The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> David Bacigalupi: Call to order the board of administration for the Police and Fire retirement plan for a special meeting. And I'm going to do a roll call for members. The Chair, David Bacigalupi is present, vice chair Conrad Taylor is present. Trustee Sean Bill is present. Michael Flaherman Trustee is present. Sean Kaldor trustee is present. Damon Krytzer is on the telephone, but due to Brown Act requirements, if I understand correct, Molly, he's not allowed to participate in the meeting. He can listen in but can't participate in the meeting because we didn't post it correctly.

>> Mollie Dent: Correct.

>> David Bacigalupi: Damon, did you hear that?

>> Damon Krytzer: Yes I got that.

>> David Bacigalupi: Yeah, sorry about that little mistake on our part, part of posting. And trustee Vincent Sunzeri is present. The police retiree trustee and the ninth trustee have not been present to my knowledge.

>> Russell Crosby: Actually the eighth has been appointed.

>> David Bacigalupi: That happened Tuesday?

>> Russell Crosby: Will be sworn in at the next meeting.

>> David Bacigalupi: And who?

>> Russell Crosby: Richard Santos.

>> David Bacigalupi: Okay, thank you. Orders of the day, we've got a request for service requesting on Item 1-C, Edward D. Munos, fire captain, request for a service requirement. At his request he'd like that pulled. Does that

mean postponed or totally withdrawn? (Inaudible) Rescind, okay. So we will pull item 1C the application. And if there's no other orders of the day we'll start on the agenda here. Item number 1, one arrangement is an application for a service retirement from Police and Fire William Gonzales effective March 20th, 2011, with 25.14 years of service with reciprocity. I'll entertain a motion. (inaudible) I have a second on the motion. Any further discussion on the motion? For the record, Bill Gonzales is not in the audience. With no further discussion, all opposed, the motion carries. Item number 1B it's an application for a service retirement from police sergeant Douglas grant effective January 22nd, 2011 with 25.05 years of service. Sergeant Grant's not in the audience. I'll entertain a motion.

>> Aisle make a motion for approval.

>> David Bacigalupi: I have a motion do I have a second?

>> Second.

>> David Bacigalupi: Any further discussion on the motion? Hearing no further discussion all in favor, all opposed the motion carries. 1C is deferred. Item 1D is an application for service retirement for fire captain Richard Wardall, for retirement. Effective January 22nd, 2011. 29.37 years of service. Is fire captain Wardall in the audience? Does not appear to be. I have a motion and a second. Any further discussion on the motion? Hearing no further discussion all in favor, all opposed the motion carries. New business, item 2, the approval of change of retirement date of David S. Salazar from January 22nd, 2011 to January 30th, 2011. I'll entertain a motion.

>> I'll make the motion.

>> David Bacigalupi: Okay I have a motion. Do I have a second? I have a motion and second. Any further discussion on the motion? Hearing no further discussion all in favor, all opposed the motion carries. I'm just catching up with my paperwork here. Okay, item number 3 is the approval of a change of retirement date of John A. Wells from January 22nd, 2011 to January 31st, 2011. Entertain a motion.

>> Motion to approve.

>> David Bacigalupi: I have a motion and second. Any further discussion on the motion? Hearing no further discussion, all in favor, all opposed, motion carries. Okay item number 4, item number 4 is an potentialal item. Background information regarding the plan's Real Estate portfolio. One of the reasons that this is coming forward for the new board members is, this board utilized the subcommittee process, for both investments and for real estate investments. And at the time under the old structure of the board that was -- seemed like the best way to do things. With the new board members, and the talents that they're bringing to the board, we have not reappointed a real estate subcommittee, or an investment subcommittee, and in fact, we are going to take advantage, if this works out, to using the entire board and the expertise that has been brought to this board. So there's an information at packet here and that's where we're going and it will actually carry on into our closed session later on. So number 4 did you have anyone that wanted to discuss anything, any questions? (inaudible).

>> David Bacigalupi: Okay. Come on up Stan, thank you.

>> Thank you. It's nice to be back, in the weather. For those of you who have not -- that being this is a new board I wanted to take a brief moment to introduce myself introduce the firm and talk a little bit about the background of the real estate portfolio and bring everybody up to date on what we're intending to do with this portfolio and discuss it more fully in the next 20, 25 minutes if I can have that much time. As many of you may know, this Real Estate -- first of all let me introduce myself. I'm Stan Iezman, I am the CEO and chairman of American Realty Advisors. We have over $3.5 billion under management and commingled funds in separate accounts. As you know the San José fund had a separate account that was created many years ago and was managed by a variety of different managers, PM Realty Advisors, and Kennedy Real Estate Associates out of Seattle. And on September 1 the portfolio was transferred from Kennedy to American Realty Advisors. So on September 1 we took over the management of that portfolio, essentially transferred the entire portfolio into our management team. And the purpose of this meeting is really twofold. Number 1 is to bring you up to date on the transition and what has transpired with respect to that transition, to talk a little bit about each of the individual assets and then in

closed session to talk about our disposition plans and our program that we have recommended to the board with respect to the real estate portfolio itself. I think it's important to recognize that you're going to be hearing information today that is going to -- it's going to give you some flavor of the background of this total portfolio, and I want you to stop at any point in time and start asking any questions that we may -- that you may have about that. If I may begin on page 7 of the presentation that is in front of you --

>> May ask a question before you get started? Is this the same presentation that was distributed in our packet? I just want to know, okay, thanks.

>> Let's begin on page 7 of the presentation. The effective transfer date was September 1, 2010. And as you may or may not be aware of, the transition process required us to essentially take all of the underlying data that existed with the two managers that you had. I want to correct myself, there were two investment managers that you were involved witih. One was Associated States which was managing a multifamily portfolio, and then Kennedy Real Estate council out of Seattle that was managing your office portfolio. What we took over on September 1 were two multifamily assets which we'll talk about, six office assets and one industrial asset. As you can see on the bottom of page 7, you can see sort of the allocation in terms of the geographic breakdowns and the product type diversification that existed. I want to go back is that the board when we originally took over the portfolio made a recommendation could be currently to transfer the assets into our commingled fund at that particular moment in time. And the purpose of this transition was to do two things, was one to determine exactly what we had with the portfolio, determine what was the appropriate asset to transfer into the fund, which fit, which didn't fit and for the obvious reason for moving into a fund was to achieve broad based diversification associated with a bigger pool of assets, rather than hold assets in a separate account. And when you get into these assets you'll understand why the goal of diversification is critically important, when creating a Real Estate portfolio. Turning to the next slide, if I can. The total gross market value of the portfolio, when it was transferred in, or as of December 31, 2010, was $148,233,000. Your net investment cost is $169 million. Your net market value is $127 million. The difference between that number of $127 million and $169 million is essentially a loss that's associated with the portfolio that existed at the time as of December 31. So there has been a loss and we're going to talk a little bit about this as we go through this. You had certain debt on the portfolio and your total debt is about $20 million and we'll talk

about that when we get into the interest rate and the underlying structure. The positive news as of your portfolio is that you're generating about $13 million of net operating income. I just want to point out there is going to be another meeting that we are going to have that we'll present the business plan for each of the assets and we're going to talk about what cash flows are. Net operating income is before capital costs that are going to be associated with the property and there's going to be extensive capital that we're going to talk about. But that net NOI generates on the market value today of approximately 8.3%. So if you are looking about valuation of real estate, you're getting a very strong health return as to what is being transmitted out of the portfolio itself. Turning to the next slide, what we've done is on page 10, we've broken down current investment cost, current gross market value, net equity of the transactions. And again I'm going to get into this in greater detail but I wanted to give you a snapshot of what that looks like in that particular process. Turning to page 11, what we did was, is in essence when you do a transfer of assets you essentially have to go through and aggregate all of the underlying data that exist on the portfolio, transfer the financial information, look at all -- we basically redue diligence every asset that exists on the portfolio to determine what the exposure is with respect to the assets, look at the operating income of the property, look at the expenses that are associated with that and essentially try and ensure and add value in that process to make sure that you're getting the best value for the dollars you're expending in your particular real estate. This was not an easy task as staff may advise you or may have talked to you privately. One of the -- probably one of the single most important issues that the staff needs to recommend or that the board needs to understand is that the portfolio the way it was structured that the the discretion associated with the management of these particular assets was retained by the board. It was not invested in the investment manager. It is normal in an investment management relationship that you grant discretion to your investment manager with respect to the investment decisions. But what had transpired over a number of years is that the prior boards had retained discretion through either the executive officer of the board, of the fund, or the board itself. And it went so far as to say I would suggest to you that you had signature cards or bank accounts that were signed by trustees of the pension plan, which mean they had access to the bank accounts. Thank God nobody stole anything. I'm not attributing anything negative on that but it was certainly an issue that we had to try and resolve an uncover. What we have essentially done as a result of this is you will see, let me jump very briefly here, to page 13. As you can see on 13, the properties, there was a series of properties that were owned directly by the pension plan as opposed to a title-holding entity. And we essentially transferred those assets out of the

Board of Trustees ownership or the pension plan ownership into title holding entities principally because you don't want to have any exposure liability associated with the operation of an asset for any uninsured casualties or liabilities associated with that or exist. We effectively transferred all of that over into title holding companies. The Board of Trustees have been removed for any signature authority on anything, all bank accounts are being controlled by us, the officers and directors of the title holding companies which were in existence previously, where the Board of Trustees were actually named as officers or directors, we've essentially taken all that liability on. So the net effect is that to the extent there are any issues you are exonerate rated from liability, to the extent that the title holding company is operating effectively and the corporate shield that exists out there is effective which we think there is, we've been operating those for many years and never had any issue with that. So there should be no liability or indirect attribution back to any of the trustees or anybody associated with the fund as a result of its ownership. Now, going -- let me just just go --

>> Are there property tax or other tax implications for --

>> No. We -- all of this avoided, without any tax, not cost, et cetera. The only cost was settling up the title holding companies but there were no tax implications because when you transfer into a wholly owned entity you are transferring from one entity to another entity, so there were no tax issues whatsoever. So there's a transfer -- you're 100% -- the fund is still 100% owner of the entity. The Real Estate which is owned by the fund the stock is --

>> There were no situations where the direct ownership in the name of the board allowed you to assert tax exempt status?

>> No, no triggering of any tax commission, no.

>> New vehicle is a (inaudible) old mode.

>> Oh, exactly. Okay, no, all of the entities are either flow-through entities are they are tax exempt title holding corporations, so there's no tax cost associated with this. The only additional cost (inaudible) are the corporate fees associated with maintaining these on an ongoing basis which are several thousand dollars a year. But pretty typical for a pension plan as you know to have title company -- title holding companies to have the underlying assets. So let me turn go back to page 12 for a moment, just to give you a snapshot. One of the first things we discovered in evaluating the underlying assets is that the insurance policy that was retained by the fund, and again going back, in history again just to give you a flavor of this, the fund had privately basically took over the insurance from the investment manager for a variety of different reasons but the fund was separately insuring the real estate assets through its own separate account through its own separate relationship with its insurance broker that is a local firm up here and in evaluating the policy all of us concluded that by transferring the policy to our blanket policy we could get more coverage at a significantly lower cost. So the net benefit to the fund is as of today's date about $330,000 of savings associated with this as a result of that transfer. And I think that you all had collective conversations with the board of directors and our team and everybody concluded that the transfer was much more effective to do it this way from a cost standpoint and from a liability standpoint. The one difference we did do, though, just to put it in perspective, is that there's a certain sensitivity on the board or on the fund with regard to earthquake insurance. What we did is we retained because as you know in a blanket policy, you may not know but in a blanket policy what happens is that if there's an incident that occurs under a blanket policy, the blanket policy covers that claim. The reason that most people and most large entities they have blanket insurance policies is the likelihood of having 20 assets or 50 assets or six assets all burning down in the same day is highly unlikely. But the one issue is earthquake where a major earthquake could come and it could damage the policy and blanket policy may not necessarily totally cover that. So what we've done is create a stand alone earthquake policy so each of your assets is protected under a stand alone policy but you're still winding up with significant savings on this. On page 13 there is a snap snot shot of what we have on each of the entities. As you can see that all of the entities now are either owned by LLCs or 501 (c) type 2s, IRCs, Internal Revenue Code Section 501 (c) 25, title owning companies and you can see where the ownership of the particular properties resides. As you can see, that the manager is a wholly owned subsidiary of our firm. We're the officers and directors. If you don't like us and you want to terminate us you get to terminate us and we basically resign and turn over the officer

ships and directorships to whoever you want to assign. The fact that we are the officers and directors shouldn't be an issue.

>> Quick question. Our firm works on a lot of Taft Hartley (inaudible) don't make their corporate contributions to the fund (inaudible) looks like in this case all of the responsibilities of the fund corporate fund (inaudible).

>> That's correct.

>> And I assume this isn't something that (inaudible) this is something high priority for you?

>> That we are -- we have a chief compliance officer in our firm. We have over 250 title holding companies that we've been managing for over 25 years so --

>> About the formalities (inaudible).

>> The formalities are -- I'm a lawyer by background as many of you may know, and we very carefully take on that responsibility principally because to the extent we don't, we can get sued by you. So we take that very seriously.

>> (inaudible)

>> Well, you make a claim. Our reputation is very important to us. Let me turn to the specific assets for a moment and just talk you through what we have in the portfolio. Turning to page 16 of the presentation, you can see that the first asset is an apartment project located in Houston, Texas, it is located in the galleria section, which is a great location. This is an asset that is 95% occupied. It's 186 units. Let me just begin by suggesting to you that, and I just want to give you some background on this. The goal of your real estate portfolio is really to have in a core portfolio, core assets within that portfolio. And what I'm going to be saying certain things throughout this presentation that are going to indicate that some of these assets may not necessarily be core. And I will distinguish that by saying when I go through each of these assets, it's not intended to be disrespectful, it is

intended to be giving you perspective in terms of our real and underlying analysis of what we think is appropriate. This is a property which is a great property. The only difference is, this is a smaller size property. This is 180 units. The we would typically buy a bigger size unit property principally because of the operating cost, associated with management of a particular property. In this particular case our genome with this particular property would be to transfer, we like the property, we would be transferring it into the fund, and we'll talk about what that transfer looks like in a few moments. The key issues associated with this property really are rather interesting. There's a lot of deferred maintenance in this property. The painting -- the building was painted about two years ago, the painting failed, on this particular property. Just to give you a little bit of perspective. The reason the painting failed on this particular property is that the way that they painted, they had four coats of paint on it already. Rather than hiring and developing specs, whenever you do anything on a piece of property you want to develop specs, specifications in terms of what you should be doing with respect to that property. Rather than evaluating the coats of paint on there and evaluating what needed to be done to put the new coat on, they just slapped the coat of paint on the building, and the paint failed. And the reason the paint failed was principally because the paint couldn't hold four coats of paint. So we went back to Sherwin Williams who created the paint, they said your paint failed, they agreed to deliver the paint for free which was about $11,000. But the problem was we basically have to scrape the paint down and repaint the building, which is going to cost about 70 to $80,000 more in order to do this. The problem is whoever managed this process before didn't do what we considered was an appropriate job in terms of developing the spec on that. There is a little bit of history hre, and I won't go into a great deal. But there was a failure of the underlying parking garage, there was a lawsuit filed against the former investment manager and the contractor that was ultimately settled. That parking garage is okay, it functions, it's just -- it's not the most ideal parking garage in the -- from a design standpoint. But it works and it functions extremely well for the purposes of what's there. You acquired this property in 1986 so you've owned it for a fairly long period of time. We'll get into as you can see here your current investment cost is $19,400,000. When I'm talking about investment cost that's your original purchase price, that's all the capital you put into the property, I compare that to the market value of the property as well. So in this particular case, current investment is 19.4, current market value is about 22, $23 million, which means positive gain on the underlying transaction so you've made money in this particular effort.

>> Can you tell us how you come across the market value?

>> How do we do that?

>> Yes.

>> There's a variety of different ways. There's the what are called USPAP Standards, which are the uniform standards of professional and appraisal process. Is a standard by which you evaluate property through a net present value analysis, through sales comps and then through replacement cost. The common theme is that whenever you do values you base it on current market value which is net present value analysis. What do you is you essentially do a discounted cash flow, 10-year cash flow on the particular property with the appraiser. These are by the appraisal numbers. The appraisal numbers then are backed up against what you would get in the market and typically there may be a gap between the two as the markets are moving. Now we're moving from a recessionary environment into a more robust market, and certainly with multifamily there's a great demand for property so the cap rates have been hit down very aggressively on multifamily properties and yet the net effect of the combination of looking at the net present value of the properties compared against the what the market is if you go to sell it in the marketplace today is really the combination of how you get to net value. It's a -- it's not a science by any stretch of the imagination, it's much more of an art. And recognize that values are always yesterday's information.

>> Correct. I guess what I'm looking for too is on that appraisal is that done internally, do you use a third party?

>> These are all external valuations. We just had the portfolio valued, as a -- it was done by the prior manager on June 30th. We are sticking with those values for the moment. What we do is update those values on a quarterly basis internally, through our team. We have a valuation committee and they do a net present value of that -- of those particular assets. The next valuation I believe is going to occur at the end of -- I forgot what the investment manager agreement says. I think it's every once a year I believe.

>> Yeah so you're proposing that we transfer this asset based upon the --

>> Well why don't you hold -- if I could -- the answer is no. The answer is it's going to be externally, any values that are going to be used to transfer the asset into the fund are going to be determined by an external source. You've hired an independent manager to handle that kind of action for you so there's absolutely no conflict. This person is going to make a determination what the value is. We will negotiate with them in terms of what that value should be.

>> Russell Crosby: Vince, just before you came on the board, we hired a fiduciary to represent the board in any transaction with him.

>> Next asset is located in Colorado Springs, Camelback Pointed Apartments. This is again 92% occupied property, was constructed in 1996. You acquired it in 1997. Camel back, Colorado springs ask not in our mind a core market, I don't know if any of you have been to Colorado springs but Colorado springs is basically a very narrow town in terms of what exists there from a dynamic employment base and the net effect of this is that again not a core market and we call it a tertiary market. Even more importantly it's located on a ridge, it has significant wind issues associated with the property and parenthetically just to give you a flavor on this there's a significant rate on remediation that has to occur on this particular property principally because of the fact that up in that particular area there is a lot of Uranium in the ground, and we have five radon remediation pits in the property that we're monitoring that we have to monitor to make sure there's no undue remediate -- no undue radon in the particular property. But this is an asset that we'll talk about this later on but this is a market we're recommending going to market and selling because it is not a particularly core asset.

>> David Bacigalupi: Stan, is that whole area also influenced by the radon?

>> Yes. It is.

>> David Bacigalupi: Because there are other complexes fairly close, and they have the same situation.

>> I mean, the radon didn't pick on you. It's just the market.

>> David Bacigalupi: We picked the wrong hill.

>> The next property is in Greenwood Village, Colorado, a great market. It is located in the Denver tech center. We love this particular property. It is 91% occupied office property built in 1996. Again, smaller in size but it's a good piece of property. There's nothing wrong with it at all. Just ongoing leasing that goes on with this particular property but it's a great asset. It fits within the portfolio, it's very nice.

>> (inaudible)

>> 91%, which parenthetically in this marketplace is pretty good. Net increase in ongoing average occupation rate is around 88%, so you're a little bit higher. Next asset is Spring Road in Oak Brook, Illinois, this is in Oak Brook Terrace, which is again one of the great great great submarkets and Chicago suburban markets. This is located right next to the oak brick mall. A great little jewel box building. It's just a fabulous little asset. It's old, needs a little bit of rehabilitation. But we like it. Again this is one we would consider transferring into the fund. This is 93% occupied. But it's a great piece of property. The only issue associated with this is I just want to point out that your investment cost is $21 million, and your gross market value is $14 million. So there's been a significant write-down on this since the date that this was acquired in 1998.

>> Question there. You said we would consider transferring this into the fund. Does that mean that there isn't a definite plan?

>> No, we would, we want to.

>> You intend to?

>> I'm sorry? We intend to, yes.

>> You intend to.

>> We do.

>> Mollie Dent: I think that the ones that are identified for a transfer are ones that the company would look at transferring. It will be up to the board whether they want to make the therefore based on the independent appraisal process that everyone talked about.

>> Right, and you would be happy with the price we're willing to sell it?

>> That's correct.

>> This is the office property were partially (inaudible) specific to the whole sector in general?

>> Correct I would say one sector that would be hardest hit the most is going to the the office sector. Next asset is your building right here that we're residing in right now. This is the one asset that would not be transferred into the commingled fund, it would not be sold. The goal of this particular asset would be to keep it within the separate account and to continue to operate this independently. Because it has characteristics that are a little bit different from an investment standpoint, particularly because you're residing in this particular asset. The one thing I would like to reside about this asset is again, look at the current market value compared to your investment cost and as you can see there has been a 50% decline in underlying value from the investment cost as of 12-31. So there is been a loss on this particular property. Recognize one thing about this property that you have. You have a big parking field and you have development rights associated with this parking field. While development is certainly not on the horizon today and you can't justify new construction because of current rentsth the fact is there is extrinsic value here that has something that can be done over time. But the goal would be to keep this in the separate account independent of being transferred otherwise sold.

>> Question, I'm sorry.

>> (inaudible) pension plan owns it and we have (inaudible)

>> In terms of -- no because we negotiate the rent on this. We determine what the rent is in terms of any utilization of that particular space and bear in mind that you're occupying this space. The pension plan is occupying the space. The net effect is you're paying yourself rent or you're not paying yourself rent but your occupancy cost is already built into that.

>> And private pension isn't that a prohibited transaction?

>> To for a pension plan to lease to its own pension plan no it's not a prohibited plan to lease to the pension plan. It is only a prohibited plan when you lease to a property in interest. For example if I leased the property then I would be a party of interest to the pension plan and there would have to be an independent fiduciary passing on that. In my case it would have to be an independent fiduciary signing off on that so currently since it's only the pension plan, the pension plans own it and the pension plans use it typically it's not considered a party in interest.

>> Mollie Dent: An example if you would try to let the city use the property for no rent payment that would also be a --

>> That would be a prohibited transaction.

>> Russell Crosby: And actually since we're comparing market rates here to avoid any kind of conflict because it's not just a pass-through for you but we've also got Federated housed here so you're renting for the Federated plan as well.

>> Following up on that line of inquiry has anyone looked at the GASB requirements associated with holding a headquarters building as an investment? I have a strong recollection actually that the GASB actually changed its rules about 12 years ago to actually make it so it was actually not allowed not as Ann ERISA issue but as a GASB issue to hold the headquarters building as a -- to carry that investment. Do you know anything about that?

>> I've frankly never heard about that. We have all over the country we have lots of pension plans that -- we just built the headquarters building for the Kern county retirement system in Bakersfield and we spent a lot of time analyzing that there were no issues associated with the pension plan owning and building its own building.

>> Russell Crosby: As long as they are paying rent and it's somewhere close to a market rate, I think that's the key here --

>> They don't even technically have to pay rent. Remember you're paying it to yourself.

>> Russell Crosby: I understand.

>> It's a net wash. Some pension plans take the position they have to pay rent. Other pension plans don't.

>> Mollie Dent: I think we can look into the GASB issue. It's basically a disclosure type issue and it's a good thing to raise if you think there was a change after the building was built.

>> My memories it's more than a disclosure it's an actual outright prohibited categorization of it as an asset. I could be wrong about it or it could have changed, but I have very specific memory of it as an issue 12 years ago. And I remember from my prior issue last time --

>> Mollie Dent: We can look at it with basically the accounting staff.

>> Okay, next asset is Dodd Road in Egan, Minnesota, that's right outside Minneapolis. This is an industrial building owned by you leased 100% to a freight forwarder company called Ceva. We're in the process of trying to renegotiate the extension of the lease. This is a little bit of a funky building, again this was acquired previously. When I say funky, it's got adjacent property next to it and has got some shared driveways. Just not the most ideal property. This is an asset that we would recommend selling the moment that we can extend out on the property. As soon as we can extend the lease out with this particular tenant. Not an ideal property. Very small, as you can see there there's been a slight loss in terms of value concerning the gross investment cost on the property. Next one. Next two I want to apologize in advance of talking about because this may raise some hackles but the first one is the Calais Office property. These are two office buildings located in Anchorage Alaska. Your fund bought two office buildings that were built in 1974 and 1975. Both of these buildings are located on a ground lease and you're in a partnership with somebody where they own 25% of the property and you own 75% of the property. The buildings are almost 40 years old. The buildings require significant amount of capital to release these properties. They are presently 100% occupied at this moment in time. The debt matures in 2012 and we're going to talk a little bit about the debt. The debt is we'll talk about the debt a little bit later. This is not a core market that we would want to be in. I don't think anybody would consider Anchorage, Alaska a core market. B we typically don't buy ground lease properties because of the inherent problem with ground lease properties and, B, your structure highly politically connected, your partners are colleagues of used to be colleagues of Ted Stephens and are very powerful politically connected people which is good in some regards because they were able to drive tenants there but the net effect is that we're walking a delicate balance in working with them to try and talk about liquidating this particular asset. The problem is in this particular market, two big issues, you're not located in downtown Anchorage, you're located midtown, to the extent that Anchorage has a midtown, and it's located in an area where there's other development. The big issue facing Anchorage, Alaska which is really the biggest problem that we're concerned with is that the north slope oil field is running out of oil and Chevron which is the major tenant in that particular market may be leaving. And to the extent that there is an issue associated with that, Anchorage is going to be pretty devastated as a result in an economic standpoint as a result of the north slope running out of oil. So this is a big issue. There is a lot of uncertainty. Chevron is a tenant here and oil is the driving force of this particular market from an office standpoint. The primary service providers to the office industry are located in this particular market. So it is an issue that we're trying to monitor and get our arms around but again

our recommendation is to liquidate this asset as soon as the spring thaw hit, because the primary selling season is between May an June. You have essentially -- you have a two- or three-month selling time frame in order to liquidate these assets. So we have to get out there very quickly if we're going to go forward with that. Again not a core asset, not something we would want to have in the portfolio. Finally, the last asset is progress point located in O'Fallon --

>> I do have a question.

>> Yes, sir.

>> The current investment cost, is that at the 75% level or is that 100%?

>> The current market value is 75% where the $26 million is located there.

>> Right, and then above that, is that --

>> That current investment cost is your investment cost.

>> Our investment cost, okay.

>> The next properties again this is an office building located, a new office building, LEED certified, I might add, beautiful, well designed located in O'Fallon, Missouri. For those of you who are not familiar with O'Fallon, Missouri, O'Fallon is approximately 30 miles west of St. Louis. This is an area that has been primarily -- this is developed over the last three or four or five years, primarily developed to address and deal with large-floor -- large-plate floor tenants who are major institutions who put their back room operations here. O'Fallon, Missouri interestingly enough -- by the way, your tenant in this is Fireman's Fund, they occupy about 85% of the property. There's 15% they don't occupy. The reason the Fireman's Fund located here, because I talked to the head of real estate about this, it's a very interesting story, that O'Fallon has one of the most signficantly educated work forces

in the United States. It's got one of the cheapest cost of housing, it's got the cheapest living cost, and it's got one of the most stable workforces. And Fireman's Fund loved this because of the fact that this is a great place to get workers. You can buy very cheaply. I'll give you a salary range, this is about $30,000 a year for a college graduate to be working in the insurance industry in these facilities. This is an insurance claims center that they operate out of here. They like the property. They want to be here. Out of all their facilities in the country this is one of the most productive they measure, I don't know if any of you have been in the back office operations, they clock the time it takes someone to answer a phone call or answer the complaint, they track everybody and this is one of the most productive facilities in the United States they have. This is common throughout the entire market. This property is unique. This was a built -- this was a spec building that the fund invested in with tax credits. So this was a complex transaction that was developed with the city of O'Fallon, where the city of O'Fallon issued tax credits in order to bring Fireman's Fund in, and what in essence happens is Fireman's Fund gets a rebate of taxes going back to them which essentially reduces their operating cost associated with being there. So it's an incentive for employers to want to come here. As a result the net effect is, there are a lot of back room operations that are located here. Visa, Mastercard, auto companies have these, a lot of the medical insurance companies are located here. You do not find 5,000, 10,000, 15,000, 20,000 square foot office buildings here. So the 15% of the building that is vacant, Fireman's Fund has the right to lease that, but there's nobody else ever going to use it. You have got six years left on your lease with Fireman's Fund, your debt matures in September of this year. Our goal is to liquidate this property as quickly as possibly can. And we've already got this going out to -- we've got brokers ready to rock and roll as soon as we got authority to go forward with this under the contract. So we'll talk about that in closed session afterwards. But there are some construction issues associated with this property. And again I want you to recognize, I didn't do this, I'm just the reporter here so don't shoot the messenger on this one. You have construction issues associated with this. There's some issues with the parking lot. We have finally narrowed down what the problem is, and it's actually anywhere near as broad as we thought it was going to be. Essentially what we're going to have to do, the soil on this particular property is clay. If you have clay soil, it is really sort of -- this is a lake bed. This is an old former lake bed. It is right next to the Missouri river. The water used to come over here before they put the levees on the Missouri river. The net effect is it's very dense compressed clay. When it rains which it does a lot in St. Louis, the water goes down and if you don't put in appropriate French drains or dispersion mechanisms in the underlying ground beneath the surface of the parking lot, what happens is that the water hits this impenetrable service and basically stops and starts bubbling up. So the net effect is you have a parking lot when it rains a lot that you can see bubbling up. It is basjically what you call alligatoring the parking lot and creating cracks in it. We thought it was going to be a much bigger issue. The net effect, we brought in a consultant, the consultant issued a report, we're developing specs for the fix. The net effect is we're going to put in what are called French drains that are going to run along the side of the property and down the parking lot and I think the total extent of this property is going to be around $100,000. It's not a big deal. We're going back to the developer, to the original consultant, we've looked at the underlying specs that were used to develop the property. We believe that the soils engineer, the geotech engineer basically botched his analysis on this, and the developer is responsible as well as the contractor, and we're expecting them to pay for this under the claims that we'll be making for this. For $100,000 we're not going to sue, you could spent more than 100,000 in litigation cost but the anticipation is they're going to work with us. Having said that I want to make one more comment on this you are partners. Kennedy have a 5% interest and they have a trigger on a buy sell agreement that they triggered when we came on board. They want to be bought out or they want to sell. When we looked at the buy sell we realized what was going to happen was there was going to be this war under the underlying value of the property that they were going to say and with the underlying value that we were going to say. And we said why don't we work collectively together because Vegas is not a core asset, and let's sell the asset, let's get rid of it. This is not in the core market we want to be in, there is no diversity in this particular market, you can build buildings all day long up and down the main thoroughfare here that's adjacent to this particular property at the same cost that you bought this property for. There's no upside in rents in this particular market. There probably will never be any upsides in rent on this particular property. And our goal would be to liquidate this while we can right now before the debt matures in September, because certainly don't want to go into the market and have to refinance this debt. The benefit however is right now is your debt is relatively low, a floater off of LIBOR, and I think your total cost on this is about 2.5, 3% in terms of the debt cost so it's a pretty cheap rate that you're actually getting. Okay.

>> You mentioned 85% (inaudible) 94.

>> I'm sorry, 94%. And the presentation, I think there's -- I don't know, 15 -- put down here the four properties would be transferred into the fund. Again we're going to talk about that in a second and again on the next slide,

first street this property would stay outside of the fund for the moment. And as we talked about going back to the prior questions, to who was hired, the fund has hired ORG Real Estate, that's a consulting firm out of Cleveland to come in and be the fiduciary. They're basically going to go out and order independent appraisals and value the properties, and then we'll negotiate the underlying purchase amount. I will not go through the underlying economy and spend time on that because I'm sure you've heard this on prior board meetings but what I wanted to do we are mandated to give you a report. We've been trying to get to this meeting so we wanted to give you an update with respect to transition. Transition is complete, just a few more items that we have to deal with in terms of the transition, but nothing of significance at this moment in time. And then we just need to talk about the transition plans and I gather we'll do that in closed session, correct?

>> David Bacigalupi: Correct.

>> I'll open up to any questions from the board.

>> David Bacigalupi: Questions of the board.

>> When I looked at some of the background materials, some correspondence from Kennedy associates, I noticed something that I have seen a number of times before from real estate advisors, which when they're on their last legs in a relationship, there's a lot of carping with the problems we natured not our problem, et cetera. So I want to I guess engage you in a dialogue around the question of what is your vision of when we can fairly say, you're at the starting line in terms of the valuation of your long term performance, and there's -- there's no reason to ever look back on issues of what you inherited or anything of these things?

>> Well I think September 1 is the starting point that you would have to judge our performance.

>> You have inherited assets there.

>> Yes.

>> I don't know if it's fair to say -- I don't know if it is fair.

>> My only comment is we're going to stand behind what our work is in terms of whatever we do. The unfortunate issue is we were dealt a deck of cards that we have to deal with. There are certain inherent issues that is associated with the properties. Those inherent issues are pretty clear in terms of what we would recommend doing. It's designed to do two things, one is to minimize the exposure to the fund to these downside risks that may exist out there. For instance, the Calais office building up in Anchorage, Alaska. We're going to be judged on our ability to be able to operate that effectively and to lease it and, again, to ultimately dispose of that to the extent we can't lease it, and working with a joint venture partner with a joint venture agreement which is a pretty tight agreement in terms of what our authority is and what their authority is. But I'm not going to push back and suggest to you that there's no way to judge our performance. I think you're going to have to judge our performance in terms of how we're going to communicate, how we're going to operate and the net result is going to be pretty evident pretty quickly.

>> Well, at a minimum, wouldn't you say that once you've disposed everything you're proposing to propose, that you were dealt a deck of cards, is that your opportunity to get back cards you didn't want and would get dealt in again?

>> That's correct because when you're investing there because the net proceeds of the sales would be invested in the fund you're going to be able to determine whether you like our performance on the basis of that in the fund itself.

>> At a minimum going forward from there we would never hear anything about the deck you were originally dealt?

>> Correct. That's correct. That's -- that's interesting. That's an interesting comment. I think that the primary issue right now is to work through the underlying issues and to clear up as much as we possibly can. If we sell the four

assets that will resolve that. The remaining assets we're transferring into the fund, then you will not even -- you'll not hear anything about those because you're going to be part of a large commingled fund with AD assets.

>> (inaudible).

>> Can you tell us a little bit just about the structure of your contract overall, in terms of the economics?

>> Our economics?

>> Yes. How do you get paid?

>> We get paid in the asset management fee. That asset management fee is based upon the value as of June 30th, last year. And it would be based upon the appraisals of the underlying property, when the next appraisals occur. And that asset management I believe is 75 basis points.

>> How else do you get paid?

>> That's it.

>> You don't get any disposition --

>> Well -- I'm sorry, yeah. We get a disposition fee to the extent we don't take the money and put it into the fund. What we negotiated up front is an incentive to the board, is that to the extent that the money goes into the fund, that there would be no disposition fee associated with that. And what we did is we negotiated a fee break for the fund if they went into the fund. For the pension fund if they invested into the fund.

>> And if you bought an asset outside of the fund do you get a fee?

>> We did not structure it that way at all because the goal was, is to liquidate the separate account and to transfer into the fund. So the separate account theoretically is supposed to be disappearing and not retaining the separate account. Primarily because as you know there's diversification issues associated with the account.

>> What are the terms generally speaking of the commingled fund?

>> The standard commingled fund it is a -- you get to redeem your money any time on a quarterly basis, like most open ended funds do. There is an asset management fee, no disposition fee, no incentive fee and that's the (inaudible) are one fee. In connection with that, I mean, I believe -- I forgot what we negotiated with the board but it's a relatively low fee for going into the open end fund.

>> That fund has a -- you negotiate that fee on a case-by-case basis, that is not a standard --

>> In this particular case we don't typically negotiate fees in connection with clients going into -- we have over two -- 180 clients invested in the open end fund. We typically don't negotiate fees for that but in this particular case because of the transition we agreed to structure something.

>> Thank you.

>> I have some questions for you. It looks like your focus is on predictable income.

>> Yes.

>> Versus appreciation.

>> Well in a core portfolio 75% of your, typical, core portfolio 75% of your total returns should be coming from income and the remaining from appreciation.

>> Okay. And when I look at the information on your current fund, the commingled fund you talk about the geographic diversification, the types of properties but I have no idea how many properties we're dealing with here.

>> In the open end fund?

>> Uh-huh.

>> I think today at this moment in time we have 58, 59 properties located throughout the country.

>> Okay.

>> And we can get you more detail on that. I don't think we're quite at that point yet but I can get you as much detail as you could want.

>> When you talk about quarterly liquidity, is that 100% liquidity, or is there any limitations on that?

>> Theoretically there is no limitation in any open ended fund. But there's practical limitations as they existed in 2008 and 2009 when we were at the bottom of the market. For those of you who are familiar with open ended funds. When the market was illiquid in 2008, it was virtually impossible to sell anything at that point in time, and I think most counsel would probably suggest the goal of selling assets to meet liquidity redemptions in a stressed marketplace would probably have been a breach of fiduciary duty for those who did not want to sell and it was a real balancing act. As a practical matter we proposed we put the gate down, we had I think $150 million of total redemption requests. All of those redemption requests were really requested as a result of rebalancing for no other reason. The consultants who we talked to with every one of those clients essentially told us don't give us our money back. We're doing this for rebalancing purposes. To the extent that the market continues to be in a very bad mode, then we want our money back. But to the extent that it doesn't and we think this is really a blip, it's going to go back up. We don't want to have to go back into the tiered to reinvest in the marketplace. So we did not

have any clients who left our firm. I think we redeemed out at the end of the day, we redeemed out about 100 million dollars of total cash and that cash has come back in and I think 85% of the clients withdrew their redemonstration request when the markets started to review more grounding on it. But to answer your question very directly, the net effect is if you ever go back to a period of 2008, the chances are every open end fund in the country shut down and didn't allow anybody to redeem.

>> Who have you retained as the auditor for your firm?

>> We have Price, Waterhouse, Coopers. PWC as our auditors. And finally our valuation, let me just point out to you also, as as well, this is not a commingled presentation, but we can go into it. All of our valuations are being done and overseen by third party. It was a group that used to be with PWC, which was the -- that they now spun out and they're called Althis. Althis does I think pretty much most of the open ended funds. They're the audit -- the appraisal managers. They review the appraisals and valuate the appraisals, they look at the benchmarks in the industry, they compare us to the peer group, and they verify that our numbers are appropriate. So that's one of the ways making sure that an open end fund retaining the integrity of the underlying process and again going back to the issue, the valuations are more of an art than a science.

>> Some of the other questions I have may be a little bit more challenging to address without going into specific properties but from a timing perspective, can you address the advantage and disadvantage of making this change now versus us delaying the liquidation and sale of these four properties?

>> These -- oh on these properties, okay. First of all you've got significant issues, when you go to market to sell a property, you want to make sure that the property is fundamentally leased. Let's just take each individual asset for the moment here. The multifamily property up in Colorado Springs, it's going to command a very handsome price, principally because there's a great deal of demand for multifamily, primarily driven by the fact that the (inaudible) sheet databanks are buy multifamily values. So you have the GSEs, Fannie and Freddie, which have stayed down, and you have banks which are actually being more aggressive than Fannie and Freddie in terms of pricing. You can borrow money today from either the banks or Fannie and Freddie at about a 5% rate. We've

actually gotten quotes on our multifamily portfolio below 5. We think this is a very appropriate period of time to liquidate the multifamily property, and we think based upon broker opinions of value, we'll get a very high value for this property. O'Fallon, Missouri, the value of your property is diminishing every day. And reason it's diminishing every day is because your lease, which is 100% leased to one tenant, is by net. If that tenant leaves, you have no tenant. You have to wait, we're going to have to release that property and that's going to take you -- it may take you a year, it may take you two years, it may take you three years to re-lease that property. You're not going to multi-tenant this property, it just won't work. There's no tenant out there for that particular property. So the closer it gets to lease extension -- to lease term the greater the likelihood is that the value is going to decline, unless we can negotiate with Fireman's Fund to remove the lease. Fireman's Fund has been very blunt and very clear with me, they like the market, but they're not going to renew the lease at this particular point in time. They don't see any reason to. Even the driver's seat man, he's a very smart guy, I know him. He sees no value in exercising that option today. The next asset, Calais in Anchorage, Alaska, 100% occupied today. We would rather take advantage of the fact that this is a marketplace which is probably going to appeal to a private investor and we think that given the fact that there's some of those leases are now starting to expire, and there's more exposure with Chevron, that this would be an appropriate time to sell, rather than hold it. Because the risk is getting higher as that occurs. The other asset, which is your single-tenant industrial building up in Minnesota, again there is demand for that. The private investors would like to buy that, if we can maintain the lease. The last thing we want to do, and again we may be a little late because if we don't renew the lease, then we are going to have to have an empty building, and we're going to have to hold that until we can release the tenant and then sell it at that level. It's not part of a core strategy that you would necessarily want to have in your portfolio, in my view. I hope I'm answering your question.

>> Stan or --

>> Go ahead.

>> On the four properties that you're looking to sell, on the separate printouts it does have the disposition fee in there. Is that -- does that go away, are reimbursed to the fund if that money goes back into the commingled fund? In there is a note right there. Yes.

>> Correct, second, do you have any side letters on your commingled fund in terms of negotiating fees?

>> We have the most favored nation clause, that basically ranks, that there's a most favored nation based on the size of investor.

>> My understanding is the fund's about $1.6 billion, and we would be putting in $160 million roughly in or 150?

>> Right.

>> So almost 10%.

>> That's correct.

>> What does the queue look like for investors that are looking to exit?

>> We have no queue to get out and we've been raising a fairly significant amount of money, there's a lot of money related to --

>> There is no queue looking to come out?

>> No, absolutely not.

>> As -- would we be the largest investor in the fund?

>> No. You're not the largest.

>> Second largest, third largest?

>> Actually you're the third largest.

>> Third largest. Are the fees paid comparable to the other two larger?

>> Yes, they are.

>> David Bacigalupi: Any other questions by the board? Okay, we've basically covered both 4 and 5, 5 being the discussion regarding the plan's real estate portfolio transition, so at this time, unless there's any other questions that come up, we'll go into item number 6. [Closed session] Negotiator pursuant to government section 54956.8, I don't know if I need to read, well yes, the negotiator is Stanley Iezman, American Realty Advisors, under negotiation, price and terms of payment, and letter of intent, likely value of each property exceeds $1 million, the properties are Calais Office Center 1, Calais Office Center 2, Camelback Pointed Apartments, Eagle U.S.A. on Dodd Road, and Progress Point. So I'm going to ask everybody not involved in this negotiation, I'm sorry, you have to leave the room, because we will be moving into closed session. Again, I apologize for everybody for not getting it posted correctly.

>> That's all right, I'll see you guys next week.

>> David Bacigalupi: Okay. [End of tape 1:02:24]