1, 2008.

RESOLUTION 3102
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
JUDITH KRIES

WHEREAS, Judith Kries has applied for retirement effective August 1, 2008, and,

WHEREAS, Judith Kries requests to take Retirement Option 2B 66-2/3% with her last working day July 31, 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 Judith Kries retirement benefits under Option 2B 66-2/3% as certified by the Actuary, the first day of every month, beginning August 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. Garcia-Linares to approve Ms. Kries' retirement application. Motion unanimously approved (8-0)

<u>DROP Benefits:</u>

DROP application of John Curry, Jr. of the Fire Department. Effective date August 1, 2008.

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

DROP application of Lonnie Hill of the Police Department. Effective date September 1, 2008.

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

<u>Vested Retirement Benefits:</u>

Stenneth Adamson, Automotive Department (16 years, 8 months), effective date June 1, 2008.

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

Robert Lee, Parks and Recreation Department (11 years, 5 months), effective at age 52, effective date September 1, 2012.

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

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

Application of Danny Formosa of the Police Department requesting to buy back 758 days (2 years, 26 days) of Other Public Employer service time.

A motion to approve Mr. Formosa's application for the buy back of other public employer service time was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (8-0).

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

Stanley Holcombe and Associates invoice no. 3548 dated June 23, 2008 for actuarial consulting services through March 28, 2008 in the amount of $15,865.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on October 9, 2003.

A motion was made by Mr. Goizueta and seconded by Mr. Garcia-Linares to approve the payment. Motion unanimously approved (8-0).

Carlson & Lewittes, P.A. invoice no. 11162 dated June 24, 2008 and invoice no. 11201 dated July 18, 2008 for a total amount of $11,599.42 for costs and expenses. These invoices are in accordance with the contract between Curtis Carlson and Coral Gables Retirement System signed on June 10, 2004. Specifically Section 8 "Client agrees to pay all costs, such as court filing fees, mediator fees, subpoenas, trial graphic presentations, depositions and court reporters, transcripts, reports, investigation, expert witness fees, witness statements, photocopying, long distance telephone calls, travel, computer research, and other expenses directly incurred in investigation or litigating the claims."

A motion was made by Mr. Goizueta and seconded by Mr. Diaz to approve the payment. Motion unanimously approved (8-0).

The Bogdahn Group invoice no. 3071 dated June 26, 2008 in the amount of $22,500.00 for data conversion, flash report and Performance Evaluation and Consulting Services from April 1, 2008 to June 30, 2008 in the amount of $22,500.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008.

A motion was made by Mr. Goizueta and seconded by Mr. Diaz to approve the payment. Motion unanimously approved (9-0).

6. Request of Gene Gibbons, FOP President, concerning the computation of retroactive cost of living increases in City employees' retirement calculations.

Mr. Gibbons informs that he is before the Board to bring to their attention the policy instituted by the City wherein retroactive wage increases received by the Police officers are being "back spread" over the period that the retroactivity was covered. This came to his attention by one of his members who received an estimate of their benefit. In October 2003 the police officers received a 2% retroactive pay period which covered a year. They also received a 2% retroactive pay period in June 2004. Those dates fall within one of the 26 consecutive pay periods of this employee's three year average. The employee's records indicate that when you put in the two retroactive payments it would bolster one of their three year high averages. The City does not calculate the average that way. He spoke with the Finance Director and asked him under where in the ordinance it gives the authority to calculate the retroactive payments by back spreading them. He thinks it is very clear in the ordinance as to what the definition of compensation is which is when you receive payment. He thinks they have a serious problem. He believes there is good reason that police officers who retired are being undercompensated for their retirement. That is why he is bringing this to the Board's attention. He is asking for the Board to instruct the City to not implement this policy and to go back and look to see which police officers have had their retirement not calculated correctly due to this policy and properly compensate them.

Mr. Nelson explains that what Mr. Gibbons is requesting is that periodically in collective bargaining they reach a settlement of wages after a contract has expired. Many months go by and then they agree to a settlement or a retroactive amount. The settlement Mr. Gibbons spoke of where they had a retroactive period from October 1, 2003 to June 1, 2004 represents 17 months of back pay and the back pay of 17 months was paid in one check. It is common among collective bargaining. Mr. Gibbons is asking that the check that represents 17 months of pay should be included in the three year average that can be selected by an employee as the highest three 26 pay periods and include the one pay period as a selected payroll. The way the City calculates the lump sum checks is they take the retroactive amount and spread it back as if the employee earned that amount during the period the check represents. If the calculation included the retroactive lump sum check for the specific period it was given it would cause a spiking of the calculation and would not represent the true earnings of when it was supposed to have been earned. Mr. Space states that if an employee had a $12,000 amount and the City retroactives that amount as $1000 for 12 months then the employee is asking for a $12,000 lump sum to be applied for a certain year. Mr. Garcia-Linares points out that it would increase the amount of their retirement because of that one check.

Mr. Gibbons reminds the Board members that they have a duty to follow the ordinance. They need to look at Section 50-276 of the Retirement Ordinance which says that the Board will take into account only compensation actually paid for the relevant period. The fact of the matter is because the City and the unions took 12 months to work out a deal has no application to the Board. The Board's job is to follow the ordinance in relation to determine retirement benefits. He suggests that the Board read the definition of compensation in the ordinance. His retirees have been short changed because the Board members refuse to follow the law, the ordinance that controls the Retirement Board. Mr. Geraci believes that the law has to be flexible. He believes in this instance that it is in the best interest of everyone to allow this practice to stay the way it is. That is his opinion. Mr. Diaz asks Mr. Gibbons if he has gotten a legal opinion or information on how other cities have handled this matter. Mr. Gibbons states that it is based upon the specific retirement ordinance and the laws that apply. To sit here and ignore the law and say you are flexing the definition of total earnings and the definition of compensation because you want to save money in the pension fund is not the Board's purview. Mr. Garcia-Linares states that if you get someone who gets income for the last 18 months in one check and then base their retirement on that then that person is getting a windfall because their retirement benefits are not based upon the compensation they are receiving over that period of time they are getting a windfall for that one check.

