

**CITY OF DAYTONA BEACH POLICE AND FIRE PENSION FUND
MINUTES OF MEETING HELD
FEBRUARY 1, 2010**

A meeting of the Board of Trustees was called to order at 8:31 A.M. in the Council Chambers located at Daytona Beach City Hall. Those persons present were:

TRUSTEES PRESENT

Mark Eisner
Jeff Rossi
Erin Masters
Terence Henry
Lyle McCormick

OTHERS PRESENT

Lee Dehner, Christiansen & Dehner P.A.
Nick Schiess, Pension Resource Center
Bill Cottle, Milliman USA, Inc.
Sally McCarroll, City of Daytona Beach
Dan Miller & Vito Tortella, Gabelli Asset Management
Randall Stanley & Jonathan Craven, Stanley, Holcombe & Associates
Clement Johns, Goldstein Schecter Koch

CALL TO ORDER

Chairman Jeff Rossi called the meeting to order at 8:32 A.M. Nick Schiess provided the roll call.

PUBLIC COMMENTS

Chairman Jeff Rossi invited those present to address the Board with public comments. Retiree Marvin Powers expressed gratitude on behalf of the retirees to the Trustees for their service.

TRUSTEE ELECTIONS AND APPOINTMENTS

Nick Schiess announced that an election had been conducted for the position of Fire Employee Trustee and that Jeff Rossi was re-elected by clear majority of the votes. He then announced that an election had also been conducted for the position of Police Employee Trustee and that Mark Eisner was re-elected by clear majority of the votes. Mr. Schiess then presented the election ballots for inspection. Mark Eisner made a motion to certify the election results. Erin Master sseconded the motion, approved by the Trustees 5-0.

Mr. Schiess announced that the term of office for the 5th Trustee had expired December 31, 2009. Lyle McCormick made a motion to appoint Terence Henry as 5th Trustee. Mark Eisner seconded the motion, approved by the Trustees 4-0.

It was noted that the that the Board officers must be appointed and Lyle McCormick made a motion to appoint Mark Eisner as Chairperson. Terence Henry seconded the motion, approved

by the Trustees 5-0. Lyle McCormick then made a motion to appoint Jeff Rossi as Secretary. Terence Henry seconded the motion, approved by the Trustees 5-0.

APPROVAL OF MINUTES

The Trustees reviewed the minutes for the meetings held on November 2, 2010 and December 9, 2009. Terence Henry made a motion to approve the minutes for the meetings held on November 2, 2010 and December 9, 2009. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

INVESTMENT MANAGER PRESENTATION – GABELLI ASSET MANAGEMENT

Dan Miller and Vito Tortella appeared before the Board on behalf of Gabelli Asset Management to deliver a report on investment performance of the portfolio for the quarter ending December 31, 2009. Mr. Tortella reported that the investment return for the 2009 calendar year was 34.9% versus 28.3% for the index. He attributed the significant outperformance of the portfolio to favorable stock selection.

Mr. Miller reviewed the holdings within the portfolio and discussed the best and worst performing equities. He reviewed the investment strategy in great detail, noting that the portfolio was all cap and the allocations would change based upon market conditions. Mr. Miller was questioned regarding the 10% allocation of the portfolio to health care given the pending policy changes proposed by the federal government. Mr. Miller reviewed all the sector allocations in detail and explained the basis for the current weightings, noting that the firm did not manage the portfolio similar to the sector allocations of the index.

AUDITOR'S REPORT – GOLDSTEIN SCHECTER KOCH

Clement Johns appeared before the Board on behalf of Goldstein Schechter Koch present the audited financial statements for the fiscal year ended September 30, 2009. Mr. Johns reported that a clean unqualified opinion letter was issued on the financial statements and then reviewed in great detail the financial statements and funding progress of the Plan. The Plan's assets as of September 30, 2009 were \$109,761,330, which was an increase of \$356,315 from the prior year's assets of \$109,405,015. Mark Eisner made a motion to accept the auditor's report. Lyle McCormick seconded the motion, approved by the Trustees 5-0. Nick Schiess presented a Management Representation Letter for execution, noting that the Letter had already been reviewed and approved by the Plan's Attorney. Mark Eisner made a motion to execute the Management Representation Letter. Erin Masters seconded the motion, approved by the Trustees 5-0.

ACTUARIAL VALUATION - STANLEY, HOLCOMBE AND ASSOCIATES

Randall Stanley and Jonathan Craven of Stanley, Holcombe and Associates presented the Actuarial Valuation for the fiscal year ending September 30, 2009. Mr. Stanley reported that for the 2010 fiscal year, the recommended City's funding requirement was 41.6% of payroll versus 38.8% for the prior year. He reported that the increase in funding was primarily attributable to investment losses during the 2008 fiscal year and less than expected turnover on non-vested

members. Mr. Stanley reviewed in great detail plan the individual components of the costing of the Plan and also actuarial experience versus the Plan assumptions. Mr. Stanley was questioned whether it would be prudent to lower the salary assumption since the actual salary increase experience at 3.5% was lower than the assumption of 5.5%. He responded that the salary increase experience was likely attributable only to the temporary economic downturn and since the assumption was long-term in nature he recommended that the assumption rate remain unchanged. He was questioned regarding the assumption of State Chapter 175 and Chapter 185 contributions and he responded that the assumption was the amount received in the prior year. Mr. Stanley noted that the base amount was \$726,134 and any additional contributions could be used for benefit improvements. Jeff Rossi reported that the excess reserve account for the firefighters was significant and the City had not approved the use of the reserve account or excess contributions to increase the firefighters' supplemental benefit as had been proposed by the Union.

Mr. Stanley discussed the asset smoothing method, which averages market earnings and losses over a period of five years and minimizes market volatility and produces more consistent funding requirements for the City. Mr. Stanley then reviewed the schedule of un-funded liabilities noting that the 69% funded ratio of the Plan had remained unchanged from the prior year.

Mark Eisner made a motion to adopt the 2009 Actuarial Valuation. Erin Masters seconded the motion, approved by the Trustees 5-0.

Mr. Dehner advised that the State required, upon adoption of the Valuation, that the Board determine the expected investment returns for the future. The Investment Consultant was questioned regarding the expected rate of investment returns. Mr. Cottle reviewed the asset allocation and advised that current assumption of an 7.5% investment return was attainable. A lengthy discussion ensued and Terence Henry made a motion to determine that the total expected annual rate of investment return for the Plan for the next year, next several years, and long-term thereafter, shall be 7.5%, net of investment related expenses. This determination is made in accordance with Section 112.661(9) Florida Statutes. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

Lyle McCormick departed the meeting.

INVESTMENT MONITOR REPORT

Bill Cottle appeared before the Board to review the investment performance of the portfolio for the quarter ending December 31, 2009. The total market value of the portfolio was \$122,902,916 as of December 31, 2009, which represents an increase in the amount of \$11,185,144 from the market value of \$111,717,772 as of September 30, 2009. The investment performance for the quarter was 4.8% versus the benchmark of 4.0%. Mr. Cottle reviewed the performance of the individual investment managers in great detail.

Mr. Cottle was questioned regarding potential improvements or changes to the portfolio. He advised that adding a Treasury Income Protected Securities allocation was already in progress. Mr. Cottle noted that the investment strategy for the international equity fund managed by Grantham Mayo Van Otterloo & Company was conservative and intentionally limited exposure

to emerging markets. He recommended increasing the international equity allocation to as high as 15% and consider exposure to emerging markets as well. A discussion arose regarding increasing the allocation of international equities. Lee Dehner reported that the Investment Policy Statement had been revised and the proposed changes were permissible.

Mr. Cottle provided the Board with a transactions cost report for the transactions of separate account investment managers Eaton Vance Management, Sawgrass Asset Management, Gabelli Asset Management and FAF Advisors for the quarter ending December 31, 2009 noting that the managers were trading efficiently.

ATTORNEY REPORT

Lee Dehner discussed the proposed federal legislation under consideration that would remove the requirement of deducting premiums from pension payments and if approved would dramatically simplify the claiming of the tax credit for health insurance provided for under the Pension Protection Act of 2006. He advised that the State now permitted deductions for insurance payable to any insurance company, however, not many Plans had implemented the benefit because of the administrative burden.

Mr. Dehner reported that the Agreement with the investment management firm selected by the Board at the last meeting, Blackrock Investments, had been reviewed and was acceptable.

Mr. Dehner reported that the Ordinance Amendment with miscellaneous technical changes and additional items available under the recently revised State Statutes approved by the Board at the last meeting still needed a minor revision and would be provided to the Administrator after completion.

ADMINISTRATIVE REPORT

The Trustees reviewed the list of disbursements. Terence Henry made a motion to approve the disbursements as presented. Jeff Rossi seconded the motion, approved by the Trustees 4-0.

The Trustees reviewed the list of benefit approvals. Terence Henry made a motion to approve the benefit approvals as presented. Jeff Rossi seconded the motion, approved by the Trustees 4-0.

OTHER BUSINESS

Nick Schiess provided the Trustees with an update on the periodic review of disability pensions, noting that several disability recipients had requested additional time to obtain statements from their physicians. He agreed to provide the Board with the completed review at the next meeting. A question arose whether in the event that a disability recipient had been determined as recovered from their disability whether they must be reemployed by the City. Lee Dehner advised that the recovered participant must be reemployed with the City before disability benefits are discontinued. A Trustee advised that they had received a report suggesting that perhaps disability recipient Anthony Annatone was not disabled. A lengthy discussion ensued

and Terence Henry made a motion to authorize that another independent medical exam be performed on Mr. Annatone. Jeff Rossi seconded the motion, approved by the Trustees 4-0

Nick Schiess provided the Board with a proposal for the administration of the tax credit for all retirees for health insurance provided for under the Pension Protection Act of 2006. He explained that the tax credit was applicable for any health insurance premiums deducted from monthly pension payments, which was relatively simple. He discussed the complexity and steps of implementing deductions of premiums payable to an infinite amount of different insurance companies, noting that the implementation required significant effort both initially and on an ongoing basis. A lengthy discussion ensued and the Board decided to postpone the implementation of deductions for all retirees until the status of the proposed federal legislation was resolved that would remove the requirement of deducting premiums from pension payments and thus simplifying the tax credit for health insurance.

SCHEDULE NEXT MEETING

There being no further business and the next meeting for next year scheduled for May 3, 2010, the meeting adjourned at 10:45 A.M. The next meeting will take place in the Council Chambers at Daytona Beach City Hall.

Respectfully submitted,

Jeff Rossi, Secretary