

CORAL GABLES RETIREMENT SYSTEM

Minutes of May 8, 2008
Youth Center – Auditorium
405 University Drive
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						
Manuel A. Garcia-Linares	P	P	P	P	E						
Tom Huston, Jr.	P	P	P	P	E						
Sal Geraci	P	E	P	P	P						
Leslie Space	P	P	P	P	E						
Agustin Diaz	P	P	P	P	P						
Troy Easley	P	P	P	P	P						
Victor Goizueta	P	P	P	P	P						
Wayne Sibley	P	P	P	P	P						

Mayor Donald D. Slesnick, II
Vice Mayor William H. Kerdyk, Jr.
Commissioner Maria Anderson
Commissioner Rafael “Ralph” Cabrera
Commissioner Wayne “Chip” Withers
Police Representative
Member at Large
General Employees
Fire Representative

STAFF:

Kimberly Groome, Administrative Manager
Alan Greenfield, Board Attorney
Donald G. Nelson, Finance Director
Troy Brown, Merrill Lynch

A = Absent
E = Excused Absent
P = Present

GUESTS:

Richard Naue, Police Officer Retirement Trust
Tom Carrigan, Coral Gables Police Department
Joseph Bogdahn, Bogdahn Consulting
Elba Gonzalez, Fowler White
Marj Adler, Human Resources Director

Chairperson Sibley calls the meeting to order at 8:03 a.m. There was a quorum present.

1. Roll call.
2. Approval of the Retirement Board monthly meeting minutes for April 10, 2008.
A motion was made to approve the monthly meeting minutes of April 10, 2008 by Mr. Diaz and seconded by Mr. Goizueta. Motion unanimously approved (6-0).
3. Approval of the Retirement Board special meeting minutes for April 28, 2008.
A motion was made to approve the special meeting minutes of April 28, 2008 by Mr. Easley and seconded by Mr. Goizueta.

Discussion:

Mr. Naclerio asks Mr. Greenfield if he is approving the minutes along with the Board. Mr. Greenfield informs that he read the minutes over and did not see anything that would affect any law suit the Board is involved in.

Motion unanimously approved (6-0)

4. Report of Administrative Manager. (*Agenda Item 6*).

A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (6-0).

1. For the Board's information, there was a transfer of \$1,265,000.00 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 April 2008 for the May 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 3rd quarter retirement contribution of 2008 and subsequent funding of the international asset allocation.
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 March 16, 2008 in the amount of \$71,896.17 was submitted for deposit on April 11, 2008.
 - Payroll ending date March 30, 2008 in the amount of \$71,911.90 was submitted for deposit on April 8, 2008.
 - Payroll ending date April 13, 2008 in the amount of \$70,945.91 was submitted for deposit on May 2, 2008.
 - Payroll ending date April 27, 2008 in the amount of \$71,670.52 was submitted for deposit on April 27, 2008.
4. For the Board's information:
 - John Fuller of the Police Department passed away on April 14, 2008. He retired on March 1, 1990 with No Option. His benefits have ceased.
5. A copy of the Summary Earnings Statements from the Northern Trust Securities Lending Division for billing period March 1, 2008 to March 31, 2008 is attached for the Board's information.
6. Attached for the Board's information is the Statement of Pending Transactions and Assets as of March 31, 2008 from JP Morgan.
7. Attached for the Board's information is the Statement of Settled Transactions from March 1, 2008 to March 31, 2008.
8. The Berwyn Group Death Check Verification Services dated April 8, 2008 is attached for the Board's information.

9. A copy of a letter dated April 8, 2008 is attached for the Board's information from Merrill Lynch regarding their confirmation of their understanding of the manner in which they handle and execute the orders from the Retirement System is attached for the Board's information.
10. For the Board's information, a copy of an email dated April 10, 2008 Randall Stanley regarding the State of Florida releasing the 175/185 premium tax monies.
11. A copy of a letter dated April 14, 2008 from Randall Stanley of Stanley Holcombe and Associates to Patricia Shoemaker of the State of Florida Municipal Police Officers' and Firefighters' Retirement Trust Funds Office clarifying his position on the actuarial impact statement of Ordinances No. 2006-31 and No. 2008-09 is attached for the Board's information.
12. A copy of a letter dated April 15, 2008 from Burgess Chambers is attached for the Board's information regarding an update on his firm.
13. A copy of a letter dated April 17, 2008 from Jeffrey Swanson of Southeastern Advisory Services thanking the Board for their consideration for the position of investment consultant⁶ is attached for the Board's information.
14. Attached for the Board's information is a copy of a letter dated April 22, 2008 from Patricia Shoemaker of the State of Florida Municipal Police Officers' and Firefighters' Retirement Trust Funds Office to James W. Linn of Lewis, Longman and Walker acknowledging the receipt of an April 14, 2008 letter from Randall Stanley.
15. A copy of an article dated April 16, 2008 from FundFire regarding Municipal Pensions setting their goals too high which was sent by John Mashoff of Winslow Capital, the fund's large cap value manager, is attached for the Board's information.
16. An invitation is attached for the Board's information regarding the Emerging Managers Summit 2008 at the Chicago Marriott Downtown Magnificent Mile from May 14, 2008 to May 16, 2008 in Chicago, IL is attached for the Board's information.
17. An invitation to the 2nd Annual Southeast Public Employee Retirement Systems Forum from June 24, 2008 to June 25, 2008 at the Westin Buckhead in Atlanta, GA is attached for the Board's information.
18. An invitation to the Public Funds Summit East from July 9, 2008 to July 11, 2008 at the Hyatt Regency Newport Hotel and Spa in Newport, RI is attached for the Board's information.
19. An invitation to the Institutional Real Estate, Inc. Investing in Infrastructure Conference from November 17, 2008 to November 19, 2008 at the Westin Copley Place in Boston, MA is attached for the Board's information.

20. 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.

5. Employee Benefits: (*Agenda Item 7*)
(The Administrative Manager recommends approval of the following Employee Benefits.)

DROP Benefits:

DROP application of Guy Gooch of the Fire Department. Effective date May 1, 2008.

A motion to approve Mr. Gooch's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Diaz. Motion unanimously approved (6-0).

DROP application of Dan Keys of the Public Service Department. Effective date June 1, 2008.

A motion to approve Mr. Key's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (6-0).

6. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices). (*Agenda Item 8*)

Stanley Holcombe and Associates invoice no. 3531 dated April 10, 2008 for actuarial consulting services from January 2008 through March 28, 2008 in the amount of \$8,408.00. 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. Diaz to approve the payment. Motion unanimously approved (6-0).

Joan L. Bailey & Associates invoice dated May 2, 2008 for attendance of court reporter for open and closed sessions on April 28, 2008 in the amount of \$1,105.00.

A motion was made by Mr. Goizueta and seconded by Mr. Easley to approve the payment. Motion unanimously approved (6-0).

7. Attendance of Joe Bogdahn of Bogdahn Consulting to discuss the \$25 million professional liability insurance condition the Board set for the independent investment consulting firm. (*Agenda Item 9*)

Joe Bogdahn informs that at the meeting they had the discussion on getting \$25 million general liability insurance which they can get but then there were discussions on them getting \$25 million professional liability insurance. He has been spending a lot of time on this issue. One of the things he discovered is that the \$25 million that Merrill Lynch lists covers \$2 trillion in assets; 16,500 brokerages in 40 different countries and they manage money. It has come to his attention that Merrill Lynch has \$4 million in coverage and then they self assure or they have a

bond. For \$25 million in coverage for a firm that doesn't manage assets has about \$8 billion of assets under advisement. He has done some checking with this for his firm. If they were to go to the limits in the area of \$20 million professional liability insurance the premium would be \$275,000 a year. Right now their current coverage is \$3 million and they pay \$25,000 a year for that premium. He believes that the \$3 million coverage they currently have is more than adequate for what they do. When the Board hires investment managers it is imperative that the contract with those investment managers states that they are a fiduciary to the fund and that it is in writing. It is also imperative that the investment managers agree to local venue with the Board in Miami-Dade County not when it is in arbitration and they all have insurance so it is layer after layer.

Mr. Naclerio states that the problem that caused them to ask for higher insurance came from the advice that the Board received to do certain things and to structure their portfolio in certain ways not because some one was stealing their assets. Through Mr. Bogdahn's research did he determine that a general liability policy does not respond in the industry? Mr. Bogdahn informs that it does not. It would have to be a professional liability policy. Mr. Naclerio explains that the reason they accepted less from Merrill Lynch is because Merrill Lynch has a lot of assets so if the Board had to sue them then Merrill Lynch had many assets to respond. What is the asset base of Bogdahn's firm that could respond if they got into a situation like that? Mr. Bogdahn informs that it is no where near what Merrill Lynch has. He thinks that the process that the Board's previous consultant followed to achieve their returns is the reason the Board is suing them. If they follow the fiduciary process, the prudence is in the process that they document what decisions are made to get into situations they are in. So even if a decision was made that got them into a bad decision as long as they followed procedures and properly documented and researched and were thoughtful they have covered themselves from that standpoint. The Board has his firm to help them with that and the Board has the investment managers to implement and make suggestions.

Mr. Bogdahn informs that he doesn't know of the firm that is being sued but he knows that they do not have the expertise to do what his firm does. If they did he would know them. This type of business is what they do. He explains that 85% of their business concentrates on Florida public pensions. What percentage of the firm being sued concentrated on institutional business like this plan? He thinks it is very small. Mr. Naclerio doesn't think that is the issue. The issue is everyone makes mistakes and they aren't worried that someone is going to sue the plan because they picked Bogdahn as their consultant. They are worried about the Board getting bad information on a type of stock by the Bogdahn group and the consequences of that decision the Board will have to follow. Mr. Bogdahn understands. He thinks it is important that the people working with this fund understand Florida Statutes and that they understand the decisions the Board makes is not to try to go out and hit a home run. There is no advantage for this Board to swing for the fence. There is plenty of opportunity in investments that the Board will not be criticized for. His firm does the due diligence on different types of investments and adding risk to the portfolio is not they are about. It is the risk adjusted returns that they focus on. Making some modifications to the portfolio and bringing risk down will give the Board more opportunity to enhance the returns they can have. Mr. Naclerio asks if Mr. Bogdahn's firm can go up to the \$4 million level like Merrill Lynch. Mr. Bogdahn informs that he can do that.

Mr. Nelson points out that when they started this discussion they did not believe it was unreasonable due to the background that they are facing with UBS/Paine Webber. However looking at the firms they have seen and analyzing the costs and the professionals they have with the firm at this time he does believe that the \$25 million professional liability insurance is unreasonable. He thinks it would be fair to hear from Burgess Chambers who is also in attendance. Mr. Chambers thinks that this issue comes down to how much insurance the Board wants. There is a market for the professional liability insurance and it is extremely expensive. They are still pricing the market place. If it is something the Board wants then his firm would need to build it into their contract.

Mr. Sibley states that if the Board wants to stay with the \$25 million that it will probably have to be added to the price of the firm's service and the fund will be paying for it. Mr. Diaz informs that he has been saying all along that they should keep the \$4 million and that \$25 million was too high. Mr. Easley agrees. Mr. Naclerio agrees that they don't need the \$25 million.

A motion was made by Mr. Geraci and seconded by Mr. Diaz to decrease the amount on the condition of hiring Bogdahn Consulting from \$25 million professional liability insurance to \$4 million professional liability insurance.

Discussion:

Chairperson Sibley asks Mr. Nelson and Mr. Greenfield if they think that is fair and equitable. Mr. Nelson believes it is fair and equitable and that it is a good decision. Mr. Greenfield agrees with Mr. Nelson.

Vote:

Mr. Diaz – Yes

Mr. Easley – Yes

Mr. Geraci – Yes

Mr. Goizueta – Yes

Mr. Naclerio – Yes

Mr. Sibley – Yes

Motion unanimously approved (6-0).

Chairperson Sibley asks if the Board wants to discuss keeping Mr. Brown as the consultant to the Board when he joins Bogdahn. Mr. Nelson informs that he had a conversation with Mr. Space and the issue is if there will be a team of three or the original two consultants proposed or Mr. Brown only. Mr. Bogdahn informs that the original consultants will be Dave West, Mike Welker and Troy Brown so there will be three consultants with the responsibility to this plan. Mr. Naclerio thinks that the Board would like the blend of the three consultants. Mr. Geraci suggests that during the transition period in the next four months that they have the team of three for sure and then after the four months it will be up to the team to decide who comes down for the meetings. Mr. Bogdahn informs that they are always planning to have at least two of the consultants come down to the Board meetings. They will have all three of the consultants come down for a period of time.

A motion was made by Mr. Naclerio and seconded by Mr. Diaz to send a letter to Burgess Chambers for coming to the Board meeting. Motion unanimously approved (6-0).

Assistant Chief Richard Naue, Chairperson of the 185 Fund, thanks the Board for assisting Mr. Nelson, the City and the State of Florida for getting last year's report completed and for satisfying all the appropriate ordinance changes so the Police could receive their funds. The 2007 Annual Report was due on March 15th and he implores this Board to move along to support Mr. Nelson and Mr. Sansores so they can insure that the report can get to the State.

Chairperson Sibley asks what the status is on getting the report to the State. Ms. Groome informs that they are still waiting on the auditors to do the accounting section of the report. They have encountered a couple of problems because they switched over to a new computer system. They are working on it and hope that they can get it done as soon as possible. Chairperson Sibley asks if she is getting enough support. Ms. Groome answers affirmatively. Mr. Geraci asks if they have all the data for the report. Ms. Groome explains that the data was not processed into the system correctly when they set up the system so there has been a learning curve with the new system in getting the information. It has been corrected. Mr. Geraci asks when the report will be completed. Ms. Groome responds that as soon as the auditors complete the accounting section.

Chairperson Sibley asks for Mr. Nelson to respond. Mr. Nelson explains that the City moved over to a new computer system, EDEN Financials. The auditors, McGladrey and Pullen, is a national firm and are still currently in the City auditing the payroll records that were converted from the old computer system to the new EDEN computer system to verify that all the information is accurate. The goal is to have the report completed by the end of May. Mr. Geraci asks what will happen next year. Ms. Groome believes that next year the report will be on time. Mr. Diaz asks if they have ever had a report in on time. Ms. Groome informs that they have submitted the report on time in the past.

8. Investment Issues.

Troy Brown reports on the investments for the first quarter 2008. As of March 31, 2008 the fund had a total market value of \$244,547,660 including the paid receipts account. At the end of the first quarter 60.5% of the total portfolio was allocated to equities including international equity, 26.1% to fixed income, 10.9% to real estate and 2.5% to cash and equivalents. The total fund earned a negative 5.2% at quarter end. Investor fears over inflation, slowing economic growth, housing and the equity and fixed income markets in the first quarter 2008 were roiled by the continued impact of the credit crisis and growing evidence that U.S. economic growth had stalled. Investors were concerned about corporate profitability and sold off equities in the U.S. and abroad. The S&P 500 index fell 9.4% in the quarter. Concerns over U.S. growth spread through the world equity markets. Emerging Markets China and India were among the lead underperformers in the first quarter. Treasuries were the top performers, rising 4.4%. The credit crisis continued to spread and affected areas that had previously been considered safe like municipal bonds and auction rate securities. Looking ahead investors appear to be focused on the length and intensity of the U.S. economic slowdown. Investors will look for evidence that the worst of the credit crisis has passed and that future corporate profits are in line with stock prices. Two international equity managers were funded in the quarter, AllianceBernstein and Thornburg. As they move forward he thinks the Board will be happy with the decisions they made regarding the international equity managers.

9. Items from the Board Attorney.

Alan Greenfield reports that they had mediation in the UBS case which was attended by Mr. Naclerio, Mr. Nelson, Mr. Carlson and himself. The mediation was not concluded. They have

to go back at a later time but before they do the Board needs to have a shade session so they can discuss the matters that came up in the mediation. They found out that UBS had asked the Court to take the case off the trial docket because the Court was concerned that the trial would take three weeks and the Court did not want to take three weeks off their calendar. The judge informed that they were going to send the case to a retired judge. There is a group of retired judges who sit on a regular basis and listen to cases because they don't get cases assigned to them like a regular judge does. So this case will be reassigned to a retired judge.

Mr. Greenfield reports on the Piñon matter. The mandate decision by the Circuit Court Appellate Division said that their decision should be followed so when the mandate came out Piñon's attorneys filed a motion for the Board to have a hearing to consider the matter that the trial appellate court said to do. The City filed a motion in opposition for the Board not to hear it now because there is an appeal pending to the last district. At the last meeting he was assigned to file a Petition of Certiorari on behalf of the Board. It was filed timely and the City filed timely. The court will enter an order to either deny it or hear the petition. He recommends that since there is a petition pending that the matter should be deferred until the petition is ruled on by the court. Mr. Diaz asks what point in time can the Board step in to stop the process. Mr. Greenfield informs that it is up to the Board. Mr. Naclerio asks for Mr. Greenfield to check and see if the Board members who were not able to finish participating in the Piñon case could read the record and exhibits so they can participate as a full 9 board member Board if they hear the Piñon case again. He asks for Mr. Greenfield to check and see if that is under due process?

10. There was no old business.

11. There was no new business.

Set next meeting date for Thursday, June 12, 2008 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 9:45 a.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR