POLICE & FIRE PENSION INVESTMENT BOARD
August 18, 2009
Meeting Minutes on Digital Audio

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

Members absent: Brad Thavenet – Fire Captain (Vice Chairman)
Gerry Finnegan – Independent Financial Planner

Personnel Dept. Resource Staff: John Cripe – Compensation Manager and Assistant Pension Plan Administrator
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

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Mark Koller calls the meeting to order at 9:00 a.m. Tuesday August 18, 2009.

Mark Koller asked for a motion to approve the minutes of the April 17, 2009 meeting.

Michael Donnelly motioned for approval.

Russ Fosler seconded the motion.

All members vote in favor and the motion passes.

Mark Koller asks Smith Hayes to present their asset allocation recommendations.

Max Callen of Smith Hayes Advisors uses a Power Point presentation with the following segments:

1. Historical Markets and Economic Data
2. Concerns and Opportunities
3. Present Allocations
4. Assumptions for Next Year
5. Recommended Allocations

Historical Markets and Economic Data

Display/discuss chart of DJIA from 1928 to 1954. Recent movement for 457 days ending 7/31/09 was a 35% drop from the high and great depression was 60% drop. Display/discuss chart of years

and annual return needed to return to 2007 high displayed with years 1 to 10 and annual returns from 72% to 8% respectively. Chart showing Nikkei 225 performance as highly variable, but net flat since 1984. Review headline occurrences of lest year, summarizing that there were a very large number of significant financial occurrences. Display/discuss graph that the second quarter of calendar 2009 was much better than the 1 quarter of 2009. Display/discuss domestic equity asset class return rankings since 1998 and returns by sector for 2008, 2009. Display gold $/oz chart since 1919 showing that prices are relatively flat between large upside moves that coincide with economic uncertainty. Price moved from $20 /oz to $1000/oz. Display/discuss domestic equity asset class return rankings since 1998. Slides on GDP, economic expansions, recessions, unemployment since 1900, with note that market recoveries normally occur while unemployment is rising. Slides on employment growth (decreasing), personal savings rates (increasing) , debt service ratio (decreasing), consumer spending (decreasing), Treasury bond yields (decreasing), mortgage rates (decreasing), foreign ownership of U.S. treasuries (increasing), Gov't debt as percent of GDP (increasing), U.S. Gov't outlays for social welfare programs (increasing).

Concerns unknown:
Unemployment
Inflation
Tax Policy
Real Estate foreclosures; 5 year ARMS due to reset in 2010.
Cap and Trade bill
Healthcare bill
State bailouts

Concerns known:
Population age demographic trending older and that usually leads to slower GDP growth

Opportunities:
TARP
Infrastructure
Health Care reform
Green technologies
Certain economies outside the US

Max Callen presented assumed and actual returns for assets classes for the 12 months ending 07/31/09. He also displayed the min, max and target allocation for each asst class.

Assumptions for Next Year

- Slight overweight in Large-Cap as large-cap perform better in difficult economic times relative to smaller cap equities.
- Equal weight growth to value. This would net a shift of assets from growth to value, as lesser rates of growth are expected.
- Increase allocation to foreign (vs. domestic) as less developed foreign countries may be better risk adjusted return possibilities.
- Add infrastructure fund and a natural resources fund. The US infrastructure has been targeted as a federal priority and lesser developed foreign countries are developing their infrastructure. Natural resources are a limited commodity. As population and resource utilization increases demand for natural resources are expected to increase.
- Keep high yield bonds.
- Decrease corporate bonds

- Add U.S. Treasury Inflation Protected Securities (TIPS) for inflation hedge.

Recommendations:

Changes to the Investment Policy Allocation table as noted in the “Target %” column:

Asset Class	Min %	Max %	Target %
I Cash Equivalents	1	3	1
II Domestic Equity	20	50	~~33~~ 25
Large Cap Growth	3	17	~~8~~ 5.5
Large Cap Value	3	17	~~5~~ 5.5
Mid Cap Growth	3	17	~~5~~ 4
Mid Cap Value	3	17	~~7~~ 4
Small Cap Growth	3	17	~~5~~ 3
Small Cap Value	3	17	3
III International Equity	10	30	20
Large Cap	5	20	20
Mid/Small Cap	3	10	0
Emerging Markets	2	10	~~0~~ 10
IV Domestic Debt	16	50	16
V Foreign Debt	0	0	0
VI Real Estate	2	15	14
VII Alternative	3	10	~~7~~ 10
VIII Global Strategies	5	15	10
Large Cap	5	15	10
Mid/Small Cap	5	15	0

Domestic Debt allocation:
Reduce corporate bonds by 2% ($2.8 MM Calvert Income Fund CINX)
Add TIPS allocation (PIMCO Real Return Fund PRRIX) for $2 MM
Increase convertible bond allocation (Calamos Growth and Income Fund CVTRX) by $1 MM
Implementation will occur upon Board approval.

Domestic Equity:
Reduce sub allocations per Allocation Table above,
and use proceeds to fund Alternatives increases.

Alternatives;
Add 1.5% Infrastructure Fund(s) and
Add 1.5% Natural Resources Fund(s)

International Equity;
Add 10% Emerging Markets target

Implementation of the Domestic Equity reduction from the current 31.6% actual allocation to 25% target, and addition of an Infrastructure Fund(s), a Natural Resource Fund(s) and an Emerging Markets Fund(s) are contingent on the Board's selection of managers at the next meeting.

The Board carefully discusses Smith Hayes' recommendations.

Mike Donnelly stated he thought it might be too soon to invest in TIPS now and was not comfortable increasing the International Equity target percent or with adding the Emerging Markets sub class to International Equity.

Mark Westphalen stated he did not have a problem increasing the International Equity target, but voiced a concern that specifying an investment in infrastructure and/or natural resources may not be optimal compared to allowing a diversified manager to select their desired investments.

The concerns and recommendations are discussed.

Don Herz makes a motion to adopt all the Smith Hayes recommendations.

Russ Fosler seconds the motion.

Mark Koller calls for a vote.

Mike Donnelly and Mark Westphalen vote NAY.

Don Herz, Russ Fosler, Steve Niemeyer, and Jeremy Gegg vote AYE, and the motion passed.

It was discussed that Smith Hayes Advisors will research and limit the field of prospective managers to the top 2 candidates for infrastructure, natural resource and emerging markets. Those managers will be invited to present at the next Investment Board meeting.

Board members tentatively set the next meeting date for the week of October 19th.

John Cripe reminds members to review upcoming conference invitations to determine if they would like to attend to fulfill educational requirements.

Mark Koller calls for a motion to adjourn.

Mark Wetphalen makes a motion to adjourn.

Jeremy Gegg seconds the motion.

All Aye.

Motion passes and meeting is adjourned at 10:45 a.m.