

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

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.  
Jim McInerney & Matthew Beaudry, Eaton Vance Management  
Chris Greco & Martin LaPrade, Sawgrass Asset Management  
Sally McCarroll, City of Daytona Beach

**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 August 2, 2010 and October 4, 2010. Terence Henry made a motion to approve the minutes for the meetings held on August 2, 2010 and October 4, 2010. Lyle McCormick seconded the motion, approved by the Trustees 5-0.

**INVESTMENT MANAGER REPORT: SAWGRASS ASSET MANAGEMENT**

Chris Greco and portfolio manager Martin LaPrade appeared before the Board on behalf of Sawgrass Asset Management to deliver a report on investment performance of the large cap growth portfolio for the quarter ending September 30, 2010. Mr. Greco reviewed the qualifications and experience of the firm noting that no organizational changes had occurred. He reported that the investment performance for the trailing one-year period was 10.8% versus 12.7% for the index and since inception was 17.6% versus 22.8% for the index. Mr. LaPrade discussed the investment process noting that the market had recently favored the types of holdings that the firm generally excluded from the portfolio. He noted that the same had occurred over previous market cycles and anticipated that the portfolio would soon attain outperformance over the index. The Board questioned the lag in performance versus the index for the prior two

years. Mr. Laprade discussed the phases that occur within a market cycle and explained that the investment style usually resulted in underperformance immediately after a market recovery but excels after the recovery has progressed. He reviewed the long-term performance of the investment style over multiple market cycles noting that the process does result in outperformance over a complete cycle.

### **INVESTMENT MANAGER REPORT: EATON VANCE MANAGEMENT**

Jim McInerney and portfolio manager Matthew Beaudry appeared before the Board on behalf of Eaton Vance Management to provide a report on the large cap value equity portfolio for the quarter ending September 30, 2010. Mr. McInerney discussed the organization noting that turnover had not occurred within the management of the firm or portfolio management team. Mr. Beaudry discussed the investment process in detail noting that the portfolio contained higher quality equities and had provided dramatic outperformance in market downturns. He reported that the performance for the quarter was 9.27% versus 10.13% for the index and for the trailing one-year period was .26% versus 4.49% for the index with the underperformance attributable to the market favoring lower quality equities. Mr. Beaudry reviewed the long-term performance of the investment process noting outperformance of the index over a complete market cycle.

He was questioned whether the investment process remained unchanged or how had it evolved in response to the recent market downturn. Mr. Beaudry confirmed that the investment process remained unchanged and analysis of the recent market downturn served to had confirm that the investment process must utilize a long-term investment approach versus a short-term trading approach.

### **INVESTMENT MONITOR REPORT**

Bill Cottle appeared before the Board to review the investment performance of the portfolio for the quarter ending September 30, 2010. The total market value of the portfolio was \$123,123,531 as of June 30, 2010, which represents an increase in the amount of \$7,233,907 from the market value of \$115,889,624 as of June 30, 2010. The investment performance for the quarter was 8.3% versus the benchmark of 9.2%. It was noted that the portfolio had outperformed the benchmark for all years prior to this past year.

Mr. Cottle reviewed the performance of the individual investment managers. He then discussed economic and market conditions. Mr. Cottle advised that the performance of fixed income securities was anticipated to be unfavorable and in response recommended a reallocation in the amount of \$2.5M from the Dodge & Cox fixed income fund to the Lazard Asset Management infrastructure fund. After discussion, Lyle McCormick made a motion to transfer the amount of amount of \$2.5M from the Dodge & Cox fixed income fund to the Lazard Asset Management infrastructure fund. Erin Masters seconded the motion, approved by the Trustees 5-0.

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 September 30, 2010, noting that while the trading costs were acceptable although slightly elevated.

