

CORAL GABLES RETIREMENT SYSTEM
Minutes of April 10, 2008
Youth Center – Auditorium
405 University Drive
8:00 a.m.

MEMBERS: J F M A M J J A S O N D APPPOINTED BY:

Steven Naclerio	PP P P	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	PP P P	Vice Mayor William H. Kerdyk, Jr.
Tom Huston, Jr.	PP P P	Commissioner Maria Anderson
Sal Geraci	PE P P	Commissioner Rafael "Ralph" Cabrera
Leslie Space	PP P P	Commissioner Wayne "Chip" Withers
Agustin Diaz	PP P P	Police Representative
Troy Easley	PP P P	Member at Large
Victor Goizueta	PP P P	General Employees
Wayne Sibley	PP P P	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:
Commissioner Withers
Alan Davis and Amy Davis
Curtis Carlson, Carlson & Lewittes
Elba Gonzalez, Fowler White
Marj Adler, Human Resources Director

Chairperson Sibley calls the meeting to order at 8:02 a.m. There was a quorum present.

1. Roll call.

Chairperson Sibley thanks Commissioner Withers for attending the Board meeting. Mr. Geraci thanks the Commissioner for coming to the meeting. He points out that one of the things they failed to do when Commissioner Cabrera attended the meeting was to ask for him to give a couple of words. Chairperson Sibley asks for Commissioner Withers to say a few things before the Board. Commissioner Withers states that regardless of what is written in the paper he is happy to address the Board to let them know his perspective. He thinks they lost their way as residents, government, and as elected officials. When he was first elected pensions were never mentioned. Now City and State revenues are tight, people are living longer, unions have done good jobs in negotiating better benefits and it seems like they are at the point now where governments begin to have that bump in the road of that budget issue. They are looking at a budget where the pension costs are rising and that is something that the press picks up on as well as the residents. Their challenge is to redesign the pension and keep it as a good recruiting tool and a good opportunity for employees to enjoy their “golden years.” He thanks the Board for inviting him to the meeting.

2. Approval of the Retirement Board monthly meeting minutes for March 13, 2008.
A motion was made to approve the monthly meeting minutes of March 13, 2008 by Mr. Goizueta and seconded by Mr. Diaz. Motion unanimously approved (9-0).
3. Approval of the Retirement Board Special meeting minutes for March 20, 2008.
A motion was made to approve the special meeting minutes of March 20, 2008 by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (9-0).
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. Garcia-Linares. Motion unanimously approved (9-0).

1. For the Board's information, there was a transfer of \$750,000.00 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 March 2008 for the April 2008 benefit payments.
2. 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 2, 2008 in the amount of \$74,101.21 was submitted for deposit on March 19, 2008.
3. For the Board's information:
 - Lois Borden who worked for the Insurance and Safety Division of the Employee Relations Department passed away on February 25, 2008. She retired on December 1, 1979 with Option 2 and 66 2/3%. Her beneficiary will begin receiving their retirement benefits on May 1, 2007 after the appropriate paperwork is received by the Retirement Office.
 - Joseph Reynolds of the Police Department passed away on March 27, 2008. He retired on September 1, 2002 with Option 2B and 75%. His beneficiaries will begin receiving their retirement benefits on May 1, 2007 after the appropriate paperwork is received by the Retirement Office.
4. A copy of the Summary Earnings Statements from the Northern Trust Securities Lending Division for billing period February 1, 2008 to February 29, 2008 is attached for the Board's information.
5. Attached for the Board's information is the Statement of Pending Transactions and Assets as of February 29, 2008 from JP Morgan.
6. Attached for the Board's information is the Statement of Settled Transactions from February 1 to February 29, 2008.

7. For the Board's information the Merrill Lynch Directed Brokerage Monthly Statement for October 1, 2007 through January 31, 2008 and October 1, 2007 through February 29, 2008 are attached.
8. A copy of a letter dated March 5, 2008 from Marjorie Adler, Human Resources Director, to Michael Chickillo, President of the Coral Gables Professional Firefighters Local 1210, regarding the refund of the firefighters' pension contributions is attached for the Board's information.
9. For the Board's information, a copy of a letter dated March 27, 2008 from Patricia Shoemaker of the State of Florida Municipal Police Officers' and Firefighters' Retirement Funds regarding receipt of the draft impact statement is attached.
10. A copy of the Actuarial Impact Statement from Randall Stanley regarding the Ordinance scheduled for Second Reading on March 25, 2008 is attached for the Board's information.
11. A copy of an email from the Northern Trust Global Securities Lending is attached for the Board's information regarding the market conditions as of March 18, 2008.
12. The Northern Trust Global Securities market report for February 2008 is attached for the Board's information.
13. The MD Sass Investment Outlook and Strategy Commentary regarding perspectives on the "Perfect Storm" of 2007-2008 is attached for the Board's information.
14. A copy of an article dated March 19, 2008 from FundFire regarding the SEC probing possible Bear Stock manipulation is attached for the Board's information.
15. A copy of an article dated April 4, 2008 from FundFire regarding the ex-UBS President demands break up of the firm is attached for the Board's information.
16. Attached for the Board's information is the NCPERS Monitor Newsletter of January and February 2008.
17. An invitation is attached for the Board's information regarding the JPMorgan Alternative Asset Management 6th Annual Hedge Fund of Funds Conference from May 7 to May 8, 2008 in New York, NY is attached for the Board's information.
18. An invitation to the Investing in Infrastructure Conference from November 17 to 19, 2008 in Boston, MA is attached for the Board's information.
19. 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. Request from Alan Davis asking the Retirement Board to reverse their decision approving Mr. Davis' Non-Service Connected Disability at the March 13, 2008 Retirement Board meeting. (Agenda Item 7).

Mr. Davis informs that at the last month's meeting his application was approved by the Board for non-service connected disability which he applied for based on the advice of his attorney Richard Sicking. Upon getting the paperwork for the non-service connected disability it turns out it was a poor decision to go with the non-service disability. He is requesting that the decision be reversed and that he go through the normal process for retirement instead of the non-service disability. Chairperson Sibley understands that all Mr. Davis will be doing is putting off receiving any money at this point until he is eligible for his normal retirement. He asks the Board attorney if there is a problem with the Board reversing their decision. Mr. Greenfield responds that he doesn't see a problem. Chairperson Sibley asks Mr. Nelson if he has a problem with it. Mr. Nelson answers that he does not have a problem.

A motion was made by Mr. Diaz and seconded by Mr. Goizueta to reverse the Board's decision and allow Mr. Davis to retirement on his normal retirement date. Motion unanimously approved (9-0).

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

- Carlson & Lewittes, P.A. invoice no. 11135 dated March 19, 2008 for costs and expenses in the amount of \$4,907.96. This invoice is 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. Garcia-Linares to approve the payment. Motion unanimously approved (9-0).

7. Investment Issues.

Troy Brown of Merrill Lynch reports on the March 2008 performance. They had a difficult first quarter. The equity portfolio took a big hit but for the quarter. On a relative basis each of the equity segments were down less than the benchmark so the changes they have made have been positive. Where they lag is on the fixed income side of the portfolio. Both Loomis & Richmond have a focus on corporate and mortgage backed securities as opposed to treasuries so they did get positive returns in the fixed income portfolio but those returns trailed the benchmark.

Chairperson Sibley asks if financial consultants will start recommending that plans not be so far weighted in different sectors. Mr. Brown explains that every crisis creates a new opportunity to alter a portfolio to a more tactical or dynamic asset allocation. What he has seen with individual managers is a concept of allowing the managers the flexibility of moving up and

down the capitalization spectrum and move in and out of a style. He has read through the minutes of the past meetings and there was a question about having a consultant look at manager A and manager B because they are holding the same security. He doesn't believe a consultant should be doing that. The consultant is supposed to interpret and bring things down to a level that everyone understands and keep a consistency in the program. You don't want them nitpicking at what each manager does on a daily basis. He thinks they should give the managers more flexibility. He is seeing more and more performance base fees for the managers where you pay the managers 20 basis points and then pay them accordingly only when they add the alpha. A lot of managers will lag the benchmark. Why pay them more than an index manager if they don't outperform the index? He thinks that time has come in the industry. If you want to have tactical you are going to have to pay for it.

Mr. Space asks about the mortgage crisis where there was a combination of things with mortgage brokers signing up people with all kinds of pretenses, you had people loaning people money who really couldn't afford it and no body was really doing their due diligence in the market. Then all of a sudden the big banks realized they bought a bunch of assets that weren't really there. Merrill Lynch is one of those big companies. Did they get any kind of early warnings that this was going to be a financial mess? Mr. Brown thinks that their economics department did a pretty good job at predicting the problems. He thinks everyone under estimated the impact.

Mr. Diaz thinks Mr. Brown has done a great job but believes that the Board just doesn't want to stay with Merrill Lynch. Of the three consultants left for the Board to choose from which one does Mr. Brown think has the best resources and personnel? Mr. Brown informs that he knows all the firms and he has read the minutes of the initial interviews. There are a lot of pluses for all of them and some minuses. There is no hiding from the SEC situation. If he was a trustee that situation would scare him. He thinks that the Southeastern collective is a strong product. He doesn't fully understand how they tap their resources but he does understand the collective. He thinks that Burgess has 7 people with his firm and that Bogdahn has about 25 people with their firm. Based on what this Board does monthly he would lean toward the larger of the firms that have more resources. That was one of his points he made with Merrill Lynch. Mr. Garcia-Linares asks what they are losing going away from Merrill Lynch and going with a smaller shop. Mr. Brown considers the firms the Board is looking at are more regional and he thinks they all have clients outside Florida. He thinks they are all good firms. The fact is that two of the firms use a portion of the platform Merrill Lynch uses. The biggest downside from going away from Merrill Lynch is manager due diligence. The biggest upside of moving away from Merrill Lynch is flexibility.

8. Discussion and selection of candidates for consulting services: Bogdahn Consulting; Burgess Chambers & Associates and Southeastern Advisory Services. This item was deferred at the March 20, 2008 Special Retirement Board meeting. *(Agenda Item 9).*

Chairperson Sibley points out that this selection has been dragging on for months and he knows that some of the Board members have expressed their frustrations. They have had great discussions and he knows that the Board members are taking this serious but they need to make their decision.

Mr. Garcia-Linares asks if there is a solution regarding the Southeastern situation. Mr. Greenfield responds that he spoke with Mr. Swanson and asked whether the SEC had approved the proposed settlement. Mr. Swanson informed that the Commission had not approved it and thought that it would go through with no problem because it has been recommended by the local SEC people he has been working with. There is no firm resolution yet. Mr. Garcia-Linares asks if they have gotten a confirmation from each of the candidates of exactly how much insurance they are willing to carry without passing on the cost to the fund. Mr. Diaz informs that the only two were Bogdahn and Burgess. Mr. Space agrees that Southeastern said they couldn't do the \$25 million without raising fees and Bogdahn and Burgess both said they could do it without raising fees. As far as he is concerned the Board held off their vote the last time to hear from Mr. Nelson so he is ready to hear from Mr. Nelson.

Chairperson Sibley explains that it was a big issue at the last meeting that Mr. Nelson was not in attendance. Mr. Diaz states that it seems like whenever Mr. Nelson is not at one of the Board meetings the Board members are immobilized. He does value Mr. Nelson's opinion but it seems like no Board member can make a decision if Mr. Nelson is not at the meeting. Why is that? It is his understanding that Mr. Nelson is an advisor to the Board. What is exactly Mr. Nelson's role with the Board? Mr. Goizueta believes that they do make decisions without Mr. Nelson present at the Board meetings. Mr. Diaz understands but most of the time the Board will not make a decision if Mr. Nelson is not at the meeting. Mr. Nelson explains that his role to the Board according to the ordinance is that the Finance Director is the trustee to the Retirement system. The trustee is responsible for making and insuring that the Board adheres to the ordinance and the administrative affairs of the system are being followed. He gives advice and makes sure that things run according to the ordinance. He makes sure that the Board is administrating the retirement system according to the ordinance. Along the way he provides guidance. The Board members are voting members and they can take his recommendations and advice but the Board makes the final decision.

Mr. Naclerio asks when Mr. Nelson looks at the Board does he see any other person who is a full time practicing financial professional. Mr. Nelson answers negatively. Mr. Naclerio states that when this Board is not in session they are not allowed to speak with each other individually about an issue according to the Sunshine Law and Mr. Nelson is the day to day person who is involved in these things. Mr. Nelson agrees. Mr. Naclerio points out that for those two reasons he strongly urges the Board not to make financial decisions unless Mr. Nelson is at the meeting. Mr. Nelson explains that the Board members are appointed and elected and are volunteers to this Board. His job is full time. His job is to administer the City's finances as well as the Retirement Board's finances and make sure they all come together and they do the right things according to the ordinance. He does this daily. He works with the consultants, the managers and the Board members and whenever a Board member has a question they can call him and discuss any matter.

Chairperson Sibley wants to clarify Mr. Naclerio's question. The Board can make an educated and informed decision based on information that has been presented to them. It is still going to be reviewed by Mr. Nelson and the Board attorney to make sure the Board is in accordance with the ordinance. He thinks they are hog-tying themselves if they are waiting every time for Mr. Nelson to make a decision especially if he can't be at the meetings for whatever reason. For himself and some other members of the Board he can make a decision and if the decision is

not within the lines of the ordinance they are going to hear from Mr. Nelson. They also should not forget who does the day to day operations. Mr. Nelson wears multiple hats but Ms. Groome is the one who does all the packages for the meetings and the scheduling and organizing and making sure that people are getting paid properly.

Mr. Nelson does an awful lot but he wears a lot of different hats. For example when the Board voted to lower the assumption rate and Mr. Nelson and the City didn't follow the Board's direction and now they are in a \$3 million hole because they did not follow the Board's direction. Mr. Nelson is stuck in the middle because he wears many different hats. Holding up decisions like they are doing with this financial consultant decision based on waiting for Mr. Nelson, he thinks they can make the decision and Mr. Nelson will come back if there is a problem and let the Board know. Mr. Nelson does a very difficult job trying to answer to the Board as well as answering to all the Commissioners. That is why it is important that the Board Attorney is a strong attorney and can also be there to explain things. He spoke with the City Attorney and she agreed that the Board Attorney should be at the Commission meetings to clarify any kind of retirement issue when it is brought up at a Commission meeting and explain to the Commission why the Board made their decision. It is not the Commission versus the Board. They are all on the same team. He spoke with the biggest critic of the City from the Gazette and had to explain how the Retirement Board works because this person had no clue. The Board members are fiduciaries making sure that the fund is managed as properly as possible and is getting the best return as possible. Most of the Board members are tax payers and if they are not tax payers they are employees of the City and it is important for the employees that this fund is around for a long time. Mr. Nelson has to wear too many hats and he has a lot of pressure. They have been waiting too long to make this decision and it needs to be made.

Mr. Nelson thinks they need to make a decision. They went out for a request for proposal and the Board's direction was that they go out and seek an independent consultant. Not a consultant that is with a brokerage firm like a Merrill Lynch. Their focus was to get a consultant that was totally independent. They received about 18 proposals from the independent consultants and they reviewed those proposals at the Investment Committee level and narrowed it down from 18 down to 4. At the last meeting they eliminated Merrill Lynch and focused on the independent consultants. They are down to three consultants; Bogdahn, Burgess and Southeastern. Southeastern has a Wells Notice from the SEC. It is currently under investigation and has not been settled yet. It is his recommendation that Southeastern not be considered. The Board cannot select them until the SEC issue has been resolved. Therefore they are down to two consultants; Burgess and Bogdahn. Both are excellent firms. They are the top two out of the 18 they went through. They are both so close in recommendation and he would be pleased to work with either company.

Mr. Naclerio points out that they have had a turbulent time in the financial markets and they have a consultant now with a person they have been satisfied to work with and when they change their consultants there is a lot of work to be done. Is it prudent for them as trustees to still make this change? Mr. Nelson answers affirmatively. There will always be changes and issues and they need to make a decision and move forward. Mr. Garcia-Linares asks if he feels comfortable moving away from a large firm like Merrill Lynch to a smaller company. Mr. Nelson answers affirmatively. They made the condition to upgrade the insurance to \$25

million and both firms agreed to it without moving the cost to the fund. Mr. Goizueta states that both firms came in and stated that they would do changes to the portfolio. Is now a good time to do that? Mr. Nelson believes that no matter which firm they select each made recommendations. It doesn't mean that they will come in and totally change the portfolio without the Board's approval. It will not be an aggressive move. He would not want an aggressive change to the portfolio.

Mr. Garcia-Linares asks for Mr. Greenfield to check the insurance that these independents get for \$25 million in professional liability insurance. The \$25 million needs to cover any acts or mistakes or anything that happens by the consultant in providing the Board with their professional assistance and advice. He wants to make sure they have \$25 million in professional liability insurance. Mr. Naclerio wants the policy to respond to the condition that if the consultant puts the fund in with a money manager and the money manager loses \$10 million because of their negligence and because the consultant didn't supervise the manager properly. Mr. Space asks how much insurance they had with Merrill Lynch. Mr. Diaz informs that it was \$4 million. Mr. Naclerio thinks that is comparing apples and oranges. Merrill Lynch has billions of dollars in assets. Mr. Greenfield thinks that a \$25 million professional liability policy will bring a tremendously high premium. Mr. Naclerio states that the insurance that they want is to be sure as if they were in the situation with UBS/Paine Webber that there is a pool of money after they prevail in a trial or settlement that they can look to and get the money. He cares about that if they give them bad advice that the Board has a policy that will respond to that. Mr. Garcia-Linares wants to make sure that if they sign a contract with either consultant that the Board Attorney is provided with a \$25 million professional liability insurance policy at their expense. Mr. Diaz states that Merrill Lynch couldn't give that type of insurance policy. Mr. Naclerio informs that they have the assets behind their company.

A motion was made by Mr. Goizueta and seconded by Mr. Geraci that the Board offer Bogdahn Consulting the independent consultant position for the fund subject to them getting \$25 million professional liability insurance and if Bogdahn cannot provide the insurance then the second choice is Burgess Chambers and Associates subject to them getting \$25 million professional liability insurance.

Vote:

Mr. Diaz – Yes

Mr. Geraci – Yes

Mr. Naclerio – Yes

Mr. Easley – Yes

Mr. Goizueta – Yes

Mr. Sibley – Yes

Mr. Garcia-Linares – Yes

Mr. Huston – Yes

Mr. Space – Yes

Motion unanimously approved (9-0).

Mr. Diaz left the meeting at this time.

9. Items from the Board attorney. (Agenda Item 5).

Mr. Greenfield informs that at the last meeting Mr. Space requested information on the insurance the Board has with the City. He contacted Risk Management which informed that they delivered all the policies they had to Mr. Nelson. In addition to the policies there was an ordinance amended in 2003. During that time the Board was discussing purchasing fiduciary liability insurance. The premium was quite substantial and the Board decided that it did not

want to spend the money on that insurance but wanted to make certain they were covered by the ordinance. The ordinance was amended to indemnify City Boards so this Board is protected by the City in their normal every day function as a Board member. Mr. Naclerio asks if that includes providing an attorney to defend them. Mr. Greenfield takes the word "protect" in the ordinance to mean that the City would defend the Board members. Mr. Naclerio asks for Mr. Greenfield to ask the City Attorney if she interprets the ordinance the same way. Mr. Greenfield agrees to do so.

Mr. Garcia-Linares asks if they have copies of the insurance policies. Mr. Nelson responds that he did not receive copies of the policy from the insurance division yet. The Board does not have fiduciary liability insurance however there is a memorandum from the City Attorney that says the City indemnifies all Board members acting on behalf of the City and the City will cover the Board personally with attorney's fees and represent the Board members through any case named by the Board or individual named Board member. The City will defend them in a lawsuit. Mr. Space wants to know if the Board is covered for their fiduciary responsibility. Mr. Garcia-Linares is concerned. All they have is a memo from the City Attorney. Commissions change and City Attorneys change. Chairperson Sibley agrees. Although the past actions show that the City has stepped up and protected Board members but Mr. Garcia-Linares is right that City Managers change, City Attorneys change and Finance Directors change and those new administrators may have a different interpretation of the ordinance. Mr. Nelson thinks that Mr. Greenfield should review the opinion of the City Attorney because it was based on the Attorney General's opinion based on case law.

Mr. Greenfield informs that they have mediation coming up for the UBS case. They need to have a shade session so they can discuss the parameters of what the mediation team should or should not do at the mediation. The case is going forward. He suggests that the Board decide on who will be the Board's representative at the mediation session. Chairperson Sibley informs Mr. Carlson asked him to be the representative at the mediation however he would rather have someone like Mr. Garcia-Linares or Mr. Naclerio as the representative. Mr. Garcia-Linares informs that he will not be in town during the mediation. Mr. Naclerio states that if the Chairperson wants him to go to the mediation than he will be there. Chairperson Sibley prefers that someone with a legal background be at the mediation. Mr. Naclerio agrees to be at the mediation. He states that they have a trial date for this matter and now there is another flurry of depositions to be taken. He speaks on behalf of the Board that it is their strong preference that they not lose the trial date. Mr. Carlson understands.

Mr. Greenfield reports on the Piñon matter. They are also going to need a shade meeting regarding Piñon and he suggests that it be the same day as the shade meeting regarding UBS. The Appellate Division of the Circuit court has entered their decision and Ms. Groome circulated that decision to the Board. They have a 30 day period to seek a review if a review is going to be taken. He has spoken with the City Attorney and the City has the matter under consideration. He would like to defer anything until their shade session as to making their decision on how they choose to proceed. Chairperson Sibley asks if this is going to start the whole process over again. Mr. Greenfield thinks that the dialog at the shade session will answer that question.

Retirement Board

April 10, 2008

Page 10

10. Old Business.

There was no old business.

11. New Business.

Chairperson Sibley congratulates Mr. Garcia-Linares who was elected Vice-President of the Cuban American Bar Association.

Meeting adjourned at 9:36 a.m.

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

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR