POLICE & FIRE PENSION INVESTMENT BOARD
August 22, 2008
Meeting Minutes on Digital Audio

Members present:	Don Herz – Finance Director Jeremy Gegg – Fire Fighter 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 Russell Fosler – Police Investigator (Secretary)
Members absent:	Don Taute- Personnel Director (Chairman) Greg Sorensen – Police Sergeant Brad Thavenet – Fire Captain (Vice Chairman)
Personnel Dept. Resource Staff:	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 Mark Dolton - Smith Hayes Financial Services Investment Consultant

Russ Fosler calls meeting to order at 10 am. Turns presentation over to Max Callen of Smith Hayes Advisors.

Max Callen explains that he will follow the same presentation as prior years, with a brief economic overview followed by allocation recommendations.

Power Point presentation segments:
Economic Overview
Demographic and Political Picture
Present Allocation
Assumptions for Next Year
Recommended Allocations

Returns by Style: All US Stock sectors down 7-10%

Best performing US and World (by region and style) asset classes shown from 1997-2Q2008.

Valuations: U.S. LargeCap growth sector most undervalued. Returns by sector: -29% Financials, all others negative except energy at +8%, and materials at +1%.

Housing bubble: new construction very low.

Headlines: 1970 and now similar in mention of energy crisis.

Oil: June 2008 $140 per barrel. Usage 86 Bil. Barrels per day and steadily increasing. Need multiple solutions.

Prior Recessions: duration 6-16 months, 14 month average since 1948.

Prior Expansions: duration 45 month average.

1973-74 expansion was low and slow, we expect now to also be low and slow to go up.

Using S&P500 index, averages are: Bear markets 14 month duration with -32% return, Bull market 70 month duration with +185% return.

University of Michigan consumer sentiment: 12 months after the low points markets rise. New low just reached June 1, 2008. It increased July 1, 2008.

Fixed Income : Flight to quality now.

US Yield Curve: 2007 inverted, 2008 normal. Now, 2 yr note at 1.8% and 30 year at 4.9%

Global yield curves are about 2% higher than US. A lot of cash on the sidelines.

Fed Funds about 2% and not expected to rise.

39% of fixed income is mortgages: 13% are sub-prime, 13% are Alt-A (no doc loans), 26% are Jumbo loans, 48% are agency loans. Freddie and Fannie are struggling.

Foreign Ownership of US debt: 2007 was 57%, 2006, 52%, 1978 was 12%.

Foreigners are buying U.S. property now that our debt returns are so low and the dollar is low compared to other currencies.

CPI: “Headline” CPI is 4.2%, but “Core” CPI is 2.3%. Core = headline minus food and energy.

The one years increase in CPI Food was 5% and the one year increase in CPI Energy was 17%.

Personal savings rate in 1990 was 10%, now it is 0.1%, but that does not include 401k. Smith Hayes experience is that savings rate including 401k contributions is about 3-4%, which is not enough.

DJIA: 17 year cycle since 1900. 2000-2017 flat return cycle.

In the last meeting Mark Wetphalen asked if we are being compensated for the risk we are taking? So we will address if we are being compensated for the risk we are taking and does growth outperform value over time?

Twenty years ending 2008. U.S. LargeCap Growth returned 10.7% avg. with S.D. of 17%. . U.S. LargeCap Value returned 9.3% avg. with S.D. of 13%. Growth returned more, but had higher risk. Is 140 bp return worth 400 bp more risk?

In 1980s LargeCap Value had less risk and more return.

In 1990s LargeCap Growth had more risk and more return.

In 2000s LargeCap Value had less risk and more return.

In 1980s SmallCap Value had less risk and more return.

In 1990s SmallCap Growth had more risk and more return.

In 2000s LargeCap Value had less risk and more return.

The next slide displays the pension's holdings on an efficient frontier. The following slides compare each of the pension's equity mutual funds to the S&P 500 and to a comparable index in terms of return and standard deviation as risk. All mutual funds had greater returns than S&P 500 or comparable index except Wotchkis and Wiley MidCap Value. Most had less or a comparable level of risk compared to the S&P 500 or comparable index except Wotchkis and Wiley MidCap Value – which was previously on the watchlist and will remain on the watchlist for now.

Higher return usually requires higher risk. Whether the higher risk is worth the return is subjective.

Present Allocation:

Return assumptions were too high last year, but all asset classes outperformed their comparable index except the MidCap Value class (because of Hotchkis Wiley) and the Bond class which was 1.2% return versus 1.4% for its index. All asset class returns were negative except bonds and Real Estate which returned 1.2% and 8.6% respectively.

The total portfolio return for the 12 months ending July 31, 2008 was negative 5.6%.

The following slides show pie charts of asset class allocations. Below are allocation percents and returns for the 12 months ending 7/31/2008.

Description	End Value%	Return
Cash	1.3385	3.928
Convertible	2.1002	-5.566
Fund of Hedge Funds	5.2686	-0.529
Structured Investment	0.3492	-8.459
Alternative	7.718	-2.357
Bonds: Agency	0	3.508
LONG TERM HIGH YIELD	0.8123	-18.494
MID TERM HIGH YLD	12.2841	2.147
SHORT TERM HIGH YLD	0.3178	10.636
Zeros: Agency	2.7985	3.333
Domestic Debt	16.2128	1.273
Eqty: Domestic LargeCap Blend	0.9498	-12.3
Eqty: Domestic LargeCap Growth	7.4669	-4.377
Eqty: Domestic LargeCap Value	4.1892	-16.819
Eqty: Domestic MidCap Blend	1.0051	-7.2
Eqty: Domestic MidCap Growth	4.3738	-8.147

Eqty: Domestic MidCap Value	5.8474	-28.07
Eqty: Domestic SmallCap Growth	4.9038	-7.673
Eqty: Domestic SmallCap Value	3.1621	-9.327
Domestic Equity	31.8981	-15.136
Global Strategy	10.7253	-5.672
ERA Fundamental Emerging Markets Index	0.9942	-8.2
Eqty: Intl Emerging Markets	0.9942	-8.2
Eqty: Intl LargeCap Blend	18.0148	-6.944
Eqty: SmallCap Blend	0.9553	-11.8
International Equity	19.9643	-6.639
Real Estate: Core	11.3313	8.64
Real Estate: Value Added	0.4518	2.936
Real Estate	11.7831	8.608
Gr. Total	100	-5.674

Assumptions for Next Year:

2007 past Market Themes
Oil to remain high.
Private equity and hedge funds.
Subprime problems to continue.
Weak dollar.

2008-2009 Market Themes.
Oil to remain high or higher.
Subprime problems to continue.
Global conflicts – wars everywhere.
Impact of 2008 elections

2008-09 Investment Model Assumptions:
Slight overweight LargeCap
Equal weight growth vs. value
Max foreign and global allocations
The “Market” will not carry us so . . . add some new strategies to the alternative category.

Consider $1 million to each:
Infrastructure Fund
Sector Rotation Fund
Global Real Estate Fund
Commodity Fund
“Go anywhere . . . do anything” Fund

Target Allocation Changes:
Increase Alternatives from 7% to 10%
Reduce Domestic Equity from 33% to 30%
Detailed as

Large Growth	6%
Large Value	6%
Mid Growth	4%
Mid Value	4%
Small Growth	4%
Small Value	4%
Index Funds	2%

Reduce International Equity from 20% to 17.2%

Board discussion.

Mark Westphalen makes a motion to accept the allocation changes recommended by Smith Hayes.

Jeremy Gegg seconds to motion.

All members vote in favor.

Gerry Finnegan states in the last meeting he offered to look for a real estate expert. He did not find one, but did talk to CALPERS and found they offer training to groups for a fee. He offers to contact CALPERS regarding training on the five new alternative investment types and to find their fee.

Paul Lutomski states Callan Associates also offers training and he offers to find out more and report back to the Board. He states Smith Hayes is the plan's advisor and we should use them to research and recommend allocations and managers.

Discussion occurs wherein concensus is reached that the Board is not trying to diminish Smith Hayes' role as advisor, but rather learn more so that they better understand Smith Hayes' recommendation and have an enhanced ability to ask the questions needed to fulfill their fiduciary obligations.

Jeremy Gegg makes a motion that Gerry Finnegan contact CALPERS regarding training and to find their fee.

Mike Donnelly seconds the motion.

All members vote in favor.

Max Callen asks the Board if he should research and recommend managers to fill the five new alternative investment allocations.

The Board and staff discuss and decide Max should research and present his preliminary recommendations for managers to fill the five new alternative investment allocations this fall, with final presentation and vote occurring in the regularly scheduled manager selection meeting this February.

Russ Fosler asks if there is any new business.

Paul Lutomski states he has two items. First is the approval of the February 14, 2008 meeting minutes. The minutes have been online and a printed copy was made available to each Board members earlier.

Mark Wetphalen makes a motion to approve the minutes as written.

Jeremy Gegg seconds the motion.

All members vote in favor.

Paul Lutomski notifies members that the terms of Don Taute and Don Herz are concurrent with their positions as Personnel Director and Finance Director respectively, that the terms of the members appointed by the City Council are staggered so renew in different year, but the terms of the Police and Fire department representatives all expire September 1, 2011.

Mark Westphalen makes a motion that the terms of the Police and Fire department representatives be 4 years duration and that they be staggered so that only one position needs to be renewed September 1st of each year.

Mike Donnelly seconds the motion.

All members vote in favor.

Russ Fosler adjourns the meeting for lunch.

Following lunch Brian Martin of Columbia Funds presented information about the Columbia MidCap Value Fund and the economy. The pension owns $6.5 million with purchases beginning February 2008.

Mr. Martin said for the stock market to recover:
Housing, banks etc. will have to settle down and it will take another 6 months or more.
Food and energy prices will have to stabilize.
Global tension will have to decrease.
Corporate earnings will have to improve. This means financial corporations.
Election uncertainty will have to end.
Fed funds will have to raise to about 4%.

Russ Fosler adjourns the meeting at 12:50 p.m.