Mr. Diaz asks how the IRS handles it. If you are owed money from three years ago and you get paid three years later the IRS handles it for when you are paid. Mr. Nelson informs that when the Social Security Administration calculates Social Security retirement it takes the period of when the money was earned and applies it to the year it was earned and not when it was received. The government applies it the same way the City does and many other cities in Florida apply it this way. They are following a procedure that has been consistently applied since the beginning of this retirement system. Mr. Space asks how the taxes work on the lump sum. Vice-Chairperson Huston replies that it is withheld when it is paid but they aren't talking about the Internal Revenue Code they are talking about the retirement system. Mr. Gibbons states that the ordinance says compensation actually paid for determining the compensation for earnings purposes. If the Board wants to misinterpret it that is fine, he is bringing it to their attention and believes it has been misinterpreted for many years. He is asking for the Board to go back and look at a limited number of people in 2003 and 2004 who this may have applied to and going forward he is asking for the Board to instruct the City to stop doing those calculations because it is not correct and they are not following the letter of the ordinance. His response to the fact about the union and negotiations taking 18 months is the City should be a little more cognizant of wrapping up collective bargaining early because they have this potential liability in a retroactive payment. When he asked Mr. Nelson where he derived the way they do calculations Mr. Nelson's response was it is not in the ordinance. He thinks it is in the ordinance and that the city is misapplying it.

Vice Chairperson Huston suggests that they defer a decision on this issue and ask the Board Attorney to read the ordinance and come back with an opinion. Mr. Greenfield informs that he went through the ordinance and could not find any basis in the ordinance as to how the City ought to handle the matter. Mr. Gibbons today said that his research says that there is. There are the definitions of compensation and total earnings which are in Section 50-25 of the ordinance. Mr. Gibbons adds that compensation is defined in Section 50-276 of the ordinance. Mr. Greenfield informs that the definition of compensation in Section 50-25 does not include what Mr. Gibbons says. The definition of compensation in Section 50-25 says "Compensation means as to: (1) Hourly paid employees, hourly wages, inclusive of shift differential, loyalty steps, special assignment, educational incentives, plus any workers' compensation benefits received by the employee; (2) Salaried employees, salary only exclusive of all other remuneration, plus any workers' compensation benefits received by the employee. Contingent beneficiary means the individual or individuals designated by the participant pursuant to the provisions of section 50-235." Mr. Gibbons informs that there is another definition of compensation in Section 50-276 of the ordinance. Mr. Greenfield states that compensation is a defined term in Section 50-25 of the ordinance. There is a definition of total earnings and total earnings mean all remuneration paid by the City to the employees. If you are looking for what does total earnings mean it is through remuneration pay and compensation has another meaning. Regardless the Board doesn't really interpret how the City in the past has paid or not paid.

Mr. Greenfield informs that this issue is like the issue they had with the Chieffi case on the payment of annual and sick accrued leave. The City did it one way and the employees believed it should be done another way. When he saw Mr. Gibbon's request and read the letter from Randall Stanley to Ms. Groome he looked at it from the point of view to try and find a way to be able to say to the Board that the employees should be paid in a way to maximize their retirement benefits. That is what he was looking for. He thinks that the Board has always tried to do what they thought was best for the employees without harming the Retirement System. He found nothing in the ordinance that leads him to believe that the Board has the right to change the method in which the City is calculating and paying the retroactive amounts. He believes it is a matter of negotiation at the time the unions negotiate the retroactive pay they certainly could negotiate with the City as to how the City is going to apply the retroactive pay. In his opinion the Board cannot add something to the ordinance that is not there. In all due respect to Mr. Gibbons he can read the definitions and they speak for themselves. They don't need interpretation. The City has been handling the matter in a particular way for years. He thinks it is incumbent upon the employees' bargaining unit to deal with the City on this issue. Mr. Gibbons informs that he cannot bargain for retirees. He has retirees who believe they have been short changed and they are not represented at the bargaining table. He is trying to avoid a situation and he asked a simple request. If the Board is not going to honor it he is going to ask them to place on the record that they have denied their request and that those retirees are free to seek whatever redress they decide to seek. Mr. Greenfield believes that the ordinance is silent on this issue.

Mr. Goizueta asks for Mr. Greenfield to research this issue further and give something to the Board in writing by the September meeting date. Mr. Greenfield informs that he will. Mr. Naclerio adds that if Mr. Greenfield thinks that the ordinance should be clarified that he should give that to the Board too. Mr. Greenfield states that there was a question in the past about the application of accrued annual and sick leave and there was a dispute as to how it was to be applied and there was a lawsuit. The end result of the lawsuit was that the City's method of applying it was correct. So the City amended the ordinance and the City specifically said in the ordinance that they are recognizing that there was an established policy and they were putting into writing what the established policy was. So if they use that same analogy the established policy was to spread out the retroactive payments. The Commission can pass an ordinance saying that retroactive payments should be spread out because that is the way they have always done it or they can say retroactive payments shall be applied when paid. Mr. Goizueta asks if that is not in the ordinance now. Mr. Gibbons states that the ordinance says "remuneration paid." He doesn't think the ordinance is silent on this issue. Mr. Diaz agrees with Mr. Gibbons that it is pretty clear in the ordinance and that it is addressed because it says when you are compensated and when you are compensated you get it in your paycheck.

Mr. Garcia-Linares states that the ordinance says the Board will take into account only compensation actually paid for the relative period. You can argue that the relative period means the period that you worked. You are paying for the past. You don't take it into account as compensation now. He suggests that Mr. Greenfield look into this and come back at the next meeting with his legal opinion.

Mr. Nelson informs that the Board and the City went through a big law suit with the Chieffi case which is very similar. The Chieffi case was a law suit filed on behalf of 60 police and fire retirees and they were claiming that the lump sum payment of sick and annual leave be included in their calculation of retirement even though that represents many years and pay periods back. It is a similar case in this regard when they are asking for retroactive payments that represent periods going back. It is the same scenario. The court ruled that the lump sum payment represented a period going back in time not in that one pay period and the same thing holds in that retroactive pay period.

A motion was made by Mr. Goizueta and seconded by Mr. Space to table this issue until the next meeting. Motion unanimously approved (8-0).

7. Attendance of Randall Stanley of Stanley, Holcombe and Associates to present the 2007 Actuarial Valuation Report.

Randall Stanley of Stanley Holcombe & Associates presents to the Board the 2007 Actuarial Value Report which reflects funding for the 2008-2009 fiscal year. The total annual payroll was a total of $46 million compared to $51 million of the previous year. That is a relatively unusual trend. What they saw happening in the year ending September 30, 2007 was wage decreases as contrasted to what they expected to see as wage increases. Their understanding is that the decrease was because there was a lot of overtime that was storm related year ending September 2006 and other earlier years. As of October 1, 2007 the funding asset value is about $258 million which compares to a market value of $268 million. That is a $9.5 million difference. They like to see that because you have a little bit of hedge. Since they aren't counting $9.5 million if they lost $9.5 million they would still be even. That is what the asset smoothing is supposed to do. It is supposed to dampen the volatility of the markets and not go up as fast in up markets and not go down as fast in down markets to have a stability of funding. The funding target is $463 million compared to $465 million the year before. The funding target is the present value of all projected benefits. If you had $463 million in trust assets as of October 1, 2007 theoretically there would never need to be any further contributions by the City or the members or any current members. That is what they are pointing to when they fund. Mr. Naclerio asks if the trends in terms of employees and overtime is continuing to date. Mr. Nelson responds that Mr. Stanley did mention that the year before was greater because of the hurricane related overtime and the good news is that this past year they did not have any hurricanes so they should be on track to have moderate increases in the payroll.

Mr. Stanley continues. He informs that the pay decreases reduced the unfunded liability by almost $16 million. Mr. Space asks what percentage of that $16 million was reduced overtime. Mr. Stanley understands that it was all of it. Keep in mind that funding a retirement plan is counterintuitive so what is bad news for the members is good news for the system. A major component of good news for the system is that pay went down. If you are looking for a percentage in pay here is another counterintuitive item, the percentage of pay went up 1.4%. The reason is the covered payroll is down. The second item is the investment return decreased the unfunded liability by $5.6 million and that is because for the year ending September 30, 2007 the plan assets earned more than the 7.75% assumption. That is an investment gain and it reduced the unfunded liability. Net all items of experience reduced the unfunded liability by

$19.2 million. There was a COLA which has a present value of about $5 million so that is how they get from an expected unfunded of $159 million to actual unfunded of $145 million. They also had a minor glitch that Ms. Groome discovered that some items of pay that were included and had been reported as pensionable compensation for the last year and prior years were not pensionable and when those were cleared out it had reduced the City's annual contribution by $120,000. They had approximately the same amount of retirements as expected but they got an increase of almost $2 million in the unfunded liability because the benefits were larger than they were expecting particularly under the general employee group. They are projecting a certain probability of retirement and they are basing it on the pay compensation they have on record. Either the instance of retirements or the amount of the retirement benefits for the actual retirements differ from their expectations they are going to get a gain or a loss. They had a fairly significant loss in the year ending September 2007.

Mr. Stanley informs that they are still holding the firefighter 5% contribution for fiscal year ending September 2007 in the amount of $670,000 in reserve. Those contributions have now been refunded to the firefighters so the reserve will go away for the September 2008 valuation. Regarding the employer contribution outstanding as of September 2007 there is about $3,250,000 the City has not paid that was due. From 9/30/06 to 9/30/07 despite what the City did the receivable went up from $3 million to $3.2 million. Mr. Space asks if the interest of $251,000 is in addition to the $3.2 million. Mr. Stanley answers that it is in addition to it. They do not know what the City has paid on the $3 million receivable and they are hoping it will all be cleared out by 9/30/2008. Mr. Huston asks if the receivable came about because of the difference between the assumption rate the Board approved and the assumption rate the City paid into the system. Mr. Stanley responds affirmatively. There are other areas of difference. It is an interest bearing obligation and that is when it started.

Mr. Goizueta asks if the $24 million the City plans to fund the retirement system will cover the $3 million receivable. Mr. Nelson explains that the City's budget estimate for 2008/2009 is budgeting $24 million even in contributions to the system. The good news is that the City's contribution decreased significantly this year to $21 million. The City's anticipation is to fund $24 million to pay back the majority of the $3 million receivable. The goal is to pay it off for the 2008/2009 fiscal year. Mr. Goizueta thinks they need to make sure the citizens know that the funding for the retirement system went down this year because everyone is under the assumption is that the City is funding the $24 million to the retirement system only and that the $24 million includes the City receivable of $3 million. You keep reading in the newspapers that the City has to fund $24 million into the retirement system and it is really $21 million with back paying $3 million to the fund.

Mr. Stanley reports that the State is getting increasingly vigilant on investment return assumptions. In their proposed rules that were issued around July they are saying that the Board has to be responsible for the investment return assumptions and the Actuary has to be prepared to justify any assumptions that produces an experience loss over the last three years. Where they would try to hedge some of that off by saying the last four and three quarter years they have averaged more than the assumption. Clearly for the last ten and three quarters they are a little less but they were in sight of the assumption. He thinks they are over zealous in Tallahassee. He intends to submit written comments and attend the continuation workshop that is scheduled for September 10th in Orlando.

Mr. Stanley informs that they focused a tremendous amount of attention to contribution levels. The reason they are contributing is to fund the system. If you look at the percent funded they are 64% funded. If they were using market value it would be 66%. In either event that is not robustly funded. Well funded is generally 80% or above. There were a few years since this fund was 80% or above. What happened was when you are using a 9% assumption you are measuring your liabilities at a lower level than when you are using a lower assumption because it is present value. If your funding target is based on an assumption that is too liberal and then you make it more realistic then you are going to see this type of erosion in the funding levels. If you exacerbate that with market losses on your assets in early 2000 it gets to be a perfect storm. They are in a good news year ending September 30, 2007 despite that they are only 64% funded.

Mr. Stanley reports that the present value of City normal costs has been relatively stable. Regarding the cost of an ongoing plan you look at normal costs separately from the unfunded liability. The unfunded liability is whatever they are dealing with due to the past. While your contribution rate maybe under 50% it is much less than that on a normal cost. Mr. Naclerio asks how is their experience of unfunded liability compared to his other clients with a plan of this size. Mr. Stanley explains that every client took it on the chin regarding investment results in the early 2000. You saw some pretty horrific increases in the unfunded liability. This plan's situation was exacerbated by their needing to make the investment return assumption more realistic. When they had the first and only workshop with the Mayor and Commissioners he tried to let them know that they had two things to deal with which was the bad market and the overly aggressive assumption. Because of that this plan got hit twice and most of the others got hit once. They do have other clients, about three in the State, where the contribution rates are pretty high as is the case with this plan. A lot of that high contribution is the debt service on the mortgage for the bad news in the past.

Mr. Goizueta asks when they consider general employees are they considering exempt employees in that category. Mr. Stanley answers affirmatively. Mr. Goizueta asks if that includes police and fire exempt employees. Mr. Stanley informs that the police and fire exempt employees are under police and fire employees.

A motion was made by Mr. Goizueta and seconded by Mr. Naclerio to accept the 2007 Actuarial Report. Motion unanimously approved (8-0).

Mr. Huston asks if this report has to be sent to the State of Florida. Ms. Groome answers affirmatively. Mr. Huston asks if it is going to be timely. Mr. Stanley informs that the report has to be sent to Tallahassee 60 days after it is received by the Board. Ms. Groome informs that this report is separate from the Annual Report for the Police and Fire. Mr. Space asks where that report is now. Ms. Groome responds that it is in Tallahassee. Mr. Space asks what the status is of the report. Ms. Groome informs that she is still waiting for a response from Tallahassee. Mr. Huston asks if funds have been received for the 175/185 funds from Tallahassee. Ms. Groome informs that no money has been received from Tallahassee yet. Mr. Stanley informs that he did get one call from Tallahassee about the City's cumulative employer contribution receivable question but she was working off the October 1, 2006 report at that time. That call was a couple of weeks ago.

Mr. Geraci states that the market did not do well in the last three quarters. He asks if Mr. Stanley was able to take that into account as he applied the current market standings to where they may or may not be going forward for the next year. Mr. Stanley informs that it is late for them to be presenting the October 1, 2007 report. They do build in a one year lag so the funding requirements of this report are for fiscal year 2008/2009. That helps with the budget issues. As far as a subsequent event kind of reflection he has not done that but one time and that was in October 1987 where the market was good September 30th and then it just tanked. They are not required to do that. Mr. Space asks if a decrease in salaries of $10 million would affect the report the same way as a decrease in market value. Mr. Stanley answers negatively. Mr. Space asks which has the larger effect. If the salaries went up by $10 million and the holdings went down by $10 million would that be an equal effect. Mr. Stanley informs that the City's compensation was $5 million less than expected and it reduced the unfunded liability by $16 million and it reduced the City's contribution by $1.8 million. If you had a $16 million investment gain or loss it would have had the same kind of general impact. That $16 million on compensation grows from a $5 million actual compensation differential because it becomes the base they project from going forward.

Mr. West asks if the State is requiring Florida programs to go to a fresh start effective next year that would affect the smoothing or is that an Actuarial Society judgment. He knows there is a lot pending in Tallahassee. Mr. Stanley informs that there are 25 pages of proposed rule changes. There is murkiness in some of these proposed rules. There is a flavor trying to tie public sector Florida based plans to private sector IRS/ERISA type plans. They seem to be trying to tie the asset values more tightly to private sector rules but neither of which to his knowledge require reinitialization. In Florida the rule has been unofficially for some years that they were trying to follow ERISA and under ERISA the rule was you can change asset smoothing methods if you had not made a change in 5 years. Now ERISA has been tightened down to about 2 years by the Public Pension Act of 2006. They may see some of that emerging in Tallahassee but it still will not require reinitialization. Mr. Space asks if they had a $15 million loss in assets as well as a $15 million decrease in compensation would that have been an increase in the unfunded liability. Mr. Stanley answers affirmatively. It would have offset.

8. Investment Issues.

Troy Brown of The Bogdahn Group reports on the transition management bids. At the Investment Committee meeting the Committee recommended that they go out for bid for a transition manager for the termination of Kayne Anderson. He received three bids from Northern Trust, State Street and CAPIS. On future transitions when they have the time and they competitively bid them he is going to ask the Board and Mr. Greenfield to review DLJ. DLJ is currently one of the fund's third party commission recapture brokers and they also offer transition management services so they would like to include them on the transition manager list because more is better in terms of getting evaluations. In each of the three bids he got back they all had unique issues to bring up regarding the portfolio. The biggest thing that came out for him was the CAPIS and Northern Trust bids. Northern and CAPIS recognized a lot of the inherent risk of this portfolio moving more toward an All CAP strategy. Like the previous transition they did that cost 79 basis points there were no opportunities to cross trade and have in-kind transfers. The same will be for this transition. On all the pre-trades there is not a single issue in the Kayne portfolio that is in either of the large cap portfolios that they will be moving into. He thinks that both CAPIS and Northern Trust did a better job in evaluating the risks than State Street. It is a pretty liquid portfolio. They are going to have a much wider bid/ask spread in the Kayne Anderson portion portfolio than the large cap portfolios. In terms of total cost the variation of the CAPIS portfolio is much broader. Their implementation short fall estimates are much broader. This is their sweet spot because this is a smaller transition and it is really where they excel. They will not act as a fiduciary in the transition and Northern Trust will which means they will take charge of any corporate action or proxy voting that would occur during that transition period. The total cost estimate for both is about 97 basis points on the Northern Trust side and the same cost from CAPIS is about 84 basis points. That is an estimate but the range outcomes on the CAPIS bid is much broader. Whereas their estimate is shorter their actual range of potential outcomes is smaller. You also have to consider that Northern Trust is the custodian and they are in a unique advantage in terms of being able to manage the transition without having to deal with an external party because they can do it inside. The decision comes down to, if the Board approves that move, to go with either Northern Trust or CAPIS as the transition manager for this event.

A motion was made by Mr. Naclerio and seconded by Mr. Space that if the Board approves to terminate Kayne Anderson that they go with Northern Trust as the transition manager and to have Mr. Greenfield look at the DLJ contract for their company to be a possible forth transition manager the Board could use in future transitions. Motion unanimously approved (8-0).

Dave West of The Bogdahn Group reports on the outcome of the Investment Committee meeting. The primary focus at the meeting was to look at the type of range of the current managers in their stock selection attribution and how capitalization is is affecting the portfolio. They want to make sure that they do have a well represented portfolio across the capitalization. The current policy is that the fund has a target of 15% of small/mid cap stocks and the bottom line recommendation was rather than have a dedicated small/mid cap space in the style box to move to an all cap approach and employ managers through their identification of stock value that will affectively manage those style boxes for them. With Kayne Anderson they had a dedicated manager in a small cap growth space. They believe that the small cap growth space has a lot of volatility built into it. What they want to do is smooth the return stream as much as possible so they can achieve that actuarial assumption rate and provide some relief of the volatility in small cap then use that as a source of funding to move to the all cap. That was the basis of the discussion in the Investment Committee meeting. What they concluded was that the current large cap growth management team that is currently in the portfolio is an excellent line up. Based on their analysis of the firms in the portfolio they are excellent firms in the large cap area. They went through the value side and were directed to do a search for the all cap value manager. Their conclusion in looking at the analysis was that the current large cap value team was very all cap in their approach. They then went to the growth side and looked at the attributes. He shows the capitalization summary of Aletheia and Winslow. Aletheia's portfolio covers the boxes of all the capitalization buckets, from small cap to large cap. Looking at Winslow they have a larger cap orientation. While these managers have maintained a larger capitalization bias overtime they have been in the other boxes and are providing a good all cap solution. So the conclusion is that the current portfolio already has managers who have representations in the different boxes on the capitalization scale. Their recommendation is to move the dedicated box, Kayne Anderson, and divide the money into the two current large cap growth managers, Aletheia and Winslow.

Mr. Naclerio speaks to an issue that came out of the Investment Committee meeting. It seems that there are two different issues being addressed. The first issue is if they have a good manager in value should that manager be allowed to go up and down the capitalization scale which is not the way the portfolio was originally laid out. The second issue was if they allowed a manager to wander up and down the capitalization scale would that mean at any particular time they may not have the proper exposure under the Investment Policy that they may want in the small cap, mid cap or large cap area because for some reason these stock pickers are all picking stocks in one area. The theory in the past was they wanted to be represented on the whole board and not time the market for large cap and small cap. He asked that Mr. Brown come to this meeting because he was not at the Committee meeting and explain to the Board what the consultants have in mind in terms of allowing the managers to vacate a small cap area where it might work out that way and who is watching to make sure that doesn't happen if they believe that their portfolio should be distributed.

Mr. Brown explains that they did approach the portfolio before from a pure style box basis where you were essentially neutral and they had segmented the policy into large cap and small cap stocks. Rather than focusing on the Russell 1000 portion of the benchmark and the Russell 2000 portion of the benchmark it is to broaden that benchmark out into the Russell 3000 and instead of saying large cap and small/mid cap it is to say domestic equity. Part of this strategy is to adopt that broader benchmark into your Investment Policy so you would not be in violation of your Investment Policy. If something reaches a price target for a manager in a large cap stock do they want that manager to buy a company that is tremendously over valued or do they want to give that manager the flexibility to buy something that isn't on someone's radar screen that has a lower capitalization. They want a manager to seek out value regardless of the capitalization. It is a different way of looking at things. They aren't taking away any of their responsibility but they are giving the manager some flexibility to do what they are paying them to do which is to make stock selection based on a dynamically changing market. It is consistent with what this Board wants to do which is maximize their return. They are just giving the manager some flexibility. The whole idea is moving from a large cap/small cap in the Investment Policy to a broad domestic equity benchmark. You will gain some stability and by gaining that stability over time it will smooth out the return pattern. Mr. West informs that they do have the S&P 500 index which is a larger cap bias index. Meanwhile they will have the growth and value teams moving up and down the capitalization hopefully generating more alpha and they have the S&P 500 at the core keeping a larger cap bias of the portfolio over time.

Mr. Space asks how often they monitor what the managers are doing. Mr. West responds that they are pulling monthly attribution. They would be happy to add the attribution section to their quarterly report of the managers. Mr. Geraci understands that what they will be allowing the managers to do is their work for them as they did with the old style investment strategy they moved from manager to manager based on how well they were doing. So if they had managers in large cap that are doing well they hired them. Now they are saying the managers they hired are not doing well in the large cap area so they are going to allow them to buy in other areas. Mr. Brown thinks it plays out when you look at the actual attribution. The reason the large cap growth managers they hired looked more superior to a pure large cap manager is because they had limited exposure into the lower capitalization sectors to look better. Now they didn't just do it to look better they did it because they found stocks in that particular range that were more attractive to buy than the ones in the mega cap. You are allowing the managers to identify stocks that are attractively valued or have a certain amount of growth. If those stocks don't have a capitalization of less than 200 they don't want them to look at it. Mr. Geraci asks if his assumption was correct. They are allowing the managers to do the Board's work. Instead of the Board looking at the large cap managers and seeing they aren't doing as well as they would like so they are going to terminate that manager and find another one that is doing better what they are doing is playing in the other boxes to make themselves look better to the Board. Mr. Brown informs that they are going to be evaluating them not against the large cap benchmark but against a broader benchmark that is going to encompass the entire capitalization range. They aren't going to give them an easier target to beat and give them that flexibility instead they are going to give them a flexible target and ask them to beat it. They are going to keep the benchmark accurate.

Mr. Naclerio addresses what Mr. Geraci said regarding the managers doing the Board's work. The Board's job is not pick stocks. The managers are doing their work in picking stocks and the Board is giving them more discretion to do their work. Mr. Geraci informs that he doesn't think they will have this broad based investment strategy anymore. He doesn't think it is a good idea. Mr. Diaz points out that they selected the managers based on their performance and that is exactly what they have been doing over the years. Mr. Space states that if a manager sees that a big company is not going anywhere but sees that a smaller company is doing well then they are going to buy that smaller company's stock.

