CORAL GABLES RETIREMENT SYSTEM
Minutes of March 11, 2010
Youth Center – Auditorium
405 University Drive
8:00 a.m.

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

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

A = Absent
E = Excused Absent
P = Present

GUESTS:
Marjorie Adler, Human Resources Director
John Roche, Thornburg
Richard Martin

Chairperson Tom Huston calls the meeting to order at 8:03 a.m. There was a quorum present. Mr. Diaz was not present when the meeting was called to order.

1. Roll call.

Mr. Huston informs that Wayne Sibley has resigned from the Board. The firefighters are going to have an election for that position. Mr. Garcia-Linares recommends that Troy Easley has all the training and knowledge of the Retirement System to be elected as the firefighter representative since he was previously the At-Large representative on the Board.

2. Approval of the Retirement Board meeting minutes for February 11, 2010.
A motion was made by Mr. Goizueta and seconded by Mr. Hoff to approve the meeting minutes of February 11, 2010. Motion unanimously approved (7-0).

3. Approval of the Retirement Board Executive Summary minutes for February 11, 2010.
A motion was made by Mr. Hoff and seconded by Mr. Goizueta to approve the Executive Summary minutes of February 11, 2010. Motion unanimously approved (7-0).

4. Items from the Board attorney.
Alan Greenfield reports that the Annual Report will be filed on time. He spoke with Ron Cohen who represents the Police 185 fund Board and informed him of the news regarding the Annual Report. When the Police Fund has their meeting Mr. Cohen informed that he will once again recommend that they pay the $32,000 that is owed to the Retirement fund.

Previously they discussed that changes were made by the State to the Retirement Ordinance which mostly impacted the 175 and 185 plans. Based upon that, the City's outside labor counsel prepared an ordinance to make the plan conform to the State requirements. He reviewed those changes and the Police and Firefighter representatives went over them as well. He supported the ordinance on behalf of the Board at the Commission meeting.

He has been in communication with Mr. Naclerio, the City Attorney and the Mayor regarding the issue with the Attorney General about a quorum. The Mayor indicated that he would give some thought to it and that the issue might come up at the second meeting in March. He spoke with the City Attorney informally and she is not in favor of what the Board wants to do. She hasn't made up her mind and she hasn't said she wouldn't bring the issue up at the Commission meeting and she hasn't said that she would stop it from coming up at the Commission meeting. He doesn't think they can look for her support regarding this issue. Mr. Garcia-Linares asks why. Mr. Greenfield responds that the City Attorney believes that it would cause a lot of abuses and people to be absent. It would be too difficult to manage. He thinks the City Attorney was thinking of City boards in general and not just the Retirement Board.

Based upon a motion that the Board approved at the last meeting after the matter of Mr. Gage's beneficiary, the Administrator and he have worked on changing the forms to be used. By the next meeting they will have a set of new forms for the retirees who choose the "No Option" retirement option.

5. 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 seconded by Mr. Goizueta. Motion unanimously approved (7-0).

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

2. For the Board's information:

   - Betty Yocum passed away on March 2, 2010. She was receiving post retirement survivor benefits which began on March 1, 1999. Her benefits have ceased.

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

   - Payroll ending date January 31, 2010 in the amount of $111,274.63 was submitted for deposit on February 17, 2010.

- Payroll ending date February 14, 2010 in the amount of $105,012.68 was submitted for deposit on February 22, 2010.
- Payroll ending date February 28, 2010 in the amount of $108,122.79 was submitted for deposit on February 8, 2010.

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

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

6. Attached for the Board’s information is the Statement of Pending Transactions and Assets as of January 31, 2009 from JP Morgan.

7. Attached for the Board’s information is the Statement of Settled Transactions from January 1, 2010 to January 31, 2009 from JP Morgan.

8. For the Board’s information a copy of the Commission Analysis prepared by Knight for the forth quarter 2009 is attached.

9. A copy of the February/March 2010 NCPERS Newsletter “The Monitor” is attached for the Board’s information.

10. For the Board’s attention is a copy of a check regarding the Enron Corporation Securities Litigation for the fund’s pro-rata share of the second partial distribution of the Net Settlement Fund in the Enron Corporation Securities Litigation class action in the amount of $21,869.29.

11. A copy of a letter dated February 8, 2010 from Stanley Holcombe and Associates concerning their role and responsibility with respect to the City of Coral Gables is attached for the Board’s information.

12. For the Board’s information, a copy of a letter dated February 11, 2010 is attached from Stanley Holcombe and Associates informing of their invoice to the City for activity from October 24, 2009 through January 29, 2010 regarding their work with the contributions receivable and State issues.

