

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

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

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

Chairperson Tom Huston calls the meeting to order at 8:06 a.m. There was a quorum present. Mr. Diaz was not present when the meeting was called to order.

1. Roll call.
2. Approval of the Retirement Board meeting minutes for March 11, 2010.
A motion was made by Mr. Goizueta and seconded by Mr. Naclerio to approve the meeting minutes of March 11, 2010. Motion unanimously approved (7-0).
3. Approval of the Retirement Board Executive Summary minutes for March 11, 2010.
A motion was made by Mr. Goizueta and seconded by Mr. Naclerio to approve the Executive Summary minutes of March 11, 2010. Motion unanimously approved (7-0).
4. Items from the Board attorney.

Alan E. Greenfield reports to the Board. They had a meeting with the City Attorney about the question of an electronic quorum and the City Attorney agreed to prepare an agenda item to put it before the Commission to see whether the Commission would request that the City Attorney contact the Attorney General for an opinion.

Mr. Greenfield informs that he contacted Attorney Cohen about the money owed by the Police to the Retirement System. Mr. Cohen is going to recommend at the Police 185 Fund meeting this evening that the Retirement System get paid the money owed to it. He believes a resolution will be passed to pay the Retirement System. The Police 185 Board was happy that

this Board hired an independent auditor and that the 2009 State report was filed on a timely basis.

Mr. Greenfield explains that he and the Administrative Manager have been working on some new forms for the Spousal Acknowledgement the Board requested. The form came about due to the family that came before the Board because they didn't think that the husband would not provide for his wife upon his death. The family believed that the deceased retiree was not explained the retirement options. The State of Florida Retirement System's form was used to draft the form for this Retirement System. The spouse has to sign and there is an explanation as to what No Option is and what Option 1 is at the bottom of the form. Mr. Space would like to see the forms for the different options provided by the Retirement System. Ms. Groome informs that she will provide that to the Board.

Chairperson Huston asks if they have to send the form to the City Commission before it is adopted. Mr. Greenfield responds that the Board has the right to make rules and regulations in order to enable the Board to function. Mr. Geraci asks if they can show the City Attorney the form. Mr. Greenfield replies that he would.

Mr. Geraci believes that the decision to retire is made by the employee and not their spouses. If they bring in the spouse to sign this document for the retiree to receive No Option the spouse may decline to sign the form because they don't agree with the retiree's decision. Can the retiree change their option before they receive their benefits? Ms. Groome responds that the retiree can change their option up until they receive their first monthly benefit. Chairperson Huston explains that the whole idea of the Board having this type of form is to avoid what happened with the family that came in and said that their father wasn't explained the retirement options properly.

Mr. Space asks if there is any law with the State that says the spouse has to sign if the retiree chooses no option. If there is not a law and the employee signs the document and the document clearly states at the bottom what the option is wouldn't that be the end of the conversation whether the spouse signs the form or not? Mr. Greenfield informs that he will look at the Statute to see if there is a law. Mr. Space thinks that this is an employee decision and not their spouses' decision. Mr. Greenfield suggests that they defer this issue until the next meeting. He will see whether or not it is a State requirement for the State plan to have the spouse acknowledge the retiree's retirement decision.

A motion was made by Mr. Naclerio and seconded by Mr. Goizueta to defer the item to the next meeting. Motion unanimously approved (7-0).

Mr. Diaz arrives at the meeting.

5. Report of Administrative Manager.

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

1. For the Board's information, there was a transfer in the amount of \$2,150,000.00 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 March 2010 for the April 2010 benefit payments.

