

**POLICE & FIRE PENSION INVESTMENT BOARD**  
**April 17, 2009**  
**Meeting Minutes on Digital Audio**

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

Members absent: Brad Thavenet – Fire Captain (Vice Chairman)  
Steve Niemeyer – Police Investigator  
Don Herz – Finance Director

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

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  
Mandy Stilmock – JP Morgan, VP Institutional Asset Mgmt  
Ann Cole – JP Morgan, VP Real Estate Asset Mgmt  
Mark Oczkus – Prudential Real Estate Investors Principal

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Mark Koller calls the meeting to order Friday, the 17<sup>th</sup>.

The first two agenda items for this meeting are educational. JP Morgan and Prudential will present, followed by a vote on the minutes of the last meeting Smith Hayes will present education on indexes and follow up on the February meeting with a recommendation regarding MidCap equities.

Representatives of JP Morgan and Prudential presented detailed information on the economy, its effect on the real estate industry and the specific real estate funds held by the pension: JP Morgan Strategic Property Fund, JP Morgan Alternative Property Fund, and the Prudential PRISA 3 Fund. In summary, the representatives stated the economic downturn has resulted in lower property values that the funds have recognized."

After the break Mark Koller asked for a motion to approve the minutes of the February 5, 2009 meeting.

Russ Fosler motioned for approval.

Jeremy Gegg seconded the motion.

All members vote in favor and the motion passes.

Mark Koller asks Smith Hayes to make their presentation.

Max Callen of Smith Hayes:

Since the last meeting:

Sold 25% of Calvert Income and bought...  
50% Wells Fargo Short-Term High Yield  
50% Principal High Yield  
Sold REBECO Small Cap Value and bought...  
50% Heartland Value  
50% Royce Special Equity

This meeting we will:

Review / recommendation for Mid-Cap Value  
Review / recommendation for Mid-Cap Growth  
Sell 50% of Alger  
Look for less volatile alternative

Before that we will provide education on the following types of funds using MidCap Value as an example.

Managed Mutual Fund(s)  
Index Mutual Fund(s)  
Exchange Traded Fund(s)

Managed Mutual Funds

Giant pool of securities  
Managers employed to select, monitor securities  
Managers come with additional costs  
Hope the long-term return justifies this additional cost

Indexed Mutual Funds

Giant pool of securities  
follow a specific benchmark index as closely as possible  
No managers employed to select, monitor securities  
Typically lower costs  
Cannot have same results as the index  
Daily NAV (share price)

Exchange Traded Mutual Funds

Giant pool of securities  
follow a specific benchmark index as closely as possible  
No managers employed to select, monitor securities  
Priced throughout the trading day

Index Concept

It is a way to measure the "Market" through a systematic investment process and static holdings  
There are hundreds of different Indexes but only a few that you can actually invest in. Example: Zephyr database has 562 indices but only 100 can be purchased  
Exchange Traded Funds (ETF's) are the new way to invest in an Index.

Benchmark to measure one "basket of securities" against another "basket of securities"  
There can be multiple "Benchmarks" with in the same investment space

Mid Cap Value Strategy Possible Indices

Russell Midcap Value

Morningstar Midcap Value  
S & P 400 Value  
PowerShares Dynamic Midcap Value  
Rydex S & P 400 Mid Cap Pure Value  
SPDR DJ Wilshire Midcap Value  
Vanguard Midcap Value

The following pertains to the MidCap Value search.

Todd Peterson of Smith Hayes reiterates recommendation to sell 100% of Hotchkis Wiley MidCap Value, approx \$2.7 MM. He details the Morningstar search criteria for an actively managed mid-cap value fund:

Funds, 26842  
Not Closed, 25488  
Load = 0, 20454  
% rank cat 3 yr LTE 25, 5389  
% rank cat 5 yr LTE 25, 4910  
% rank cat 10 yr LTE 25, 3564  
% medium value GTE 15, 2337  
Morningstar Category = Mid-Cap Blend, 541  
Morningstar Category = Mid-Cap Value, 494

12 funds met all the above criteria. Four funds with below \$2 BB of assets were eliminated. Three funds had a two share classes, the more expensive share class was eliminated. Two Goldman Sachs funds were eliminated. The three remaining were:

**JP Morgan Mid-Cap Value Institutional**  
**Janus Perkins Mid Cap Value**  
**Heartland Select Value Institutional**

The following screens were displayed, explained and discussed for the three actively managed madcap value funds.

Plot for Manager Style. JP Morgan was most purely mid-cap. The others had some growth stocks.

Plot for Manager Risk/ Return. Janus had lowest SD and highest return.

Plot for Excess return/SD of excess return. Janus had highest excess return and SD of excess return and JPMorgan lowest SD of excess return.

Plot for Upside Downside. Janus captured the least downside. Heartland captured the most upside.

Todd Peterson details the Morningstar search criteria for an mid cap value index mutual fund:

Funds, 26842  
Not exchange traded, 26003  
Index funds, 1633  
Mid-cap value , 494

5 funds met all the above criteria. Two were eliminated due to high expenses. Two TIAA CREF funds were eliminated as they are not accessible to non-educational entities. That left the **Vanguard MidCap Value Index**.

Todd Peterson details the Morningstar search criteria for an exchange traded fund:

Funds, 26842  
Index funds, 1633

Exchange traded, 839  
Mid-cap value , 494

15 funds met all the above criteria. The **iShares Russell MidCap Value Index** was chosen as it is modeled after the MidCap Value index chosen for MidCap Value comparisons in the Investment Policy.

The following screens were displayed, explained and discussed with all five options (shown in bold above)

Plot for Manager Style. iShares was most purely mid-cap.

Plot for Manager Risk/ Return. Janus had lowest SD and highest return.

Plot for Excess return/SD of excess return. Janus had highest excess return and SD of excess return and iShares lowest excess return and SD of excess return.

Plot for Upside Downside. Janus captured the least downside. Heartland captured the most upside.

Recommendations: Sell Hotchkis Wiley and buy either Janus Perkins Mid Cap Value or JP Morgan Mid-Cap Value Institutional.

The board discussed the two funds and chose Janus.

Gerry Finnegan made a motion to sell Hotchkis Wiley and put invest all the proceeds in the iShares Russell MidCap Value Index. The motion failed due to lack of a second.

The Board discussed the iShares ETF.

Russ Fosler made a motion to sell ann Hotchkis Wiley and invest 50% of the proceeds in the Janus Perkins Mid Cap Value and 50% of the proceeds in the iShares Russell MidCap Value Index.

Gerry Finnegan seconds the motion.

All members vote in favor and the motion passes.

The following pertains to the MidCap Growth search.

Todd Peterson reiterates recommendation to sell 50% of Alger MidCap growth ( approx \$2.4 MM) because of underperformance relative to volatility. States they were looking for a partner fund less volatile. He details the Morningstar search criteria for an actively managed mid-cap growth fund:

Funds, 26842  
Not Closed, 25488  
Load = 0, 20454  
% rank cat 3 yr LTE 25, 5389  
% rank cat 5 yr LTE 25, 4910  
% rank cat 10 yr LTE 25, 3564  
% medium value GTE 15, 2337  
Morningstar Category = Mid-Cap Blend, 541  
Morningstar Category = Mid-Cap Value, 962  
Avg Marker Cap GTE 2600, 16248  
% MidCap growth GTE 30, 1544

25 funds met all the above criteria. 18 funds were eliminated because a lower expense share class existed. The seven remaining were:

**American Century Heritage**  
**Blackrock US Opps Institutional**  
**Eagle Mid Cap Growth**  
**Eagle Mid Cap Stock**  
**Hartford MidCap Y**  
**Lord Abbott Gr Opp I**  
**T. Rowe Price Mid Gr**

The following screens were displayed, explained and discussed for the seven actively managed madcap growth funds.

Plot for Manager Style.  
Plot for Manager Risk/ Return.  
Plot for Excess return/SD of excess return. .  
Plot for Upside Downside.

Smith Hayes recommended Hartford Midcap Y due to its favorable combination of characteristics relative to the other funds.

Todd Peterson details the Morningstar search criteria for an index mutual fund:

Funds, 26842  
Not exchange traded, 26003  
Index funds, 1633  
Mid-cap growth, 962

5 funds met all the above criteria. Two were eliminated due to high expenses. Two TIAA CREF funds were eliminated as they are not accessible to non-educational entities. That left the **Vanguard MidCap Growth Index**.

Todd Peterson details the Morningstar search criteria for an exchange traded fund:

Funds, 26842  
Index funds, 1633  
Exchange traded, 839  
Mid-cap value , 962

13 funds met all the above criteria. The **iShares Russell MidCap Growth Index** was chosen as it is modeled after the MidCap Growth index chosen for MidCap Growth comparisons in the Investment Policy.

The following screens were displayed, explained and discussed with all nine options (shown in bold above)

Plot for Manager Style.  
Plot for Manager Risk/ Return.  
Plot for Excess return/SD of excess return.  
Plot for Upside Downside.

Recommendations: Sell 50% of Alger and buy the Hartford Midcap Y.

The Board discussed the nine funds under consideration.

Michael Donnelly made a motion to sell 1/3<sup>rd</sup> of the Alger Fund and invest the proceeds in the Hartford Midcap Y and to sell 1/3<sup>rd</sup> of the Alger Fund and invest the proceeds in the iShares Russell MidCap Growth Index.

Mark Koller seconds the motion.

All members vote in favor and the motion passes.

Mark Koller requests a motion to adjourn.

Russ Fosler makes a motion to adjourn.

All members vote in favor and the motion passes.

Meeting is adjourned at 4:05 p.m.