Mr. Cottle provided a comparative analysis of the proposals received for custodial services. The Board also considered a proposal from the Pension Resource Center for conducting benefit

payments to retirees for a fee of \$600 monthly. The firm's qualifications and experience were discussed and it was noted that by separating out the benefit payment services, custodial firms that did not provide benefit payment services could also be considered for custodial services. A discussion arose regarding the amount of the firm's insurance and it was noted that the expected transactions were approximately \$750K monthly for recurring benefit payments and the business expenses of the Plan, which were far below the \$2M in insurance coverage. After further discussion, Terence Henry made a motion to engage the Pension Resource Center for benefit payment services for a fee of \$600 monthly. Erin Masters seconded the motion, approved by the Trustees 5-0. A discussion arose regarding procedures for the transfer of cash to the checking account for benefit payments and Plan expenses and the Administrator was directed to attain co-authorization from the Chairperson for any transfers in excess of \$2M. The Board selected BNY Asset Management, Northern Trust Corporation and another custodian to be selected by Mr. Cottle along with the incumbent custodian State Street Custodial Services as finalists. Mr. Cottle was directed to schedule presentations to the Board at the next quarterly meeting.

### **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 filing for a favorable Tax Determination Letter from the Internal Revenue Service noting that the agency had expressed renewed interest in governmental pension plans. He explained that the filing was not required, however, would be beneficial in the event that the IRS reviewed the Plan. Jeff Rossi made a motion to not file for a favorable Tax Determination Letter as it was not required and an additional expenditure. Erin Masters seconded the motion, approved by the Trustees 5-0.

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

Mr. Dehner reviewed a minor necessary revision of the proposed Ordinance restatement already approved by the Board at a previous meeting. Terence Henry made a motion to amend the proposed Ordinance restatement accordingly. Erin Masters seconded the motion, approved by the Trustees 5-0.

### **ADMINISTRATIVE REPORT**

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

Mr. Schiess reported the death of active member Michael Miller. Lee Dehner explained that his death would be investigated similar to an application for disability benefits to determine whether service-related death benefits were payable. Mr. Schiess advised that the review process could take as long as six months and questioned whether an estimated benefit could be made available to Mr. Miller's beneficiary upon request. Jeff Rossi made a motion to provide an estimated benefit upon request based of the minimum death benefits payable by the Plan. Erin Master seconded the motion, approved by the Trustees 5-0.

### **OTHER BUSINESS**

Nick Schiess presented a draft of a notification for a response to the City that the Board declined to offer any recommendations on splitting the Plan and the matter of potentially splitting the Plan is between the City and the Unions representing the membership. The Board directed Mr. Schiess to send the notification to the City.

A question arose regarding devising a contingency plan for the temporary conversion of the Plan's investment assets to cash in the event of a financial urgency such as a severe market decline. Bill Cottle advised that such a plan was uncommon and it was noted that an issue would arise regarding timing retry into the market. After further discussion, it was determined that a contingency plan was unwarranted.

Nick Schiess reported that the State had approved the Annual Report for the police officers but not the firefighters and would not release the Chapter 175 distribution to the Plan until the proposed Ordinance restatement containing the increase in the supplemental firefighter benefits had been adopted by the City. Furthermore, because the Annual Report was not approved before September 30, 2010, the City will not be permitted to use the funds to offset funding for the 2011 fiscal year but instead the funds must now be applied towards the 2012 fiscal year. He also reported the Chapter 185 distribution was \$69K less than the adjusted gross base amount, which also results in a shortage that must also be remitted by the City. Mr. Schiess reported that the City had been notified of the resulting additional City contribution requirements and he was advised that the proposed Ordinance restatement was expected to be presented to City Council as soon as possible.

### **SCHEDULE NEXT MEETINGS**

There being no further business, the meetings for next year were scheduled for February 7, 2011, May 2, 2011, August 1, 2011 and November 7, 2011 and will take place in the Council Chambers at Daytona Beach City Hall.

The meeting adjourned at 10:55 P.M.

Respectfully submitted,

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Jeff Rossi, Secretary