2. For the Board's information:

- Thomas McBride of the Fire Department passed away on February 10, 2010. He was receiving service connected disability retirement benefits which began on October 1, 1996. Since he did not have any unmarried natural or legally adopted child or children less than age twenty-two (22), his spouse will receive 50% of his benefit. His spouse began receiving those benefits on March 1, 2010.
- Victor Hernandez of the Automotive Department passed away on March 12, 2010. He retired on April 1, 1991 with No Option. His benefits have ceased.
- Helene Williams and Arlene Ferris were receiving post-retirement survivor benefits as of March 1, 2008. Their benefits have ceased due to the 5 year certain rule. They are the beneficiaries for retiree Florence Dawson who chose No Option when she entered the DROP on April 1, 2005. Ms. Dawson passed away on February 25, 2008.
- Agnes Bowles of the Building and Zoning Department entered the DROP on April 1, 2005 and left the DROP on March 31, 2010. She received her first retirement benefit on April 1, 2010.
- Jeffrey Timkee of the Police Department entered the DROP on April 1, 2005 and left the DROP on March 31, 2010. He received his first retirement benefit on April 1, 2010.
- Marjorie Adler of the Human Resources Department entered the DROP on December 1, 2007 and left the DROP on March 12, 2010. She received her first retirement benefit on April 1, 2010.
- Richard Ridley of the Public Works Department entered the DROP on January 1, 2008 and left the DROP on March 31, 2010. He received his first retirement benefit on April 1, 2010.

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

- Payroll ending date March 14, 2010 in the amount of \$103,956.49 was submitted for deposit on March 25, 2010.
- Payroll ending date March 31, 2010 in the amount of \$105,156.97 was submitted for deposit on April 5, 2010.

4. A copy of the detailed expense spreadsheet for the month of March 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 February 1, 2010 to February 28, 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 February 28, 2009 from JP Morgan.
 7. Attached for the Board's information is the Statement of Settled Transactions from February 1, 2010 to February 28, 2009 from JP Morgan.
 8. The Berwyn Group Death Check Verification Services dated March 25, 2010 is attached for the Board's information.
 9. For the Board's information, a copy of a letter dated March 11, 2010 is attached from Goldstein Schechter Koch regarding their responsibilities under generally accepted auditing standards and certain information related to the planned scope and timing of their audit of the Retirement System.
 10. For the Board's information, copies of two letters dated March 12, 2010 are attached addressed to the Fraternal Order of Police Lodge No. 7 and the Coral Gables Firefighter Association Local 1210 informing that the 2009 State Annual Report was mailed to the State of Florida on March 12, 2010.
 11. An invitation to the International Foundation's Washington Legislative Update in Washington, DC from May 3 – May 4, 2010 is attached for the Board's information.
 12. An invitation to the JPMorgan Asset Management's 2010 Equity and Alternatives Conference in New York City from June 2 – June 3, 2010 is attached for the Board's information.
 13. An invitation to the Harvard Law School's Program for Advanced Trustee Studies sponsored by the National Conference on Public Employee Retirement Systems (NCPERS) at the Charles Hotel near the Harvard campus from July 26 – July 28, 2010 is attached for the Board's information.
 14. Copies of the City Beautiful e-News newsletters giving the latest news and information about the City of Coral Gables are included for the Board's information.
6. Employee Benefits:
(The Administrative Manager recommends approval of the following Employee Benefits.)

Retirement Benefits:

Retirement application of Richard Carter of the Public Service Department, 24 years and 1 month, No Option, effective May 1, 2010.

RESOLUTION 3133
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
RICHARD CARTER

WHEREAS, Richard Carter has applied for retirement effective May 1, 2010, and,

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

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

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

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

Retirement application of Edward M. Weller of the Building and Zoning Department, 15 years, No Option, effective April 1, 2010.

RESOLUTION 3134
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
EDWARD M. WELLER

WHEREAS, Edward M. Weller has applied for retirement effective April 1, 2010, and,

WHEREAS, Edward M. Weller requests to take No Option with his last working day March 31, 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 Edward M. Weller retirement benefits under No Option 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. Weller's retirement application was made by Mr. Goizueta and seconded by Mr. Hoff. Motion unanimously approved (7-0).

DROP Benefits:

DROP application of Vickie Siegel of the Public Works Department. Effective date April 1, 2010.

