POLICE & FIRE PENSION INVESTMENT BOARD

September 13, 2010

Summary Minutes

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

Mark Koller calls the meeting to order at 9:00 a.m.

Mark Koller asked for a motion to approve or amend the minutes of the August 19, 2010 meeting.

Russ Fosler motioned for approval.

Jeremy Gegg seconded the motion.

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

All members vote in favor and the motion passes.

Mark Koller states the purpose of this meeting is to provide answers to questions posed in the August 19, 2010 meeting ie. compare the current portfolio to the Smith Hayes recommended portfolio regarding risk, return, and foreign exposure.

Max Callen hands outs spreadsheets and Morningstar reports for the current and proposed portfolio that were emailed previously. The spreadsheet for the proposed has a couple modifications from the original proposal. The reason is that Morningstar does not have statistics for all of the pension's assets. So we took those out to compare apples to apples.

Todd Peterson thanks the members for their input in the last meeting and for working through the process with them. After the last meeting, the sector rotation money, since it is equity, was reallocated from the Alternative Investment category to the equity category. The loan category money was reallocated to corporate bonds and the managed futures money was reallocated to equities. This provided Morningstar an apples to apples comparison. The Morningstar reports exclude Tenaska and JP Morgan hedge fund of funds from both "Current" and "Proposed." Both also excluded the individual bond and the structured investment. Both include real estate and simply used the Morningstar category for real estate.

If you place each report side by side you can use them to compare risk, return and foreign exposure. We will go over each report section. In the last meeting we used the S&P 500 as the benchmark. After the last meeting we created a custom blended benchmark more specific to each portfolio. For the current it was 38% S&P 500, 8% cash, 17% bonds, 37% MSCI world excluding US. These are shown on report page 10/10 for each portfolio. Page 5/10 for the Current and page 6/10 for the proposed shows the exact dollars allocated to each investment.

Asset allocation	Current	Proposed	
Cash	7.5%	6.2%	includes held cash with the funds
US Stocks	37%	33%	
Non-US Stocks	36%	34%	
Bonds	17%	23%	
Other	1.6%	3.6%	preferred and convertibles

Gerry Finnegan: The benchmark percents shown under the world map show 100%. Why is that?

Todd Peterson: We called Morningstar about that. We have not heard back. The last page shows the benchmark percentages. This is the only discrepancy. It may be a display problem, but does not affect the other numbers.

Gerry Finnegan: You don’t think this affects your overall numbers?

Todd Peterson. No. Not at all. In the Equity Style box area:

Style	Current	Proposed
Large value	20%	18%
Large core	26%	20%
Large growth	22%	24%
Mid value	6%	8%
Mid core	8%	9%
Mid growth	11%	12%
Small value	2%	3%
Small core	3%	3%
Small growth	3%	3%

Number of stock holdings increase from 3896 to 5438, but we did not perform an overlap analysis. The increase in Mid cap allocation contributes, as do the new managers on average holding more stocks in their portfolio than some of the current managers.

	Current	Proposed
Developed	87%	82%
Emerging	13%	18%

	Current	Proposed
Expense Ratio	.9%	1.0%

In the Fixed Income Style box area:

Style	Current	Proposed
High quality short-duration	0%	0%
High quality mid-dur	0%	0%
High quality long-dur	11%	22%
Mid quality short-dur	51%	15%
Mid quality mid-dur	0%	23%
Mid quality long-dur	0%	12%
Low quality short-dur	25%	10%
Low quality mid-dur	10%	15%
Low quality long-dur	0%	0%

Number of bond holdings increase from 1382 to 3380, but we did not perform an overlap analysis. The bonds are increasing in diversification, quality and duration. US yields are very low. The duration average is increasing by about a year. (3.2 years to 4.5 years), globally this is not a bad idea as non-US is in a different situation than the US.

Global diversification:

Location	Current	Proposed
Americas	58%	59%
Europe	28%	24%
Asia	13%	16%

Returns:

Time Period	Current	Proposed
3 Mo	-3.39%	-2.09%
1 Yr	15.09%	18.51%
3 Yr	-2.32%	0.98%
5 Yr	4.75%	7.09%
10 Yr	6.78%	9.55%

Best and worst time period returns for 3 month, 1 year and 3 year:

Period	Current		Proposed	
	Best	Worst	Best	Worst
3 Month	28% 03/09-05/09	-31% 09/08–11/08	28% 03/09-05/09	-30% 09/08-11/08
1 Yr	52% 03/09-02/10	-40% 03/08-02/09	55% 03/09-02/10	-36% 03/08-02/09
3 Yr	25% 04/03-03/06	-10% 03/06-02/09	27% 04/03-03/06	-9% 03/06-02/09

The proposed has better upside and better downside.

Gerry Finnegan: What are the total time periods.

Todd Peterson: The earliest date of the time period would be when all the investments existed.

The risk is examined on page 2.

Risk and Return Statistics:

	Current			Proposed		
	3 Yr	5Yr	10Yr	3Yr	5Yr	10Yr
Standard Deviation	17%	17%	14%	17%	16%	13%
Sharpe Ratio:	-.06	.21	.36	.09	.35	.56

- Sharpe Ratio: excess return relative to variability. Higher is better.

Statistics:

	Current			Proposed		
	3 Yr	5Yr	10Yr	3Yr	5Yr	10Yr
Alpha	3.3%	2.4%	4.7%	6.3%	4.5%	7.2%
Beta	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
R-squared	98	97	94	97	96	90

- Alpha: performance over and above the performance of investments of the same risk. Higher is better.
- Beta: risk in relation to the market
- R-Squared: percentage of a portfolio's performance explainable by the performance of the custom blended benchmark index.

Bond Credit quality:

Credit Quality:	Current		Proposed
AAA	24	25	
AA	2	10	
A	12	10	
BBB	14	16	
BB	22	17	
B	13	11	
Below B	3	2	
Not Rated	5	6	

Morningstar does not track the amount of fixed income outside the United States. Max called each fund manager and we have handed out the results. The totals are shown below:

	Current	Proposed
Domestic	88%	67%
Foreign	12%	33%

The bond funds currently in the portfolio are classified as domestic, but they do hold a portion of foreign bonds. The only fund that is 100% domestic is the PIMCO TIPS fund. The non-US holdings could contain Canada.

Mark Heithoff: At the last meeting I thought the R-squared was way off.

Max Callen: That was for the Templeton Global Fund. It was a 14. It was compared to the index Morningstar recommended. Now the portfolios are compared to a custom benchmark.

Don Herz: American Funds used to be about 35% of the portfolio. Now it is substantially less. Is that a function of your recommendation or a concern regarding American Funds?

Max Callen: We have no concern about American Funds. We are currently using EuroPacific for all our non-US, so when we diversify we are reducing American Funds.

Mark Koller: Are there any questions?

Gerry Finnegan: The foreign bond component has a R-squared of what?

Max Callen: Morningstar did not have that data, so we called all the managers and created this sheet.

Gerry Finnegan: Do we have another source?

Max Callen: We do not.

Michael Donnelly: Good information. The numbers are supportive other than the international side of the bond investments.

Gerry Finnegan: What is the Standard Deviation of the current portfolio versus the proposed?

Todd Peterson:

	Current			Proposed		
	3 Yr	5Yr	10Yr	3Yr	5Yr	10Yr
Standard Deviation	17%	17%	14%	17%	16%	13%
Mean (Return)	-2.32%	4.75%	6.78%	.98%	7.09%	9.55%

Gerry Finnegan: So the proposed has less Standard Deviation and higher return.

Max and Todd state the return is historical but that the most opportunity for the next 10-15 years is expected to be Non-US.

Mark Heithoff: Why was the Sharpe Ratio negative for the 3 Year period?

Todd Peterson: A negative Sharpe ratio is stating that we were not rewarded for the risk we took for that time period.

Paul Lutomski: That time includes the meltdown of 2008.

Gerry Finnegan: Longer term ideally the Sharpe Ratio is zero.

Don Herz: So we are increasing fixed income, and adding diversification and more income. On the equity side we are shifting toward value, more dividends and more foreign.

Max Callen. Yes. The shift to value is slight because US growth was shifted to foreign value.

Michael Donnelly: Please discuss interest rate risk.

Todd Peterson: Duration is increasing from 3.2 to 4.5 years. We were okay with that because we are adding foreign bonds and the interest rate is now as low non-US. If it were only US we would not be okay with it.

Mark Koller: So we are back to the original proposal?

Max Callen: Yes, with a twist. The loan in the original proposal was left in the Calvert Fund and no money would be allocated to managed futures.

Paul Lutomski: The reason is that Morningstar does not model the loan or the managed futures.

Max Callen: True. If you want to approve the loan you could certainly do that and the money would come out of the bond funds. Regarding managed futures we are not licensed to sell them. Historically they have been seen to lower volatility and increase returns. You would have to find the managed futures manager.

Paul Lutomski: I just wanted to clarify that the loan and managed futures could be approved even thought the risk and return were not modeled by Morningstar.

Mark Koller: Motion?

Gerry Finnegan: One comment. I am going to vote against foreign bonds because we do not have enough information on the benchmark. I am going to vote against the alternatives because according to our investment policy we need a clawback provision and I don't know if that is the case or not.

Paul Lutomski: Which alternatives?

Gerry Finnegan: All of the new alternatives.

Max Callen: All these funds typically do not have a clawback provision. Non are private equity. Managed futures would be a limited partnership and would have a clawback.

Gerry Finnegan: The fund of funds, several layers down, if there is a manager who is incentivized by a participation in the gain without a corresponding clawback for the loss, that would be a policy violation.

Paul Lutomski: if you approve managed futures it could be conditioned upon a clawback provision existing.

Gerry Finnegan: In a mutual fund, if there is a manager who is incentivized without a clawback it is still a problem.

Max Callen: The only fund of funds is the PIMCO All Asset. I can check into that.

Michael Donnelly: The proposed excludes managed futures.

Gerry Finnegan: It is fairly typical for managers of alternatives to get 20% of the upside. Without a clawback it incentivises volatility.

Paul Lutomski: Rather than throw everything out, it is specifically managed futures and PIMCO that need conditional approval to include a clawback provision?

Gerry Finnegan: Any fund where the manager is incentivised without a clawback.

Mark Koller: How do we manage that change.

Max Callen: We will have to get the data and come back.

Mark Koller: We could take a motion on the original proposal.

Paul Lutomski: The original proposal includes the Prudential loan and the managed futures.

Michael Donnelly: I'll make a move we approve the proposed, the new proposed portfolio that we have presented today excluding managed futures and the mezzanine loan, pending the PIMCO approval.

Jeremy Gegg: Second.

Mark Koller: Further discussion?

Don Herz: You are excluding one allocation?

Michael Donnelly: Pending clawback provisions are not applicable to the PIMCO fund. I can't imagine it would be applicable.

Max Callen: They all have incentives, but not like an alternative.

Gerry Finnegan: Can I make a friendly motion that we vote separately on the foreign bond fund component and separately on the alternative mutual funds?

Michael Donnelly and Jeremy Gegg accept the friendly amendment.

Discussion occurs within the Board regarding how the vote should be structured to accommodate the amendment.

Gerry Finnegan offers a clarification to the Board that his two motions occur before the vote on the original motion. He moves to exclude foreign bonds from the Smith Hayes revised proposal.

Mark Koller: There is no second so the motion fails.

Gerry Finnegan: My second motion would be to exclude the alternative investments from Smith Hayes revised proposal.

Mark Koller: There is no second so the motion fails.

Paul Lutomski: We are back to Mike Donnelly's original motion, seconded by Jeremy Gegg, to approve the new proposed portfolio excluding managed futures and the loan, with approval of the PIMCO All Asset pending clawback provisions are not applicable to it.

Mark Koller: Discussion having occurred. I'll take a voice vote. Those in favor?

Michael Donnelly, Mark Westphalen, Russell Fosler, Steve Niemeyer, Jeremy Gegg, Don Herz, Mark Heithoff: Aye.

Mark Koller: Those opposed?

Gerry Finnegan: Nay.

Mark Koller: Meeting adjourned.