Police & Fire Pension Investment Board Meeting
October 26, 2011

Members present: Mark Koller - Personnel Director (Chairman)
Mark Westphalen – Edward Jones Co. Registered Representative
Gerry Finnegan – Independent Financial Planner
Michael Donnelly - Vice President and Regional Director of Wells Fargo Bank, Nebraska Institutional Trust and Investment Services Group.
Russell Fosler – Police Investigator (Secretary)
Steve Niemeyer – Police Investigator
Jeremy Gegg – Fire Captain
Steve Hubka – Finance Director
Guy Pinkman – Fire Captain

Members absent: None

Personnel Dept.
Resource Staff: Paul Lutomski – Police and Fire Pension Officer

Others present: Max Callen – Smith Hayes Financial Services Investment Consultant
Todd Peterson - Smith Hayes Financial Services Investment Consultant

Mark Koller: This is the October 26th, 2011 City of Lincoln Police and Fire Pension Committee Meeting. I call the meeting to order. Previously sent was the minutes from August 15th, 2011 meeting. You've had a chance to review them. If you have any additions, deletions, changes, let me know. Seeing none, I'll entertain a motion for approval.

Russ: Move approval.

Jeremy: I'll second.

Mark Koller: Okay. Moved and seconded. Any other comments? All in favor say "Aye".

(Chorus of "Ayes")

Mark Koller: Minutes have passed. This meeting is for educational purposes. If you're compelled to vote, we can, but that's not the purpose of the meeting. Now, I'll turn it over to Max.

Max: At the last meeting in August, we introduced some new strategies to the committee: the Bank Loan Fund category, and the Commodity category, and we'd suggested you take the J.P. Morgan real estate partnership proceeds and invest them in more liquid real estate. Todd and I are going to split this up. He's going to take the first couple: the Bank Loan and the Real Estate, and then I'll wrap up with the Commodities. Just to refresh your memory, what we've suggested in terms of allocation to the Bank Loan was about 1.1% of the portfolio, taking that away from your Intermediate Term Bond area. Again, as interest rates go down, bond values go up. Rates are about as low as we think they are going to get. Every time I say that, they seem to go lower. The feds are not in any rush to raise interest rates, but we think the Bank Loan category would be a little more advantageous in a rising interest rate environment than the Intermediate Term Bonds. We can wait until January to vote. Real estate stays the allocation. We're just introducing a different product and then we suggested about 1.4% of the portfolio in a commodities strategy.

Todd: Everybody should have received their copy of the presentation and some handout material. At the last meeting we introduced the idea of Bank Loan Investments. For twenty years interest rates have generally kept coming down. We think about the next three, five, ten years. If interest rates go up, what would that do to the bond portfolio? It depends on how quickly interest rates would go up. We're looking at things like duration, which is the interest rate sensitivity of the bond portfolio, as one way of diversifying the bond portfolio. Bank loans: Essentially a company goes to the bank and borrows money, the bank bundles some loans and sells some of these loan portfolios to mutual funds or other investors. The bank loans typically reset rates about every 30, 60, 90 days. If interest rates were to go up, as these loans reset, the values go up. That's in a nutshell how they work. We feel they make sense in rising interest rate environments. As interest rates go up, the value of bonds decrease. If interest rates come down, the value of bonds go up. In a pool like this, we're typically talking about the most senior secured level of debt in a company's structure. But it is considered more of a higher yield lower quality. Somewhat similar to a high yield fund from the quality standpoint. When we go through a period like 2008, when we had credit issues, a fund like this will get beat up pretty good.

Mark Koller: What kind of collateral generally is involved in these deals?

Todd: Well, in the company side of things, when they're looking at this loan, it is considered their - it is pretty heavily collateral asset.

Max: Senior secured.

Mark Koller: When you say "senior secured", are you talking about long-term assets, short-term assets?

Max: Could be both. Whatever the companies say and they want to pledge. Typically there's a margin there that the bank would loan against. A lot of times they are not necessarily accounts receivable type of collateral. It's more of an inventory, or building type collateral.

Mark Koller: Okay.

Todd: They have low duration. Duration is the interest rate sensitivity. We're starting to pay a lot of attention to a bond portfolio's duration, like a PIMCO Total Return historically has had duration of 4 or 5 years, something like this would be less than one year, 0.3 or something like that. So the interest rate sensitivity is very low. Also a fund like this would have very low correlation to the rest of your bond portfolio. If we look at something the Leverage Loan Index from Credit Suisse, as a benchmark, in a year, 1994, when rates when up. We see that it has correlation for 1994 of just 0.4 of the Barclay's Capital U.S. Aggregate Bond Index. The corporate high yield bond index has about half of the correlation. The CitiGroup 3 Month Treasury Bill for that year was a negative correlation. The S&P500 was 0.35. I realize we're just talking about a one year period. But if we look back over the last 20 years, we haven't had a lot of environments where we've had rising interest rates. 1994 and 1999 we also had some rising interest rates. Again, if we go down the column, a negative correlation to the U.S. bond market. 0.33, a third, of the correlation to the high yield market, 0.13 to the 3-month treasury bills, and just 0.22 to the S&P 500. Keep in mind that 1% or one correlation means it walks, talks, smells, and does everything at the same time. Then we looked at the whole ten year period of 2001 through 2011. Again, negative correlation to the U.S. bond market. A higher correlation to the high yield market. The high yield market would be lower quality bonds that have to pay a higher rate of interest. The 3-month treasury bill of 0.13 and the S&P 500 at 0.22. The reason that we are recommending Bank Loans is that they will react different than the rest of your bond portfolio. How do they work? Maybe I should have lead off with this. Companies with a lower credit quality borrow money from the banks, and the banks originate those loans and sell those loans to the investors. The investors could be mutual funds or they could be private pools of money. The investor receive the interest payments. The risk considerations to this lower credit quality. So if we are in an environment like in 2008, when even your safest companies out there are looked at as junk, this will take a hit. It can have that higher volatility. As I mentioned, it reacted similarly to high yield bonds. There's a wide range of these funds out there, and they will do different things. Some managers are only investing in the loans, and other managers may have some of these loans in their portfolio plus some high yield bonds, and then some will use leverage in the portfolio. We're not suggesting leverage. That adds an added degree of risk or volatility that we're not comfortable with. Here's a chart from Zephyr that goes back over the last ten years. This red line here is the Bank of America/Merrill Lynch High Yield Index. There's a blue line here that is the Credit Suisse Floating Rate Fund. And as we look into some of the materials, some of you might walk away from it and say, "Why aren't we using that Credit Suisse Floating Rate Fund? It looks to be better than the Oppenheimer Fund," which we're suggesting. Well, it's because of this. CS tends to look more like a high yield fund rather than a floating rate fund. Eaton Vance has a couple. We're recommending the Oppenheimer, which is the purple line here. You get a feel for the type of volatility that you can expect from the fund. For the most part, things are pretty boring in this type of investment, but when we get into a credit crunch, like we saw in 2008, values drop. We did rebound nicely, and for the most part it's been pretty steady since then. In your packets there are a couple of pieces of information. One, does a good job of explaining the floating rate world. There's a white paper from Columbia that illustrates how these fit into a portfolio. On the second page of that is information about different times that we've had in the last 10 to 15 years where we've rising interest rates. As far as the funds go, you have a handout that looks like this, on the front of it is the Credit Suisse fund that I just mentioned. That fund has done well over time from an absolute return standpoint. From a risk reward standpoint, we found that it is more volatile, and not sure that extra standard deviation has gotten enough reward. The Oppenheimer Senior Floating Rate is about 4 pages in. We are most comfortable with that one, and the managers have been in place for a long time. We've looked at upside and downside capture. A lot of the modern portfolio theory, the alpha, the beta, the sharp ratios. We felt the most comfortable with that fund. What questions or comments do you have on the asset class itself that I haven't addressed?

Max: The alternatives to this in a rising interest rate environment are TIPS. We already have TIPS in the portfolio, or taking your intermediate term bond funds and buyer just short of term bond funds. There are those that are out there that are shorter durations.

Todd: Shorter duration funds are paying 0.5% to 1% right now, where some of these investments are paying current interest in the 4-5% range.

Gerry: These are lower quality companies. Would be issuing commercial paper if they were higher quality?

Todd: That's probably a good way to look at it. Yes.

Gerry: So in some ways, it's like a money market fund with higher yield.

Todd: Yes. That's probably right.

Max: You don't have the dollar NAV that you get in the money market fund. I mean you can go below that.

Gerry: But in terms of what they hold and what happens with interest rates, you see a trend.

Todd: It's on the managers to know the companies. Again, we're talking about extremely short term, 30, 60, 90 days, but still, if you have a period like 2008.

Paul: What would it take for one of these investments to default and the pension fund to have to write that off?

Todd: Not make their payment within the ninety day period.

Max: Default rates on these loans, is much less than high yield defaults.

Paul: Let's say a loan reverts to an issue of the collateral that they've pledged. Is there any analysis on the percentage of the bank loan fund in the collateral process?

Max: The default statistic I remember is somewhere in the 1% to 3% default rate. Now, if you default it doesn't mean you're going to lose everything. It means sell the inventory or whatever held as security, so your actual loss measure is much less.

Paul: And the company has the opportunity, if they miss a payment, to make that up three months from now? I think they'd rather try to do that than sell the building if they are still operating.

Max: Yes. I think what would happen, if they don't make the payment, the bank's going to be involved and its kind of negotiated settlement, and they call their loan. They're not working in the pool anymore.

Mark: It begs two questions for me. One, how that would play out. Two: exchange for workouts. I mean, some funds will exchange their quality loan for a workout, so that they'll then move into more of a junk status.

Max: The makers of these pools are buying their loans from banks like Wells Fargo, and J.P. Morgan. They're not dealing directly with Express Holdings or MacMaran or whatever. They are going through a financial institution to get this package.

Mark: Can they exchange assets though? I think there's one question I've got. Could they exchange?

Max: We can find that out. I don't know the answer off the top of my head. But I think I can find out.

Mark: The question of concentrations.

Todd: The Oppenheimer fund, as of 9/30, has 257 different loans, and the largest was to a company called Vertifor and that represented 1.11% of the total pool. First Data Corporation is on there with 1% of the total. Caesar's Entertainment. Bass Pro Shops.

Mike: It says the turnover ratio for the Oppenheimer is at 52%. Which makes it even better. Versus 37 and 15.

Todd: One question is if a bond or a loan matures after 30 days, is that actual turnover?

Max: That's not a turnover. Turnover is when the company pays the bank loan off, and are out of the pool.

Mark Westphalen: Have you taken the opportunity to look at ETFs in this environment? Or closed in funds in this environment?

Todd: We have. We feel more comfortable having the managers know exactly what they have in the portfolio. In an ETF you aren't going to have that. You're just buying a large pool. We're more comfortable with the managed account in this situation.

Mark Westphalen: How about a closed end?

Max: I don't know if there are any closed end bank loan funds.

Paul: The percentage that you are recommending is 1.1%, which is about a $1.5 million.

Max: Getting back to Gerry's point, it's kind of like a money market fund, the rates adjust a little bit faster, with the exception of if you have a credit problem you can lose money.

Mike: Are these effective, average durations correct?

Todd: Yes.

Jerry: According to Morningstar the best benchmark we have for this is the high yield bond..

Max: Which isn't really a good fit. It's definitely an in-between. If the committee in January, says no to this, then we'll try and think of other strategies that may be appropriate, if we start to see interest rates moving up. But the economy is so weak right now, that probably isn't going to happen anytime soon.

Todd: I'm looking at the Morningstar Oppenheimer fund total returns. For this year through September 30th, the fund was down about a half a percent. Last year it returned 13.5%. We had a great recovery year in 2009, a 43%. I'd say that's kind of an anomaly. As much as I would say that 2008 was kind of an anomaly. In 2007, it returned 1.62%. 2006, 2005, 2004, 2003, I would say those were more normal trading ranges of 7% return, 5% returns. So even in a flat environment, you still have some interest coming in.

Max: Now, you say, why would a company use this type of deal rather than issue bonds. Well, it costs money to issue bonds, and to get a loan from the bank typically wouldn't cost them as much. On the bank's side of it, they have this paper, maybe there's some lending limit issues, maybe there's some liquidity issues at the bank, so they will always be shelling paper back and forth to different places all the time.

Mark Westphalen: Any reason for the decline in the third quarter?

Todd: That would have been the "TWIST". Selling the short paper. Short term interest rates went up.

Mark Westphalen: And from a conservative standpoint as far as our retirement plan as a whole, we still feel comfortable with a six and a half, seven percent waiting in multi-sector bonds?

Max: And not adding more to it at this point.

Max: Well, if there aren't any other questions about this specifically, we'll go into the real estate piece. And then touch the commodities, and then circle back if you want.

Todd: On the real estate side, your exposure right now is basically all through limited partnerships. We could still have exposure to real estate, but something more liquid. Real estate investment trust pools, REITs, invest in apartments, malls, health care facilities, hotels, shopping centers, those kinds of things. We're going to be suggesting more of a global real estate investment where the managers have the ability to look anywhere in the world. They can invest in both the debt and the equity side. Basically anything that's issued by the real estate investment trusts. As we look at the Morningstar universe of mutual funds, domestic real estate real estate funds, there are 75. There are 18 that are ETF's. It's not a huge pool on the mutual fund side. On the global real estate side, there are 47 funds, and just 10 ETF's. Why we think they make sense to add liquidity and global exposure and easier re-balancing. We've got a handout of the different investments that we're suggesting. There is a Prudential Fund, you see here in blue. This chart's looking at upside downside capture. If you go left to right, you are talking about more downside capture. So we'd like to see funds that are closer this way. As we go south to north, we're talking about the upside capture, how they do in good times. We're looking at a three year period basically between June 2008 and September 2011. So we're looking for dots that are higher up that way and over that way. The green one kind of hidden here by the light blue, is the one that we'll be suggesting: the ING Global Real Estate Fund. It's a fund we've been using for some time. We're very comfortable with the management of that fund. There is a Prudential Fund, as I mentioned, which is going to look pretty good, but the reason we decided not to suggest that is you already have a pretty healthy chunk here invested through Prudential on the real estate side. Standard deviation of excess return, this gets a little bit geeky, but basically we're talking about on the excess return, how much volatility did you have to take to get it. Again, that blue fund, the Prudential Global Real Estate is listed there. The green one that we're suggesting is the ING Global Real Estate. Then there are others. But as you go left to right, you're talking about more volatility to get extra return. So this outlier here, this purple is the spider, Dow Jones Global Real Estate ETF. For our recommendations, we've got handouts on the funds and then also some of the ETF's. You'll see Cowan and Steers. The ING Global Real Estate is on the flip side of the first page. You'll get an idea of the kind of volatility. This fund in particular has about 56% of its assets outside the United States. It has over a hundred different investments in REIT's. The REIT's themselves may be very well diversified across different types of real estate investments, whether it be apartments or strips malls, whatever the case may be. But that fund has done very well. It's been more consistent than some of the others that you're seeing in our handout material.

Max: As Todd mentioned, one of the key things I think on the real estate piece, is just adding something. Because we go to our annual allocations and we may be say that you need to reduce real estate a little bit. This gives us the flexibility to take it out of funds versus the longer term partnerships that you're in today. So we see those as the core of the real estate holdings, and this is more of a kind of that satellite exposure part.

Gerry: You envision this as where we make marginal adjustments.

Todd: Now it's daily liquidity.

Paul: You could make adjustments with the limited partnerships too. It's just that you have to wait three months, or so, to get your money back out.

Max: It may take you six months to a year to get that pulled back. Whereas this will allow more flexible in and out. If there's something else that came along on a private basis, that you wanted to invest in, you can take it out of this fund and add that to that longer term deal. It's a little more flexible but still asset class-wise it is real estate.

Mike: Did you have a chance to compare returns for ING versus what we own now?

Todd: We did a little bit of that. I don't know how that works exactly, but as far as the ups and downs go, they all seem to be about the same, but about a year off. So....

Max: What Paul gave us for the returns of the real estate funds, the ING fund had its loss the year before your fund had shown its loss. Then the ING return the year before yours, so I think it's a timing kind of deal, as Todd said. The returns were similar.

Todd: As you might guess, being in the real estate world, trying to come up with a valuation on two hundred buildings or strip malls, or whatever, is different than 200 stocks that you have a daily price for. So that's the only thing we could tie the difference to. They had similar movements, it was just at different times.

Paul: These are publicly traded REIT's.

Todd: Yes.

Paul: So that accounts for some of the differences too.

Max: Yes, the publicly traded stuff will get hammered or rebound a little faster than the partnerships will show their valuation changes.

Mark Westphalen: Are there any funds in Morningstar that have positive returns over 1, 3, and 5 years?

Todd: I doubt there are any. If we took ING's for example, in the upper lefthand corner, you go down about 8 lines, you'll see total returns. In the one year total return is a -6.48. The three-year average is a -1.10 and the five-year is a -3.18. It doesn't sound like much to write home about, but if you drop down another three lines, that -6.48 for the one-year puts it in the top 12 percentile of its peer group, and the -1.10 is in the top 34 or one-third. The -3.18 is in the top 2 percentile. That would tell me there probably are not any 5 year positive returns.

Mark Westphalen: You know, the one thing I came away with when we go to these seminars and workshops, especially with J.P. Morgan, is they've got people in foreign countries that understand the culture. Do these guys have that same kind of working on the ground knowledge of real estate.

Todd: They've got people on the ground all over the world. ING is a very global organization.

Max: It's a little different real estate investment philosophy, when you're buying publicly traded REIT's. You've got the ability to sell those REIT's. You are not married to it quite as much as you are if you bought a building. That takes you a lot of time. I think this would be a little more opportunistic piece of the portfolio.

Paul: If we didn't already own Prudential in a limited partnership, would Prudential have been your recommendation?

Max: Yes, they seem to be high.

Paul: What is the linkage - other than the home office name between the two funds? If this would be your number one choice, what's stopping us from picking this? Is it the fact that maybe some upper management could overlap?

Max: You already have Prudential. If you want to have more Prudential, there's nothing wrong with that. It's a great company.

Paul: Their strategy might all come from the same people and filter down to the limited partnership and REIT. ING might have a different mindset.

Todd: Year to date, the funds that we're suggesting, ING was down 11% in the third quarter, from 17%, so it was positive about 5% or 6% for the first half of the year. Down 11%, almost 12% for the year to date through September 30th.

Max: If you look at the regional exposure. Exposure to Europe 15%. There's more in Asia and the U.S. than in Europe.

Todd: I know our personality isn't such, and I don't think the personality of this committee is such that we'd try and time (market entry and exit), but if Europe can figure out their issues, we may look back and say, "This was a good time to do this."

Gerry: Do you have a stylebox? ING is shows a large cap and Prudential is a mid-cap. How do you measure the cap?

Max: The only thing I can say is it is the size of the REIT's that they are buying. The capitalization of the REIT's. Any other questions on that before we meet the commodities performance?

Max: There are lots of different types of commodities and funds. Over on the left side of the handouts you have the kinds of commodities. There's not many mutual funds out there that deal in broad-based commodity strategies. There's 26 funds and only 7 of those have got a five year track record. There are 13 ETF's in the broad basket, and again only 4 of them have been around for five years. So, commodities, what are they? Well, they are goods basically that fall into the hard asset or natural resources category. The hard asset component is typically stuff that has been mined: gold, silver, rubber, aluminum, methyl gas. The soft asset is the growing kind, and that's usually split between two different things: plant type versus livestock. Gold doesn't spoil. Corn spoils. So there's different risk factors with the different commodities. Category-wise, you generally have energy-related, metals-related, agricultural, livestock. Within that there's lots of different things: Brent crude, heating oil, copper, zinc, aluminum, nickel, lead. Large traders, and you have commercial users kind of go opposite each other, and that has to do with the positions they take. ADM would be a large commercial user. Then you have traders buying the other side of that contract.

The physical commodities, you can take possession. They are buying the futures, with the ability to say, "deliver that to me." The speculator wouldn't deal with that, they'd sell that futures contract before they get the product pushed to them. So commodity futures is a contractual arrangement to buy or sell commodities at a specific date and time in the future, at a specific price. The contract can be sold before the expiration of it, so typically they are buying soybeans out in March of next year as an example. In the futures markets. The indices that are involved in these things and the sheet that was handed out, this green sheet, is a nice reference point for you, the constant maturity commodity index came around in 2007, so it has not been around very long. The S&P GFCI is probably the oldest one, back to 1991. Let me try to zip through these. Broadly based indexes, unleveraged, long. Three months up to three years. The Bloomberg. Constant Maturity. Commodity-wise the Dow Jones represents 19 commodities. The Bloomberg represents 27 commodities. The Dow Jones is equally weighted roughly energy and ag, and the other third is spread between livestock, precious metals and industrials. The Bloomberg is probably the most equally weighted 29 % ag, 34% energy, 27% industrial, with just a little slice of the precious metals. The one that's been around the longest is very heavily weighted energy, 67% in energy, so in terms of picking that index then that best matches what a fund is trying to do, you really have to have it aligned with allocations, because you can look either very good or very bad based upon these different indices. The Dow Jones is weighted based on market liquidity in U.S. dollar adjusted production, all the production. The USGIC is based on 5 year data number, and the Bloomberg is basically equal weightings formula based. One is re-balanced annually. This one is re-balanced monthly. How do we access talent if we wanted to put something into commodities. There's traditional constant maturity, management strategy. There's active managers and there's managed futures. I'll go through each of those a little bit. The traditional, they look at those front months, and they're buying futures contracts, they're looking at 90 days, 60 days, 30 days. The two indices would be the Dow UBS, and the S&P Index. These are very energy focused. Constant maturity ones are a little longer, so they take those front months out of their equation, which are the months when you get the most spiking in terms of volatility. It's not raining, the corn crop is not going to be as good, or something else happens, so they go more from 90 days to a year and a half out, and just constantly buy within that range and letting those front months roll off, to reduce the volatility. They are much more broad. The active managers focus on front months, and they look to take advantage of things that are happening in the market. It's snowing like crazy here, or hail or rain, so they're making things there. Summer Haven is an index that most active managers would use, and they can be very concentrated, because they are trying to find the opportunities within that commodity world. Then your managed futures. You see a lot broader ranges. Your managed futures are much more of a trend-following type of strategy. They are momentum driven. With most managed futures, you have fairly large $5 million minimums. You've got ETFs and Mutual Funds.

Not very many options there, not a lot of history there. Then you've got separate accounts. Again, this gets really small. I put an arrow at the Dextron Fund. It's got an 83% correlation to the S&P 500. That's not what we're looking for in a commodity fund. We want something that's less correlated. The rest of them are more in that 50% range. This is for a five-year period: August 2006 through September of this year. What we looked at then grouped. PIMCO Real Return Commodity Index Fund. That's the one that we suggested you consider before. They are more of that constant maturity strategy than the other two strategies. There's the Dextron clear up there. It's a leverage deal. So we recommend that PIMCO on the mutual fund side, and Power Shares on the ETF side. I saw one fund since our last meeting. It's a fund by Invesco that's managed to risk. It's called a Risk Balance Fund. A third of the portfolio is commodities, a third is fixed income, and a third is equities. They just try to see where the lowest risk is, and that's where they put the money, within that balanced strategy.

Paul: Power shares - Which groups did that fall in?

Max: It is in the constant maturity index. The commodity allocation we suggested was 1.1%. I think this group at some point in time will make a decision to have exposure or not? If we do, "do we want to ease into it? Is it a 1% or 3% number?" I think you'd probably have three to five years, before you really got a feel for the volatility and how it looks to the portfolio. A 1% number isn't going to swing your overall returns much to the positive, or to the negative, either way.

Todd: Another reason we looked at commodities is the next five, ten, fifteen years. As places like China and India start to develop their middle class you could make an argument that commodities should increase along with the growth of those developing nations. So it hasn't been necessarily where the puck has been, but we're looking at that one as where the puck could go over the next 5, 10, 15 years.

Max: Historically commodities do better in inflationary time periods. We think there will be some inflation. Globally.

Todd: We're starting to see inflation in the emerging countries.

Russ: Out of the three groups of investments which one do you feel the most strongly about?

Max: I think they all have a place in the portfolio. You're getting some money back on some real estate so the one that probably needs action would be real estate, in terms of what to do with that money? The other two are longer term. I think commodities are decision for overall asset allocation for a long time. And the other one is just when interest rates rise, how do we want to position the portfolio? If it's not bank loan, then we'll look at some other things that we can bring to you that will protect you maybe as interest rates go up.

Russ : The greatest need right now is what we're going to do with our real estate proceeds.
Starthere 1 hr 2 minutes

Todd: On the bond side we're trying to diversify with something different than you own right now. On commodities, I look at that for the next ten, fifteen years as an area that could do well and it would be not as correlated with the rest of your portfolio.

Russ: I found the commodities really interesting.

Paul: We will be getting the final payment from J.P. Morgan on the alternative property fund probably in the next two or three months for between a half a million and a million.

Mark Koller: The strategies are interesting. You guys have done a great job putting them out in front of us.

Max: Between now and your next meeting, there's going to be a lot of volatility in the markets. Since we have a presidential election year, I think they might be bouncing around a lot.

Paul: We're down 8.9% through September.

Max: Mark and Mike, what are your investment guys thinking about the rest of the year?

Mike: We are definitely negative on bonds. Somewhat positive with stocks. But mainly large Cap.

Max: When you're negative on bonds, where do we go? We don't want to go to stocks, because we already have our stock allocation.

Mike: People aren't sure.

Paul: I read that the U.S. government is thinking about issuing floating rate treasuries? Did anybody else hear that?

Todd; I think I saw that.

Max: In addition to TIPs?

Paul: Yes.

Max: The Europe issue and their debt issue is really kind of intriguing, but if you don't solve the 50% of employees working problem, you're going to have more debt. So it's going to be interesting.

Mark Koller: Fiscally the EU is tied together, politically they are not.

Max: I think Greece debt is 50 cents on the dollar. A bigger problem for the Greece citizen, is where's my paycheck next month.

Paul: Then you've got Italy, Spain, Portugal, and Japan.

Max: Japan has a pretty good economic engine, and their people work. Yes, they're an older population, but it's not a socialistic state like a lot of Europe. That's a real, a real dilemma.

Guy: I still think the looming giant is probably China. They are pulling all of their money back in right now. They are buying commodities.

Max: Yes, they'll be buying a lot. I think in the last meeting we talked about their buying land,

Max: Our meeting in January is a review of manager meeting, so we'll come prepared to do that first, and then if you guys want us to put this up as a vote, each strategy, we'll do that, or you can just tell us between now and then how you want us to address what do you want to do here.

Mark: Paul and I will talk and see what we want to do. I'll take this opportunity to introduce Guy Pinkman, as our new member. Thank you for contributing before being introduced. By the way.

Guy: Thanks. Appreciate it.

Mark: This was a good meeting, because this was a discussion in itself. If we take action, it will be at the next one.

Paul: Shall we adjourn the meeting?

Mark: Is there anything else for the good of the order?

Mike: Move to adjourn.

Russ: Second.

Mark: Adjourned. Thank you.