13. A copy of a memorandum dated February 12, 2010 from the State of Florida is attached approving the 2008 Annual Report and copies of checks from the State of Florida to the Fire Pension Fund and Police Pension Fund are attached for the Board’s information.

14. For the Board’s information, attached is a copy of a letter dated February 12, 2010 from Stanley Holcombe and Associates responding to a request from the Retirement system’s auditors, Goldstein Schechter Koch, PA.

15. A copy of a letter dated February 22, 2010 from Stanley Holcombe & Associates is attached for the Board's information regarding the Key Statistics for the October 1, 2009 Actuarial report.

16. An invitation to the JP Morgan Global Real Assets Conference in New York, NY from April 28 – April 30 is attached for the Board's information.

17. An invitation to the National Conference on Public Employee Retirement Systems (NCPER) 2010 Annual Conference in Las Vegas, NV from May 1 – May 6, 2010 is attached for the Board's information.

18. Copies of the City Beautiful e-News newsletters giving the latest news and information about the City of Coral Gables are included for the Board's information.

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

<u>Retirement Benefits:</u>

Retirement application of Rick Kerrick of the Public Works Department, 24 years and 2 months, Option 2B-50%, effective April 1, 2010.

RESOLUTION 3132
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
RICK KERRICK

WHEREAS, Rick Kerrick has applied for retirement effective April 1, 2010, and,

WHEREAS, Rick Kerrick requests to take Option 2B-50% with his last working day March 12, 2010.

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

That the Custodian of the Coral Gables Retirement System, is hereby authorized to pay Rick Kerrick retirement benefits under Option 2B-50% as certified by the Actuary, the first day of every month, beginning April 1, 2010 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

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

Vested Retirement Benefits:

Gregory Jackson, Public Service Department (17 years, 8 months), effective at age 52, effective date December 1, 2015.

A motion to approve the vested rights benefits application of Gregory Jackson was made by Mr. Goizueta and seconded by Mr. Hoff. Motion unanimously approved (7-0).

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

Stanley Holcombe and Associates invoice #3674 dated February 11, 2010 for actuarial services from October 19, 2009 through January 29, 2010 in the amount of $6,885.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on December 17, 2008.

A motion was made by Mr. Goizueta and seconded by Mr. Space to approve the Stanley Holcombe and Associates invoice in the total amount of $6,885.00. Motion unanimously approved (7-0).

The City of Coral Gables invoices for the rental of City's public facilities in the amount of $1,294.44 ($431.48/month) and general liability insurance in the amount of $1,005.24 ($335.08/month) for the months of January, February and March 2010.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to approve the City of Coral Gables invoices in the total amount of $2,299.68. Motion unanimously approved (7-0).

Goldstein Schechter Koch invoice #69519 for audit services for year ending December 31, 2009 in the amount of $15,000.00. 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. Garcia-Linares and seconded by Mr. Goizueta to approve the Goldstein Schechter Koch invoice in the total amount of $15,000.00. Motion unanimously approved (7-0).

8. Approval of the Fiscal Year 2008-2009 audit report and 2009 State Annual Report prepared by Goldstein Schechter Koch due to the State of Florida on March 15, 2010.

Clement Johns and Elisabeth Capota from Goldstein Schechter Koch make their presentations to the Board. Mr. Johns begins. He extends his apologizes for Vincent Carrodeguas who wanted to make this meeting was unable to attend. They are issuing a clean or unqualified opinion on the plan. Basically what they are saying is that the financial statements as of September 30, 2009 and the results of all the activities during that period are fairly stated and in all material respects in accordance with general accounting principals. They found the plan in compliance with all Federal, State and local ordinances and the internal procedures adopted by the plan were adequate. They found no fraud that came to their attention. Mr. Naclerio asks for Mr. Johns to compare and contrast this plan and GSK's other public clients. Mr. Johns answers affirmatively.

Mr. Diaz arrives at the meeting.

