**POLICE & FIRE PENSION INVESTMENT BOARD**

**May 19, 2011**

**Summary Minutes**

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| Members present: | Mark Koller - Personnel Director (Chairman)<br>Mark Westphalen – Edward Jones Co. Registered Representative<br>Gerry Finnegan – Independent Financial Planner<br>Russell Fosler – Police Investigator (Secretary)<br>Steve Niemeyer – Police Investigator<br>Jeremy Gegg – Fire Captain<br>Don Herz – Finance Director<br>Mark Heithoff – Fire Captain |
| Members absent: | Michael Donnelly - Vice President and Regional Director of Wells Fargo Bank, Nebraska Institutional Trust and Investment Services Group. |
| Personnel Dept. Resource Staff: | John Cripe – Compensation Manager and Assistant Pension Plan Administrator<br>Paul Lutomski – Police and Fire Pension Officer |
| Others present: | Max Callen – Smith Hayes Financial Services Investment Consultant<br>Todd Peterson - Smith Hayes Financial Services Investment Consultant |

Mark Koller called the meeting to order at 3 p.m.

Max Callen introduces Jill Ferrell Vice President, Institutional Business Group and Rich Weiss, Senior Vice President and Senior Portfolio Manager, Asset Allocation Strategies, both from American Century Investments.

Jill Ferrell thanks the board for investing with American Century and introduces Rich Weiss. Mr. Weiss co-manages the firm's asset allocation strategies, including LIVE**STRONG** Portfolios, One Choice Portfolios and Strategic Allocation Portfolios. He is also a member of the Asset Allocation Committee. Before joining American Century Investments in 2010, Rich was executive vice president and chief investment officer of City National Bank. Previously, he was executive vice president and chief investment officer at Sanwa Bank California. Rich has worked in the investment industry since 1984. He earned a bachelor's degree in finance from the Wharton School at the University of Pennsylvania and a master's degree in business administration from the University of Chicago.

Mr. Weiss started with a detailed market review. In 2008 most markets declined and called into question the benefits of asset allocation. Asset allocation still works. The events and reactions will eventually create a large debt. The financial markets have now effectively returned to normal in terms of the relationship between risk and return that was not normal in 2008. Economy coming back at sluggish rate. Explains several valuation measures and how those collectively indicate stocks should outperform bonds. Explains investments perform in rough tandem with economic cycle. Overweight on growth stocks that usually correspond to mid-economic cycle. Sectors include tech, industrial,

commodities and basic materials. Underweight financials. Interest rates to remain low for an extended period. Yield curve expected to flatten at both ends. Details several kinds of bonds, the yields, spreads and relative values were compared. Inflation is coming. The debate is when. You should not try to time when. Recommends to put on inflation protection now. There are several types of inflation. One type is government induced, too much money. Another type is from foreign investors that reduce their US purchases and reduce the value of the dollar relative to other currencies. The third is commodity, or cost push inflation, reduced quantities available relative to demand. To protect against government inflation buy TIPS. To protect against foreign inflation buy investments outside the US. To protect against commodity inflation buy commodity funds.

Emerging markets are a hot topic and had a great run. Frontier markets are more risky than emerging markets. They are smaller and less liquid. The biggest exposure you get from them are the raw materials, commodities exported from the country.

He displays a patchquilt chart of various asset class returns that shows randomness. The green box is a very simple diversified portfolio containing an equal fraction of every other asset class. In 2008 the portfolio lost money. Over these eleven years it will come in third place behind commodities and emerging markets. If it is risk adjusted it is the best performer. That concludes my formal presentation. Do you have any questions?

Gerry Finnegan explains a lot of new money was pumped into the economy will need to come out eventually. He asks how high rates might go and what the timeline might be.

Mr. Weiss states it is not just the amount, but also the velocity of the money. As economic activity picks up inflation should increase. Two professors looked at 800 years of inflation data. Effects were noticed from 1 month to 15 years, with 3 years as the average. It is coming, but I don't know when or how high.

John Cripe comments that Nebraska is in good shape relative to many areas of the US as we have low unemployment and did not have a housing boom.

Paul Lutomski reports that FYTD pension assets have earned 22% through April. The debt ceiling will need to be raised August 2. I would like to hold onto that. We are diversified with the big areas being Income, Equity, Alternatives. Do you have any comments of allocation percents?

Mr. Weiss said he expects equities to beat bonds and alternatives in a rising interest rate environment.

Don Herz asks for ideas to reduce volatility.

Mr. Weiss recommends diversity. He explains VIX is a measure of equity market volatility. For near term risk aversion options can be purchased on VIX to hedge against volatility.

Gerry Finnegan asks for an opinion regarding what is a bona-fid asset class.

Mr. Weiss responds that he does not have an answer. He comments that there has been some discussion that hedge funds are or are not an asset class. It has been argued that they are not an asset class, but a vehicle to access asset classes.

Chairman Mark Koller asks if the Board has any other questions. Upon finding they do not he thanks Mr. Weiss for his presentation and the meeting is adjourned.