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GENERAL EMPLOYEES' PENSION BOARD
POLICE OFFICERS' PENSION BOARD
FIREFIGHTERS' PENSION BOARD
MINUTES

December 17, 2010 **8:30 a.m.**

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I. Call to Order

Chairman Mike Marstaller called the meeting to order at 8:44 a.m.

General Employees' Pension Board members present were Chairman Kelly McGuire, Secretary Jayne Timmons, and Sam Butler.

Police Officers' Pension Board members present were Ken Artin, Darrell Brock, and Amanda Hayes.

Firefighters' Pension Board members present were Chairman Michael Marstaller, Chuck Engemann, Scott Johnson, and Lee Strong, Jr.

Also present were Lee Dehner of Christiansen & Dehner, Charles Mulfinger of Graystone Consulting, and Jason Franken of Foster & Foster.

II. Certify Elections

Mr. Ken Artin moved, seconded by Ms. Amanda Hayes, to certify the election by the members of Jim Crimins as trustee to serve a two-year term to September 30, 2012. The motion passed unanimously.

Mr. Charles Engemann moved, seconded by Mr. Michael Marstaller, to certify the election by the members of Scott Johnson as trustee to serve a two-year term to September 30, 2012. The motion passed unanimously.

III. Elect Secretary

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to appoint Mr. Jim Crimins as secretary. The motion passed unanimously.

Mr. Dominic Morgese currently serves as secretary of the Firefighters' Pension Board.

IV. Approval of Minutes of August 13, 2010, Meeting

Ms. Jayne Timmons moved, seconded by Mr. Sam Butler, to approved the minutes of the August 13, 2010, meeting. The motion passed unanimously.

Mr. Ken Artin moved, seconded by Ms. Amanda Hayes, to approve the minutes of the August 13, 2010, meeting. The motion passed unanimously.

Mr. Scott Johnson moved, seconded by Mr. Charles Engemann, to approve the minutes of the August 13, 2010, meeting. The motion passed unanimously.

V. Approval of Minutes of September 1, 2010, Special Meeting

Mr. Scott Johnson moved, seconded by Mr. Charles Engemann, to approve the minutes of the September 1, 2010, special meeting. The motion passed unanimously.

VI. Approval of Minutes of October 29, 2010, Special Meeting (Custodian Interviews)

Ms. Jayne Timmons moved, seconded by Mr. Sam Butler, to approve the minutes of the October 29, 2010, meeting. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to approve the minutes of the October 29, 2010, meeting. The motion passed unanimously.

Mr. Charles Engemann moved, seconded by Mr. Scott Johnson, to approve the minutes of the October 29, 2010, meeting. The motion passed unanimously.

VII. Approval of 2011 Meeting Dates [February 11, May 13, August 19, December 14, 2011 (Wednesday)]

Ms. Towey noted that the December 14, 2011, meeting would be held on a Wednesday; whereby, the boards stated that they had seen this noted on the agenda.

Ms. Jayne Timmons moved, seconded by Ms. Kelly McGuire, to approve the meeting dates for 2011. The motion passed unanimously.

Mr. Ken Artin moved, seconded by Ms. Amanda Hayes, to approve the meeting dates for 2011. The motion passed unanimously.

Mr. Charles Engemann moved, seconded by Mr. Scott Johnson, to approve the meeting dates for 2011. The motion passed unanimously.

VIII. Interviews with Private Real Estate Managers: UBS and J. P. Morgan

UBS

Mr. Wayne Zorger of UBS Realty Investors based in Connecticut stated that he would talk to the boards about the UBS Trumbull Property Fund (UBS-TPF) and USB Realty Investors as a firm and overall investment process. He stated that they had been managing real estate assets since 1978 as Aetna Realty Investors, which was sold in 1996 and named Allegis Realty Investors and then in 1999 Allegis was sold to UBS Global Asset Management. He stated that their investment professionals had a lot of time in the industry and their firm.

As of September 30, 2010, they had 168 employees with $14.1 billion of assets under management. He stated they had over 32 years of core and value added real estate investment experience with over 300 clients. He stated they were based in Hartford, Connecticut, with offices in Dallas, Texas, and San Francisco, California. He stated they prided themselves on quality people, properties, and relationships.

Mr. Zorger stated they took a strategic approach to their investment processes whereby their strategy team worked closely with their portfolio managers, acquisition/sales specialists, and investment committee, using an acquisition allocation system.

Mr. Zorger stated that the market portfolio ($3.2 trillion) formed the basis of their strategic allocations. Since 1978, he stated the market portfolio had been a core efficient portfolio with higher returns and lower risk than the NCRIEIF Property Index (NPI) in 25 out of 32 years. He stated the market portfolio was composed of 65 of the largest metropolitan areas in the U.S. consisting of apartment, industrial, office and retail properties. He stated they were more favorable toward apartments and less favorable toward office during the year.

Mr. Zorger stated that their organizational strengths and distinguishing characteristics include performance record for both value-added and core strategies, national market presence and local expertise, continuity and experience of professional staff, commitment to client service, and a strong research department.

As of September 30, Mr. Zorger stated that the UBS Trumbull Property Fund had $9.5 billion in assets under management with 164 investments and 260 clients. He stated it had 16.1% leverage with an annualized 6.58%

10-year return, which was weighted more to office, apartments and retail properties.

As of September 30, Mr. Zorger stated there were no remaining 2010 debt maturities, the weighted average interest rate was 5.3%, and the 2011 maturities of $277 million were 3% of gross assets.

Mr. Zorger stated that over their 32-year history, the fund had provided over 90% of its total return from its income performance, which was fitting for a core portfolio such as Trumbull Property Fund. He stated the fund was able to reap sales proceeds from the sale of 24 properties in 2006 and 2007 and during the downturn of 2008 and 2009; the fund also looked for ways to benefit the portfolio and reap proceeds from sales. He stated the properties were 93% leased with only 3% of the commercial leases expiring in the last three months of 2010 and value-added exposure approximately 4.3%. He stated they also had capital available for investment.

Mr. Zorger stated there was currently an investment queue to get into the fund which was at $2.6 billion. He stated they estimated about four quarters out to get into the fund. He stated the fund had closed on almost $500 million of properties through December 15, 2010 with $182 million approved to close within the next quarter.

In summary, Mr. Zorger stated that they had a 32-year track record with excellent geographic and property type diversification. He stated the management fee was tied to performance results. He stated the fund was one of the lowest leveraged of the big fund ODCE index, which had benefited them in the market downturns.

Ms. Hayes asked about the highest leverage; whereby, Mr. Zorger stated that the highest was 19.6% about a year ago. She asked if there was a cap; whereby, Mr. Zorger stated there was a fund guideline of 20%. She asked about cash available to purchase new acquisitions; whereby, Mr. Zorger stated currently there was about $400 million for new investments. She asked about the initial investment; whereby, Mr. Zorger stated that $1 million was their minimum investment.

Mr. Lee Strong asked if a deposit was required to get into the queue; whereby, Mr. Zorger stated that notification from Mr. Mulfinger was required and our name was moved forward each quarter until we were notified that our money would be taken in.

Mr. Zorger stated that we could rescind our position in the queue. He stated we would receive 20 days' notification when we came up on the queue. He stated the fund had quarterly liquidity/withdrawals.

Mr. Dehner asked what happened if we did not deposit when called; whereby, Mr. Zorger stated that we would move to the end of the queue. Mr. Dehner asked if there was a penalty for not depositing when called upon or any potential liability the boards would bear; whereby, Mr. Zorger stated there was not.

Mr. Ken Artin asked about a typical investor; whereby, Mr. Zorger stated they were pension funds, corporate, Taft-Hartley endowment foundations.

Mr. Dehner confirmed that we could withdraw quarterly. He asked about the worst case scenario in terms of withdrawing; whereby, Mr. Zorger stated the worst case scenario was last year when they had a withdrawal queue where they were not able to get all the money back to their clients when they needed it. Mr. Dehner asked Mr. Zorger to explain a withdrawal queue to the boards; whereby, Mr. Zorger stated that there was a rule of 60 days before quarter end for redemption/liquidity. He stated in 2008 there was an inflow of plans requesting their money, and the withdrawal queue got up to $500 to $600 million, which at that point a redemption queue was developed whereby each quarter the plans were getting a smaller amount of money than they initially requested until they were able to relinquish the queue. He stated they were able to relinquish the queue in early 2010.

Regarding *Florida Statutes 112.661(17)*, which addressed valuation requirements with respect to illiquid investments, Mr. Dehner asked if UBS's valuation procedures met those requirements; whereby, Mr. Zorger stated that he believed they did as their properties were valued on a quarterly basis, but he would have to check to make sure.

Mr. Mulfinger stated they had an independent appraisal from a third party every quarter on every property. He stated he thinks it would be fine.

Mr. Dehner stated that if the requirement of the statute was not met, then the state actuary would require it to be valued at zero, which could have a significantly negative impact on the funding requirements.

Regarding the redemption queue, Mr. Mulfinger asked how many queue there had been since the fund started and how long they lasted; whereby, Mr. Zorger stated that in the 32-year history of the fund, there had been two times when there was a withdrawal queue (early 2000 and 2008) and the last one only lasted a few quarters before it was relinquished and the one before lasted a little over a year. He stated the funds were receiving some of their money on a quarterly basis rather than just waiting in the queue.

Mr. Dehner asked for agreement purposes, if UBS would acknowledge that they were a fiduciary to this fund; whereby, Mr. Zorger replied yes. He asked if UBS would agree that a dispute would be governed by Florida law with venue in this county; whereby, Mr. Zorger stated he believed so. Mr. Dehner asked the number of meetings UBS agreed to attend annually; whereby, Mr. Zorger stated they would attend on an as-needed basis annually.

Ms. Hayes asked the average lease term of the fund; whereby, Mr. Zorger stated they sought properties that were well leased to begin with and sought to lease them out for a long-term period of time. She asked if there was an average length; whereby, Mr. Zorger stated he was not aware of an actual average length. He stated it varied between apartments, industrial, and the retail spectrum. Ms. Hayes asked if there was a minimum length of time; whereby, Mr. Zorger stated he was not aware of a minimum.

<u>J. P. Morgan Asset Management</u>
Mr. Greg Pittenger and J. D. Sitton were presenters for J. P. Morgan Asset Management. Mr. Pittenger stated J. P. Morgan had 41 institutional clients in Florida, representing over $5.6 billion in assets under management. He stated they had over 14,000 employees in the state of Florida. He stated that JPMorgan Chase had raised more than $3.3 billion in financing for local governments and non-profit organizations in Florida in 2009 and contributed more than $2.3 million to Florida charities. He stated their roots dated back prior to the 1890's.

Mr. Pittenger stated that they had over 200 public fund clients representing nearly $29 billion in assets under management. He stated they had almost 40 years in public funds.

Mr. J. D. Sitton stated they were basically managers of high-quality commercial real estate. He stated they looked for high quality location in and around major markets, high quality physical structures, and high quality tenants. He stated they had been one of the largest real estate asset managers for over 40 years, running open-ended, commingled funds. He stated they had a stable and experienced management team. He stated the real estate business was cyclical and their team had lived through several cycles and protected value together.

He stated they had 366 investment professionals and a diverse client base, but their roots were in managing money for U.S. pension plans. He stated they had extensive, long-standing relationships with partners which allowed them to acquire unique, large assets without putting too much of the fund at risk. He stated they tried to deliver the best return for the risk within each space they operated in.

Mr. Sitton stated that a team of experienced specialists were focused on supporting the portfolio manager to deliver performance and service to their clients. He stated that there were no acquisitions or dispositions into the strategic property fund without going through their process and by unanimous vote of the voting members consisting of the chief investment officer, portfolio manager, and asset management and real estate research teams. He stated that 100% of the portfolio was valued every quarter. He stated that an annual external appraisal was conducted for assets under \$100 million and semi-annual appraisals for those over \$100 million. He stated internal appraisals were conducted in interim periods where cash flow models were updated for property specific and/or market changes. He stated they tended to sell property at about 101.5% of the market value on the books.

Mr. Sitton stated they were seeing the early stages of recovery in the core real estate market. He noted their appraisal disciple lagged the stock market. He stated they were acquiring/selling properties at higher pricing than what the appraised values in the portfolios reflected.

Mr. Sitton stated they placed a high degree of emphasis on client service and they would be a core real estate manager, as well as a business partner to us.

Mr. Sitton stated their firm had a broad product offering that spanned the universe starting with an open-end commingled fund (strategic property fund) to emerging market closed-end opportunistic strategies in India and China, as well as infrastructure investing. He stated the strategic property fund contained a third of their assets (\$16.7 billion) and was structured as a bank commingled trust. He stated that meant that J. P. Morgan was a named fiduciary and only U.S. pension plans could invest, as it was managed for like-minded investors with a long-term view.

Mr. Sitton reiterated that the strategic property fund was an open-end core, commingled fund that invested in high quality, well-leased, office, industrial, retail and rental residential property. He stated they looked for the best possible physical structures, best locations, and high quality tenants where people want to live and work in large and growing numbers. He stated this was a pure approach.

Mr. Sitton stated the strategic property fund was a large, well-diversified investment portfolio with a contribution queue of $1.5 billion. He stated that the third quarter of 2011 would be our call in the queue.

Mr. Artin asked about the leverage of 30.8%; whereby, Mr. Sitton stated it was consistent with the ODCE index. He stated all their debt was asset specific, non-recourse.

Mr. Strong asked if any of the debt was callable for early redemption; whereby, Mr. Sitton stated it was not, but it was transferrable.

Mr. Sitton stated that they had substantially outperformed the ODCE value index, except for this quarter. He stated the underperformance was due to a higher cash position, underweighting in multi-family property, and the appraisal process. He stated their minimum investment was $5 million and they would look at all three plans combined. He stated their fee was 100 bps. of NAV. He stated that this was an extraordinary time in the cycle to be coming into the fund because values were in the trough area.

Mr. Sitton stated that real estate would bring benefit to the mixed assets portfolio and J. P. Morgan would do a great job on our behalf, if we chose real estate.

Mr. Dehner noted that each page of their presentation said, "STRICTLY PRIVATE/CONFIDENDIAL," and he advised the state of Florida had public records laws and this material could not be kept private or confidential. Mr. Dehner asked if there were provisions in their documents that would provide confidentiality with respect to investment information to us; whereby, Mr. Sitton stated that would not be a problem. Mr. Dehner asked about the queue; whereby, Mr. Sitton stated the queue was $1.5 billion and they would likely call our capital in the third quarter of 2011. Mr. Dehner asked if the board determined they did not want to fund the queue when called what would happen; whereby, Mr. Sitton stated the commitment was non-binding, but they would work with us to call whatever partial capital we were willing to invest and the rest would go to the back of the line. Mr. Sitton stated that investors were lined up on a monthly basis and the capital was called sequentially. Mr. Dehner asked if there was a penalty for not making the deposit when called or did J. P. Morgan have a cause of action against the board for not meeting the call; whereby, Mr. Sitton stated no. Mr. Dehner asked if their valuation methods described in detail met the requirements of *Florida Statutes* with respect to valuation of illiquid investments; whereby, Mr. Sitton stated yes and that it conformed with FAZ157.

Mr. Dehner asked if they had been challenged with any state or federal agencies on their valuation methods; whereby, Mr. Sitton stated no. Mr. Dehner stated that he had negotiated contracts with other clients and he asked if those contracts would be acceptable to provisions negotiated for these funds; whereby, Mr. Sitton stated it was hard for him to answer this question because he did not know, but he stated their policy was to work with clients to the extent that they can. He stated this was an open-ended commingled fund that came with a standard set of documents, but they could make some alterations as long as they were not contrary to how they already managed/ran the fund. Mr. Dehner noted that he had negotiated side agreements for other funds and he asked if they had changed their policy in that regard; whereby, Mr. Sitton stated they had some side agreements but they could not do anything that would be contrary to how the fund was managed. Mr. Dehner stated it sounded like things may have changed with respect to their policy in that regard; whereby, Mr. Sitton stated that this had always been the policy. Mr. Dehner stated that these funds should receive the same benefits that other funds similarly situated received.

Ms. Hayes asked about the highest leverage; whereby, Mr. Sitton stated it was 36%. She asked if there was a cap on this; whereby, Mr. Sitton stated their cap was 35% with a range of 25-30%. Ms. Hayes asked about a 4% cash position; whereby, Mr. Sitton stated they tried to run it between 2% and 3%, but have been running it high due to the difficult market environment.

Ms. Hayes asked if the minimum investment was negotiable; whereby, Mr. Sitton stated that it was not negotiable as $5 million was the minimum.

Mr. Mulfinger asked if the amount could be reduced once we were called up in the queue; whereby, Mr. Sitton stated $5 million was the minimum but possibly that bridge could be crossed when we came to it.

Mr. Mulfinger's Comments

Mr. Mulfinger stated that he believed both of these managers would be great choices. He stated they were both institutional real estate oriented, conservative managers. He stated he wanted the boards to go into real estate with low debt and low risk. He stated we would be well diversified with either firm that focused on cash flow rather than appreciation and as a complement to a bond portfolio. He stated the biggest difference between the two firms was the difference in debt/leverage with UBS at 16% and J. P. Morgan at 30%. He stated that UBS would be a little more volatile by being in the hotel segment (7%), as J. P. Morgan did not include hotels. He stated the appraisal process was very important because one did not want a huge lag in the appraisal. He stated that UBS appraised every property every quarter whereby J. P. Morgan appraised properties over $100 million semi-annually and under $100 million annually as well as performing an internal appraisal process. He stated that both firms had many years of experience. He stated both had sells that were either at or above the price. He stated there was a big difference in the minimum investments between the two firms, and the boards had to be comfortable with depositing 7.5% with J. P. Morgan ($5 million) vs. $1 million with UBS. He stated he was more concerned that interest rates would increase in fixed income. He stated that being in the queue was a free option with no consequences, as the boards had the option of participating or not when they were called up.

Mr. Mulfinger noted that J. P. Morgan only invested for pension plans whereby, UBS invested in institutional plans, which he did not see as negative or positive. He stated that both had public plan experience in Florida. He stated established debt was non-recourse. He stated he felt both firms were very solid and he recommended the boards get into the queue with one of them because it was the right time and made sense in asset allocation.

Mr. Mulfinger stated that Mr. Dehner had reviewed the ordinance which would need to be amended to be able to invest in either real estate programs. He advised that the investment policy would need to be revised before the queue came up. He stated he would have the changes at the next meeting.

Ms. Hayes asked about the cost at this time with Salem Trust; whereby, Mr. Mulfinger stated that being in the queue was like being in line and would cost nothing until the money was called for.

Mr. Dehner advised that if we went into the queue before the ordinance was passed, it would have to be absolutely confirmed that in the event we could not deposit the money when called upon that we could get out of it without impunity. He stated that Mr. Sitton was inconsistent with respect to what happened if we opted not to deposit when called up in the queue and if we did not deposit the full $5 million.

Mr. Artin stated that he might have a conflict as his law firm represented J. P. Morgan Securities; whereby, Mr. Dehner asked him if he could personally gain through his decision on this, and Mr. Artin replied no. Mr. Dehner stated the standard for recusing or abstaining from a vote based on a conflict of interest would be if he was making a decision that could possibly be to his benefit or an employer or relative of his, then he would state for the record that he was abstaining from voting and file a memorandum of the conflict within 15 days with the recording secretary.

Mr. Mulfinger stated that both firms were on record with many public plans that they could pull out of the queue without any financial consequence. He stated that Mr. Sitton paused because he was hoping for some flexibility from his firm should we not be able to deposit $5 million.

Mr. Dehner stated that an alternative would be to have the ordinance amended first and then go into the queue; whereby, Mr. Mulfinger stated that the downside of waiting was that it would put us further back in line going into the queue. He recommended going into the queue to be in line, but he stated he was worried about interest rates in bonds. He stated that the 10-year treasury had gone up from 2.5% to 3.4%, which was a major move in interest rates to move 90 bps. up.

Mr. Scott Johnson stated that J. P. Morgan talked about being global; whereby, Mr. Mulfinger stated that USB's portfolio was 100% U.S./domestic. He stated that performance was a little stronger in global, but domestic was fine also.

Ms. Hayes commented that she heard that J. P. Morgan invested in global, but the strategic fund was made up of U.S. assets.

Mr. Mulfinger stated that J. P. Morgan did partnerships and UBS had complete ownership. He stated that J. P. Morgan felt partnerships gave them more access to more properties.

Mr. Mulfinger stated that J. P. Morgan's fee was 1% flat and UBS charged 0.995% with an incentive of 5% over inflation, which had been 0.25%.

Ms. Kelly McGuire stated that she had heard several questions about UBS and she wondered if the boards were leaning towards UBS.

Ms. Hayes stated that she would prefer that our bond market be more aggressive and she favored going with UBS and entering the queue at this time.

Mr. Brock stated that the ordinance had to be amended before we could deposit in the queue; whereby, Mr. Mulfinger stated if the ordinance amendment was not approved when we were called up in the queue, then we could say no and move to the back of the queue.

Mr. Brock asked Mr. Dehner if he thought the City Commission would have a problem with the ordinance amendment; whereby, Mr. Dehner stated he could only speculate on this, as we had no idea of the Commission's attitude towards real estate.

Ms. McGuire stated that Mr. Dehner would bring an ordinance amendment to the boards for approval and then it would go through the city's agenda process.

Mr. Dehner advised that Mr. Mulfinger was saying we could go into the queue now, but he was concerned about a penalty or potential liability.

Mr. Marstaller asked Mr. Mulfinger if he recommended a larger amount than $1 million; whereby, Mr. Mulfinger stated he recommended a higher amount, maybe 10%, because we could reduce the amount, but not increase it.

Mr. Brock noted that the ordinance would give the ability to invest in the real estate fund but would not require them to.

The boards directed Mr. Dehner to prepare an ordinance amendment for review at the February meeting; whereby, Mr. Dehner requested Mr. Mulfinger to provide him the proposed language for real estate, in vehicles approved by the board, and a percentage limitation.

Mr. Sam Butler moved, seconded by Ms. Jayne Timmons, to approve hiring UBS Trumbull Property Fund as core real estate manager, contingent on successful contract negotiations, and to approve entering the UBS queue at this time at $2.7 million with the funds coming from fixed income. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to approve hiring UBS Trumbull Property Fund as core real estate manager, contingent on successful contract negotiations, and to approve entering the UBS queue at this time at $2.0 million with the funds coming from fixed income. The motion passed unanimously.

Mr. Scott Johnson moved, seconded by Mr. Charles Engemann, to approve hiring UBS Trumbull Property Fund as core real estate manager, contingent on successful contract negotiations, and to approve entering the UBS queue at this time at $1.5 million with the funds coming from fixed income. The motion passed unanimously.

Mr. Lee Strong excused himself from the meeting at 10:30 a.m.

IX. Presentation of Actuarial Valuation and Report by Foster & Foster

Mr. Jason Franken of Foster & Foster stated there was a perfect storm of unfortunate things going on in terms of the contribution requirements, especially in the Police and Fire plans. He stated that the state had changed how they wanted the contribution requirements reported each year, which was a percentage of payroll multiplied by the actual payroll received during the fiscal year. He stated they did not know the final contribution amount until the very end of the fiscal year. He stated that the contribution amount for all the plans was matched to the dollar for last year, except for the fire plan where more money went into the fund. He stated the city prepaid $10,831.33, which will be available to offset the contribution for the current fiscal year.

Fire

Mr. Franken stated the multiplier increased from 3.28% to 3.31% effective January 1, 2011, and applied to all years of service after January 1, 2010. He stated he had prepared an actuarial impact statement reflecting this and he suggested the ordinance needed to be amended to allow for this change.

Mr. Franken stated that the total required contribution for last year was 44.8% which increased to 63.7% for 2010, because payroll decreased by 12%. He stated there were seven vacancies as of October 1.

Ms. McGuire clarified that there was a large increase because payroll went down for last year due to vacancies that occurred. She stated when the positions were filled that payroll would increase. She stated that the city's contribution was at 43% with the dollar amount significantly higher than the prior year. She stated that the next year the required contribution would drop back to 20%. She stated it was difficult to explain this to the public and the Commission.

Mr. Franken stated this report was developed as of October 1, 2010, but the contribution was based on the payroll actually received during fiscal year 2012, which would be 43% of the payroll for that fiscal year, assuming all the vacant positions were filled.

Mr. Franken stated that the actuarial investment return was 1.28% even though the return was 7.28% because of the four-year smoothed approach which still recognizing losses from 2008.

Mr. Franken stated that the payroll growth assumption was dictated in the *Florida Statutes* which could not be larger than the actual ten year growth in payroll. He stated they had been using assumptions around 3% or 5%. He stated the higher the percentage, the lower the contribution requirement. He stated they assumed payroll would grow at a higher rate so essentially many of the contributions were being deferred into the future. He stated the fire plan 10-year actual average over the last ten years was negative, so they had to use a zero percent (2.6% last year) assumption which increased the funding requirements by 5.7% of payroll, which was a large increase.

In the general plan, the assumption went from 2.8% to 1.6% which only increased the contribution requirement by 1.1%, and the police plan went from 2.1% to 0.7% which increased the assumption by 2.5%.

Mr. Franken stated that *Florida Statutes* allowed amortization up to 30 years, which was done up until two years ago when Mr. Charles Slavin, suggested that the plans change the amortization method to a tiered method (investment gains and losses over ten-year period, other things to 20-year period, plan changes over 30-year period). He stated the 10-year amortization substantially drove up the cost He stated a potential solution was to change the amortization period back to 30 years. He stated they had made this move in three other plans last year and their plans were accepted and they received their state money. He suggested each board consider making the change back to a 30-year amortization to bring down the contribution requirements.

Mr. Marstaller suggested reducing the return assumption to 7.5%; whereby, Mr. Franken stated that would increase the city's funding by approximately 10%. Mr. Marstaller suggested changing the smoothing approach; whereby, Mr. Franken stated that we could only go up to five years which would be a prospective change. He stated any change to the smoothing method would require a fresh start thereby bringing the asset value down and the contribution requirement up. He stated we would have to recognize all the unrecognized losses immediately and then next year would not reflect any outstanding losses from 2008.

Mr. Dehner asked Mr. Franken if he was recommending the boards go to 30-year amortization approval today, as he would amend the reports to reflect that; whereby, Mr. Franken stated it was an option to explore to have the contribution requirements reduced because the state might not accept it since we made the change two years ago. He stated the desire was to have the highest probability of state acceptance. He stated if the boards approved changing the amortization, then he would revise the reports.

Mr. Dehner asked about the impact on the funding requirement; whereby, Mr. Franken stated that the fire plan funding would probably be reduced by 6-8% of payroll, general 2-3% of payroll, and police 10% of payroll.

Ms. McGuire asked about the impact on the funding ratio; whereby, Mr. Franken stated the funding percentage would not change.

Mr. Artin directed Mr. Franken to perform a valuation for the police plan changing the amortization method to 30 years, reducing the investment rate of return to 7.75% and 7.5%, and assuming a fresh start with a 7.75% investment return and a 30-year amortization; whereby Mr. Franken stated that he could have this ready for the February 11 meeting. Mr. Artin stated he would like the board to have this information for review prior to the meeting.

Mr. Engemann asked if the city and employees would have to contribute more if the assumption was reduced; whereby, Mr. Franken stated that reducing the investment return assumption lead to a higher city contribution.

Ms. McGuire stated that a 30-year amortization would not significantly impact the general plan.

Ms. Jayne Timmons moved, seconded by Mr. Sam Butler, to accept the Actuarial Valuation and Report as of October 1, 2010. The motion was approved unanimously.

Mr. Johnson requested a valuation for the fire plan changing the amortization method to 30 years and a fresh start.

Ms. McGuire asked for clarification of the changes in the reports; whereby, Mr. Franken stated that implementing a new smoothing method would impact the funded ratio immediately as of October 1, 2010. He stated the 30-year amortization would lead to different numbers in future years and the contribution requirement would change.

Mr. Dehner advised the general board that they would need to make a determination on the expected rate of return based on Mr. Mulfinger's recommendation; whereby, Mr. Mulfinger stated an 8% expected rate of return was at the high end of expectations for the current, intermediate and long term.

Mr. Franken noted that there was one plan that did not change to a percentage of payroll and so far the state had not said anything. He stated in our case, we made the change which could be a red flag for the state. He stated he would continue to think of other options and bring them back to the boards.

Ms. Jayne Timmons moved, seconded by Mr. Sam Butler, to approve an expected rate of return of 8% for the short, intermediate, and long-term. The motion passed unanimously.

Mr. Dehner stated that a letter should be sent to the Division of Retirement, city manager, Foster & Foster, and him, and Mr. Mulfinger should provide a letter of backup to go along with the letter.

X. Investment Monitor Report (Graystone Consulting)

Mr. Charles Mulfinger of Graystone Consulting stated that he had good news. He stated the second quarter was terrible with sovereign debt issues, election, tax rates, etc. He stated that housing and unemployment were still a problem. In the third quarter, he stated there was not as much discussion on sovereign debt as most countries were on an austerity program to try to improve their sovereign debt. He stated that July was good, August was weak, and September was the best since 1939. He stated that areas that moved were economic sensitive areas. He stated that housing and unemployment were still an issue with not much improvement, but all the other indicators were showing improvement. He stated the manufacturing index came in at 56, which was above expectation. The service sector came out above expectation at 54, retail sales numbers were better than expected; the GDP was revised at 2.5% with the expectation that it might be revised again even higher. He stated that most of the economic numbers, except for housing and unemployment, were actually showing some improvement. He stated the market believed that there would not be a double dip or see a recessionary environment.

<u>Equity Market</u>

Mr. Mulfinger reported that the S&P 500 Index returned 11.3% for the quarter, and the Dow Jones returned 11.1%. He stated that growth did better with the Russell 1000 Growth at 13.0% and the Russell 1000 Value at 10.0%. He stated it had been a benefit to the funds to diversify with small cap growth and international growth. He stated the sectors that performed best were Telecomm, Consumer Discretionary, Industrials and Energy, which were economically sensitive areas. He stated that Health Care and Financials were at the bottom, as this was where all the regulations were applied.

<u>Fixed income</u>

Mr. Mulfinger stated that in the bond market when rates went lower bond prices went up, which we benefited from. He stated that Barclays Capital Credit (corporate bonds) actually reported great earnings during the quarter and were flush with cash and because of that corporate bonds were up 4.65%. He stated that Government Bonds were up at 2.52% as well as mortgage backed bonds.

International Market
Mr. Mulfinger reported that the EAFE index was up 16.5% for the quarter with emerging markets up 18.2%. He stated the strongest area had higher beta, more volatile, more growth opportunity and came in emerging market exposure. He stated that U.S. international stocks did well.

Mr. Mulfinger stated the general employees' portfolio totaled $27,999,473 which included a gain of $2,219,682 for the quarter. He stated it was below the benchmark because of higher quality. He stated that there had been a good market since this report. He stated the portfolio was within range in all areas and did not need to rebalance.

HGK
Mr. Mulfinger stated that HGK had a good quarter which was a little better than he thought as low quality and high beta still led the move. He stated they were a little above the benchmark at 10.19% vs. 10.13%. He stated high quality was reflected in the one-year and since inception returns, as the returns were lower than the benchmark. He stated he would expect them to perform better next quarter if high quality continued throughout the rest of the quarter. He stated the return was a little less, with risk a little less, and with negative alpha. He stated he recently spoke with HGK who advised they had surpassed the index for the year-to-date return as of December 10, 2010.

Renaissance
Mr. Mulfinger stated that Renaissance was a high quality, growth manager whose returns were below the benchmark in all time periods due to high quality.

GW Capital
Mr. Mulfinger stated that GW's return was a little below the benchmark for the quarter, but for the one-year they were above. He stated they had a higher return, less risk and positive alpha. He stated they aggressively invested in areas of the market they think will perform well.

Perimeter
Mr. Mulfinger stated that Perimeter's return was below the benchmark in all time periods. He stated we got into that area at the right time and benefited by moving money into those areas. He stated because of higher quality their performance relative to the benchmark was a little below.

Delaware
Mr. Mulfinger stated that Delaware's return was up 15.93% vs. 16.48%. He stated they were more conservative and their longer term numbers were higher than the benchmark with less risk and added value.

Renaissance – International

Mr. Mulfinger stated that Renaissance had 30% in emerging markets, which helped the return. He stated since April 30, 2009, the annualized return was 26.6%, which was a little below the benchmark because of high quality.

Garcia Hamilton

Mr. Mulfinger stated that it was a great quarter for fixed income. He stated the return was 3.31% vs. 2.76% with a shorter duration. He stated the asset backed bonds inherited from AllianceBernstein benefited the portfolio because lower quality bonds rebounded more, resulting in a higher return, higher risk, and positive alpha. He stated the return was above the benchmark in all time periods with a little more volatility because of the asset backed bonds.

Mr. Mulfinger stated that overall the return was 8.56% vs. 9.13% (not annualized) with a year-to-date return of 7.85%. He stated the market had been very strong since September 30.

Investment Policy Checklist

Mr. Mulfinger stated that the police and fire had added compliance because *Florida Statutes* prohibited scrutinized companies, which he stated were not owned by the portfolio and monitored by him.

Mr. Mulfinger stated that under the guidelines, Garcia Hamilton still had some of the AllianceBernstein holdings with permission to hold/sell until an appropriate opportunity.

Regarding the objectives, Mr. Mulfinger stated there were yes's and no's as discussed. He stated the no's were on the managers previously discussed because of quality. Overall, he stated it was good quarter but not as good as the benchmark because of higher quality.

XI. Report of Compliance on Scrutinized Companies

Mr. Dehner asked if police and fire were PFI compliant; whereby, Mr. Mulfinger stated that they were and it was included on the investment policy checklist.

XII. Discussion of Custodian Interviews Held on October 29, 2010

Ms. Hayes stated she favored Regions; whereby, Ms. Towey read from an e-mail from Regions that they would honor eight additional sub-accounts with no additional charge.

Ms. Timmons noted that Salem Trust sent a new quote as of yesterday for 4.5 basis points, $3 per security transaction, and guaranteed for one year.

Ms. Hayes noted that Regions' fee was guaranteed for three years at 3.25 basis points and they had on-line capabilities, etc. She stated she felt their presentation was very good compared to the three companies that presented. She felt Regions had a much lower cost structure for us moving forward, which the boards should take advantage of.

Mr. Brock noted that Ms. Farrow, who was one of Regions' presenters, was now employed by Salem Trust.

Ms. Jayne Timmons moved, seconded by Mr. Sam Butler, to approve hiring Regions Morgan Keegan Trust for custodial services contingent upon successful contract negotiations. The motion passed unanimously.

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to approve hiring Regions Morgan Keegan Trust for custodial services contingent upon successful contract negotiations. The motion passed unanimously.

Mr. Chuck Engemann moved, seconded by Mr. Mike Marstaller, to approve hiring Regions Morgan Keegan Trust for custodial services contingent upon successful contract negotiations. The motion passed unanimously.

Mr. Dehner stated he would prepare contracts for all three plans.

XIII. Attorney Comments

Summary Plan Description – Draft
Mr. Dehner stated that he distributed draft Summary Plan Descriptions for the plans. He stated he had one change on the firefighters' SPD whereby the last sentence on the top of page 5 should be stricken and he would add, "*the benefit accrual rate is reduced to 3.28% from January 1, 2010, to December 31, 2010*." He stated that Mr. Franken would provide an impact statement reflecting the ordinance amendment.

Legislation
Mr. Dehner stated that the federal legislation pending called HELPS-2 (Healthcare Enhancement for Local Public Servants) was still in the House Ways & Means Committee He stated this legislation would extend the $3,000 income tax exclusion benefit to all public employees that retired with normal and disability benefits. He stated it removed the requirement

for a direct transfer from the plan to the insurance provider, which removed the board from the administration of it and trustee liability.

Mr. Dehner stated there were a significant amount of proposals in Tallahassee for amendments to Chapters 175 and 185 which were pension unfriendly and he would discuss the bills in detail at the February meeting to determine if the boards should take any action with respect to the legislation.

XIV. Other Business

XV. Adjournment

The meeting adjourned at 11:47 a.m.

Respectfully submitted,

Lois Towey, Recording Secretary

Attest:

Kelly McGuire, Chairman
General Employees' Pension Plan

Keith Bandell, Chairman
Police Officers' Pension Trust Fund

Michael Marstaller, Chairman
Firefighters' Pension Trust Fund