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

DROP application of Michael Hearn of the Police Department. Effective date May 1, 2010.

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

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

Application of Robert Wentzell of the Police Department requesting to buy back 1,763 days (4 years, 9 months and 15 days) of Prior City Service time.

A motion to approve Mr. Wentzell's application to purchase 1,763 days of other prior City service time was made by Mr. Hoff and seconded by Mr. Goizueta. Motion unanimously approved (7-0).

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

The Bogdahn Group invoice #4901 dated March 25, 2010 for 1st Quarter Performance Evaluation and Consulting Services in the amount of \$33,750.00. 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. Hoff to approve The Bogdahn Group invoice in the total amount of \$33,750.00. Motion unanimously approved (7-0).

8. Approval of Spousal Acknowledgement Forms.
This item was discussed under the Board Attorney items.

9. Investment Issues.
Dave West of The Bogdahn Group reports on the investments. The key economic item as of March 31, 2010 was that the Fed stopped their purchase buy back of the agency passive mortgages. Treasuries did back up a little bit during the quarter but the spread product or the agency product that they had been buying back held steadily. Information technology and health care were the best growers but the worst performers. Small cap was the best grower. Corporate profits were up 8% for the March quarter so that ended up capping year over year one of the biggest quarterly rebounds and earnings reported growth rates in about a quarter of a century.

Mr. West reports that the fund opened at \$234,841,139 at the beginning of March. There were contributions for the period at \$3,006,216. Distributions going out were \$2.3 million. Manager fees for the period were \$95,341. Non-manager items that went out for the month were

\$25,754. The return on investments was \$9,313,718. At the end of the month the fund was at \$244,739,978. For the fiscal year to date the fund has earned \$15,315,440.

Mr. West updates the Board on the real estate asset. While in New York he, Joe Bogdahn and Mike Welker met with Kevin Faxton, who heads up JP Morgan's Real Estate Americas group, along with a couple of their key people as part of the due diligence visit on that product. Any day this fund should receive the \$2.5 million from the queue. JP Morgan is liquidating their entire queue as of April 6th. There is no longer a queue for that fund. They have had \$350 million of contributions and when they are looking at their capital commitment pipeline they are estimating they have a billion pledged to come in to that fund. Almost in the course of a quarter there has been a dramatic reversal in the flow of the JP Morgan's fund expectation for this product. The current yield of the portfolio is 6.7% and they are anticipating a yield between 7% and 8%. They are projecting a 10% total return for the period.

Mr. Space understands that the fund's domestic equity is broad cap and move around the spectrum. In the last six months have any of the managers moved from large cap to small cap? Mr. West explains that it has been very subtle so they have not moved much into small cap. When they deliver the full first quarter report they will have information on where the managers have been regarding the different capitalizations. At that time they will be able to address that issue specifically. Mr. Brown states that when he looks at broad cap it has more to do with portfolio construction and methodology than it does with an active tactical move up and down the capitalization range. It may be focused more toward a large cap but it is going to have more of the small to mid cap names in it. Small cap has appreciated more so they have become heavier weight on the portfolio and not because the manager has transacted toward the smaller numbers. Mr. Naclerio asks if they should have a manager dedicated to small cap. It seems to him that their managers are always going to be motivated by the large cap because their major holdings are in the large cap. Mr. West explains that looking back historically at the holdings of the managers the average cap is going to have a larger orientation. When you go back and do the holdings analysis they are pretty consistent over time and they have a very meaningful representation in the small to mid cap area. When they aggregate in the full quarterly report to show the capitalization weights it will show that the fund is getting more representation now in the small to mid cap space than the fund was in the previous investment policy. Mr. Space thinks they need to really understand that there is a transition between what performs best prior to, during and after a recession. Mr. West thinks that in looking for a migration of movement across the capitalization with their current managers for a long period of time they are going to pick that up. They won't see it quarter to quarter or over a year. It is tracing back and looking at an extended period of holdings. Some managers will migrate more than other managers. The fund does have representation now it is just being delivered by a broad cap manager as opposed to a dedicated manager in that space.

10. Old Business.

No old business was discussed.

11. New Business.

Chairperson Huston states that the financial press has been very outspoken on the issue of yield versus the ability of various municipalities to meet that yield requirement. If you look at the biggest pension plan in the United States which is CALPERS in California they are actually

considering going to a 6% yield target. He thinks the City of Toledo in Ohio was considering filing Chapter 9 to rid them of their pension obligation because they are not able to fund their plan. In today's climate they cannot meet the fund's target of 7.75%. The only way to get there is to go into riskier investments and that applies losses. He feels like they need to address the issue of yield and tell the City that the fund can't earn 7.75%. They aren't earning 7.75% consistently and he doesn't see in the future of the fund earning 7.75%.

Mr. Geraci agrees. He thinks it is the Board's job as fiduciaries to move into a direction they feel is the most appropriate and beneficial to the fund in the long term. What the City does, whether they raise taxes or negotiate with the Unions that is beyond the Board's scope to determine. The Board should consider lowering the assumption rate. He thinks that if the Board agrees on modifying the assumption rate then they should do it as soon as possible. He doesn't see any other way to proceed. After seven years they have been closer to 4% rate of return than 7.75% rate of return. Mr. Space thinks if they look at what they have done and try a little harder than they have in the past that the fund can do a little better but he doesn't know if it can make 7.75%. He does know that there is a cash ramification if you drop it from 7.75% to 6% or lower and doing that is a big cash thing immediately that the City doesn't have at this moment. His position is to make the fund solid and make as much money for the fund that they can. He believes that doing what they have been doing and expecting a different outcome has a definition.

Chairperson Huston is looking at recognizing this issue globally. Anyone trying to be prudent cannot earn 7.75%. The fund hasn't earned 7.75% in a long time. They as a Board either have to go into riskier investments to earn more and they have to recognize that their boggy is too high. Mr. Naclerio agrees. He thinks this issue should be discussed at the Investment Committee meeting. He asks for Mr. Nelson to discuss this issue with the City Manager to let him know that the Board has discussed it. It has been a matter of concern for him for a long time.

Mr. Goizueta remembers a few years ago when the fund was making 13% or 14%. Mr. Diaz points out that the market has just had the biggest financial meltdown in history and you can't look at the rate of return for 7 years you have to look at 10 to 20 years. Mr. Geraci thinks that at the end of the day no matter what happens the City will make up the difference. Mr. Goizueta points out that if the Board lowers the assumption rate now it would create such a burden on the City now that the only way they are going to get the money is to let go of employees because the City is not going to increase taxes. That is what ultimately will happen. Mr. Geraci hears what Mr. Goizueta is saying but before they start to lay off employees there has to be some middle ground. He knows his neighbors enjoy the lifestyle they have in the City and that they would be willing to pay for it so if the taxes have to go up so be it. At the end of the day even if they go back ten years he doesn't think the fund made 7.75%. Mr. Goizueta disagrees. Chairperson Huston asks for Mr. Nelson to speak on this issue.

Mr. Nelson states that the current City contribution is \$24.3 million. In talking with the actuary, the projection for next year's City contribution is going to increase. The number hasn't been determined yet. The City is faced with an increase and if the Board lowers the assumption rate it would be an added burden to the City's contribution. He recommends that the Board look at the actuary's report and talk to the actuary to see how much lowering the

assumption rate would represent in added City Contribution before the Board makes any recommendation. Mr. Naclerio doesn't want the City Manager to be thinking that his work was done when the Board went down to 7.75%. That is very clear from the record. He is not recommending any change at this point. He wants Mr. Nelson to express the concern of the Board to the Manager that at least for the past 7 years the fund has not met the 7.75% rate of return. They are looking at alternative assets that are more risky because they can't do it with the line up of investments they have now. Mr. Nelson knows that since the Manager has been with the City for a year his major focus has been the pension plan. Mr. Naclerio informs that he only wants Mr. Nelson to inform the Manager of this discussion at this point. He doesn't want a surprise that the Board never told anyone about the Board lowering the interest rate without any warning. He thinks that whether they do it or not the issue is on the table of discussion. It has to be on the table and the Manager should know about it.

Mr. Goizueta verifies what Mr. Nelson said about the Manager focusing on the pension plan. There are major changes coming to the plan. Mr. Nelson informs that he will bring the issue up with the City Manager and the discussion is reflected in the minutes so the Commission will be able to read the Board's comments. Everyone will be advised that the Board is looking at lowering the assumption rate. He reiterates that the Board should look at the actuary's report and discuss this issue with the actuary when he attends the meeting in May. This is in discussion mode right now. Mr. Space suggests to Mr. Nelson that when he speaks with the City Manager he should let the Manager know that at this point in time the Board sees no way without going to a higher risk portfolio that this fund will make a 7.75% rate of return on a long term basis. Mr. Geraci doesn't recommend going into a higher risk portfolio. Mr. Space agrees but the issue should be brought to the attention of the City Manager.

Mr. Naclerio thinks they are going further than his intent. His intent is to only let the City Manager know that it is an issue. They have no idea how they are going to resolve it at this point but it is an issue. Chairperson Huston knows that the pension plans that have gone into riskier assets have gotten a big hit in the market.

Mr. Goizueta asks for the consultants to get a list of the pension plans in the State of Florida and what their rates of return are for a comparison. He thinks this fund is in the average at 7.75%. Mr. Brown informs that there is a survey from October 2009 of all the pension plans in the State of Florida and he will get that for the Board. Mr. Space would like to know what the plan's rate of return has been since 1998. That would give them two recessions and two good times.

Mr. Diaz asks if the plan has gone into riskier assets to meet the current assumption rate. Mr. West responds that they have not. Mr. Diaz thinks they have stayed the course and they earned about 29% last year. Mr. West agrees. Mr. Diaz thinks that the point is they have to look at the rate of return in the long term like 20, 25 or 30 years. He doesn't think you can look at the investment's rate of return over a 7 year period. You have to look into a longer time period. This pension is set up for long term. You should be looking at a 20 to 30 year horizon and not a 5, 6 or 7 year horizon. He thinks they are overreacting. Mr. Goizueta agrees. They are also getting rid of the bad years which are coming off the books now.

Chairperson Huston informs that he just wanted to put this on the table so the City can consider where the Board is coming from. They are not earning 7.75% and he doesn't think the fund has earned 7.75% since he has been on this Board. Mr. Diaz disagrees. He has been on the Board when the fund has earned 13% and 14% in a year. Chairperson Huston believes they haven't earned over 7.75% for a 7 to 10 year period. Mr. Goizueta asks for the consultants to show what the fund has earned in a 10 year period and a 20 year period. Mr. Brown informs that they will have to get the data for those periods. Mr. Nelson states that the information is in the actuarial report. The history is there. You can scan the actuarial report and see what the returns were year by year and then you look at the long term perspective. They amortize things over 30 years. This plan is perpetual. Chairperson Huston comments that the biggest plans in the United States are dealing with this issue. Mr. West believes this is an appropriate conversation to have when you have your annual evaluation with the actuary. It makes a lot of sense to find out what the impact would be if you adjusted the rate of return. Those would be numbers that the actuary can run. From their part they can provide some of that historical data on the plan's returns and supply some additional information on the published studies on what other Florida public plans are doing as well as private plans. They can get that information for the Board.

Chairperson Huston thanks the consultants for having the March 31 performance at this meeting. It was a real accomplishment.

Meeting adjourned at 10:04 a.m.

Set next meeting date for Thursday, May 13, 2010 at 8:00 a.m. in the Youth Center Auditorium.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR