POLICE & FIRE PENSION INVESTMENT BOARD
February 14, 2008
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 Max Callen and Todd Peterson of Smith Hayes.

Max Callen explains that he will follow the same presentation as prior years, with a brief economic overview then he and Todd Peterson will discuss each fund. Paul and John oversee the hedge funds and real estate.

Power Point presentation: Market last year, depending on where the money was invested you did either pretty or badly. Growth did about 11%, value was all negative, down about 10%. Two areas, energy up 34%, financials down 18% due to sub-prime – there is more to come as ARMS adjust. Financials may be flat next year. If you had bought the index over the last 7 years your return would have been flat.

When we started this process several years ago we thought our markets would be like the 1970's.

Paul Lutomski: Overall flat for next year, but the right sectors would be positive?

Max Callen: Yes. The notebooks are arranged the same as last year. We did make the index investments and the structured investments.

Todd Peterson: I'm going to cover the book and go fund by fund. This is a manager review. In the summer we look at asset allocations. The yellow tabs contains funds not directly advised by Smith Hayes and the white tabs and Smith Hayes advised funds.

Max Callen: Before the first tab the total portfolio figures are shown. 8.32% for calendar year 2007. Ended the year at $203 million.

The next page are returns for each asset class and its benchmark.

Paul Lutomski: We are planning to rebalance back to the targets after this meeting but waited in case the committee decided to change a target.

Max Callen: Paul, do you want to take the Cash and Government / Agencies?

> *Note: The written minutes regarding securities are summaries of the high points for each security, More details were discussed but are not included here for expediency.*

Paul Lutomski: Cash totaled 1.8 million, 0.9% of the total portfolio, earned 4.53% and was mostly managed by the City Treasurer, with smaller amounts held within our account at Smith Hayes and at JP Morgan.

The Government / Agencies are three remaining bonds from when we used to buy a lot of individual bonds. Detailed descriptions are on that page. The first, a $2 million PreTSL, has a floating rate +200 bp to LIBOR. The $1 million Lower Brule pays a flat 6.1% rate. The third is a 30 day agency we keep rolling over. It is now at $5 million. We keep that short in case we get a capital call from real estate.

Todd Peterson: Next tab is corporate. Each tab contains the same types of data. The first page is a summation. Description of the fund, Morningstar category, fund objective, applicable benchmark. Below that are total pension assets, in this case $28 million, which is about 14% of the total plan. Beginning year value was $22 million, investments were $5.0 million redemptions were $0, year end value was $28 million. Performance was 5.76%.

The bottom shows the published returns. There may be some discrepancies because of timing and in some case more dramatic than others.

In this case 5.71% was the published return. Also 3 and 5 year returns are shown. The last line show has the fund performed compared to other like funds. For the past one year this fund was in the top 37% of 1097 funds in this category. The top 3% for three years, 2% for five years and 1% for ten years. This is a strong performer.

The colorful next page is from Zephyr Style Advisor. Morningstar is a point in time view, Zephyr is a over-time view. The top is relative performance to its peers. The blue dot across the top is Calvert and that tell us it is a consistently good performer. Other sections are style, manager performance, asset allocation. In asset allocation the dominant style comparison is against a 7-10 year Treasury, and the second most is 3-month T-bill.

Todd proceeds to present each investment in this fashion. Next is American Funds Growth Fund of America.

> Note: The pension has $5.8 million, 3.75% of the portfolio. It returned 14.2%. For one year it was in the top 64% and for 5 years, top 13% for 10 years top 3%.

The next tab is Large Index. We added the index funds late last year and in fact there is no applicable return data. It is an enhanced index, not cap weighted.

Max Callen: This was approved last August and was not available until November. We liquidated corresponding equity holdings and bought in.

Todd Peterson: Large Value category, Dodge and Cox. $7.8 mil, 1.3% return, bottom 38% for one year, 10 year is top 2%. Closed to new investors. Still consider it a good fund. Reasonably concentrated, owns about 88 stocks. That means they need to be right in their picks. 18% is foreign.

Mike Donnelly: I love this fund, but it has a tendency to tilt toward growth. Are we comfortable keeping it in this space?

Max Callen: For all funds, there seems to be some drift toward the type of stocks that are favoarable. When value is best, you will see some growth funds tilting a little toward value. According to Zephyr this fund is clearly value. Morningstar shows a bit of a blend. I'm not concerned it is too far out of the value space.

Todd Peterson: Mid Growth. Alger. Last year on watch list. This year it cranks out a 37% gain. Good lesson for us, we should applaud ourselves for keeping it. It is back on the top of its competitors and off the watchlist.

Mid Value. Hotchkis and Wiley. $10 million. Negative 20% return. It underperformed because it had housing and retail. We plan to take half or the money and put it in another mid value, not because of performance as much as the size of the fund. We'll circle back and take about that more later.

Paul Lutomski: Last time this group agreed to sell $19 million of this fund to get down to the $10 million. So it could have been worse.

Todd Peterson: Small growth. Baron Growth. Total size under mgmt has tripled. We are a little bit concerned because it has started to creep into the mid cap space due to its size. We will prefer to see it close to new investors. We will monitor. $8 Million and 7.5% return.

Small index was just added.

Small value. Boston Partners Small Cap is on the watch list, return was -7.3% $1 million. Heartland value $2.5 million -5.8%. This fund has run hot or cold. Very true to value style.

Royce Special Equity was on watch list, but returned 4.75% last year so we will take it off the watch list. You can see this one has come back also. It has some style drift.

International Equtiy: Europacific $42 million, 18.7% return. Continues to be one of the best out there. We may look at diversifying because it is 21% of the total portfolio.

Max Callen: There are getting to be more small, mid international funds. We could then target those specific areas.

Todd Peterson: There are indices, large, small and third is emerging markets. Each has $2 million invested. Again, too new for returns by year end, but down 5-7% to date as they are indexes.

Global Strategy. American Capital World Growth and Income $22 million, 17% return 11% of the portfolio.

Max Callen: A bit of a value bent, and larger cap, but a blend of everything.

Todd Peterson: Alternative Investments. Calamos. Does well in good times, and not bad in bad years. $4 million 10% return. Morningstar has changed the category because they have begun buying regular stocks and not as much convertible. We are not real concerned.

Max Callen: Convertibles provide income and the regular stocks for growth.

Todd Peterson: It is a different animal and that's why it is in the alternative space. I'll turn it over to Paul.

Paul Lutomski: Details of each Structured investment in the book. Explains each structured investment all together combined total $1 million. Each is based on and compared to an index. Own one S&P annual review note. if S&P up 0+% we get 10.67%, if down evaluated next year, if S&P is up we get 21.34%, third year 32.01%. The rest are one year Buffered return enhanced notes based on various indexes. If the index is up we get twice the return up to a cap per BREN, if down less than 10% we get our principal back. If down more than 10% the excess down is multiplied. For example, if index down 11%, we are down 1.11%. 1.85% combined return.

Board asks questions and discussion occurs.

Hedge Funds $9.8 million return 5.9%. Three year return was 7.61% Five year return 7.38%.

Real Estate, $21.7Million, return 15.4% Explains each of the four holdings. Three year return was 20% Five year return 16%. States the plan received as capital call from Prudential Prisa III for $825,000 and purchased in mid December. We have $4,175,000 Prisa III and $5 mil JP Morgan capital calls outstanding.

We contacted several real estate expert to get a cost for them to evaluate our current real estate holdings as the Board requested last time. Here are the results:

Brett Christenson of Marquette Associates originally quoted $20,000, but later withdrew.
Tom Defanco of Courtland quoted $25,000.
Allison Yeager of Mercer quoted $20,000.
Scott Brown of Ennis Knupp quoted $65,000.

Pension administration and the Board discuss the prices and decide they are too high. Gerry Finnegan offers to try to find an expert at a more reasonable cost.

Max Callen recommends Columbia Mid Cap Value Z (NAMAX) to replace half of Hotchkis Wiley. Considerable discussion occurs regarding the selection process and NAMAX specifics.

Mark Westphalen move to sell 50% of HWMIX and invest it in NAMAX. Russ Fosler seconds the motion. Discussion followed by unanimous approval vote.

John Cripe invites all Board members to attend the American Funds Institutional Client Forum April 8, 2008 and encourages all to attend an education Police and Fire specific conference. Members interested in attend the American Funds should contact Paul in the next few days.

Meeting Adjourned

Start here

Todd Peterson: I'll leave it up to the group if you would like us to look at other funds. I wouldn't like to see them out, unless their performance does not hold up.

He notes that Alger Mid Cap Growth is on watchlist even though its absolute performance is good at 9.7%, it performed below 44% of its peers in one to five year comparisons. $5.5 million, or 3.57% of the portfolio in this account.

Small Value category Robeco Boston Partners is also on the watchlist because of poor absolute performance of 3.8%, it performed below 55% of its peers in one year and below 53% in five year comparisons. Only $1.2 million, or 0.77% of the portfolio in this account.

Small Growth category Royce Special Equity is also on the watchlist because of poor absolute performance of 4.8%, it performed below 67% of its peers in one year, 95% in two year, and below 52% in five year comparisons. Only $1.2 million, or 0.79 of the portfolio in this account.

Michael Donnelly: If these, or any other funds have a major problem how fast can we get out of them?

Todd Peterson: In one day, but we don't have discretion to buy or sell. We would have to contact pension administration.

Don Taute: We would contact members by email or telephone and get input before a making a decision.

Max Callen: We will look at alternatives to the funds on the watchlist and present them at the next meeting.

Paul Lutomski: Real Estate is almost $21 million, or 10.75% of the portfolio. Return was 21.38% beating the non-investible NCREIF benchmark of 16.6%. Individually RReef returned 14.4%, JP Morgan 16.6% CNL Hotels 6.95% and CNL Retirement 73.6%. The CNL Retirement return was high because we hold the investment at cost until liquidation and then book all the capital gains. We paid $9.30 per share and the entire investment was sold HealthCare Properties for $11.1293 per share in cash and 0.0865 shares of HCP per share of CNL. The HCP stock was sold for $895,287.29. Paul then goes through some details on each investment per the sheets provided in the book noting Rreef and JP Morgan core investments both provide about 6% income return and compliment each other in that the JP Morgan follows the NCREIF allocation and the Rreef chooses property type independent of the index.

The Fund of Hedge Funds group is $9.3 million, and earned 9.86% due to investment timing with new purchases of $4 million occurring during 2006. The non-investible HFRI benchmark earned 10.3%. We got the HFRI index from JPMorgan,. They described it as the average of

the top performing 75% of fund of hedge funds. Arden is being removed from the JP Morgan platform because JP Morgan wants more transparency into Arden's operations and Arden does not want to provide it to them. On their advice we are liquidating Arden and investing in a series of the Multi-Strategy Fund similar to the one we own. JP Morgan is waiving the usual sales charge to invest in Multi-Strategy. The next page shows Multi-strategy fund's 6 strategies and the percent invested in each. The following pages are explained as more detail to each strategy, geographic diversification.

Don Taute: Do you want to go over the last minutes for a vote.

Paul Lutomski: The minutes summary are only a page long. Please read them and let me know if you have edits.

Russ Fosler requests his title be changed from Sergeant to Investigator.

Don Taute: All in favor of adopting the October 20, 2006 minutes as edited?

Mark Westphalen: So moved.

Greg Sorensen: Second.

All: Aye.

Don Taute: Motion passes.

Don Taute: We have the fiduciary liability coverage in place. The fiduciary liability insurance obtained from Federal Insurance, policy #8207-6465. Coverage of $1 MM with $15k deductible each claim. The total premium for the remainder of FY 2006-07 total was $8845.20 with PF Pen position of $3,738.37. Next FY 2007-08 full premium will be $14,500 with PF Pen portion $6,129.

Break:

Mark Peterson and John Bishop of Madison Harbor Capital present regarding Madison Harbor Private Real Estate Partners, LLC. For Board Vote. $5 MM minimum ($7.5 MM to attain 14% real estate allocation) Madison Harbor Private Real Estate Partners, LLC. Printed material is reviewed. Highlights include rigorous due diligence and 120+ years experience of five principals, a fully developed platform of funds with timely reporting and SEC oversight. Team experienced in managing value added and opportunistic real estate funds of funds. A disciplined underwriting process recognized as best-in-class. Database of funds reviewed was 141 with about 10 to 15 chosen targeting 13% return after all fees. The fund of funds construction provides diversification across property types, geography, and investment strategy. Madison Harbor invests in the same funds as major institutions without the high minimum investment. Organized as a private LLC with REIT subsidiary. Target fund size is $150 million, with $5 million min for institutions. The term is 10 years with bulk of returns expected to occur in the last 3-4 years. Management fee is 1%. Incentive fee is 5% of profits after 10%.

Board discusses the investment and has concerns over risk, fees, and newness of the company.

Don Taute: We also wanted to talk about increasing our Real Estate allocation from 10% to 14% and decrease Domestic Debt allocation from 20% to 16% and the JP Morgan Structured Investments.

Paul Lutomski relays an email received from Bill Killam of JP Morgan on February 20, 2007 regarding structured investments.

> Given a potential investment opportunity of $1MM, our phase-in plan for structured investments would be to diversify over time and strategy. The timing of investment would take place in a manner so as to approximate equal installments over a one year period.
>
> Structured investments give investors the opportunity to express a particular market view while sacrificing excess upside return in exchange for enhanced downside protection. There are a wide variety of strategies upon which each structured investment may focus - examples being a return enhanced note, a buffered return enhanced note, an annual review note, and a principal protection note. Please refer to the enclosed example documents for details.
>
> Structured investments can also offer the investor exposure to a specific geographic region, such as the U.S., Japan, Asia Ex-Japan, and Europe. Structured investments focused on a region such as the U.S. can offer an opportunity to express a viewpoint specific to market capitalization, with past offerings based upon indices ranging from the S&P 500 to the Russell 2000.
>
> Structured investments are created and offered to capitalize on underlying market conditions and therefore all strategies may not be available at all times. The selection specific investments would take place in a manner so as to diversify across strategies, market capitalization and geographic regions.

If the Board approves this, we would buy the structured investments recommended by JP Morgan in the amounts they recommend up to $1 million total over the next 12 months.

The Board discusses the different types of structured investments and the different indices they can be written against. The investment period, risk and return. Allocation percent would be 0.6% of total assets.

Gerry Finnegan: We could construct the investments ourselves less expensively.

Pension Administration acknowledges the construction of the investments is a package of derivatives, but recommends the experts at JP Morgan decide the type of note and base index that is advantageous and at what point in time to invest. After more discussion had been deemed to cover enough information for the Board to make a decision chairman Don Taute requests a motion be made.

Russell Fosler move to approve.

Mark Westphalen seconds.

All vote in favor except Gerry Finnegan. The motion passes.

Don Taute: We had discussed increasing the real estate allocation from 10% to 14% and reducing domestic debt from 20% to 16% and if you would like to purchase the Madison Harbor fund of funds.

Gerry Finnegan: Did Smith Hayes suggest 14% or did somebody go to them?

John Cripe: We went to them because we used to have a 14% allocation and CNL is cashing out and that would bring use down to 10%. Smith Hayes supports it.

Gerry Finnegan: Who is our expert on Real Estate? Do we have one? Should we get one? Madison Harbor is not an expert, they are a vendor. We need an arms length expert that can pick among vendors. If we are going to be investing millions of dollars we need an expert to guide us.

Don Taute: We kick it around internally between John and Paul and I. We can discuss that at some point in the future. I think Paul has done a good job, I don't know if that qualified him as an expert.

Gerry Finnegan: Do you feel comfortable enough to call yourself an expert?

Paul Lutomski: No.

Don Taute: I feel comfortable based on past returns and what we've selected.

Mark Westphalen: I would agree with that. I think Paul has been pretty thorough in his evaluations.

Gerry Finnegan: We need an arms length expert that can pick among vendors.

John Cripe: I'm not sure that's true.

Gerry Finnegan: It is true.

Don Taute: Would we do an RFP to select someone to advise up on real estate?

Gerry Finnegan: If we are going to be investing millions of dollars, we need an expert to guide us to meet our fiduciary responsibility.

Don Taute: I guess that is something we could consider doing. At this juncture we have a proposal and I'd like to see where we go with that.

Gerry Finnegan: I don't have a problem with this proposal, but this is an issue we need to address at the next meeting when we have time to discuss it a little more.

Don Taute: I'm willing to do that, but by the same token we have tried to minimize our administrative fees. We could go out and get an expert in a lot of different areas.

Gerry Finnegan: Would Smith Hayes be willing to hire an expert?

John Cripe: We have done a lot of independent research to find these opportunities. We are dirt cheap administratively at 16 basis points. If you want to change direction you have to convince the administration folks spending money that way is wise. What you have before you is an

opportunity to increase real estate and decrease debt, and second you have the right to vote on who the real estate vendor is.

Mark Westphalen: I move to increase the real estate allocation to 14% and reducing allocation to domestic debt by 4%.

Jeremy Gegg: Second.

All vote in favor except Gerry Finnegan. The motion passes.

Don Taute: That brings us to the proposal to invest $7.5 in Madison Harbor. After discussion Don Herz makes a motion to approve investment of $7.5 million and Russell Fosler seconds the motion.

After more discussion on newness of the firm, aggressive strategy, and delayed payouts it is decided to request additional information from Madison Harbor to obtain their latest audited financial statement, and names of clients investing in their first fund on funds.

Don Taute adjourns the meeting at 12:30 p.m.

> Note: Subsequent to the meeting Madison Harbor is contacted for the information. They provide the latest audited statements and other information, but did not provide references. The Board voted as follows:
> Don Herz: Yes – per original motion
> Don Taute: Yes – verbal
> Russel Fosler: No – per email
> Greg Sorensen: No – per email
> Jeremy Gegg: Yes – per email
> Brad Thavenet: Yes – per email
> Gerry Finnegan: No – per email
> Mark Westphalen: No – per email
> Michael Donnelly: No - per email.
>
> Motion fails 5 to 4.