POLICE & FIRE PENSION INVESTMENT BOARD
July 26, 2007
Meeting Minutes on Digital Audio

Members present: Don Taute- Personnel Director
Don Herz – Finance Director
Jeremy Gegg – Fire Fighter
Greg Sorensen – Police Sergeant
Michael Donnelly - Vice President and Regional Director of Wells Fargo Bank, Nebraska Institutional Trust and Investment Services group.
Gerry Finnegan – Independent Financial Planner
Mark Westphalen – Edward Jones Co. Registered Representative
Brad Thavenet – Fire Fighter
Russell Fosler – Police Investigator

Members absent: None

Personnel Dept. Resource Staff: John Cripe – Compensation Manager
Paul Lutomski – Police and Fire Pension Officer

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

Don Taute Calls meeting to order at 9 am.

Turns presentation over to Paul and John to discuss real estate research.

On February 22, 2007 the Police and Fire Pension Investment Board approved increasing the portfolio's real estate allocation from 10% to 14%, and reducing the allocation to domestic debt from 20% to 16%.

A motion was made to purchase $7.5 million of Madison Harbor Real Estate followed by discussion requesting more information from Madison Harbor. The vote was completed by email and the motion failed 5 to 4. The reason for failure appeared to be that Madison Harbor was a newly formed entity investing in private equity real estate funds.

The pension currently owns $15 million of JP Morgan Strategic Property Fund and $5 million of Rreef America. JP Morgan's Strategic Property Fund semi-closely follows the geographic and sector allocations used by the NCRIEF index, while Rreef America ignores the index allocations and invests in the areas and sectors they prefer. Both of these funds are considered "Core" because they use less than 30% leverage and invest in top quality developed and leased properties.

The June 30, 2007 total portfolio value was $204 million. To fill the 14% real estate allocation, an additional $8.5 million needs to be invested in real estate. Pension administration obtained a

list of the top 25 managers of real estate equity (ranked by assets under management) from "Pensions and Investments Magazine" (see enclosed). We contacted the top six managers asking for information on real estate funds they offered that are different but complimentary to the core funds the pension currently owns. Below are listed the type of funds, companies offering them and the minimum investment.

Value Added/Special Situations
Rreef America III ($1 MM)
Prudential PRISA III ($5 MM)
JP Morgan Special Situations ($10 MM)
JP Morgan Alternative Fund ($10 MM)

Infrastructure
Rreef Infrastructure ($5 MM)
JP Morgan Infrastructure ($10 MM)

Global
Rreef Global ($10 MM)
ING Global ($250,000)

Agricultural Core
UBS AgriVest ($1 MM)

The Value-added and/or special situations category is broadly defined as investing in properties that have significant appreciation potential through lease-up, new development, re-development, and/or repositioning. Normally investments occur by joint venture with local partners. They normally use 50-60% leverage.

The Infrastructure category is broadly defined as investing in the physical structure and facilities that provide essential services to a community and includes transport (toll roads, airports, ports) utilities (energy distribution and transmission, water treatment/distribution), social (hospitals, education facilities) and specialist sectors (parking facilities). These normally use no leverage.

The Global category, in the case of the two funds offered, invests in equity securities of companies that are principally engaged in the real estate industry and REITs. These investments provide access to property like returns with greater liquidity and lower transaction costs than direct property ownership. Special risks include currency fluctuation, economic and political risk.

The Agricultural-Core category invests in land used for farming, vineyards, orchards and nut production in an exposure representative of the universe of farmland investments. Normally lease land regarding annual crops and use a lease plus percent of profits for permanent crops. Like other core real estate they normally use less than 30% leverage.

We created a table to compare each category's funds. We spoke with representatives from all managers. Since real estate funds call in committed capital as needed, if we commit a dollar amount to be invested, it may take about two years for all the committed capital to be called by the manager.

After considering the attributes of our existing real estate investments and the attributes of the new offers we came to the following conclusions:

- All the companies considered have considerable experience in real estate management.

- We eliminated Global strategies because they were more risky than the other strategies due to retail stock purchases (causing a positive correlation to the global stock market) and the special risks cited above.

- We eliminated UBS Global's US Core-plus Real Estate Fund because it was 50% core assets and we already have $20 million of core assets.

- We eliminated UBS Global's US Farmland because it is core-like in that it does not use leverage and because it is a relatively small fund at $341 million.

- We eliminated Rreef's Infrastructure Fund because it is a brand new fund with first closing in 3Q2007 and because of possible liquidity concerns from the four year lock-up period from the date of initial investment.

- We eliminated the JP Morgan Infrastructure Fund because it originated October 2006.

That left the four Value-added funds.

We liked the JP Morgan Alternative Property Fund because it invests in property types such as hotels, assisted living, self storage, student housing and mezzanine loans that are not within our presently held real estate funds. The different property types provide the portfolio increased diversification and decreased correlation to core real estate and stock equity securities. The fee structure is reasonable. Because we are existing customers, JP Morgan agreed to lower their minimum to $5 million for us.

> Since the portfolio is currently at $204 million and the capital call method of investing delays actual purchases (approximately 2 years), we calculated a $10 million new investment in real estate would be 14% of the portfolio when it's value reached $214 million. We felt it was reasonable to assume the portfolio's value would reach $214 in two years as that is only a 2.5% annual growth rate. That means $5 million is left to invest.

Of the three remaining funds we could only chose one due to our $5 million purchase limit. They are all excellent and similar. We preferred Prudential PRISA III's "Strategy Profile" because less of the fund was stabilized and therefore more of the fund had potential for appreciation through stabilization. PRISA III's returns also compare favorably. The fee structure is reasonable. Prudential PRISA III provides the portfolio more diversification not only because of the properties it holds and will hold, but because it is managed by a different company than is currently used in our portfolio (ie. it is not JP Morgan or Rreef). For more detailed numeric comparisons please refer to your copy the "20070726 real estate comparison" spreadsheets. The base data summarized on the spreadsheets is in a box with Records and Information.

The board and pension administration discuss fees and expenses, property types, diversification geographically and by property type, how the property types and locations mesh with the property types in funds already owned by the pension, risk and return potential, cash flows. Gerry Finnegan requests the pension hire a real estate expert at an expected cost of $30,000 and look into a real estate index fund. Pension administration agrees to investigate the costs associated with hiring an expert. Mike Donnelly agrees that an independent real estate expert or researcher could review the pension's real estate holdings.

Paul reiterates that the pension's real estate selection process has started with the top six real estate managers used by other pension plans. John and Don explain the professional services

RFP process will delay the commitment and thereby the investment by about 12 months. Gerry states the research as presented was excellent, and offers to invest the $10 million in a real estate index. Don asks for a motion to move ahead.

Mike Donnelly made a motion to explore hiring a consultant to help invest in the real estate market. Gerry Finnegan moves that the board seek expert assessment of our existing real estate positions and establish procedure for purchase of new investments. Don Herz seconds the motion and it passes unanimously.

Break

Max and Todd present

Max distributes handouts of his Powerpoint presentation. ("20070726 SH presentation")
Economic Overview
Demographic and Political Picture
Present Allocation
Assumptions for Next Year
Recommended Allocations

Best performing asset classes shown from 1996-2Q2007. Since 2000 - 2006 value outperformed growth, starting with 2007 Growth is doing better. EAFE is outperforming US. US corporate profits up. Flat yield curve. Fed funds, rate that banks pay each other is increasing. US debt held by foreigners is increasing because of rising rates and rising dollar. US GDP growth is 0.7% and very low compared to the highest being India and China at 9.1% and 11.1% respectively. Oil used to be $30 a barrel and is now $70 and not expected to decrease which will effect the entire economy. Home prices vs. Personal savings rate. Home prices are increasing and savings are decreasing in step with savings now at a negative 1.4%.

Demographic and Political Picture. Population age is shifting to a higher percent of age 65 or older Americans. In 2000, 12.4% were over age 65. that 35 million people. In 30 years that number is expected to double. The dependency ration is those 65 or older to those age 20-64. In 2005 that ratio was 20.6. 5 young to 1 old. In 2030 3 to 1. As you age your income decrease, medical needs increase and you cry louder for help from the government.

Present Allocations. Shown on the slides. Every asset class did well. US equity asset classes ranged from a low of 15.5% for small value to a high of 27.5% for mid-growth. Foreign returned 27.3% and global 28%. Real estate 20.8% and hedge funds 10.9%. Domestic bonds were the lowest at 6.9%. Each asset class is briefly discussed in terms of allocation expected return, actual return and comparative index return. The 12 month return ending June 2007 was 18.5% overall.

The 2007 future themes are high oil prices, subprime and the weak dollar. This chart shows the positive years of S&P 500 before a negative year. We have had 4 years since the last negative year. Long term issues are the baby boom generation and their demands, further globalization of markets, the war on terror, and emerging markets.

Subprime lending is explained and possible market fallout explained and discussed. Comparison to Long Term Capital bailout, Bear Stearns bailout. Dollar value compared to other currencies.

Assumptions for Next Year. Slight overweight of Large Caps. In a uncertain market large caps tend to perform better than smaller cap stocks as they have a more diversified base of

operations. Equal weight of growth to value. Growth has been outperforming, but value is coming back into style, and value usually has less downside risk, so we are shifting our allocations slightly. Reach maximum allowable allocation under policy in foreign and global. Because foreign markets have been and are continued to be expected to outperform US markets.

Revisit Policy Change recommended in 2006: Increase foreign equity from 20% to 30%, and increase global equity from 10% to 20%. Within international add Large, mid and small sub-categories as shown and within Global add large and mid/small sub-categories. We may not be able to use the sub-categories right away as suitable product may not exist.

Slides produced from Zephyr software are shown depicting asset class risk return measures, correlation and resultant efficient frontier. Slide shows probabilities of success achieving the 7.5% target return is 57% with 70% chance of averaging that rate over then next 10 years. One year expected return is 9.68%, with 10% standard deviation. Best case return 30%. Worst case return is -9%. Probability of a negative return is 17%.

Allocation changes in addition to the foreign and global are domestic debt decreased from 17.3% to 16%, real estate increased from 9.7% to 14%, alternatives (hedge funds and structured investments) decreased from 7.1% to 7%. Equity allocations are recommended to be changed from the strong mid-value overweighting to the weights described previously and listed in detail on the next page.

Allocation table: Items to be changed are highlighted in yellow and corresponding recommendations are highlighted in gray.

	Current			Recommended		
Asset Class or Strategy	**Min %**	**Max %**	**Target %**	**Min %**	**Max %**	**Target %**
I Cash Equivalents	1	3	1	1	3	1
II Domestic Equity	20	50	32	20	50	33
Large Cap Growth	3	17	3	3	17	8
Large Cap Value	3	17	3	3	17	5
Mid Cap Growth	3	17	3	3	17	5
Mid Cap Value	3	17	17	3	17	7
Small Cap Growth	3	17	3	3	17	5
Small Cap Value	3	17	3	3	17	3
III International Equity	5	20	20	10	30	20
Large Cap	NA	NA	NA	5	20	20
Mid/Small Cap	NA	NA	NA	3	10	0
Emerging Markets	NA	NA	NA	2	10	0
IV Domestic Debt	16	50	16	16	50	16
V Foreign Debt	0	0	0	0	0	0
VI Real Estate	2	15	14	2	15	14
VII Alternative	3	10	7	3	10	7
VIII Global Strategies	5	10	10	5	20	10
Large Cap	NA	NA	NA	5	15	10
Mid/Small Cap	NA	NA	NA	5	15	0

Motion made by Russ Fosler implement the recommended asset allocation changes, Gerry Finnegan seconds the motion. It passes unanimously.

Break followed by David Hennessy of Research Affiliates presenting their index fund products. Hands out printed materials.

5 year old firm, manage $30 billion, owner won graham and Dodd, editor of CFA journal for last 4 years, developed index idea. 5 PhDs in firm. Hands out client list. First account 2.5 years ago from state of South Dakota, Calpers invested $2+ Billion. Nobel foundation. Gaining acceptance.

Market cap is value of all stock outstanding. Cap weighted indexes beat most managers most of the time, but have growth bias. S&P index committee puts in stocks that grow to make index look better. You participate in every bubble/bust with the S&P because they put those stocks in the index. Market cap over weights 100% of overvalued stocks and under weights 100% of undervalued stocks. To explain: 250 names will earn higher than the average 500 return and 250 will earn lower. The ones with a higher return are undervalued today and you don't know which ones they are, etc. We look at accounting metrics other than market cap, like sales, cashflow, etc. We looked at fortune 500 and weighted them by sales (actually 12 different metrics related to sales) rather than market cap and that beat market cap by 2 to 2.5%. Equal weight using book value, sales, cashflow, and dividends, is a new way to index. In a bull market we participate, in bear market we do better compared to cap weighted. We add enhancements that add more than our fees.

Board discussion and presenter explains each index product risk and return, and types of fees for different classes of funds. Max Callen recommends investing 10-15 Percent of equity. That equates to $7-10 million. Discussion of investing $2 million into each of the following indexes:

ERA Fundamental Emerging Markets Index
ERA Fundamental US2000 Index
ERA Fundamental International Index
ERA Fundamental Small International Index
ERA Fundamental US 1000 Index

Gerry Finnegan makes a motion to purchase $2 million of each of the above indexes, second by Jeremy Gegg, via commingled trust when it becomes available. The motion passes unanimously.

Meeting adjourned.