City of Austin
Police Retirement System

Minutes of the Regular Meeting
Wednesday, June 23, 2010 at 11:30 a.m.
Kendall Thomas, Chesley Wood, Bldg.
2520 South I.H. 35, Ste. 100
Austin Police Pension Office

Trustees Present
Pete Morin, Chair
Fred Fletcher, V-Chair
Kendall Thomas
John Ross
Catherine Haggerty
Chesley Wood
Art Alfaro
Mike Jung
Tim Atkinson
Jeff Knodel

Trustees Absent
Randi Shade

Staff/Guests
Sampson Jordan, CEO
Stephanie Willie, DD
Vernon Webb, FM
Michelle Ruland, BS
Bob Klausner, Atty.
Bob May, EA
Mark Fenlaw, EA

Peter Morin, Chair, called the Board to order at 12:36 a.m.

Minutes of the Regular Board Meeting held May 26, 2010

Peter Morin, Chair reported the May 26, 2010 Board Meeting Minutes as written in trustee packets was up for discussion and approval. Not hearing any discussion Peter asked for a motion to approve the minutes. **Catherine Haggerty made a motion to approve the minutes of May 26, 2010 as written in the trustee packets. Tim Atkinson seconded the motion.**

New Retired Members May 2010

Peter Morin, Chair, reported the New Retired Members for May 2010 as written in trustee packets were up for discussion and approval. Not hearing any discussion, Peter asked for a motion of approval. **Catherine Haggerty made a motion to approve the New Retired Member for May 2010 as written in the trustee packets. Tim Atkinson seconded the motion.**

NAME	OPTION	RETIREMENT DATE	YRS./MOS. SERVICE	AGE
Manuel Martinez	RP-Life	05/31/2010	26 yrs 2 mos.	48 yrs. 3 mos.

Life = Life Only Annuity
I = 100% Joint & Survivor
II = 50% Joint & Survivor
III = 66 2/3% Last Survivor
IV = Joint & 66 2/3% Last Survivor
V = 15 Year Certain & Life
R = Retro DROP Lump Sum Distribution
RP = Retro DROP Lump Sum to PROP
FWD = Forward DROP Monthly Annuity
PROP = Post Retirement Option Plan
QDRO = Qualified Domestic Relations Order

PROP Disbursements for May 2010

Peter Morin, Chair reported the May 2010 PROP Disbursements as written in trustee packets, were up for discussion and approval. Not hearing any discussion, Peter asked for a motion of approval. **Catherine Haggerty made a motion to approve the PROP Disbursements for May 2010 as written in the trustee packets. Tim Atkinson seconded the motion.**

NAME	PROP Dist/Amount	DATE	AGE at Retirement	AGE at Distribution
Elaine Garrett	N/A	5/31/2010	50 yrs.	53 yrs.
Linda S. Ponder	N/A	5/31/2010	53 yrs.	53 yrs.
George Vanderhule	N/A	5/31/2010	59 yrs.	60 yrs.
Michael Carlson	N/A	5/31/2010	54 yrs.	54 yrs.
James Schrann	N/A	5/31/2010	59 yrs.	59 yrs.
Ysidoro Campos	N/A	5/31/2010	54 yrs.	60 yrs.

PROP Monthly Annuity Deferrals for May 2010

Peter Morin, Chair, reported the PROP Monthly Annuity Deferrals for May 2010, as written in trustee packets, were up for discussion and approval. Not hearing any discussion, Peter asked for a motion of approval. **Catherine Haggerty made motion to approve the PROP Monthly Annuity Deferrals for May 2010 as written in the trustee packets. Tim Atkinson seconded the motion.**

NAME	AMOUNT	DATE	AGE AT RETIREMENT	AGE AT DEFERRAL
Daniel Zahara	N/A	5/31/2010	56	56
Kenneth Smith	N/A	5/31/2010	53	60

Service Credit Purchases for May 2010

Peter Morin, Chair reported the Service Credit Purchases for May 2010 as written in trustee packet, were up for discussion and approval. Not hearing any discussion, Peter asked for a motion of approval. **Catherine Haggerty made a motion to approve the Service Credit Purchase for May 2010 as written in the trustee packet. Tim Atkinson seconded the motion.**

NAME	SERVICE CREDIT TYPE	DATE	AMOUNT
Raymond Lopez	12 Mos. Military	5/03/2010	N/A
Kenneth Nash	7 Mos. Cadet	5/03/2010	N/A
Enrique Colorado	7 Mos. Cadet	5/10/2010	N/A

Economic & Demographic Actuarial Assumption Recommendations " 2008 Actuarial Valuation"

Peter Morin, Chair introduced Mark Fenlaw and Bob May, actuaries at Rudd & Wisdom, Inc. who presented a 'Draft' report titled 'Actuarial Methods and Assumptions for the December 31, 2010 Actuarial Valuation'.

Mark Fenlaw, actuary reported Rudd & Wisdom, Inc. review of the **Economic Assumptions** used in December 31, 2008 actuarial valuation (4% Inflation + 4% Real Rate of Return = 8% Investment (net) Return with 4% General Wage inflation and payroll increase) continued to be appropriate in the December 31, 2009 valuation. **Therefore, Rudd & Wisdom, Inc. recommended no changes to the economic assumptions.** The **Retirement Assumptions** in the 2009 Valuation are not recommended to be changed because the actual number of retirements was lower than expected, but the ratio number retiring has been increasing over the last three years. The ratio of actual retirements to expected retirements was 53% in 2007 (21/40), 77% in 2008 (34/44), and 82% in 2009 (41/50). Although the ratio trend is going up each year and might even be closer to the numbers expected according to assumptions. Rudd & Wisdom is comfortable with not making any change in the retirement assumption at this time. **Therefore, Rudd & Wisdom, Inc. recommended no change in the retirement rates assumptions.** The **Assumptions for DROP and PROP** both are recommended to be increased because of historical utilization over the last seven-year period ending in 2009. During this period the percent electing a DROP has been 64% although the 2009, percent was 81%. **Therefore, Rudd & Wisdom, Inc. recommended an increase in the assumed portion of eligible retirees electing a DROP lump sum from 60% to 65%.** In addition during the last eight years the actual experience of those electing the PROP has been increasing, especially in the last four years. The average for the eight-year period 2002-2009 has been 58% and in previous December 31, 2008 valuation the assumptions was 40% on those elect a DROP lump sum will also elect the PROP. **Therefore, Rudd & Wisdom, Inc. recommended an increase in the assumed portion of those retirees assumed to elect a DROP lump sum who also elect the PROP from 50% to 60%.** **Rudd & Wisdom, Inc. also recommended the average annual interest credited to the PROP accounts be decreased from 8% to 6%.** The **Other Actuarial Assumptions and Actuarial Methods** reviewed that were used in the December 31, 2008 actuarial valuation are still appropriate in the 2009 Valuation. **Therefore, Rudd & Wisdom, Inc. recommended no changes to any other assumptions and no changes to the actuarial methods.**

In conclusion Bob May at Rudd & Wisdom, Inc. handed out 'Investment Return Assumptions for Public Funds' reported due to the long-term nature of the economic actuarial assumptions, it was comfortable recommending for the December 31, 2009 actuarial valuation the continued use of the economic assumption of 8% net of fees. **No action required by the Board.**

Investment Committee Meeting, June 23, 2010

A. Manager Monthly & YTD Performance Report

Kendall Thomas, Investment Committee Chair reported Ron Partain Investment Consultant at Consulting Services Group, Inc. presented to the 'Committee' manager performances, accruals and the unrealized gains as of May 31, 2010. Kendall then recognized Ron, who reported to the 'Board' the handouts presented at the earlier 'Committee' meeting showed the total composite asset fund value was $435,664,792 (unaudited).

Ron reported the performance handouts titled 'Market Value and Returns Summary' showed the 'APRS' total composite return was -3.9% Current Month, -0.8% Year to Date, 3.4% Trailing 1 year, -6.0% Trailing 3 Years and 3.2% Trailing 5 Years. The handouts also showed the portfolio Asset Allocation was 60% Market Dependant (Equity-US, International & Emerging Markets of 35% and Fixed Income-Cash, Core US Bonds, Mezzanine Loans & Private Loans of 25%) and 40% Alternative Investments (Hedge Funds-5%, Private Real Estate-18%, Timber-11%, Private Equity-3% and Natural Resources-3%).

Ron reported May 31, 2010 'APRS' equity manager performances were down -9.7%, while the broader S&P 500 index was down -8.0%; fixed income manager performances were down -1.8%, while the JPM EMBI Global Diversified index was down -1.5%, Barclays Aggregate Bond Index was down -.6%; real estate and timber manager performances were up .1%, and alternative manager performance in energy fund, private equity and hedge funds were down -.3% at month-end. Ron went onto report May was tough on the global and US equity managers. This was due to European government debt crisis, Euro currency devaluation, declining consumer demand causing commodity prices to fall. However, volatility in the global financial market created flight to safety and allowed APRS Hoisington treasury investment to soar 6.2% for the month and/or 10.4% year to date. **No action required by the Board.**

B. New Boston Fund V & VI Performances

Kendall Thomas, Investment Committee Chair reported the 'Committee' met at 9:15 a.m., Wednesday, June 23, 2010 with Charles Nolfi, Sr. Vice President at New Boston Real Estate Investment Funds to discuss performance returns in Fund V, Fund VI, APRS is a limited partner.

The internal rate of return on Fund V as of December 31, 2009 (since inception) on income is 12.7%, on equity is -0.08%, and total return of equity and cash distribution is 11.9% on net unrealized depreciation. This fund is fully funded and currently being sold, but due to the economic recession and de-leveraging in the portfolio, management pursues discipline sales strategy to maximize value and cut losses by positioning sales in the next 12-24 months.

The internal rate of return on Fund IV as of December 31, 2009 (since inception) on income is 4.26%, on equity is -12.50%, and total return on equity and cash distribution is -7.9% on net unrealized depreciation. The net internal rate of return on Fund VI as of December 31, 2009 (since inception) on cost is 2.30%, on market is -11.60%. This fund is fully funded and has been written down significantly through March 31, 2010. Its long term success will be determined by length of economic recession, debt availability and improvements to real estate fundamentals.

Kendall reported the 'Committee' did not recommend any action on the New Boston Real Estate Funds V & VI performance report. **No action required by the Board**.

C. Intercontinental Capital Management, LLC-Hedge FOF

Kendall Thomas, Investment Committee Chair, reported the 'Committee' met at 10:0 a.m. Wednesday, June 23, 2010 with Leon and Peter Palandjian, Managing Directors at Intercontinental Capital along with Ron Partain, 'APRS' Investment Consultant about an investment opportunity in 'Multi-Strategy Fund of Fund'. The fund invests in four strategies General Equity (Long/Short), Event Driven (Arbitrage/Opportunistic), Sector Equity (Long/Short) and Distressed Credit that seeks superior absolute rate of return, minimize draw-downs (duration, magnitude, frequency) and low correlations with broad markets. These four funds will allocate diversified exposure across strategies, industries, geographies, and security types with nine managers. The fund began in 2007 is employee owned, -3.68 cumulative return since inception, management fee 1%, performance fee 10% net of profits, annual liquidity/90 day notice.

Kendall Thomas reported the 'Committee' **recommended** Board approval of this 'Multi-Strategy Fund of Fund' at Intercontinental Capital in the amount of $5 million. **John Ross made motion to approve $5 million investment allocation in the 'Multi-Strategy Fund of Fund' at Intercontinental Capital, as recommended by the Investment Committee. Art Alfaro seconded the motion.**

D. CAZ/Inroads Group, LLC-Hedge FOF

Kendall Thomas, Investment Committee Chair, reported the 'Committee' met at 10:30 a.m. Wednesday, June 23, 2010 with Levon, Managing Director at The Inroads Group and Jay Van Ert, Partner at CAZ/Inroads Group, LLC along with Ron Partain, 'APRS' Investment Consultant about an investment opportunity in 'Multi-Strategy Offshore Fund of Fund'. The fund invests in non directional, multi-strategy portfolios (twenty to thirty manager allocations that are diversified by sector and strategy) that seek to generate a consistent return stream with a low correlation to equity and fixed income indices. The objective is long term returns on 90 day T-bills + 4-6% return, low volatility-standard deviation of 4-6% return, outperforming the HFRI Fund of Fund Conservative Index in both returns and risk adjusted returns and increase diversification for client's portfolios with the intention of preserving capital during times of stress. The fund began in 2002 is employee owned, six year track record performance of 4.81% since inception, management fee 1%, performance fee 10% net of profits, 5% hurdle rate of return, quarterly liquidity/60 day notice and 12 month lock up period.

Kendall Thomas reported the 'Committee' **did not recommend** Board approve of this 'Multi-Strategy Offshore Fund of Fund' at CAZ/Inroads Group. **No action required by the Board**.

E. Capitalspring, Fund III LLC-Waiver and Consent

Kendall Thomas, Investment Committee Chair reported the said, Capitalspring, Fund III LLC-'Waiver and Consent' was requested by email from Richard Fitzgerald, Managing Partner as matter in the best interest to 'APRS' and the fund. This waiver and consent allows for additional investing ($3.5mm) in prior investment ($4.65mm) in company 'Great Lakes Restaurants, LLC', whose projection are 15.75% annual interest return. The company is renovating and relocating current stores an expected to be completed by October 1, 2010.

Kendall reported the 'Committee' recommended approval of this ($3.5mm) additional investment by Capitalspring, Fund III that will provide expected 15.75% return on investment. **John Ross made motion to approve the 'Waiver and Consent' on $3.5mm investment for the Capitalspring Fund III, as recommended by the Investment Committee. Art Alfaro seconded the motion.**

F. McAlister RE Fund No. 2 LP-Acquisition Consent

Kendall Thomas, Investment Committee Chair reported the said, McAlister RE Fund No. 2 LP-Acquisition 'Consent' was requested by letter from Beau Ryan, COO as matter in the best interest to 'APRS' and the fund. This consent allows for the purchase of 2.048 acre tract adjacent to the 21.59 acres and 39.59 acres owned by JM Texas Land Fund No. 2, LP and it would allow for higher better use of the property for future market resale.

Kendall reported the 'Committee' recommended approval of this 2.048 acre tract acquisition by McAlister RE for Fund No. 2 that will allow for better and higher use of this property in future resale. **John Ross made motion to approve the 'Acquisition Consent' on 2.048 acre tract for the McAlister RE Fund No. 2 LP, as recommended by the Investment Committee. Art Alfaro seconded the motion.**

G. Invesco RE Fund II-1 YR. Extension on Investment Period

Kendall Thomas, Investment Chair reported the 'Committee' received Invesco RE Fund II- notice at 11:15 a.m. Wednesday, June 23, 2010, requesting action to extend the Fund II investment period to June 30, 2012 from June 30, 2011, which APRS is $7.5 million limited partner with uncalled commitment of $4.593,502.00 outstanding. After discussion with Ron Partain, APRS investment consultant regarding this extension, Kendall Thomas reported the 'Committee' and its Investment Consultant **did not recommend** the **Board** approve the Invesco RE Fund II 'Commitment Period Extension', at this time due to liquidity issues. **John Ross made motion to 'not' approve the 'Commitment Period Extension' on the Invesco RE Fund II, as recommended by Investment Committee and Ron Partain, APRS investment consultant. Art Alfaro seconded the motion.**

H. Investment Rebalancing and Reallocation

Kendall Thomas, Investment Chair reported the 'APRS' investment consultant Ron Partain, at Consulting Services Group and 'Investment Committee' recommended to redeem $5 million from SMH High Yield Fund to invest in the 'Multi-Strategy Fund of Fund' at Intercontinental Capital. **John Ross made a motion to redeem $5 million from the SMH High Yield Bond Fund to invest in 'Multi-Strategy Fund of Fund' at Intercontinental Capital, as recommended by the 'Investment Committee' and Ron Partain, investment consultant. Art Alfaro seconded the motion.**

1. Pending Investment

Kendall Thomas, Investment Committee Chair reported Sampson Jordan, CEO informed the 'Committee' Tradewinds Global All Cap Equity Account should be in place after investment consultant and legal review are completed and documents executed. The estimated $30 million investment will be considered liquid in Wilmington collective trust fund. **No action required by the Board.**

Pension Office Report

A. Treasury Report

Vernon Webb, Finance Manager presented the May 31, 2010 monthly Treasury Report, showing the total 'APRS' asset value $436,342,005.06 (unaudited). This asset value was down by $17,431,271.95 from April 30, 2010 asset valuation $453,773,277.01 million (unaudited).

The total fund investment commitments are $34,584,441.20 million, which consisted of $1,043,171.19 in Mezzanine Loans, $8,807,127.00 in Value Added Real Estate, $2,460,513.02 in International Real Estate, $321,206.18 in Opportunistic Real Estate Land Development, $4,050,000.00 in Timber, $11,662,423.81 in Private Equity, and $6,240,000.00 in Special Situation waiting total capital call. The report showed $21,040,859.62 in cash or cash (treasury notes) equivalent reserves is short -$314,694.80 to meet total fund commitment $21,344,554.42 as required by the liquidity policy in the Investment Policy Statement (IPS). The IPS required 35% Minimum Public Traded liquidity is not in compliance at 32.31%. The IPS 50% Maximum Illiquid Target requirement is in compliance and is well within the 60% maximum range. **No action required by the Board.**

Vernon also reported the Administrative Expenses paid year to date May 31, 2010 of $350,935.28 (unaudited) meets the projections made in the February 2010 budget of $803,560.00 after applying administrative proportionate retirement contributions and building income. The Building Expenses paid and revenues received on tenant leases year to date May 31, 2010 produced net income of $40,240.13 or 14.13% return on investment. The Investment Expenses paid year to date May 31, 2010 of $618,630.05 meets projections made in the February 2010 budget of $2,146,000.00. **No action required by the Board.**

B. Continuing Disability Report on Roger Hicks

Sampson Jordan, CEO presented a letter written by 'APRS' to Roger Hicks receiving disability benefits, notifying him of the need to submit an application for continuing disability benefits. **No action required by the Board.**

C. TEXPERS Summer Education Meeting

Sampson Jordan, CEO presented the 'TEXPERS Summer Educational Forum' notice slated for August 21-23, 2010. He reported this year's agenda includes a Saturday, 'Certified Trustee Training Module B Program' for trustees attending this year's annual Summer Forum. Peter Morin added this training program will include Trustee certification. Board members interested in attending are asked to contact Shalonda Lee, Secretary to make reservations, since there is a $55 fee attendance and hotel reservations are limited at the Hyatt Hill Country Hotel, in San Antonio, Texas. **No action required by the Board.**

D. Fiduciary Liability Insurance Coverage Cost

Sampson Jordan, CEO presented email received from Brian Smith, Sr. Vice President at Segal Consulting Services regarding 'National Fiduciary Liability Insurance Practices' an identifying the possible cost of a fiduciary liability insurance policy for City of Austin Police Retirement System. Although many factors influence the premium cost other than the asset size of the plan and the limits of liability. The projection analysis on 'APRS' $460 million (estimated) asset size on cost would range from $3mm low at $11,377 to $10mm high at $83,780 per year on annual coverage. After discussion, Peter Morin, Chair requested this item be placed on the July 21, 2010 agenda for further review, discussion and recommendation by Bob Klausner, APRS attorney. **No action required by the Board.**

E. Statewide Patrol, Inc. Lease Renewal

Sampson Jordan, CEO presented letter addressed to James McClure, VP & CFO at Statewide Patrol, Inc. acknowledging Peter Morin, Chair executed Ste. 204 Renewal and Amendment Agreement effective June 1, 2010. The lease renewal is in the amount of $28,570.50 in 1^{st} year and $38,094.00 in the 2^{nd} year with option renewals thereafter at 3% yearly escalators for additional three years, beginning June 1, 2012 and terminating on May 31, 2015. This lease renewal was considered a matter in the best interest of 'APRS' as allowed by the Investment Policy Statement, when time is of essence. **No action required by the Board.**

F. Sentinel RE LP IV-Extension Amendment

Sampson Jordan, CEO presented the said, Sentinel RE LP Fund IV, 4^{th} Amendment to the LP, 'Consent' executed by Peter Morin, APRS Chair that was considered a matter in the best interest of 'APRS' as allowed by the Investment Policy Statement. The amendment extended the termination (winding down) date of the limited partnership agreement to December 31, 2015 from December 31, 2011. The Investment Committee on February 17, 2010 deferred its recommendation to approve this extension pending Joe Meals, APRS investment consultant negotiations on adding amendments to the extension consent agreement, amenable to the Austin Police Retirement System interest. Joe Meals Investment Consultant communicated on June 11, 2010 being in favor of termination extension. **No action required by the Board.**

Old/New Business

Adjournment

Peter Morin, Chair