

**CITY OF DAYTONA BEACH POLICE AND FIRE PENSION FUND  
MINUTES OF MEETING HELD  
FEBRUARY 7, 2011**

A meeting of the Board of Trustees was called to order at 8:35 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.  
Gino Torretta, Gabelli Asset Management  
Wayne Harms, City of Daytona Beach  
Clement Johns, Goldstein Schecter Koch

**CALL TO ORDER**

Chairman Mark Eisner called the meeting to order at 8:35 A.M. Nick Schiess provided the roll call.

**PUBLIC COMMENTS**

Chairman Mark Eisner invited those present to address the Board with public comments. There was no public comment.

**APPROVAL OF MINUTES**

The Trustees reviewed the minutes for the meetings held on November 1, 2010 and January 4, 2011. Terence Henry made a motion to approve the minutes for the meetings held on November 1, 2010 and January 4, 2011. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

**INVESTMENT MANAGER PRESENTATION – GABELLI ASSET MANAGEMENT**

Gino Torretta 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, 2010. Mr. Torretta reported that the investment return for the 2010 calendar year was 23.9% versus 16.9% for the Russell 3000 index. He attributed the significant outperformance of the portfolio to favorable stock selection.

Mr. Torretta 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. Torretta reported that no significant organizational changes had occurred.

## **AUDITOR'S REPORT – GOLDSTEIN SCHECTER KOCH**

Clement Johns appeared before the Board on behalf of Goldstein Schechter Koch to present the audited financial statements for the fiscal year ended September 30, 2010. Mr. Johns reviewed in great detail the financial statements of the Plan and issued the Board with a clean unqualified opinion letter on the financial statements. He noted that no material weaknesses in the financial statements had been discovered and also that no deficiencies were identified with internal controls and procedures. Mr. Johns reported that the Plan's assets as of September 30, 2010 were \$122,212,406, which was an increase of \$12,451,076 from the prior year's assets of \$109,761,330 with the increase primarily attributable to considerable investment returns. Erin Masters made a motion to accept the auditor's report. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

Mr. Johns was questioned regarding the funded ratio of the Plan and whether the Plan was financially healthy. Mr. Johns advised that the Plan was financially healthy and the funded ratio was within average of his firm's many governmental pension plan clients within Florida. It was clarified that the Plan was not underfunded because State law requires that pension plans be adequately funded by plan sponsors. Lee Dehner explained that all defined benefit pension plans have un-funded liabilities. It was noted that a portion of the annual funding requirements is applied to reduce the un-funded liability, which should eventually disappear provided that all the plan assumptions are met and level of benefits remain unchanged.

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.

## **PROPOSALS FOR CUSTODIAL SERVICES**

### **STATE STREET CUSTODIAL SERVICES**

Tony Tibario and Eileen Hayes appeared before the Board on behalf of State Street Custodial Services to present a proposal for custodial services. Mr. Tibario discussed the firm's qualifications and experience. Ms. Hayes discussed the relationship with the Plan noting tenure of over 12 years as the incumbent custodian. Mr. Tibario discussed the firm's security measures. Ms. Hayes provided and reviewed a revised fee structure and anticipated that the annual fees should be approximately \$83,000 based upon the Plan's past activity.

Mr. Tibario was questioned why the dramatic reduction in fees was only proposed after proposals were requested from competitors. Mr. Tibario discussed the history of the custodial services market noting that only recently have measures by his firm to reduce operating costs had been realized thus permitting a reduction in fees. Mr. Tibario was requested to discuss pending legal actions against the firm.

### **BANK OF NEW YORK MELLON**

Sheila Papelbon, Mark Sullivan and Bill Salus appeared before the Board on behalf of Bank of New York Mellon to present a proposal for custodial services. Mr. Sullivan discussed the firm's qualifications and experience noting that the firm was one of the three largest custodians in the country. Ms. Papelbon provided and reviewed a proposed fee structure and anticipated that the annual fees should be approximately \$101,000 based upon the Plan's past activity. Mr. Salus discussed the firm's information technology systems and security measures.

### **NORTHERN TRUST COMPANY**

Janet Shultz and Brad Mayer appeared before the Board on behalf of the Northern Trust Company to present a proposal for custodial services. Ms. Shultz discussed the firm's qualifications and experience. Mr. Mayer introduced himself as the primary relationship manager. Ms. Shultz discussed the firm's information technology systems and security measures. She provided and reviewed a proposed fee structure and anticipated that the annual fees should be approximately \$80,000 based upon the Plan's past activity.

### **WELLS FARGO & COMPANY**

Donna Balaguer and Brian Crevoiserat appeared before the Board on behalf of Wells Fargo & Company to present a proposal for custodial services. Ms. Balaguer discussed the firm's qualifications, experience, information technology systems and security measures. She provided and reviewed a proposed fee structure and anticipated that the annual fees should be approximately \$60,000 based upon the Plan's past activity.

A very lengthy and careful discussion ensued regarding the proposals for custodial services. The Board decided to retain only a top tier custodian thus eliminating Wells Fargo & Company from consideration. Bill Cottle discussed an issue encountered with State Street Custodial Services and recommended replacement of the firm. The Trustees then compared the information technology systems, security measures and historical information on client retention of the candidates. It was noted that contractual issues might arise and therefore a contingent firm should also be selected. Jeff Rossi made a motion to engage the services of Bank of New York Mellon with the backup selection of the Northern Trust Company contingent upon the successful negotiation of an agreement by the Plan's attorney. Lyle McCormick seconded the motion, approved by the Trustees 5-0. It was noted that a considerable cost savings would be realized because formerly the cost of custodial services was over \$130,000 annually.

### **INVESTMENT CONSULTANT REPORT**

Bill Cottle reviewed the investment performance of the portfolio for the quarter ending December 30, 2010. The total market value of the portfolio was \$137,266,270 as of December 30, 2010, which represents an increase in the amount of \$14,142,739 from the market value of \$123,123,531 as of September 30, 2010. The investment performance for the quarter was 6.7% versus the benchmark of 6.4%.

Mr. Cottle reviewed the performance of the individual investment managers noting that all was satisfactory. He discussed organizational changes of the individual investment managers noting

that several of the top analysts were promoted of the portfolio management team of the Lazard Asset Management infrastructure product.

Mr. Cottle was questioned regarding the hedge fund product offered by Lazard Asset Management and a general discussion arose regarding hedge funds.

### **ATTORNEY REPORT**

As a legislative update, Lee Dehner reported that prospective federal legislation including that which would remove the requirement of deducting premiums from pension payments and dramatically simplify the claiming of the tax credit for health insurance provided for under the Pension Protection Act of 2006 was still in committee.

Mr. Dehner discussed proposed State legislation noting that it was unfavorable for governmental defined benefit pension plans.

Mr. Dehner reported that the initial period to conduct a disability hearing for Melanie Atkins and Vincent DelGuercio would expire prior to the anticipated hearing date and he recommended that the Board approve a ninety day extension. Jeff Rossi made a motion to grant a ninety day extension of the initial hearing period for Melanie Atkins and Vincent DelGuercio. Terence Henry seconded the motion, approved by the Trustees 5-0.

### **ADMINISTRATIVE REPORT**

The Trustees reviewed the list of disbursements. Terence Henry made a motion to approve the disbursements as presented. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

The Trustees reviewed the list of benefit approvals. Terence Henry made a motion to approve the benefit approvals as presented. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

Mr. Schiess reported a smooth transition of benefit payments from State Street Custodial Services to the Pension Resource Center effective January 1, 2011.

### **OTHER BUSINESS**

There was no other business.

### **SCHEDULE NEXT MEETINGS**

There being no further business, the next quarterly meeting was scheduled for May 2, 2011 and will take place in the Council Chambers at Daytona Beach City Hall.

The Board decided that a special meeting should be scheduled in March for pending disability hearings and presentation of the 2010 Actuarial Valuation.

The meeting adjourned at 11:54 P.M.

Respectfully submitted,

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Jeff Rossi, Secretary