Mr. Johns reviews the financial statements. They compared 2009 with 2008. The total assets for 2009 were $274,126,644. The total liabilities were $55,431,355. A major component of that amount was the $52,380,680 for the obligations under securities lending for that year. The net assets held in the trust for pension plans for 2009 was $218,695,289 compared to $223,780,554 from 2008. Total revenues of $21,087,027 are comprised of contributions. The City contribution in 2009 was $22 million versus $26 million in the prior year. The main driver of the City contribution is the actuary comes up with the minimum amount that is required to deposit to make the plan sound. The next item is the investment loss and it is where the bulk of the loss is related to the plan. In 2009 there was a negative $9 million in net depreciation in fair value of investments versus negative $48 million in 2008. The main driver is a reflection of the market which was much better at the end of September 2009 compared to September 2008 when everything was falling. The net return on investments was a negative 0.12%. Based on most of the plans they audit the average ranges between negative 3% to positive 3%. This plan is sitting somewhere in the middle. There are very few plans they audit that are at 3%. Most of the plans they audit have been coming in at negative 1% and negative 2%. The total deductions or expenses of the plan were $26,172,292. A major component of that are the benefit payments and the administrative expenses. The percentage of the net assets of the administrative expenses was at a 0.12%. The plan's administrative expenses of 0.12% are at the low end of the scale compared to most of the plans they audit. The total deduction of $26 million is greater than the additions of $21 million and when they take the difference that is how they come up with the net reduction of $5,085,265. This number when deducted from the assets of 2008 or $223,780,554 gives them the end of year amount of $218,695,289.

Mr. Johns states that in the report they provide a mandatory disclosure which is information taken from the fund's actuary report. It gives a 6 year trend of the schedule of funding progress and also the schedule of contributions by employer. The schedule of funding progress looks at the actuarial computed assets versus the actuarial liability. At 10/1/2008 the actuarial value of assets was $265 million and the actuarial accrued liability was $433 million which gives an unfunded liability of $168 million. This reflects a funding ratio of 61.2%. Based on the plans they audit the average is about 68% to 70% funded ratio. Very few plans have a funding ratio of 80% and about one or two plans have a funding ratio of 90%. Every plan this year was down somewhat.

Mr. Johns comments that they had very good cooperation with the Retirement Administrator and the Finance Department in completing the audit report timely. Chairperson Huston asks if any Board member has an item they feel they should be brought up that would change the audit report. No Board member had an item in the audit report that they wanted to discuss.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Space to sign the GSK Management Representation letter. Motion unanimously approved (8-0).

Ms. Capota informs that several of the plans they do audits for they also prepare the State Annual Report for them. They have established a good relationship with Julie Browning and Patricia Shoemaker at the State. The first couple of pages of the Annual Report have general information about the plan. Pages 4 and 5 are what the State looks at to tie in dollar for dollar in the audit report. That is why it is a great thing that the Board has its own financial statements because they stand alone and can directly tie dollar to dollar into those two pages. Pages 6 through 10 are backup to pages 4 and 5. It gives a little more detail to the numbers on pages 4 and 5. Then the rest of the report is more backup in detailed numbers that are on page 4 and 5. The State goes through the last part of the report with a fine tooth comb. She cannot promise that the fund will not get a letter with questions from the State because it is very rare that happens but she can promise that they will not receive the types of questions as they have in the past. Mr. Geraci asks if a letter can be sent to the police and fire unions informing them that the State Report was delivered on time. Ms. Groome responds that she will do so.

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

Mr. Goizueta recognizes Ms. Adler who is retiring from the City.

9. Investment Issues.

Attendance of John Roche from Thornburg (international equity manager) reviewing the portfolio's performance, their view of the market and how Thornburg is positioning the portfolio to take advantage of opportunities and protect from risks.

Mr. Roche gives his presentation to the Board. They are a bottom up fundamental manager. They do not take an economic view and position their portfolio they hunt down companies they think will outperform in any market. They take advantage of opportunities and protect against risk. Thornburg is an all cap/all style portfolio. Typically the portfolio invests about 40% of its assets in basic value companies internationally, 40% is in consistent earners and 20% is in emerging markets. They typically don't invest in frontier markets which led the all cap world index last year. When they do invest in emerging markets it tends to be companies in Brazil, India and China. For 2008 the portfolio was down about 40% but they outperformed the benchmark. However, if you track their record from 1998 most of their outperformance tends to be in down years.

In 2008 they moved the portfolio to the middle in consistent earning companies because they thought it would be the most defensive position to be in. That didn't prove correct. The names they had in the portfolio were names like Nestle, SAP Miller, and Wal-Mart Mexico which are large names that added to the portfolio. To some degree they expected outperformance in a great manner but they had a large concentration in telecom and that didn't react well to the hyper cycles that went on in 2008. Consumer staples which is a large core component, suffered from commodity price rises. So they saw lower profits in 2008 for consumer staples.

In 2009 when the market came back their fund had a total return of 34% and you started to see the portfolio shift back towards basic value and back towards emerging market companies. Exposure to financials grew to 14% to a peak of 25% in the 3rd quarter of 2009. Their exposure to emerging markets grew from 15% to 22% which is typical for their portfolio. Roughly 50%

of their under performance came from low quality emerging market rallies where smaller countries more dependent on global credit got big boosts. They continue to like Brazil and China.

