POLICE & FIRE PENSION INVESTMENT BOARD

May 13, 2010

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. Mark Westphalen – Edward Jones Co. Registered Representative Gerry Finnegan – Independent Financial Planner Russell Fosler – Police Investigator (Secretary) Steve Niemeyer – Police Investigator Jeremy Gegg – Fire Captain Don Herz – Finance Director Mark Heithoff – Fire Captain
Members absent:	None
Personnel Dept. Resource Staff:	John Cripe – Compensation Manager and Assistant Pension Plan Administrator Paul Lutomski – Police and Fire Pension Officer
Others present:	Max Callen – Smith Hayes Financial Services Investment Consultant Todd Peterson - Smith Hayes Financial Services Investment Consultant Terry Doyle – Rreef Real Estate Chip George – Rreef Real Estate Amanda Stilmock – JP Morgan Mark Oczkus – Prudential Real Estate Steve Plust – Prudential Real Estate

Mark Koller calls the meeting to order at 1:30 p.m. .

Mark Koller asked for a motion to approve or amend the minutes of the February 17, 2010 meeting.

Paul Lutomski offers small amendments as to attendance.

Jeremy Gegg motioned for approval as amended.

Michael Donnelly seconded the motion.

Mark Koller asks if there is any discussion. There is none.

All members vote in favor and the motion passes.

Russ Fosler reports on a recently attended NCPERS conference. He relayed information on Fiduciary responsibility information and challenges of small plans including that many plans are going to a multi tiered system of benefits, had funding problems and that it is beneficial to physically visit investment managers. Conference discussion was not concerned with inflation, but were concerned that plans have sufficient diversification. Noted that the majority of boards overseeing the same size of assets as Lincoln are set up similar to us in terms of member representation. He offered conference information to other members and mentioned he was pleasantly surprised at the amount of information presented.

Amanda Stilmock presents an in-depth account review report via conference telephone. JP Morgan has avoided all fraud and is growing its hedge fund group. The two fund of hedge funds owned by the pension are diversified, less volatile than equity, return higher than bonds, non-correlated. The funds have beat their comparable index and most money lost has been made back. They think equity market volatility is here to stay and that creates opportunities for hedge funds. Underlying funds are valued monthly. The strategies employed: relative value, opportunistic, short selling, merger/arbitrage, long/short and credit are discussed. The long term goal is 5-7% over the t-bill rate.

Mark Oczkus of Prudential Real Estate states the real estate market seems to be bottoming out. Sales, purchases and leasing activity are picking up. PRISA3 income component is expected to be 9-10%, appreciation is expected. Mark introduces Steve Plust, a member of a group of Prudential's high yield debt professionals.

Mr. Plust presents a real estate debt tutorial.

Part One: The investment types are first mortage loans, A notes, B notes, Mezanine Debt, distressed debt, CMBS, REITs. Each type is explained. A first mortgage can be separated into A and B notes. A-note is senior controlling party and B-note is junior interest of first mortgage loan. Next down the capital stack are Mezzanine Loans and Preferred Equity. They are the part of the capital stack that may or may not have more risk than B-notes (depending on the structure of a specific B-note or a Mezzanine) that generates high yields but less risk than common equity.

Part Two: $3.4 trillion of commercial debt is outstanding and awaiting refinancing. Loans made in 2005-2008 will not qualify for refinancing without lender write-offs and/or significant infusions of new capital. Commercial loans are short-term balloon loans. A building worth $100 in 2007 might have been financed with $25 down and $75 loan. That building is worth $60 now. Banks now require 40% down, that means they could finance $36 of the $60 as a first mortgage. That leaves a $39 ($75-36) finance funding gap. Since the building is worth $60, $24 of the $39 could be new subordinate debt, but $15 of the $39 could be a debt write-off. The initial $25 equity is an equity write-off. The $24 new subordinate capital is an investment opportunity. The buildings are not worth enough to refinance the original loan, but they have enough cashflow to pay the loan. The government has said that if a commercial loan is past due, but they are paying their coupon, consider it a current loan. The government is expected to start asking banks to get the impaired assets off their balance sheets (ie. forgive the debt and/or restructure) and use that money to start making new loans.

$2.3 Trillion made by CMBS originators made between 2005 and 2008. Funding gap is $750 billion. Enormous gap that will take a long time to work through the system. We are targeting the mezzanine part of the capital stack. We are also willing to buy distressed loans. Income targeted return is 9-10% with most of that from borrower coupon.

We expect to close at the end of the third or fourth quarter. Two year investment period with 7 year life. Target is $500 Million. Initial investment is $5 million.

The board thanks the presentors. At 4 p.m. Chairman Mark Koller leaves the meeting to attend another meeting. Vice- Chair Michael Donnelly becomes acting chair and ask if anyone has new business.

Gerry Finnegan asks how Smith Hayes factors in the real estate and hedge fund portions of the overall allocation?

Max Callen explains the process, using the max and mins of the investment policy, determining the other allocations and then back into the real estate and hedge fund allocations.

Paul Lutomski: In 2004 when this Board was created the pension owned hedge funds and real estate. The risk and return expectations used in the process were provided by JP Morgan.

Gerry Finnegan: It seems there is a flaw in our process in relying on investment managers for that data. How will we know when to change the allocation if we do not have someone tell us the appropriate allocation for real estate given our portfolio.

Max Callen: You do not have the liquidity in real estate as you do other assets, so the allocations have no changed much.

Mark Koller returns.

Gerry Finnegan: If we were starting from scratch what would be our recommended allocations?

John Cripe: We looked at other pensions allocations. The real estate piece grew in relation to the stock portion, now we sold some real estate and it has shrunk in relation.

Michael Donnelly: Max, what does you firm advise on?

Max Callen: We advise on the total portfolio allocation and specific managers for classes other than real estate and hedge funds.

Michael Donnelly: We are in the “Small” class of pensions in terms of our assets. Typically, in that class you do not have a consultant that will provide a complete services. That is what we see in the market place. Typically the investment board makes those decisions. The question is if we have a comfort zone in making those decisions.

Paul Lutomski: We did not take a loss on our initial investment in the recent redemption of JP Morgan Strategic Property fund.

Max Callen: Future assumptions drive the allocation model. We can try to address your concerns at the next asset allocation meeting Gerry. A potential meeting date is mid August?

John Cripe: There are a couple Opal Financial conferences between now and then.

Mark Koller asks if there is any new business. As there was none he calls for a motion to adjourn. Russ Fosler moves to adjourn, Jeremy Gegg seconds the motion and all vote in favor.

Meeting is adjourned at 4:30 p.m.