

Report on Investment Activity

Annual Performance - Pension Plan

Net Assets held in trust for pension benefits were \$59,570,528, at December 31, 2007, compared to \$56,385,417 at December 31, 2006. Year to date net investment return was 6.88% for the twelve months ending December 31, 2007 compared to 10.1% for the same period of 2006.

Quarterly net returns by fund manager were:

| | Net Time Weighted Return 2007 | | | |
|---------------------------------|----------------------------------|------------|-----------|-----------|
| | <u>Q1</u> | <u>Q2*</u> | <u>Q3</u> | <u>Q4</u> |
| Legg Mason (formerly CitiGroup) | 1.82% | | | |
| Brandes | 0.53% | | | |
| Lord Abbett | 0.09% | | | |
| PIMCO | 1.61% | | | |
| MDT Advisers | 0.58% | | | |
| NWQ International | 0.78% | | | |
| NFJ Value | 1.86% | | | |
| Clearbridge Multi-Cap | -0.38% | | | |
| Tocqueville** | -1.03% | ** | | |
| Lateef Capital Management | | | 2.45% | -1.44% |
| Sawgrass Capital Management | | | 5.88% | -0.65% |
| Galliard Core Fixed Income | | | 3.41% | 2.79% |
| Galliard TIPS | | | 3.72% | 4.96% |
| Moodys Aldrich | | | -2.27% | 2.23% |
| Snow Capital Management | | | -4.47% | -7.06% |
| iShares Large Cap Core | | | 3.38% | -2.72% |
| iShares International Equity | | | 2.05% | -2.02% |

* Second Quarter data not available due to transition from Smith Barney to Bank of New York

** Represents less than one full quarter of performance

Annualized returns are not available for individual funds due to the change in investment consultants which resulted in the current investment period of less than one year.

The Plan was invested 38.6% US Equities, 12.8% International Equities, 40.9% Fixed Income, and 7.7% cash equivalents at year end. No sector or stock overweighed the investment policy as of year end and the above allocations were within our current investment policy guidelines. In 2007 there were withdrawals of approximately \$700,000 from investments to meet Plan obligations.

The Plan's trailing three year net return is 6.63% and the trailing five year net return is 8.87%, compared to our goal of an overall 8.0% annual return.

For the first quarter of 2008 results show a net decrease of 4.01% with a portfolio balance of \$55,806,123 as of 3/31/2008.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

I. PURPOSE OF INVESTMENT POLICY STATEMENT

The Pension Board of Trustees maintains that an important determinant of future investment returns is the expression and periodic review of the Fund's investment objectives. To that end, the Trustees have adopted this statement of Investment Policy.

In fulfilling their fiduciary responsibility, the Trustees recognize that the retirement system is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Fund are long-term and that an investment policy should be made with a view toward performance and return over a number of years. The general investment objective, then, is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains or losses - commensurate with the Prudent Investor Rule and any other applicable statute.

Reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, the volatility of interest rates and securities markets make it necessary to judge results within the context of several years rather than over short periods of two years or less.

The Pension Board of Trustees will employ professional Investment Management firms to invest the assets of the fund. Within the parameters allowed in this IPS, the Investment Managers have full discretion, including security selection, sector weightings and investment style.

The Trustees, in performing their investment duties shall comply with the fiduciary standards set forth in Employee Retirement Income Security Act of 1974 (ERISA) at 29 U.S.C. s. 1104(a) (1) (A) – (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

II. TARGET ALLOCATIONS

In order to provide for a diversified portfolio, the Board has engaged several Investment Management firms, with target investment allocations as provided for on Schedule A, attached hereto. The manager's are solely responsible for the assets and allocation of their mandate only and shall abide by any subordinate investment policy assigned to the manager attached with each addendum. The Investment Consultant shall coordinate the overall asset allocation and affect rebalancing of the portfolio when necessary.

III. INVESTMENT PERFORMANCE OBJECTIVES

The following performance measures will be used as objective criteria for evaluating effectiveness of the investment managers.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

A. Total Fund Performance

1. The performance of the total Fund will be measured for rolling three and five year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance of this portfolio will be compared to the return of a portfolio comprised of 45% Russell 3000, 15% MSCI EAFE, 25% Lehman Brothers Intermediate Aggregate Bond Index, 5% Lehman Brothers Intermediate TIPS Index, 5% NCREIF, and 5% Lehman Brothers 90 day Treasury Bill Index.
2. On a relative basis, it is expected that the total fund performance will be in the top 40% of the appropriate peer universe over three to five-year periods.
3. On an absolute basis, it is expected that total return of the combined equity, fixed income, and cash portfolio, will equal or exceed the actuarial earnings assumption (8.0%), and equal or exceed the Consumer Price Index plus 3% over three to five year periods.

B. Equity Performance

The combined equity portion of the portfolio, defined as common stocks and convertible bonds, is expected to perform at a rate at least equal to the (85%) Russell 3000 Index, (15%) MSCI EAFE Index. Individual components of the equity portfolio will be compared as outlined in Schedule A.

All portfolios are expected to perform in the top 40% of an appropriate peer universe.

C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability, consistency and safety to the total fund. The fixed income portion of the portfolio, defined as fixed income is expected to perform at a rate at least equal to the Lehman Brothers Intermediate High Quality Aggregate Bond Index, and in the top 40% of the appropriate peer universe.

D. Treasury Inflation Protection Securities (TIPS)

The overall objective of the TIPS portfolio is to provide inflation protection while adding stability to the total fund. The TIPS portfolio is expected to approximate the structure and performance of the Lehman Brothers Intermediate TIPS Bond Index.

- E. Alternatives: The overall objective of the alternative portion of the portfolio is to provide an attractive level of income with minimal volatility to the fund. This portion of the fund is expected to provide an absolute rate of return, and as benchmarked in Schedule A attached hereto.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

IV. INVESTMENT GUIDELINES

A. Authorized Investments

1. Pursuant to Fla.Stat.Section 112, the Board may invest the assets of the plan in any lawful investment, real or personal, as provided in Fla.Stat. Section 215.47, except as otherwise limited by law or subject to specific restrictions of this Investment Policy Statement. The Fund may be invested and reinvested in such securities, investment vehicles or property wherever situated and of whatever kind, as shall be approved by the Board, including but not limited to common or preferred stocks, bonds, and other evidences of indebtedness or ownership. In no event, however, shall more than ten percent of the assets of the Fund be invested in foreign securities, unless Chapters 112, Florida Statutes, is amended to remove or change this mandatory restriction.
2. In addition, the Fund may make investments in group trusts meeting the requirements of Internal Revenue Service Revenue Ruling 81-100 or successor rulings or guidance of similar import, and while any portion of the assets of the Fund are invested in such a group trust, such group trust is itself adopted as a part of the System or plan.

B. Quality and Limitations

The securities shall meet the following quality criteria and limitation:

Fixed Income:

1. Sector

| | Minimum Weighting | Maximum Weighting |
|--|----------------------|----------------------|
| Sector Diversification | | |
| U.S. Treasury/Agency Securities (including cash) | 0% | 100% |
| Asset Backed | 0% | 35% |
| Mortgage-Related | 0% | 65% |
| Corporate | 0% | 65% |
| Municipals | 0% | 25% |

No more than 5% of the portfolio will be held in any one credit or issue rated AA- or higher, excluding securities of the U.S. Government and its agencies. No more than 2% of the portfolio will be held in any one credit or issue rated below AA-, excluding securities of the U.S. Government and its agencies. No more than 20% may be invested in direct obligations of any one privately owned government agency. No more than 15% may be invested in any single asset backed or non-government mortgage backed issuer.

2. Quality

All securities will be investment grade at time of purchase. The weighted average quality of the portfolio will be "AA" or better.

3. Maturity/Duration

The effective duration of the portfolio shall be kept within +/-15% of Lehman Intermediate Aggregate Index.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

4. Permissible Securities
- a. U. S. Treasury notes, bonds, bills/or other debts or loans guaranteed by the U.S. Treasury
 - b. U.S. Federal Agency Securities/or other debts or loans backed by U.S. Govt. Agencies
 - c. Asset-backed securities
 - d. Corporate notes, bonds, and debentures, bank credit or loan participation agreements including domestic and foreign issuers (Yankee bonds)
 - e. Mortgage-backed securities
 - f. Mortgage pass through securities
 - g. Municipal securities
 - h. Forward purchase agreements/dollar rolls
 - i. Swaps
 - j. U.S. Treasury futures and Euro-dollar futures agreement
 - k. Federal Funds
 - l. Repurchase Agreements
 - m. Money market instruments
 - n. Mutual funds
 - o. Private placements/144A (with reg. rights)
 - p. Fixed or Variable rate Preferreds/Hybrids
 - q. Other illiquid securities with exposure not to exceed 5% of the portfolio assets
 - r. Collective Funds investing in the above

Equities:

- 1. Traded on a national exchange.
- 2. Not more than 5% of the Fund's assets shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company.

Money Market:

- 1. Standard & Poors A1 or Moody's P1.

Foreign Securities:

Foreign securities shall be limited to equities meeting the following criteria:

- 1. be traded on a foreign exchange, which is recognized as the official exchange by the government where the foreign exchange is located, or on any of the major equivalent electronic exchanges.
- 2. be limited to fully and easily negotiable equity securities.
- 3. be invested primarily (no less than 75%) of countries considered developed as defined by the standards defined by a major index provider such as but not limited to the MSCI-EAFE Index.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

4. There are are no qualitative guidelines with regard to equity ratings, etc., except that prudent standards should be developed and maintained by the manager.
5. No more than 5% of the market value of the international portfolio shall be invested in any single issuer.
6. Country allocations shall include representation in a minimum of 15 countries.
7. Investment in countries not considered developed by a major index provider (such as MSCI EAFE Index), (excepting Canada) shall be limited to 25% of the market value of the manager's portfolio.
8. Notwithstanding B. Money Market-1, foreign equity managers may hold incidental cash in foreign currencies.

Allocation Limitations:

1. Investments in corporate common stock and convertible bonds shall not exceed 70% of the assets of the fund at market.
2. Allocations to foreign securities shall not exceed 20% at cost of the fund assets.

C. Trading Parameters

When feasible and appropriate, all securities shall be competitively bid. Except as otherwise required by law, the most economically advantageous bid shall be selected. Commissions paid for purchase of securities must meet the prevailing best-execution rates. The responsibility of monitoring best price and execution of trades placed by each manager on behalf of the Plan will be governed by the Portfolio Management Agreement between the Plan and the Investment Managers.

V. COMMUNICATIONS

- A. On a monthly basis, the custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets. On a quarterly basis, the managers shall provide a written report affirming compliance with the security restrictions of Section IV above and a summary of common stock diversification and attendant schedules.
- B. In addition, , the manager shall deliver each quarter a report detailing the Fund's performance, adherence to the investment policy, forecast of the market and economy, portfolio analysis and current assets of the Trust. Written reports shall be delivered to the Trustees within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the City, and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Trustees of any significant market related or non-market related event, specifically including, but not limited to, any deviation, but not limited to, any deviation from the standards set forth in Section IV above.
- C. The Investment Managers will disclose any securities that do not comply with section IV in each quarterly report.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

- D. If the Fund owns investments, that complied with section IV at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess shall result in rebalancing within 30 days; noncompliant investments shall be disposed of at the earliest economically feasible opportunity in accordance with the prudent man standard of care, but no additional investment may be made unless authorized by law or ordinance.
- E. The Trustees shall retain a monitoring service to evaluate and report on a quarterly basis the rate of return and relative performance of the Fund.
- F. The Trustees will meet quarterly to review the monitoring service's Performance Report. The Trustees will meet with the investment manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Fund on a periodic basis.
- G. At least annually, the Trustees shall provide the Investment Managers with projected disbursement needs of the plan, so that the investment portfolio can be structured in such manner as to provide sufficient liquidity to pay obligations as they come due. To this end, the Investment Managers should, to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash-flow requirements.

VI. COMPLIANCE

- A. It is the direction of the Trustees that the plan assets are held by a third party custodian, and that all securities purchased by, and all collateral obtained by, the plan shall be properly designated as plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the board of Trustees or their designee. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis to insure that the custodian will have the security or money in hand at conclusion of the transaction.
- B. At the direction of the Trustees, operations of the fund shall be reviewed by independent certified public accountants, as part of any financial audit periodically required. Compliance with the Trustees' internal controls shall be verified. These controls have been designed to prevent losses of funds that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the plan sponsor, to the extent possible.
- C. The Plan acknowledges the importance of continuing education for the Trustees. Education will be provided on an ongoing basis by the Plan's actuary, attorney, custodian, investment manager(s), consultant, and administrator. In addition, the Trustees are encouraged to attend educational conferences in connection with their duties and responsibilities as Trustees. All Trustees are authorized to attend two schools or conferences in the State of Florida each year. Attendance at seminars out of state is not prohibited, but requires prior approval by the Board. All service providers are expected to educate the Board of Trustees about duties, responsibilities and significant trends and developments in their area of expertise.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

- D. With each actuarial valuation, the Board of Trustees shall determine the total expected annual rate of return for the current year, for each of the next several years and for the long term thereafter. This determination shall be filed promptly with the Department of Management Services, the plan's sponsor and the consulting actuary.
- E. The proxy votes must be exercised for the exclusive benefit of the participants of the Fund. Each manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote.

VII. CRITERIA FOR INVESTMENT REVIEW

The Board wishes to adopt standards by which judgments of the ongoing performance of a portfolio manager may be made. If, at any time, any one of the following is breached, the portfolio manager will be warned of the Board's serious concern for the Fund's continued safety and performance.

- A. Four consecutive quarters of total Fund performance below the 50th percentile in manager performance rankings.
- B. Cumulative rolling performance below the target benchmark (rolling 3 and 5 years net of fees).
- C. Standard deviation for a fund component in excess of 125% of the assigned benchmark.
- D. Loss by the manager of any senior investment personnel.
- E. Any change in basic investment philosophy by the manager.
- F. Failure to attain 60% vote of confidence by the Board of Trustees
- G. Failure to observe the security quality restrictions of section IV.

Nothing in this section shall limit or diminish the Trustees' right to terminate the manager at any time for any reason.

VIII. FLORIDA STATUTES 112, 215.47 AND APPLICABLE CITY ORDINANCES

If, at any time, this document is found to be in conflict with Fla. Stat. 112, 215.47 or the applicable Resolutions, the Statutes and Ordinances shall prevail.

IX. REVIEW AND AMMENDMENTS

It is the Trustees intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the money manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Trustees should be notified in writing. By initial and continuing acceptance of this Investment Policy Statement, the Investment Managers concur with the provisions of this document.

Policy adopted May 8, 2007

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Policy Statement

Schedule A

| <u>ASSET CLASS</u> | <u>TARGET</u> | <u>RANGE</u> | <u>BENCHMARK INDEX</u> |
|-------------------------------|---------------|---------------|---------------------------|
| Broad Cap Value Equity | 18.0% | 15.0% - 25.0% | Russell 3000 Value |
| Broad Large Cap Growth Equity | 18.0% | 15.0% - 25.0% | Russell 1000 Growth |
| Large Cap Core | 9.0% | 5.0% - 15.0% | S & P 100 |
| International Equity | 15.0% | 10.0% - 20.0% | MSCI EAFE |
| Investment Grade Bonds | 25.0% | 15.0% - 35.0% | LB Intermediate Aggregate |
| TIPS | 5.0% | 0.0% - 7.0% | LB TIPS |
| Alternatives | 5.0% | 0.0% - 10.0% | TBD |

Investments in corporate common stock and convertible bonds shall not exceed 70% of the fund assets at market. The foreign equity allocation shall not exceed 20% at cost of the fund assets.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Schedule of Investment Results ⁽¹⁾

For the Year Ended December 31, 2007

| Manager/Fund | Q1 | Q2 ⁽²⁾ | Q3 | Q4 |
|--|-----------------------|--------------------------|---------------|---------------|
| Market Index | | | | |
| Total Portfolio (Net) | 0.94% | | 2.06% | 0.07% |
| 55%S&P500/35%LB GI/10% 90 Day TBill | 1.02% | | | |
| 45%Russell3000/30%LBIA/15%MSCI/5%LBTips/5% 3 MonthTBill | | | 2.14% | -0.58% |
| Large Cap Value | | | | |
| Lord Abbett | 0.09% | | N/A | N/A |
| NFJ - Dividend Value | 1.86% | | N/A | N/A |
| Tocqueville Asset Management L.P. | -1.03% ⁽³⁾ | | N/A | N/A |
| <i>Russell 1000 Value Index</i> | <i>1.25%</i> | | <i>N/A</i> | <i>N/A</i> |
| All Cap Value | | | | |
| Brandes | 0.53% | | N/A | N/A |
| Moodys Aldrich | N/A | | -2.27% | 2.23% |
| Snow Capital Management | N/A | | -4.47% | -7.06% |
| <i>Russell 3000 Value</i> | <i>1.27%</i> | | <i>-0.75%</i> | <i>-5.91%</i> |
| All Cap Core | | | | |
| MDT Advisers | 0.58% | | N/A | N/A |
| <i>Russell 3000 Equity Index</i> | <i>1.27%</i> | | <i>N/A</i> | <i>N/A</i> |
| Fixed Income Total Return | | | | |
| Pimco | 1.61% | | N/A | N/A |
| Galliard Core Fixed Income | N/A | | 3.41% | 2.79% |
| <i>Lehman Aggregate Bond Index</i> | <i>1.50%</i> | | <i>2.75%</i> | <i>2.89%</i> |
| Large Cap Growth Balanced | | | | |
| Legg Mason (formerly Citigroup Asset Mgmt) | 1.82% | | N/A | N/A |
| <i>60% Russell 1000 Growth / 40% LB Gov/Credit</i> | <i>1.33%</i> | | <i>N/A</i> | <i>N/A</i> |
| International Equities | | | | |
| NWQ Investment - International Value | 0.78% | | N/A | N/A |
| iShares International Equity | N/A | | 2.05% | -2.02% |
| <i>MSCI EAFE Index (Europe, Australia, Far East)</i> | <i>4.08%</i> | | <i>2.18%</i> | <i>-1.75%</i> |
| Multi-Cap Growth | | | | |
| ClearBridge Multi Cap | -0.38% | | N/A | N/A |
| <i>Russell 3000 Growth</i> | <i>1.29%</i> | | <i>N/A</i> | <i>N/A</i> |
| Large Cap Growth | | | | |
| Lateef Capital Mangement | N/A | | 2.45% | -1.44% |
| Sawgrass Capital Management | N/A | | 5.88% | -0.65% |
| <i>Russell 1000 Growth</i> | <i>N/A</i> | | <i>4.20%</i> | <i>-0.77%</i> |
| Large Cap Core | | | | |
| iShares Large Cap Core | N/A | | 3.38% | -2.72% |
| <i>S&P 100</i> | <i>N/A</i> | | <i>3.69%</i> | <i>-3.49%</i> |
| High Quality Bonds | | | | |
| Galliard TIPS | N/A | | 3.72% | 4.96% |
| <i>Lehman Brothers Tips 1-10</i> | <i>N/A</i> | | <i>1.30%</i> | <i>4.97%</i> |
| Note: | | | | |
| ⁽¹⁾ The calculations were prepared using the time-weighted rate of return net of fees management fees | | | | |
| ⁽²⁾ No data available for Q2 2007. During May and June 2007 funds were in transition to new Custodian/Investment Managers | | | | |
| ⁽³⁾ Represents less than one full quarter of performance | | | | |

**Retirement System for General Employees of the
Utility Board of the City of Key West**

**List of Largest Assets Held
As of December 31, 2007**

Largest Equity Holding (By Fair Value)

| | Shares | Stock | Market Value |
|-----|--------|------------------------------|--------------|
| 1) | 93,700 | iShares MSCI EAFE Index Fund | \$ 7,355,450 |
| 2) | 64,930 | iShares S&P 100 Index Fund | 4,467,184 |
| 3) | 12,100 | NASDAQ Stock Market Inc | 598,829 |
| 4) | 8,149 | Sherwin Williams | 472,968 |
| 5) | 96 | Berkshire Hathaway | 454,656 |
| 6) | 12,160 | Microsoft | 432,896 |
| 7) | 15,524 | Intel Corporation | 413,870 |
| 8) | 5,871 | Apollo Group | 411,851 |
| 9) | 6,467 | United Health Group Inc | 376,379 |
| 10) | 10,540 | Disney | 340,231 |

Largest Debt Holdings (By Fair Value)

| | Quantity | Bonds and Other Debt Securities | Market Value |
|-----|-----------|---|--------------|
| 1) | 3,917,809 | Federal Prime Obligations Fund #10 | \$ 3,917,809 |
| 2) | 1,111,883 | Federal National Mortgage Association 5.5% Mature 2/1/34 | 1,111,950 |
| 3) | 1,129,781 | Federal National Mortgage Association 5% Mature 3/1/34 | 1,104,022 |
| 4) | 942,509 | Federal National Mortgage Association 5% Mature 2/1/35 | 942,565 |
| 5) | 850,000 | US Treasury Note 4.5% Mature 5/15/10 | 878,356 |
| 6) | 625,000 | US Treasury Note 5.125% Mature 6/30/08 | 630,176 |
| 7) | 590,000 | US Treasury Note 4.75% Mature 5/31/12 | 622,680 |
| 8) | 571,411 | US Treasury Inflation Index Mature 4/15/12 | 592,214 |
| 9) | 554,038 | US Treasury Inflation Index 2% Mature 1/15/14 | 572,261 |
| 10) | 566,844 | US Treasury Inflation Index 0.875% Mature 4/15/10 | 564,940 |

A complete list of portfolio holdings is available upon request

**Retirement System for General Employees of the
Utility Board of the City of Key West**

**Schedule of Advisors and Fees
For the Year Ended December 31, 2007**

| <u>Investment Managers</u> | <u>Type</u> | <u>2007 Year End Account Value</u> | <u>2007 Investment Manager Fee</u> |
|---------------------------------|-------------------|--|--|
| Legg Mason (formerly Citigroup) | Large Cap Growth | \$ - | \$ 29,140 |
| PIMCO Total Return | Fixed Income | - | 14,205 |
| Brandes US Value Equity | All Cap Value | - | 13,820 |
| Lord Abbett Large Cap Value | Large Cap Value | - | 28,046 |
| MDT Advisers | All Cap Core | - | 17,166 |
| NWQ Investment International | International | - | 17,119 |
| NFJ Dividend Value | Large Cap Value | - | 498 |
| ClearBridge Multi Cap | Multi-Cap Growth | - | 11,885 |
| Tocqueville | All Cap Value | - | 34,960 |
| BONY | Cash | - | 236 |
| Lateef Capital Management | Large Cap Growth | 5,922,145 | 31,464 |
| Sawgrass Capital Management | Large Cap Growth | 4,427,935 | 15,797 |
| Galliard Core Fixed Income | Fixed Income | 22,025,791 | 30,228 |
| Galliard TIPS | High Quality Bond | 2,431,641 | 3,278 |
| Moodys Aldrich | Large Cap Value | 5,174,751 | 28,406 |
| Snow Capital Management | Large Cap Value | 4,510,561 | 20,713 |
| I Shares Large Cap Core | Large Cap Core | 5,266,824 | - |
| I Shares International Equity | International | 8,600,043 | - |
| Total | | <u>\$ 58,359,691</u> | <u>\$ 296,961</u> |

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Investment Summary

**Asset Allocation by Investment Type
For the Year Ended December 31, 2007**

| | Fair Value | % of Total Fair Value |
|----------------------------------|----------------------|-----------------------------|
| Fixed Income | | |
| International Index Fund | \$ 7,355,450 | 12.60% |
| Corporate Bonds | 7,480,976 | 12.82% |
| Government Bonds | 14,677,916 | 25.15% |
| State and Local Bonds | <u>1,874,500</u> | <u>3.21%</u> |
| Total Fixed Income | <u>31,388,842</u> | <u>53.8%</u> |
| Common Stock | <u>22,642,131</u> | <u>38.80%</u> |
| Cash and Cash Equivalents | <u>4,328,718</u> | <u>7.42%</u> |
| Total Investments | <u>\$ 58,359,691</u> | <u>100.00%</u> |

**Asset Allocation by Investment Manager
For the Year Ended December 31, 2007**

| | Fair Value | % of Total Fair Value |
|--------------------------------|----------------------|-----------------------------|
| Lateef Capital Management | \$ 5,922,145 | 10.15% |
| Sawgrass Capital Management | 4,427,935 | 7.59% |
| Galliard Core Fixed Income | 22,025,791 | 37.74% |
| Galliard TIPS | 2,431,641 | 4.17% |
| Moodys Aldrich | 5,174,751 | 8.87% |
| Snow Capital Management | 4,510,561 | 7.73% |
| iShares Large Cap Core | 5,266,824 | 9.02% |
| iShares M International Equity | <u>8,600,043</u> | <u>14.74%</u> |
| Total Investments | <u>\$ 58,359,691</u> | <u>100.00%</u> |

Retirement System for General Employees of the Utility Board of the City of Key West

Glossary

Actuarial Accrued Liability – The pension plan liability recognized to date, as determined by the actuarial method used.

Actuarial Valuation Report – A study performed annually by an actuary to examine whether the contributions made to a defined benefit plan are likely to be adequate, given the benefits offered, the mortality and other demographic factors of the participants, participant terminations and turnover, and pension plan investment performance.

Annualized Return – The average annual rate of return achieved by the account or index. This return should not be used for periods of less than one year.

Asset Allocation – The proportion (in percentage terms) of the total portfolio value allocated to each portfolio segment (equities, fixed income, and cash equivalents) as of period-end.

Beginning Portfolio Value – The total market value of the total portfolio as of the beginning of the period indicated. Calculated on a trade date basis and includes accruals.

Bonds – A debt-related investment security, representing a loan of money in return for an enforceable promise by the debtor to repay the principal amount of the loan and interest on the unpaid principal balance at a stated percentage rate on or before a stated date.

Consumer Price Index, U.S. – A measure of the average change in prices over time as determined by the movement in cost for a fixed basket of goods and services.

Defined Benefit Plan – Under a defined benefit plan, the eventual pension benefit is defined, or determinable, by formulas.

Ending Portfolio Value – The total market value of the total portfolio as of the end of the period indicated. Calculated on a trade date basis and includes accruals.

Equities – Investment securities that represent an ownership interest in the entity issuing the security, that are expected to produce income in the form of shared profits, typically in the form of dividends, and to produce appreciation in value, typically referred to as capital appreciation or capital gain.

Gross-of Fees Rate of Return – The rate of return before the fees charged to the account have been deducted. Calculated on a trade date basis and includes accruals

Inflation – Measures for all urban consumers the change in the prices of goods and services purchased by all urban consumers.

Investment Objective – The expressed measurable goal of the investor or investment manager. This may be broadly stated (“capital appreciation”) or narrowly defined (“exceeds the consumer price index by at least 3% annually”).

Retirement System for General Employees of the Utility Board of the City of Key West

Glossary

Investment Performance – The measurement of net gain or loss produced by an investment portfolio.

Investment Strategy – The plan of an investment portfolio for purchasing various types of investment securities, attempting to take advantage of the earnings potential of the various types of investment securities, to emphasize safety from risk through diversification, and to accommodate future liquidity and cash flow needs.

LB Aggregate Index – Composed of securities including government/corporate bonds, mortgage backed securities and asset backed securities. Total return comprises price appreciation/depreciation and income as a percentage of the original investment and are rebalanced monthly by market capitalization.

LB U.S. TIPS Index - Consists of all U.S. Treasury inflation protected securities rated investment grade or better, having at least one year to final maturity and at least \$250 million par amount outstanding.

Lehman Brothers Government/Corporate Intermediate Bond Index (LBGC) – A measure of both government and corporate issued bonds with maturities between one and 9.99 years.

Lipper Balanced Index - Index containing the top 30 funds whose primary objective is to conserve principal by maintaining at all times a balanced portfolio of both stocks and bonds. Typically, the stock/bond ratio ranges around 60%/40%.

MSCI EAFE (net) – Index (Europe, Australia, Far East) is a free float adjusted market capitalization index that is designed to measure developed market equity performance excluding the US & Canada.

Net-of Fees Rate of Return – The rate of return after the fees charged to the account have been deducted. Calculated on a trade date basis and includes accruals.

Realized Investment Income – The proceeds obtained from investment securities derived from interest paid on bonds, dividends paid on stocks and net realized gains or losses on the sale of investments.

Realized Gains or Losses – The positive or negative difference between the cost (purchase price) of an investment security and the sale price of that security.

Return – A measure of total investment performance resulting from both realized and unrealized gains and losses and the reinvestment of dividend and interest income.

Russell 1000 Growth Index – The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer of the large cap growth market.

Russell 1000 Value Index – The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer of the large cap value market.

Retirement System for General Employees of the Utility Board of the City of Key West

Glossary

Russell 3000 Equity Index – Measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

Russell 3000 Growth Index - Measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth or the Russell 2000 Growth index.

Russell 3000 Value Index – Measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The stocks in this index are also members of either the Russell 1000 Value or the Russell 2000 Value index.

S&P 100 Index - Measures the stock market performance of large U.S. companies. The 100 Index is a weighted index of 100 blue-chip stocks across diverse industry sectors.

S&P 500 Index – A measure of the market capitalization of 500 industrial, transportation and financial companies of the U.S. Markets; consists of mostly large companies.

Stocks – The equity or ownership interest in a corporation, issued by the corporation in the form of shares, and traded on an exchange or otherwise.

Time-Weighted Rate of Return – A measure of the investment performance of the investment manager, independent of the timing and magnitude of contributions to, or withdrawals from, the portfolio. This method allows the evaluation of the investment manager based solely on his/her performance since it eliminates the effect of factors that are not under the manager's control (that is, cash flow). This figure can be used to compare the account performance to comparative indices and other investment managers.

Unfunded Actuarial Accrued Liability – Any amount of pension plan accrued liability in excess of the current assets (the actuarial value of the assets) of the pension plan.

Unrealized Gain or Loss – The positive or negative difference between the cost (purchase price) of an investment security and the current fair market value of that security, which would be obtainable in the event of sale, but without actually selling the security.

Vested Benefit Security Ratio – A ratio which indicates the extent to which a defined benefit pension plan is able to cover the total actuarial present value of vested accrued benefits by the market value of assets, also called the vested benefits index.

Volatility – A measure of the degree that a security's or portfolio's value fluctuates from its historical average value.

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