For 2010 they are flat but they are outperforming the benchmark. Their economic outlook is for slow global growth. They don't see any great expansions going on anywhere in the world. They are trying to become a pure stock picker. Their portfolio has about 60 different stocks which is relatively small for an international portfolio. They tend to do well in flat markets because they can pick the winners and they have industry leaders like Nestle and ICBC who basically dominate the market and tend to do well in flat markets. Their outlook is that emerging markets will continue to do well this year. They have increased their holdings to commodity centric markets like Australia and Canada. There is a strong belief that 7% to 10% of total return this year could be a commodity boost in those two countries. Developed markets are too hard to call because currency will play a large role. The currency fluctuations in the past 4 months have been greater than they have in the last 10 years. It is kind of hard to tell which way the currencies are going to go. For example the Japanese Yen us up but the exports from Japan are weak. They have started hedging almost every currency. They believe strongly in the dollar and what they want is the ability to trade out of these companies' stocks this year and trade it in the US dollar and then purchase another stock in another currency without having to realize the currency fluctuations. They have hedges on the euro, the real, the peso, and the yen for about 8% to 10% of the portfolio today which is high for them.

Mr. Space asks if there was anytime during the time their portfolio was down that they wished they had the flexibility to get out of the market. Is there anytime that they didn't have the flexibility because of this plan's mandate that prevented them from doing something they wished they could do but couldn't do? Mr. Roche responds that they wished they had greater in flows during those periods of time because they saw great opportunities in a lot of the things they hold. They are charged with being a long holding manager with all their clients and they manage the portfolio that way.

Dave West reports on the performance in February. They added a little over $4 million to the fund in February. They closed the month at $234,841,139. On a fiscal year to date they have added a little over $6 million to the fund. For fiscal year to date they have accumulated at 6.5% return. The one year rate of return is 27.26%. Equities continue to be the predominant source of return. It appears they are entering that cycle where the bond portfolio takes a breather. They have been tracking some extraordinary rates of return coming out of the fixed income portfolio.

Troy Brown informs that the fund is scheduled to get $4.1 million of the $4.3 million that they have outstanding in their redemption request from JP Morgan in April. Mr. Garcia-Linares asks if Mr. Brown still wants the fund to receive the whole amount requested. Mr. Brown answers affirmatively. He wants the real estate asset to go down to 5%. Mr. Garcia-Linares asks if they could keep some of the money in the queue with JP Morgan. Mr. West explains that their purpose in getting all the money in the queue is to diversify the managers and get additional product. Mr. Garcia-Linares asks if they decide to keep some of the money at JP Morgan and in the future decide they want to take it out again how long would that take. Mr. Brown explains that JP Morgan expects the whole queue to be gone by July so they will have the quarterly liquidity they have in the fund. He is standing by their recommendation to take the amount of money they asked for from JP Morgan. Mr. Garcia-Linares asks if they took $2.5 million of the $4.3 million what percentage of the portfolio would that asset be at. Mr. Brown responds that it would be at about 5%.

Mr. Space wants to protect the fund's downside. Their loss in 2008 and 2009 was manipulated and he thinks they need to have investment meetings to try and find a way to protect their downside. When you lose 50% you have to gain 100% to get back to where you were before you lost. He is not talking about timing the market but he is talking about is watching what is going on with the market. He thinks this is a risky time. They need to figure out what is best for this fund because they cannot lose 40% again. He thinks they need to think about protecting their downside. Mr. Brown agrees with Mr. Space. They had this discussion at the last meeting and they talked about giving managers additional flexibility. He thinks they have a 10% or 20% cash downside limit. The reality is the managers want to do really well for their clients but they also want to earn their fee. If you give them 50% ability to go into cash they are not going to use it. They are going to stay fully invested because the utility that they are going to get if they are only down 10% and the market is down 20% is nowhere near where they could be if they are only up 10% and the market is up 20% and they were in 50% cash. The managers' ideas are to earn that fee and they earn that fee by getting close to the benchmark or outperforming the benchmark. He believes that having a long term plan is the best form of downside protection because it prevents you from being reactionary to what is going on.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Space to cut their distribution from JP Morgan from $4.3 million to $2.5 million and to switch back to reinvestment of the income back into the real estate asset. Motion approved (7-1) with Chairperson Huston dissenting.

10. Old Business.
    There was no old business.

11. New Business.
    Chairperson Huston informs that they have a resignation letter from Wayne Sibley who served on this Board for many years. Can they invite him to the next meeting and present him with a Certificate of Appreciation? Ms. Groome answers affirmatively.

Meeting adjourned at 10:39 a.m.

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

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR