CORAL GABLES RETIREMENT SYSTEM
Minutes of June 10, 2010
Youth Center – Auditorium
405 University Drive
8:00 a.m.

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

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

A = Absent
E = Excused Absent
P = Present

GUESTS:
J.D. Sitton, JP Morgan Asset Management
Michael Smith, JP Morgan Asset Management
Elsa Jaramillo-Velez, Human Resources Director

Chairperson Tom Huston calls the meeting to order at 8:07 a.m. There was a quorum present. Mr. Goizueta was not present when the meeting was called to order. Mr. Garcia-Linares was excused.

1. Roll call.

2. Approval of the Retirement Board meeting minutes for May 13, 2010.
A motion was made by Mr. Hoff and seconded by Mr. DiGiacomo to approve the meeting minutes of May 13, 2010. Motion unanimously approved (7-0).

3. Approval of the Retirement Board Executive Summary minutes for May 13, 2010.
A motion was made by Mr. DiGiacomo and seconded by Mr. Space to approve the Executive Summary minutes of May 13, 2010. Motion unanimously approved (7-0).

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

    1. For the Board’s information, there was a transfer in the amount of $2,100,000.00 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 May 2010 for the June 2010 benefit payments.

2. For the Board's information:

- Eleanor Paluszek passed away on May 1, 2010. She was receiving post retirement survivor benefits which began on January 1, 2005. Her benefits have ceased.
- Frank Chase of the Fire Department passed away on May 14, 2010. He retired on January 1, 1992 with Option 2B-100%. His beneficiary began receiving her benefits on June 1, 2010.
- Lucia Valdes of the Building and Zoning Department entered the DROP on June 1, 2005 and left the DROP on May 31, 2010. She received her first retirement benefit on June 1, 2010.
- Paul Pitts of the Police Department entered the DROP on June 1, 2005 and left the DROP on May 31, 2010. He received his first retirement benefit on June 1, 2010.
- Mayra Quintero of the Police Department entered the DROP on November 1, 2009 and left the DROP on May 31, 2010. She received her first retirement benefit on June 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 May 9, 2010 in the amount of $101,164.26 was submitted for deposit on May 17, 2010.
- Payroll ending date May 23, 2010 in the amount of $106,067.58 was submitted for deposit on June 4, 2010.

4. A copy of the detailed expense spreadsheet for the month of May 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 April 1, 2010 to April 30, 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 April 30, 2010 from JP Morgan.

7. Attached for the Board's information is the Statement of Settled Transactions from April 1, 2010 to April 30, 2010 from JP Morgan.

8. The Berwyn Group Death Check Verification Services dated May 25, 2010 is attached for the Board's information.

9. A copy of the May 2010 Florida Public Pension Trustees Association monthly E-newsletter is attached for the Board's information.

10. 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 of Steve Sandifer, Service Connected Disability retiree, requesting an appeal to the reduction of his disability benefit from 75% annualized pay rate to 66.7% annualized pay rate as according to Retirement Ordinance Section 50-231(e). Mr. Sandifer's reduction is scheduled to begin July 1, 2010.

Ms. Groome informs that Mr. Sandifer was approved for service connected disability two years ago by the Board. According to the ordinance, after two years a general employee on service connected disability retirement will be reduced from 75% to 66.7% of their annualized pay rate. Mr. Sandifer was informed about the meeting and is not present. He was asked to show proof as to why he should not be reduced to 66.7%. Since he was not at the meeting and no proof was submitted Ms. Groome recommended that Mr. Sandifer be reduced to 66.7% of his service connected disability monthly benefit.

A motion was made by Mr. Naclerio and seconded by Mr. Geraci to reduce Mr. Sandifer's benefit as scheduled in July. Motion unanimously approved (7-0).

Mr. Goizueta arrived at the meeting at this time.

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

- Goldstein Schechter Koch invoice #73188 dated May 13, 2010 for audit services for year ending December 31, 2009 and expenses in the amount of $6,131.00. 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. Goizueta and seconded by Mr. Hoff to approve the Goldstein Schechter Koch invoice in the amount of $6,131.00. Motion unanimously approved (8-0).

- The City of Coral Gables invoice #02752 dated May 21, 2010 for the rental of City's public facilities in the amount of $1,294.44 ($431.48/month) and invoice #02751 dated May 21, 2010 for general liability insurance in the amount of $1,005.24 ($335.08/month) for the months of April, May and June 2010.

A motion was made by Mr. Hoff and seconded by Mr. Goizueta to approve the City of Coral Gables invoices in the total amount of $2,299.68. Motion unanimously approved (8-0).

- Stanley Holcombe & Associates, Inc. invoice #3691 dated May 19, 2010 for actuarial consulting services from April 5, 2010 through May 14, 2010 in the amount of

$23,830.00. 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. Naclerio to approve the Stanley Holcombe and Associates invoice in the total amount of $23,830.00. Motion unanimously approved (8-0).

7. Attendance of J.D. Sitton and Michael Smith of JP Morgan Asset Management (real estate manager) reviewing the portfolio's performance, their view of the market and how JP Morgan is positioning the portfolio to take advantage of opportunities and protect from risks.

Michael Smith of JP Morgan Asset Management is the client advisor covering many of the public plan clients in Florida. They have worked with this plan for five years. He thanks the Board for their business and for their patience through the recent real estate cycle. They have seen signs of a recovery in the real estate market. They also have seen changes in investor flows so what had been investor requests for capital back is now changing to committing capital into the real estate funds.

J.D. Sitton informs that he is part of the real estate team of JP Morgan Asset Management. He will cover an organizational update, a market update and a thesis of the Special Situation Property fund the Board is considering investing in. The last two years have been the most challenging environment anyone in the real estate world has had to live through. Much more challenging than in the mid-1990's which is when he came into the business. As a bank they came through it very strongly and as an organization, specifically in real estate, they came through it strongly as well. JP Morgan did a better job at protecting the capital during the downturn than any other firm the Board could have hired. Their people, team and process are in tact.

If you are going to consider investing money in either the Strategic or Special Situation fund they are both open end funds. They are priced regularly and allow investors to come in and out on a regular basis. They value 100% of the portfolio every quarter and the properties are valued either internally or externally every quarter. They do external valuations with a third party once a year for assets that are less than $100 million. If assets are over $100 million they do external valuations twice a year. They take the discounted cash flow from that appraisal and update it for property specific issues and market issues. Because they are allowing money to come in and out of the funds they need to value 100% of the portfolio every quarter so you know there are no stale values in the fund and when you buy or sell your units, you do it at a fair price. Mr. Geraci clarifies that they are marking each property to the market each quarter. Mr. Sitton agrees. They don't just mark the properties but the debt also. When you look at the unit price and you are looking to sell or buy some units it is a fair price. They are valued very cheaply today and they are valued to return above long-term trend returns. Investors are recognizing that and one of the messages he is supposed to deliver to the Board is that in the Strategic Property fund they have gone from a redemption queue, a line of investors who wanted money, that was $2.5 billion back in June of 2009 to a contribution queue of $1.3 billion as of today. It would take them about 6 to 9 months to get through $1.3 billion. The Board will want to weigh whether they put money into the Strategic fund or into the Special fund. The interesting thing about the Special Situation fund is that you can put money into it today. In the Strategic property fund you can commit but that money won't get called until the end of the fourth quarter or the beginning of the first quarter of 2011.

Chairperson Huston asks for Mr. Sitton to define the difference between the Strategic property fund and the Special property fund. Mr. Sitton explains that the Strategic property fund is the fund the Board is already invested in. That fund invests in high quality real estate. It is an open-end core commingled fund. That fund buys and owns well leased, high-quality real estate in the office, industrial, rental residential and retail sectors. The Special Situation fund does the same thing but it doesn't buy the well leased building, it buys the building with vacancy. It develops the building with the next dollar it invests. It is an open-end fund and most value-added funds are close-end. It has investments that go everywhere from entitled land all the way through to stabilized for sale real estate. The unique thing about where they are in the cycle today is that 70% of the fund is core real estate at this point. It is stabilized and for sale. They normally run it between 40% stabilized and 60% stabilized. They are at 70% as a result of the prices. They took a lot of the property that was value-add, stabilized it and now what they are finding is that it is cheaply priced on their balance sheet relative to what they can sell it for. Mr. Space asks if value-added means they are going to buy something and do something to the property to make it better. Mr. Sitton informs that is what they do with the next dollar.

Mr. Naclerio points out that the Investment Committee was looking for ideas to diversify the portfolio more in the area of real estate. One of the ideas that was brought to the Committee by the consultants was that they are already invested in one type of real estate and the same company they are invested with has another type of real estate fund. So they wanted to compare and contrast the real estate they have now with another type of real estate to see if they can diversify more of their assets dedicated to real estate. That is why the Board is getting this presentation. Mr. Brown adds that this is an idea they introduced previously when the market was going up in 2007 as a way to diversify into other assets. Another advantage is this plan has a track record with JP Morgan and JP Morgan will do an add on letter for this investment instead of the Board having to go through the contract process which takes a little more time to do. Mr. Smith informs that the Special Situation fund is a sister fund to the Strategic property fund they are invested in now. It has an equal fiduciary standard. Mr. Sitton adds that it is the same structure. They are both bank commingled trusts. Mr. Huston asks if the Committee considered if this will be new money or will it be taking some funds from the current real estate fund. Mr. Brown explains that the new investment policy has a range of 0% to 10% in what they have reclassified as "other assets" so the plan is to fund it from a reduction of the fixed income asset.

Mr. Sitton continues. Real estate is today as equities were from a value standpoint in March 2009. During the boom times in 2007 the levered real estate was at about 8% and equities were about the same. If you levered real estate by 50% you should expect to earn right about an equity-like return. During the boom times you weren't getting paid more to take on risk. During the dark days of 2009 they were slower to recognize the impact of the financial crises than other asset classes. Credit spreads blew out and equity prices dropped dramatically. This is the time that pension plans decided to rebalance their portfolio and the redemption process in the core real estate began. Everyone did it at the same time because they became over allocated. Real estate was slower to adjust its price. At that time investors started getting into fixed income and equities and out of real estate. Currently, real estate today is paying a much higher return than equities and high yield bonds. It makes sense to allocate toward this asset class. You want to buy low and sell high but when you buy low you are on the heals of a 40% decline in value. It is difficult to do that just like it was difficult to rebalance into equities in March 2009.

Mr. Sitton talks about the fund the plan is invested in currently. The Strategic Property fund is an open end core commingled real estate fund that invests in high quality office, industrial, retail and residential properties. It invests in high quality real estate which is basically the best possible locations. They are in and around major markets. They look to invest into the highest quality physical structures. If you get those two things right you get high quality tenants. When you look at the performance of this fund relative to its peers it blew away its peers through the downturn. The reason it did is because there is no style drift. They were hired to be a core manager and that is what they did. They did not invest in hotels, assisted-living or self-storage. They did not over lever the balance sheet to get a higher return and a lot of the other real estate managers did that. The managers who did these things in some cases are the managers that underperformed their core fund by over 1000 basis points.

The target leverage of the Strategic real estate fund is 25% to 30% and as of March 31, 2010 it was at 34%. They were at 22% at the peek and prices dropped by 30% so their leverage went up. All of their debt is non-recourse. It is tied to a particular asset and it doesn't go against the value of the entire portfolio. If you have a problem property, the tenant left or the building is empty, that is where the problem stops. You take the keys and give them to the bank. A lot of their competitors used recourse portfolio level debt and the good thing about that it is cheaper to borrow but the bad thing about that is when a market like they just had happens you hurting doesn't stop with that particular property, it goes against the value of your entire portfolio so lenders can start restricting your cash flow. In the most difficult of environments they lost this plan less money. They are now entering into a period of growth. He would rather be a manager that outperforms during the downturn and perhaps underperforms during the upturn because they are going to do better with that manager overtime than they will with a manager that outperforms during the upturn but underperforms severely during the downturn.

Mr. Naclerio asks why Mr. Sitton is so optimistic about the upturn. Mr. Sitton responds that it is cheap. No one can say with certainty what is going to happen but the baseline view of most economists is that the impact of what is happening in Europe is going to reduce the growth potential. Maybe that is right or maybe that is wrong but what he knows for certain today is when he looks at real estate relative to equities and fixed income does he want to be in equities and expect to earn 9% or in real estate and expect to earn 12%. The thing they have to think about is liquidity. With 10% of their portfolio it is not going to be as liquid as the equities and fixed income but it is so cheaply priced relative to the others that he is willing to make that trade to sacrifice some of that liquidity. That is why they are bullish. It is not that they aren't weary of the operating environment. Even if they see a double dip he would expect both of the funds to outperform equities. It is simply because they are starting from a very cheap basis relative to other asset classes. Everyone gets hurt in a double dip.

Mr. Sitton talks about the Special Property fund the Board is considering investing in. A core bond portfolio is yielding 3.2%. The Strategic Property fund on a levered basis is yielding 7% and the Special Property fund is yielding the same. That is not normal for a value added portfolio. Mr. Geraci asks how European money affects the Special Property fund. Mr. Sitton answers that it does not affect it because it is a U.S. dollar denominated fund. The only investors that can invest into this fund are U.S. pension plans; corporate plans, public plans and Taft Hartley plans. The Special Property fund is an open-end value added strategy that takes risks with its marginal dollar to create value. It invests in the same type of properties that they invest in the Strategic Property fund; office, industrial, retail and residential. Because they are value-added they do some hotel investing. The same types of tenants that are in the Strategic fund are in the Special property fund. It is a quality bias. They use more debt than they do in Strategic. Where the Strategic fund is 34% levered, the Special property fund is 62% levered today. It is the largest value added fund that you can invest in. The gross total investment is $3.3 billion dollars and $1.3 billion net. Most value added funds are private equity closed end vehicles. They have 80.3% occupancy as of March 31, 2010. For a value added fund, a fund that basically buys an empty building, that is a really high number. The reason it is high is because 70% of the portfolio today is basically stable operating core assets that are for sale on a go forward basis. The leverage of this fund is at 62% and the cost of debt is 5.2% and the term is four years out. If they just write out the debt and the value as a whole you are basically going to get a levered income return of over 7% and total return in the mid-teens, around 14% to 15%.

Mr. Space asks how they add value. What are some examples of adding value that they buy? Mr. Sitton states that they purchased a building in Washington, DC. They renovated the façade and added three floors. Then they leased the space to the European Union for 15 years and they did this in 2009. Mr. Space asks that in the process of doing a reconstruction of a building they were still able to maintain an 80% average overall in occupancy. Mr. Sitton explains that they were in the building because they had the tenancy to begin with but the portfolio is 80% occupied because most of the assets it holds today. They already did whatever it was they were going to do and it is now held for sale. Going forward it is always going to fluctuate between 40% and 60%. The building in Washington, DC, is valued today at $421/foot and if they were to sell that building today they would get a minimum of $500/foot.

Mr. Sitton comments that when you look at a value added fund and ask yourself why you would invest into that type of fund when there is so much economic uncertainty his answer is that it is so cheaply priced. Because most of the portfolio isn't true value added at this point it is levered core real estate. Mr. Naclerio asks when the fund has done everything it wants to the building in Washington, DC and they don't see any value added in the future at some time do they sell the property. Mr. Sitton answers affirmatively. Mr. Naclerio asks if they sell the buildings to the Strategic fund. Mr. Sitton explains that they never sell anything to the other fund. If they ever sold to the other fund what they would have to do is hire a third party to represent Strategic and another third party to represent Special and both of the real estate funds would be out of the transaction. It has to be a third party sell.

Mr. Naclerio asks if Mr. Brown has a comment on the appropriateness level of leverage between this fund and the other fund. Mr. Brown responds that a value added property is always going to have a higher leverage. Mr. Sitton states that this fund like the Strategic has crushed its competition in the downturn.

Mr. Sitton continues. Of this fund 70% is stabilized core assets for sale that are levered. The return potential on those assets today given the leverage is 12% to 15% over the next three years. There is distress in the real estate market. There are foreclosures happening. What they are doing with their marginal dollar is going to banks and basically buying the debt at a discount to get at that real estate. When they do that the return potential they can earn is 15% to 20%. Most of the portfolio is stable assets and 30% of the portfolio is at the value added phase. They only borrow money when they have a use for it in buying something. This fund invests in major markets just like the Strategic fund.

Mr. Geraci asks what he should look for in the real estate news that would be worrisome when it comes to this particular fund. Mr. Sitton responds that there are two things that would cause anyone pause regarding any of their funds. First if the general economy goes into the double dip, when you start to hear about the jobless recovery and the growing fiscal problem. If you see a lot of that and the economy reverses that will be bad for everybody. That is a risk that everybody bears. A risk specifically to these asset classes so far banks have taken property to market on a measured pace. The reason they have done that is they didn't want to sell last year when things were awful and no one was buying because they would get very little value for what they were buying. Now they have plenty of buyers and financing is back. You can borrow up to a 65% loan for value on a stable asset at anywhere between 5% and 6.5%. The financing is back and equity capital is back. The banks are starting to loosen up and bring more properties to market. If the banks all of a sudden flood the market then he would be worried because there would be so much supply of available opportunity it can only have a negative impact on pricing. There will be not enough dollars chasing too many deals and that means the value of real estate will come down.

Mr. Geraci asks if they ever borrow money from their own bank. Mr. Sitton responds that they do everything through a third party. Chairperson Huston asks if Chase Bank has a difficult property owner on the books is there ever any pressure to sell it to these funds. Mr. Sitton responds that they would not buy it because it is a conflict of interest. Whether it be borrowing or buying an asset of anything from a related party they will not do it.

Mr. Sitton continues. They do not stray from their strategy. The Strategic property fund is core and five years from now it will still be core. Same with the Special property fund. It is value added and in five years from now it will be value added. They will not do anything contrary to what they are explaining to the Board today. You want to invest in this fund because most of its return will come from its appreciation potential. Normally if you invest in the Strategic fund and you are looking at the Special fund because you are wondering what to do with your marginal dollar. You need to ask yourself, do I go into something like the Strategic fund because it is safer and has less leverage, I can earn a 10% to 11% return or I can take more risk and potentially earn a 14% to 15% return.

Mr. Naclerio asks what the vehicle is for this fund. Mr. Sitton informs that the vehicle is a bank commingled trust fund like the Strategic fund they are currently invested in. They started the predecessor fund to Strategic and Special in the early 1970s so they have a long history. The predecessor fund was a mix of core investing and value added investing. What they found leading up to the late 1990s is that investors wanted to make that decision themselves whether to fund in core real estate or value added real estate. They found they were being shut out of the competition because they were neither a core fund nor a value added fund because they did a mix of both. In January 1998 they split their mixed fund into two and that is how the Special Property fund and Strategic Property fund became to be. Most of the clients they have are in both of the funds. Because of that they are both bank commingled trusts. Since this plan is already in the Strategic fund they have already done the legal paperwork so all that would be entailed to get into the fund is to have an addendum to the existing contract and then put in a contribution notice. They can get into the Special fund pretty quickly.

Mr. Naclerio clarifies that this is not like a mutual fund where you buy shares, this is an actual investment. Mr. Sitton agrees. You are buying units in a trust and the underlying assets in the trust are the properties. The fees for Strategic are 100 basis points and for Special Situation fund it is 187.5 basis points so it is more expensive. It is based on how levered the fund is. If the leverage in the fund was down at 40% the fee would be 162 basis points. They will take the leverage down. They don't want it at 62% and the way you take it down is they are going to buy some properties on a lower leverage basis and sell some properties on a higher levered basis. In June they just sold a pretty large industrial portfolio at a $110 million price tag and they had it on their books for $100 million. A $10 million gain on a $1.3 billion fund is a nice healthy gain on one sale and the debt on that portfolio was around $90 million. It was very highly levered. They sold that asset and it that is one way how they bring the leverage down. They do expect the market to help out a little and they do expect to see appreciation from this investment. That will help with the leverage also. As the value of the asset goes up the debt becomes a lower part of the picture.

Mr. Geraci asks why they shouldn't just keep putting money into the fund they are already in with JP Morgan instead of diversifying into this new fund. They are paying more money to be in this new fund. Mr. Sitton believes that the Board has gap to make up from a funding standpoint. The Special fund is going to do a better job in helping them narrow the gap than the Strategic is but they have to take on a narrow risk to do it. If they decide to put more money into the fund they are currently in it will take longer to get into, probably by the end of the year. By then some of that opportunity he is talking about has likely moved away. In the Special property fund they can execute today and expect to earn a higher return but it comes at a higher risk. You have to ask yourself if you are comfortable with a higher risk to get that extra return. He is recommending it to all his clients. He knows it is hard. This is a fund that over the last year is down 24%. The argument wins the day because on a go forward basis it looks compelling so you want to be at that strategic normal if you are client. There is no underlying issue with the fund. It is a good investment and that is why you do it. You do it because you want to earn that higher return that will help you fill that gap and you do it because you can execute now whereas with the Strategic fund you cannot execute today. He doesn't want the Board to do anything they are uncomfortable doing. If the question is to go into Strategic or go into Special he is happy either way but he strongly advocates for Special because he believes it will be a better investment for this fund.

8. Investment Issues.

Dave West of The Bogdahn Group informs that there are three things they need to discuss at this meeting. First is the real estate funding, the second is the global bond funding and the third they had on the table was managed futures but Mr. Greenfield is not present so they will table that issue.

Chairperson Huston points out for the record that Mr. Greenfield informed that there was a very serious illness in his family which is a terminal situation so he is excused today. They did not have an item for the Board Attorney on the agenda and they do not have anything that would require legal opinions during this meeting.

Mr. West continues. He would like to continue the discussion regarding real estate. The Bogdahn Group considers this relationship appropriate for this investment. The Bogdahn Group is advocating as a firm moving to a full real estate allocation which is a core asset product base which they are already in and some type of value added type of product so they have a difference in the mix. They have had this discussion with the Investment Committee. A lot of the benefits of timing came out in the presentation of the value add real estate since there is such a large percentage of core income producing properties out there ready for sale. When they look at that compared to other value add products available this JP Morgan product is a much higher percentage of core value stable assets. He thinks it is more a conservative step into this value add fund than into some other value add funds out there. They are going through the due diligence and only want to look at managers that have managed their balance sheets well and have leveraged well. In their opinion both of the JP Morgan funds have been very well managed. This portfolio is at 5% in core real estate now and the recommendation is to move an additional 5% from fixed income into the value add real estate fund. It would be about $11.4 million.

Chairperson Huston asks if they want to go 10% into alternative assets would they drop out of considering managed futures. Mr. West informs that this is an entirely separate decision. They have three alternative products on the table. One is the value add real estate, one is the global bond and the other is the managed futures. They encourage continued discussion on all three of them. Chairperson Huston understood that they were going to allocate 10% into alternative assets and if they already have 5% with JP Morgan and then put another 5% for global bonds wouldn't that take up the 10%. Mr. West clarifies that the way they amended the new investment policy statement targets the non-core fixed income was going to have an allocation of 0% to 10% and that is the global market fixed income and that target is a 5% allocation. The second one is direct real estate investment targeting a 0% to 10% range in the policy and targeting a 5% place marker which is where they are now in that fund. The third category is the other alternative. They set a range there between 0% and 10% with no specific target. They are suggesting classifying the value added real estate under alternatives.

Mr. Geraci thinks they would be out of synch with the real estate investment if they go along with what they are suggesting. Mr. Naclerio comments that they should be 10% in real estate. If they classify it as an alternative then it is an alternative but they are still at 10% in real estate. Mr. West points out that it fits in the policy targets. Mr. Space asks why they are taking the money out of fixed income instead of the equity. He has no idea where the equity market is going and equities have been horrible as far as risk goes. This product is showing returns equal to equity so why are they taking it out of fixed? Mr. West falls back to the creation of the basic policy target allocations. They believe the most optimal long term allocation keeps them at the equity targets that they are at currently. Identifying that equities are volatile they try and look at other areas of the portfolio or other types of assets they can bring in to maybe offset that volatility. They need that long term equity return to make that number. If there is anything they can do to help the portfolio be less volatile along that line that is what has led them to these other alternative investments to bring in. The timing of this is unique. Over the last 12 months there has been a once in a career magnitude in valuation. Twelve or sixteen months ago bonds were the cheapest asset class out there and the biggest and greatest beneficial opportunity. That has reversed over the last sixteen months. Bond yields are down 3.4% and the fall back number for forecasting bonds you are going to either earn the current yield or the coupon not withstanding fluctuations in the market over time. That is below the historic rate of return that bonds have typically delivered. The main issue is to try and set a policy and engineer a platform of an allocation. They have to have the equity allocation to make that number and try and do anything to smooth it and get the return at the same time. Mr. Space states that over 19 years of this fund they have made an average rate of return of 7%. He thinks that should always be taken into consideration about what is really attainable and what their allocations are. Mr. West explains that they are trying to address the volatility issue.

Chairperson Huston asks if the consultants are asking for the Board to allocate $11 million to this new value added fund. Mr. West answers affirmatively. Mr. Nelson comments that this issue was very clearly stated during a very long Investment Committee meeting. At that meeting they addressed all these issues and deliberated extensively on them. The Committee recommended following their consultants' recommendations.

A motion was made by Mr. Goizueta and seconded by Mr. Geraci to allocate 5% into the JPMorgan Special Situation Property fund.

Discussion:
Mr. Space informs that he is for the motion but would like more discussion on where the money should come from. He is looking at a return of 7% for stocks and bonds over a 19 year period and he is seeing equities that are highly volatile. If this asset is being funded out of the fixed income and is supposed to be comparable in risk to fixed income then why would they not take something more risky and put that money into the fund? Mr. West informs that where the money comes from is determined by the Board. They will need a second discussion and motion as to where the money will come from to fund this new asset.

Motion unanimously approved (8-0).

Chairperson Huston asks where they are going to get the $11 million to fund the value added real estate. Mr. West informs that their recommendation is to take the money from fixed income. He understands the 19 year history and what the Board is doing but that is their recommendation and the Board has a decision to make as to where they want to take the money because the policy gives them that flexibility. Their recommendation as the Board's consultants is to take it from fixed income which is consistent with what they were doing in the past. Mr. Space informs that he would not vote it down either way but he would like to know everyone's opinion on this. His opinion is that the money should come out of equities. Mr. Naclerio asks where equities are in terms of the target allocation. Mr. West responds that they are on target. Mr. Space is concerned with the market volatility and this investment seems stronger than equities at this point. Mr. Naclerio asks for Mr. Nelson's opinion. Mr. Nelson informs that he has two recommendations. One is to take the money from the fixed income and stick with the policy they adopted. They have 65% in equities and 35% in fixed income and to stay with that. If they take the money out of equities now to provide 5% to this investment it would change that percentage and he thinks they should stay with the investment policy as they adopted. They are looking at the long term and he thinks the Special Property fund should be funded from fixed income since it is a fixed income component. Secondly he has concerns about the classification as an alternative investment versus real estate. He recommends that it should be real estate because that is what it is. He looks at managed futures as an alternative investment but this product he sees as real estate.

A motion was made by Mr. Goizueta and seconded by Mr. Naclerio that the Special Property real estate fund be funded by fixed income.

Discussion:
Mr. DiGiacomo asks if they took the money out of equities would they be realizing a loss and locking in that equity loss right now whereas if they take it out of fixed they wouldn't see that loss. Mr. West answers affirmatively but Mr. Brown informs that it is not the basis of their recommendation.

Motion unanimously approved (8-0).

Mr. West states that they have a classification issue on the table. The options for consideration are to consider this an alternative asset with a range of 0% to 10% or to consider it to be a real estate investment for a range of 0% to 10% with a target of 5% which is where they are right now.

A motion was made by Mr. Geraci and seconded by Mr. Goizueta that they allocate the value added real estate asset as real estate.

Discussion:
Chairperson Huston informs that if the motion passes, then they are changing the investment policy. Mr. Brown explains that in the old policy the allocation was 0% to 15% in real estate. Real estate has turned around in a very short period of time. There were several meetings where they were all very uncomfortable with the real estate asset. The discussion they had at that time was that real estate was supposed to generate income and be a fixed income alternative however when they couldn't get their money when they wanted to rebalance right away everyone was upset about that. They talked about a full redemption at that point and that was not their recommendation. Their recommendation was that their realized risk profile is different than what they understood at the beginning so they reduced the target to 5%. They kept their redemption queue and brought the target down to 5% in real estate. The value added product is still real estate but the way they re-wrote the policy it falls under alternatives. If they want to classify it as real estate they are referring back to the old policy which was 10% with a range of 0% to 15%. Mr. Naclerio doesn't want someone to look at their policy and think the Board is doing some tricky thing by classifying this new real estate fund as an alternative when it is real estate. He would rather modify the policy.

Motion unanimously approved (8-0).

Mr. Brown informs that the Board needs a motion to change the policy back to 0% to 15% in real estate and change the alternatives from 0% to 10% to 0% to 5%.

A motion was made by Mr. Geraci and seconded by Mr. DiGiacomo to change the investment policy to 0% to 15% for real estate and 0% to 5% for alternatives. Motion unanimously approved (8-0).

Mr. West continues. The next item is the funding of the global bonds. Mr. Brown explains that the Investment Committee recommended a 50/50 allocation to global bond fund investments. These investments use different strategies one investment being pure sovereign and the other investment being in emerging markets as well as some high yield corporate foreign debt. They are regular mutual funds and Mr. Greenfield reviewed the prospectuses of each fund and there really isn't a comment he is going to make on those because they are prospectus funds. They are not going to have anything special as far as a legal document to go into the funds. The discussion that Mr. Geraci brought up at the last meeting was the recommendation of the 50/50 allocation into the investment. This is a 5% allocation to split between the two funds. Mr. West adds that this is a diversification of the existing fixed income investment so the source of funds is fixed income.

Mr. Geraci informs that he did some research on both the funds and he is a little confused as to why they would want to equally weight them. When he looks over ten years for both of these funds Templeton seems to way out perform the PIMCO fund. Mr. Brown states that over the last three years Templeton has been the stronger investment but over the previous three years it had been diversified income. They are different strategies and are doing different things. If you pull out their historic returns it justifies their 50/50 weight recommendation. He doesn't know which fund will outperform over the next three years. He thinks they are both excellent investments. He thinks they view things and view the world in completely different ways from just a base level securities selection versus a long term secular interest rate outlook that is the way the two funds invest. He thinks they make a good combination. He thinks 50/50 allocation is the best course to pursue. Mr. West explains that what they are trying to address by introducing the asset classes basically is they agreed to look at global bond diversification and when they look at global bonds and diversification and the overall scheme they identified that as an additional asset class to introduce. The funds were identified very different and the funds themselves have a 55% correlation. Mr. Brown informs that the mutual fund structure allows them next day settlement liquidity. Mr. West explains that a 50/50 mix gives them risk management and diversification as well as a maximum return. The issue on the table is that this is a 5% allocation and their recommendation is 50/50 between the two funds. The source of funds is domestic fixed income.

A motion was made by Mr. Goizueta and seconded by Mr. Geraci to fund Templeton and PIMCO global bond funds equally and fund it from the domestic fixed income. Motion unanimously approved (8-0).

Mr. West informs the other item they had on the table was the legal issues regarding the managed futures product. Chairperson Huston asks to table that item until Mr. Greenfield is present at the next meeting.

Mr. West reviews the performance of the fund for May. May was a sobering month. The fund was down $13.5 million. Mr. Space asks which managers lost money. Mr. Brown responds that every manager but Richmond Capital. Mr. West states that the real estate fund recorded a 9.5% positive and Richmond was up 66 basis points. JK Milne was up 14 basis points. International equities were down more than the domestic equities. Barings and Thornburg did a good job losing less in this environment. Those are the standout issues for the month. There was a decline of 5.34% in the portfolio for the month. Fiscal year to date they are at 1.73%. He thinks the funding decisions today were proofed out quite nicely and will go along way in helping to get the return up while getting a little more risk management in place from a diversification standpoint.

Chairperson Huston states that the consultants passed out a chart of the portfolio's cumulative rate of return over 19 years which was 7%. At no point did it exceed 7% and that is the highest it seems to get. They have been trying to earn 7.75%. Is that realistic based on the historic data? Mr. West informs that they still stand by the long term projected numbers. Obviously with the enhancement decisions that were made today they are even more comfortable that the portfolio will have a high probability of achieving that rate of return. He thinks what continues to weigh heavily in those numbers is the most recent black swan market fallout situation. When they do the math the most recent market decline is weighing heavily on those numbers. Mr. Brown informs that they as consultants for this fund did not make a recommendation for 7.75%. He is comfortable in saying that 7.75% is achievable in this structure. If you look at it on a year by year basis over 50% of the time and if you count out the bad years, they did beat that rate of return and beat it significantly. The problem has been volatility. The last two years the fund was up 20% and then down 20%. That is significant when you trail those numbers and annualize them. It will have a significant negative impact. Mr. Naclerio doesn't want people to get the idea that the Board is not making their objective. They aren't managing toward 7.75% because they can't do it. Mr. West explains that the basis of The Bogdahn Group's recommendations is not based on knee jerk reactions. These are long term strategic decisions for enhancements they think should be made for the benefit of the portfolio over the longer term. Chairperson Huston asks if they still want them to stick to a 7.75% rate of return. Mr. Easley comments that the actuary is who recommended 7.75%. Mr. Naclerio doesn't think it is up to the consultants to stick to it but can the portfolio achieve 7.75% with this investment mix that they have currently. Mr. Brown doesn't think they are looking at a 19 year number and saying they need to make that up by increasing the risk posture of the portfolio to try and do it. That is not the basis of their recommendations. Mr. West adds that if it were they would be 90% in equities.

9. Old Business.
There is no business.

10. New Business.
Chairperson Huston states that all the Board members received a financial questionnaire from the City that needs to be filled out.

Ms. Groome informs that the November meeting has to be rescheduled because Mr. Nelson will be out of town on the scheduled meeting date. Mr. Nelson informs that he is on the Sunshine State Governmental Financing Commission and they have scheduled a very important meeting on that date. He has a conflict between the two. Ms. Groome states that she will be contacting the Board members to see what dates are clear for the November meeting so that it can be re-scheduled.

Meeting adjourned at 10:21 a.m.

Set next meeting date for Thursday, June 10, 2010 at 8:00 a.m. in the Youth Center Auditorium.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR