

**CITY OF DAYTONA BEACH POLICE AND FIRE PENSION FUND
MINUTES OF MEETING HELD
MAY 3, 2010**

A meeting of the Board of Trustees was called to order at 8:34 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.
Chuck Bryant, Kennedy Capital Management
Lydia Cotrell & Tom Rosalanko, Grantham, Mayo & Otterloo

CALL TO ORDER

Chairman Mark Eisner called the meeting to order at 8:32 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 meeting held on February 1, 2010. Terence Henry made a motion to approve the minutes for the meeting held on February 1, 2010. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

INVESTMENT MANAGER REPORT: GRANTHAM, MAYO & OTTERLOO

Lydia Cotrell and portfolio manager Tom Rosalanko appeared before the Board on behalf of Grantham, Mayo & Otterloo to provide a report on the international equity portfolio for the quarter ending March 31, 2010. Ms. Cotrell updated the Board on organizational changes, including the replacement of Jerry Grantham by Arjun Divecha as Chairman of the Board of Directors.

Mr. Rosalanko reported that the investment return for the quarter was 1.86% versus the index of 8.7%, and for the one-year trailing period was 46.23% versus 54.44% for the index. He discussed in great detail the investment strategy, noting that the portfolio was comprised of higher quality equities and still postured defensively after the market downturn that occurred in the year 2008.

Mr. Rosalanko then discussed economic and market factors and explained that the underperformance of the portfolio was attributable to the market favor towards low quality equities while the portfolio's bias was towards higher quality equities. He reviewed the portfolio in great detail including the best and worst performing equities. Mr. Rosalanko was questioned regarding whether the portfolio contained holdings within Greece given the publicity regarding their financial crisis, and he responded that the portfolio contained holdings within Greece, however, the allocation was insignificant. It was noted that the portfolio had underperformed for the past three years and Mr. Rosalanko was questioned regarding an anticipated turnaround in performance. He responded that the investment strategy has resulted in outperformance over the long-term and he anticipated that this outperformance would return once the irrationality in the market dissipates and the market returns to normal fundamentals. Mr. Rosalanko was questioned whether the investment strategy has been adjusted after the market downturn and underperformance during the year 2008 and he responded that the investment processes remains unchanged, however, slight adjustments in allocations occurred to capitalize on monetary drives within the market.

Ms. Cotrell advised that the fund was a core product that does not contain exposure to emerging markets. She proposed an alternate fund, the International All Country Equity Allocation Strategy product, and explained that this fund contained a blend of various funds managed by the firm, which included an allocation to emerging markets that was currently 22%. Ms. Cotrell reported that the performance of the proposed fund was more volatile than the core product, however, the returns were greater over the long-term. She was questioned regarding a preference for either product and she recommended the proposed product because of the allocation to emerging markets.

Lee Dehner discussed the new divestiture requirements of international investment holdings that the Florida State Board of Administration determined as scrutinized companies under Florida Statutes. It was noted that the Plan's exposure to international holdings was within a commingled fund. Therefore a request must be submitted to Grantham, Mayo & Otterloo to either remove such holdings from the fund or create a similar fund without those holdings, however, if the firm declined either option, the Plan was still not required to divest of the mutual fund.

INVESTMENT MANAGER PRESENTATION – KENNEDY CAPITAL MANAGEMENT

Chuck Bryant appeared before the Board on behalf of Kennedy Capital Management to deliver a report on investment performance for the quarter ending March 31, 2010. He reviewed the organization noting that no organizational changes of significance had occurred. Mr. Bryant then reviewed the investment process and holdings of the portfolio in great detail. He reported that the investment return for the quarter was -9.1% versus -8.9% for the index and since inception was 7.6% versus 5.3% for the index. Mr. Bryant was questioned whether the firm offered a micro cap product, and he responded that a micro cap product was available and he then discussed the product noting that it had been in existence for five years and was over \$40M in size.

INVESTMENT MONITOR REPORT

Bill Cottle appeared before the Board to review the investment performance of the portfolio for the quarter ending March 31, 2010. The total market value of the portfolio was \$125,546,060 as

of March 31, 2010, which represents an increase in the amount of \$2,643,144 from the market value of \$122,902,916 as of December 31, 2009. The investment performance for the quarter was 4.5% versus the benchmark of 3.8%. Mr. Cottle reviewed the performance of the individual investment managers in great detail, noting that the returns on all the products have exceeded their respective benchmarks except Eaton Vance Management. He reported that the Treasury Inflation Protected Securities product with Blackrock had been funded.

A lengthy discussion arose regarding increasing the allocation to international equities. Mr. Cottle noted that the target allocation was already established at 15% of the total portfolio and the current allocation was 5.1%. He recommended increasing the allocation. Mr. Cottle discussed the financial instability in Greece and recommended increasing the allocation slowly and only after the settling of financial markets in Europe. A lengthy discussion then arose regarding adding exposure to emerging markets. Mr. Cottle recommended expanding the international allocation to include emerging markets. A discussion ensued regarding the product proposed by Grantham, Mayo & Otterloo. Mr. Cottle advised that the firm's reputation was excellent for international equity management and managing allocations so therefore the firm was an excellent choice for the mandate. Terence Henry made a motion to transfer the international equity allocation to the International All Country Equity Allocation Strategy product offered by Grantham, Mayo & Otterloo. Erin Masters seconded the motion, approved by the Trustees 5-0.

A discussion arose regarding the addition of a micro cap equity product and Mr. Cottle recommended that additional research be conducted into this potential asset allocation.

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 March 31, 2010 noting that the managers were trading efficiently.

ATTORNEY REPORT

As a legislative update, Lee Dehner reported that the State legislative session adjourned without adopting any pension related changes. He reported that the proposed federal legislation that would remove the requirement of deducting premiums from pension payments and would dramatically simplify the claiming of the tax credit for health insurance provided for under the Pension Protection Act of 2006 has moved to committee for further consideration.

Mr. Dehner reminded the Trustees to file their annual Statement of Financial Interests with the State.

As a follow up to the last meeting, Mr. Dehner reported that an independent medical exam had been scheduled for disability recipient Anthony Annatone.

Mr. Dehner requested the Board's favorable consideration of a fee increase for legal services from \$290 an hour to \$325 an hour with an annual 4% cost-of-living adjustment. He explained that the costs of providing the services has risen and the Plan realizes economies of scale because his firm specialized in governmental pension plans. It was noted that the services and fees of all service providers can be reviewed annually or even more frequently if necessary. The Board

noted considerable satisfaction with the legal services provided by Mr. Dehner and Jeff Rossi made a motion to approve the fee increase as presented. Terence Henry seconded the motion, approved by the Trustees 5-0.

ADMINISTRATIVE REPORT

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

OTHER BUSINESS

Nick Schiess provided the Trustees with an update on the periodic review of disability pensions, noting that several disability recipients had not responded to requests with statements from their physicians regarding their disability. He requested permission to send a final notice with the notice to reference the possible suspension of benefits for non-compliance, and the Board agreed. He agreed to provide the Board with the completed review at the next meeting.

The Board reviewed a request from retiree Richard Shiver for benefits in addition to his monthly pension benefit for medical treatments for a condition that he claimed developed while in service. Lee Dehner advised that because the request was for unusual benefits, Mr. Shiver should present his request personally at the next meeting, and the Board agreed.

SCHEDULE NEXT MEETING

There being no further business and the next meeting scheduled for August 2, 2010, the meeting adjourned at 10:35 A.M. The next meeting will take place in the Council Chambers at Daytona Beach City Hall.

Respectfully submitted,

Jeff Rossi, Secretary