Mr. West explains that you are working with managers that have a demonstrated expertise and ability to do that. They are not hiring a large cap growth manager that is confined to this box and don't buy companies below this cap rate. Are they now giving this manager the authority to move down and buy this lower cap stock? The answer is no. They are not doing that. The managers they have in place have a demonstrated ability and expertise to have added value through stock selection up and down the whole range. While the bias can be considered large cap they have moved up and down the capitalization and have demonstrated adding good alpha value in doing that but they need to measure them against the Russell 3000 rather than the Russell 1000. All they are suggesting is to put a manager in place that the fund currently has that has a demonstrated ability and expertise to cover those spaces for the fund and manage the boxes. So the work they are doing for the fund is to determine when they should be moving in the boxes. They aren't market timing. They are doing it by where the best stock value is.

Mr. Geraci asks if they would also be doing the same thing with their other managers. All of a sudden they have everyone doing everything instead of a well structured, well organized, very broad based investment strategy. His understanding is that there would be small cap or mid cap that would go up into the large cap where they are going to allow them that investment flexibility. He doesn't think it is a good idea. Mr. West informs that it is not a complete exodus. The purpose of the analysis when you look at those market buckets is that most of the growth managers are all higher cap bias which is a good thing. Focusing on the value side, most of those managers do have an opportunity in the small/mid area. It is represented over time. There is not a period of time where the managers in place did not have representation in at least the mid area and in the case of Aletheia they are represented in the small area. Mr. Brown states that they are not telling the managers to change their objective. They are recognizing what the managers are doing but there is a change in terms of there is no dedicated small/mid cap exposure anymore if you go along with this type of strategy. They kind of did that when they removed Wells Capital and put the money into Eagle and MD Sass on the value side so the only remaining dedicated small cap exposure is Kayne Anderson. It is kind of a dual function. If the Board doesn't want to go with this strategy then they still have to look at replacing Kayne Anderson. Mr. Space clarifies that they are going to rate these managers against a higher rate of return. Mr. West agrees that it is a more inclusive universe.

Mr. Nelson informs that he was concerned about two things. One was risk and the other is the monitoring. Picture a pasture of cows that is corralled by a fence. Before they had a large pasture divided into sections where the cows could graze. They had a small cap area and a large cap area and the cows were all within their little sections and they could only graze in their little sections. Now they are opening the fences up and allowing the cows to move in a bigger range and capture the grass and a greener area so they can move up and around the pasture as opposed to being within their structure. The consultants are recommending that they open the fences. Mr. Geraci points out that they are letting the animals go where they want to go instead of the farmer saying this is where you should be and this is what concerns him. Mr. Nelson explains that is why his concern is risk. The biggest concern is that the consultants monitor this because now they are opening the fences and let them go where they want to go to find the best value. They don't want the managers to have a large concentration in an area where they have the increased risk and that can only be done by monitoring. That is the consultant's job. This strategy gives more latitude to the managers. They are setting the higher bar and the consultants are monitoring the managers.

Mr. Space asks how long they have been using this theory with other retirement plans. Mr. West responds that The Bogdahn Group has been applying this theory for about five years. Mr. Space asks if Mr. West thinks this theory was partial to their other retirement plans making the numbers they did that the Board saw during Bogdahn's presentation. Mr. West answers affirmatively. As a former investment manager and as an asset allocation strategist he spent a good part of his career trying to figure out how to manage the boxes and the trick is that you get there but you might be two years off. If you are going to close the books on September 30th you get this big boxed risk management movement that is very difficult and it becomes a market timing issue. When they look at the returns of the individual managers and compare that to the broad cap universe of managers and how successful the all cap managers have been versus a dedicated box allocation it is very impressive. He thinks the other issue that comes to play is to address the risk management. They were talking about absolute returns versus relative returns and what were the other things they could work out on the margin to improve the risk management. Their opinion on the equity side is that an all cap approach does that. By giving that ability it has limited the downside of the managers so when they go in and look at the market capture ratio the down market experience and preservation of asset experience of the all cap managers are really impressive. With the managers the plan has in place looking at their down market preservation is spectacular and a lot of that attribution of returns comes to the fact that they have moved around the boxes and have gotten out of over valued stocks and have gotten into under valued stocks so they missed a lot of the spiraling correction. Mr. Space states that they have been doing it without them knowing.

Mr. Brown clarifies Mr. Nelson's example. They still have that pasture defined into two because they are still value or growth managers. They still have it down the middle where they don't let a value manager go into growth stocks and vice versa. They have a very defined process and in speaking to the risk in terms of every one being mega cap or small cap at the wrong time they are paying the managers to make that decision on a timely basis and the same reason they picked two managers on value, Eagle and MD Sass, who have different processes by adding value in a different way the same way they added Winslow and Aletheia. The idea is they view growth and value as completely different. It played out between MD Sass and Eagle they have four cross holdings and that is it. They are obviously viewing the market in a totally different way. The odds of them being all in one area at the same time is very slim simply because they are viewing their own style in different ways. They are a good combination for each other. Mr. Diaz asks if they want to restrict them to a style box they would have to get rid of most of the managers and they are good managers. Mr. Brown agrees. Mr. Naclerio asks if the consultants did a comparison of the plan if they had gone into this type of theory would the plan be ahead now. Mr. Brown informs that he can run a hypothetical for the plan for the next meeting.

Vice Chairperson Huston informs that the recommendation from the Investment Committee was that the Board approve to move the money out of Kayne Anderson into the large cap growth managers; to rebalance the fund with the City contribution into the S&P index and the two large cap value managers. Mr. West informs that in their firm's opinion the small cap box has a lot of volatility and they need to smooth the ride. That is a driver using that small cap space a source of funds to move into the all cap strategy. Mr. Easley asks if they had an issue because of the Investment Policy allowing them invest into a certain way and they were going to bring it to the Board Attorney's attention. Mr. West informs that the changes to the policy consolidates the domestic broad cap equity at 45% against the broader measure using the Russell 3000 which is more inclusive and the other equities remain the same. A specific line item in the Investment Policy restricts the percentage of allocation to the small/mid cap area. They suggest to remove that. One other set of parameters sets the benchmark they are going to use for the portfolio.

Mr. Geraci asks if they can have a small workshop on this outside this meeting. He is not comfortable making this change. He would like to have more of a workshop on this before they vote on it. Mr. Diaz thinks they hired these consultants for their excellent returns with other portfolios and if they go against what they are recommending then they are going backwards. Mr. Geraci informs that he would like to understand this strategy better before changing the policy and deciding on getting rid of the small cap manager. Mr. West states that the Investment Committee did have a very detailed discussion on this strategy. Mr. Garcia-Linares thinks they should wait for the hypothetical that Mr. Brown is going to prepare and then make their decision after they see it. He doesn't think they need a full workshop but he would like to see what Mr. Brown is going to prepare for the Board.

Mr. West points out that they did go through a broader but a similar type of analytics they are seeking in their initial presentation in proposing their services. Their purpose was to prove out through that very brief presentation that this is beneficial. They are making changes on the margin here but are indentifying some philosophical differences. The purpose of that analysis was to try and substantiate what they are trying to do here particularly with regard to the risk management and the down side preservation and the affect of that historically was very strong. With the recent market experience they are seeing a similar experience across the board.

Mr. Naclerio asks if it is prudent to wait another month to approve this. Mr. Nelson responds that if the Board members have concerns then they should wait one more month. Mr. Space states that what he has seen in the presentation is that the managers they want to go into are already split between large, medium and small cap and the one that has given them trouble over a long period of time is 98% small cap so they are looking at going into what they are already into formally. Mr. Diaz agrees. Mr. West explains that the representation will be there but the exception will be that the small cap portion will not be there. They are just going into another approach that has been more successful.

Vice Chairperson Huston informs that the Board has a recommendation from the Investment Committee to terminate Kayne Anderson and fund the large cap growth managers. Mr. Garcia-Linares doesn't think it is a good idea to go out of Kayne and into the i-shares and then have another transition out of the i-shares and into another manager. He thinks they need to make one decision. They have asked Mr. Brown to prepare something for the Board and he thinks they should wait to get it and then make their decision. Mr. Easley agrees. Mr. Huston states that if you look at the minutes of the Investment Committee they discussed this issue very thoroughly and this is their recommendation. Mr. Naclerio informs that the Investment Committee made a recommendation to the Board and the Board has to decide whether or not they want to approve it. It is a big decision and he wants everyone to be comfortable before the whole Board makes a final decision. Mr. West informs that philosophically speaking by removing the small cap space they are going to lower the volatility of the program. They are lowering risk as measured by a variation of return. By removing the small cap growth space the historical experience of the plan on an index level will reduce the volatility of the program. They are still keeping the small value which has been a much higher rate of return area with less volatility than the small cap growth and the small cap growth has been historically volatile. Mr. Space states that they are looking at less risk and more returns.

Mr. Diaz asks for the consultant's recommendation. Mr. West informs that their recommendation as presented to the Investment Committee is to terminate Kayne Anderson and use them as a source of funding and allocate those monies to the plan's two existing broad cap managers, Winslow and Aletheia. That should increase respective returns over time and most importantly reduce volatility or risk of the portfolio.

A motion was made by Mr. Diaz and seconded by Mr. Space to terminate Kayne Anderson, transition Kayne Anderson's portfolio funding the two growth managers and amend the Investment Policy by removing small cap growth, changing the target to 45% in domestic broad cap equity and changing the benchmark for the domestic broad cap equity to the Russell 3000. Motion approved (5-3).

Mr. Brown leaves the meeting due to an appointment with another Florida fund.

Mr. West continues with the Investment Issues. He informs that there was an issue of a potential product change with Thornburg which is one of the international managers.

Thornburg is proposing going from the mutual fund structure the plan currently has to a commingled fund. The bottom line recommendation was to stay in the structure they are in now. If you go to a commingled fund they will be the first client in that fund. It is not good being the first client in a commingled fund because if someone else comes into that fund and moves money around it is going to affect the fund with a significant impact.

Mr. West reports on the fixed income managers Richmond and Loomis. They did a due diligence meeting with Richmond and Loomis Sayles. Richmond has agreed to reduce their management fees from 35 basis points to 30 basis points. The second part of that was that they agreed and have a portfolio with a track record to manage a Treasury Inflation Protection Security (TIPS) allocation. They discussed and recommended breaking out a portion of the fixed income portfolio to a TIPS allocation and the target would be 5%. This time given the recent performance of high quality US treasuries their recommendation was to fund it at a half rate or 2.5%. They discussed this with Richmond and Richmond indicated that they would manage that portfolio for them at 10 basis points. The purpose of the TIPS portfolio is that TIPS had a negative correlation to US equities. The obvious reason for TIPS is that it adjusts with the CPI. When the CPI goes up then TIPS go up and vice versa. It is a very nice diversifier. It is a rainy day asset so when everything else hits the fan TIPS do extraordinary well and that has been proved out for over two bear markets now.

Mr. West informs that they also spoke with Loomis and Loomis initially was not too agreeable to a fee reduction. Loomis came back and said they would like to offer a commingled fund and the commingled fund is a new fund. Loomis is proposing a very nice fee reduction for participation. They will reduce their fee and it is on a graduated scale. With participation in the fund the fee would go to 18 basis points and it will be fixed until January 1, 2010. Thereafter it would revert to a normal schedule at 25 basis points. The only way to get a fee concession out of Loomis is to use the commingled fund. They have collectively reviewed it and they are resistant to a program being one of the early entries into a commingled fund. In this case in context with a manager search it should be considered. They are going to do a fixed income manager search and do a comparison along with Richmond. They anticipate presenting that at the September Board meeting.

Mr. West states that Alliance Bernstein sent out a letter notifying that there is going to be a change in process in their strategy. This is very discouraging. He understands that they recently presented and they have been with the plan for a little over a quarter. They are changing their process from a concentrated 70 stock type portfolio and they are going to build that out to about 130 to 140 stocks. In their opinion this is a complete change in process strategy and it requires a search. The product that was represented and the fund is invested in is not going to be the product going forward. This is a significant change in process and approach from Alliance Bernstein. They suggest to move this along and do an international value manager search. Ms. Groome suggests they schedule another Investment Committee meeting.

Mr. West reviews the second quarter report. It has been a tale of two markets. The same thing applied for domestic equities as it did for international equities. You have energy and you have financials. It was a very difficult environment for active managers to get any positive return however the managers did very well in this period of time. The S&P was up about 9% and in June there were rumors of the bail out for Fannie Mae and Freddie Mac. You had the Fed come out and express concerns about inflation and supporting the dollar. Equities and bonds were both down for the quarter. However the net result for this fund was positive. The fund was down 22 basis points for the quarter. The current target policy was down 1.19% so they were in the top 21st percentile of their peers. The fund was down 6% versus the benchmark of 7.4% for the fiscal year. That gave the fund a 34th percentile. The fund was annualized three year number for the year ending June 2008 at 5.64% trailing the benchmark slightly but they are showing a top 25th percentile return. The source of that good result was all due to the equity managers they have in place. Eagle was up positive 1.82% for the quarter and the Russell 1000 value index was down 5.31%. Eagle was in the top 11 percentile. Aletheia was up 3.93%. Growth stocks outperformed the value stocks. Winslow was maneuvering very well with good selections in energy stocks and financials and were up 5.63%. MD Sass may be struggling a little bit in July. They were the most concentrated energy stock picker of the growth managers. For this period they were up 3.02% which is a very nice showing for their part. Those managers drove the returns. Wells Capital struggled a little on the quarter and were down 4.88% and trailed the index that was down 3.55%. That manager is gone now and the transition was complete and the money was allocated to the other value managers. Kayne Anderson is still struggling. The Russell 2000 growth index was positive for the period and was up 4.47%. Kayne's portfolio was down 1.01%. They have made the recommendation of action on Kayne.

In the international equity Alliance Bernstein struggled and was down 5.71% versus the EAFE index down 1.93%. Delaware was down 1.11% and Thornburg was down 2.75%. In the fixed income portfolio they had hoped that Loomis would have had a better quarter because corporate bonds did fairly well relative to the high quality treasuries and Loomis's strategy is stacked with dependence on corporates and other spread type products doing very well. They finished down 1.12% versus 1.02% with an 86 percentile showing for them. Richmond did come through. They have done a good job squeaking out 20 basis points here and there. They were down 80 basis points versus the Lehman Aggregate down 1.12%. Cumulatively that is starting to pull them up a little bit.

The positive of the portfolio is real estate which continues to register in positive territory. The JPMorgan real estate was up 86 basis points which outperformed their index. The expectations with that product as for all core real estate products will likely to be continued subtle but definite mark downs of property values at the institutional level. Mr. Diaz asks how the fund's liquidity with JP Morgan is if they decided to get out of real estate. Mr. West responds that the there is about a two quarter queue to get out. Not because of a flight out of the asset class but because of a lot of rebalancing that is taking place because of the relative value of the equity portfolio. Mr. West concludes his report.

9. Old Business.

Ms. Groome informs that she included the Commission meeting minutes of June 3rd in the Board's package because she thought the Chairperson wanted to address them. Mr. Nelson spoke to this issue at the last Board meeting and the Chairperson had to leave the meeting for another appointment. Mr. Naclerio asks to address the issue. He read the minutes and had the opportunity to talk with the Mayor briefly about what was said. He doesn't want to speak for the Mayor but from the Mayor's perspective there is not good communication from this Board to the City Commission. That astonishes him because the fund's Trustee is the City's Chief

Financial Officer so he wanted to ask Mr. Nelson if he views there is a problem between what the Commission is expecting, wanting, finding out what is going on with the Board and what they are doing and how they can address that. The second issue was in the different advisors and liability of the advisors the Board has and if the Board would be better served with more advisors. He told the Mayor that the Board had considered that and his view was that the Board can't be changing all the advisors at the same time. They just changed the financial consultants and they keep changing the money managers and they can't change everyone at the same time. The Mayor is sort of feeling like there is poor communication with this Board and the Commission. He wanted to bring this up to Mr. Nelson and get his view if it should be improved and how it can be improved. Mr. Nelson responds that the Commission receives all the Board's actions in the minutes. They are very well read and detailed minutes. Also the five elected officials have appointed members on this Board and are also very active during the meetings with their point of views. He always thought there was good communication between this Board and the Commission. He thinks there was a miscommunication regarding the funding issue and the Commission read the minutes and it was his clarification at the last meeting that they intend to take care of that. Mr. Naclerio asks for Mr. Nelson to follow up on that between now and the next meeting to see if there are any other areas where communication might need to be improved.

Mr. Garcia-Linares thinks that at the next commission meeting someone express to the Commission that the Board is upset over what was said and believes there is good communication and that the Commissioners are invited to come to any Board meeting they want. They receive all the Board's minutes. The appointed Board members are at these meetings as volunteers. He doesn't know what else they can do other than what they are doing. To make statements like this really asks the appointed Board members if they want to continue being Board members. Mr. Naclerio informs that he also told the Mayor that in his opinion he has to remember that they are under the Sunshine Law and can't talk to one another in between meetings.

Mr. Diaz asks who the Commission asks questions to regarding the Retirement Board during the Commission meetings. Ms. Groome informs that it is Mr. Nelson. Mr. Diaz asks why they don't have the Chairperson represent the Board at the next meeting since Mr. Nelson really shouldn't be wearing two hats since he is the Finance Director. Mr. Space states that Commissioner Withers knows what is going on. Mr. Easley asks if the Commissioners were supposed to take turns coming to the meetings. Ms. Groome informs that they are being individually invited to the meetings.

Mr. Garcia-Linares thinks that the problem is when someone decides to make comments at these public meetings and no one stands up to clarify it. Then the Board members end up looking like the ones that don't know what they are doing. Mr. Goizueta agrees. Mr. Garcia-Linares thinks that is the problem. Mr. Space doesn't believe that Mr. Nelson reports anything to the Commission. Mr. Nelson reports to the City Manager and the City Manager reports things to the Commission and there is a break down there. Mr. Naclerio states that the City Manager and the Mayor can speak to each other under then Sunshine Law and if they aren't doing that and Mr. Nelson is bringing the City Manager up to date then that may be an area that can have an increase in the flow of communication.

Ms. Groome informs that they have invited Commissioner Cabrera and Commissioner Withers and need to invite the Mayor, Commissioner Kerdyk and Commissioner Anderson. Mr. Garcia-Linares informs that all five are invited to every meeting. If they want more communication then they are invited to every single meeting and whether they come or not is up to them.

10. New Business.
Mr. Goizueta asks for a breakdown of the employees' between general and exempt that were listed in the Actuarial Report.

Set next meeting date for Thursday, September 11, 2008 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 11:25 a.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR