

**CITY OF DAYTONA BEACH POLICE AND FIRE PENSION FUND
MINUTES OF MEETING HELD
FEBRUARY 4, 2013**

A quarterly meeting of the Board of Trustees was called to order at 8:33 A.M. in the Council Chambers located at Daytona Beach City Hall. Those persons present were:

TRUSTEES PRESENT

Mark Eisner
Don Ruitter
Terence Henry
Lyle McCormick
Erin Masters

OTHERS PRESENT

Nick Schiess, Pension Resource Center
Bill Cottle, Milliman USA
Lee Dehner, Christiansen & Dehner
Clement Johns, Goldstein Schechter Koch
Randall Stanley & David Harris, Nyhart Actuaries
Chuck Bryant, Kennedy Capital Management
Chris Greco, Greg Gosch & Martin LaPrade, Sawgrass Asset Management
James Sexton, City of Daytona Beach

CALL TO ORDER

Chairman Mark Eisner called the meeting to order at 8:31 A.M. Nick Schiess provided the roll call.

PUBLIC COMMENTS

Chairman Mark Eisner invited those present to address the Board with public comments. Retiree Sheldon Schultz appeared before the Board to question the level of survivorship benefits from his pension. Nick Schiess explained that the standard form of payment and survivorship benefits had changed multiple times throughout the years. He further explained that extensive research had been conducted many years ago between the offices of the actuary, attorney and administrator to classify the various groups of retirees for the purposes of paying survivorship benefits and for which the determining factor was generally the retiree's date of hire. Mr. Schiess advised that based upon this prior research and Mr. Shultz's date of hire that his spouse was entitled to a 50% lifetime survivorship benefit. Mr. Shultz disagreed and claimed that he belonged within a different classification of retirees whose standard form of payment provided a 66% survivorship benefit. Mr. Schiess suggested that the research be completed again for the benefit of Mr. Schulz and a discussion ensued. Terence Henry made a motion to authorize the review of survivorship benefits to determine the form of payment due to Sheldon Shultz. Don Ruitter seconded the motion, approved by the Board 5-0.

APPROVAL OF MINUTES

The Trustees reviewed the minutes for the meetings held on November 5, 2012 and January 14, 2013. Terence Henry made a motion to approve the minutes for the meetings held on November 5, 2012 and January 14, 2013. Don Ruitter seconded the motion, approved by the Trustees 5-0.

AUDITOR'S REPORT

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, 2012. 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 reported 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, 2012 were \$143,325,932, which was an increase of \$21,956,560 from the prior year's assets of \$121,369,372, with the increase primarily attributable to investment returns. He advised that the funded ratio of 73% was among the highest of his firm's many governmental pension plan clients within Florida. Erin Masters made a motion to accept the auditor's report and financial statements for the 2012 fiscal year. Don Ruiter seconded the motion, approved by the Trustees 5-0. Erin Masters made a motion to execute the Audit Management Representation Letter. Don Ruiter seconded the motion, approved by the Trustees 5-0.

Terence Henry expressed discontent with being overwhelmed with a great amount of meeting information so near the meeting date. He made a motion to require that any information in excess of ten pages in length be distributed to the Board at least one week prior to meetings. A discussion arose regarding the potential downside of limiting the Board's ability to take action in the event that information is received after a deadline. Butch McCormick seconded the motion, not approved by the Trustees 2-3 with Erin Masters, Don Ruiter and Mark Eisner dissenting.

PRESENTATION ACTUARIAL VALUATION – NYHART ACTUARIES

Randall Stanley of Nyhart presented the Actuarial Valuation for the fiscal year ending September 30, 2012. Mr. Stanley reported that for the 2014 fiscal year, the City's funding requirement will be 45.1% of payroll, which is a decrease from 45.8% from the prior year. He reported that the funded ratio increased from 71.1% to 73.3%. A discussion arose regarding the funded ratio and Mr. Stanly advised that it was unnecessary to become fully funded and the funded ratio was above average and favorable given the economic environment. Mr. Stanley reviewed in great detail the actual experience of the Plan versus the actuarial assumptions, noting that the increase in funding ratio and decrease in funding requirements were attributable to exceptional investment returns for the fiscal year.

David Harris discussed in great detail the actuarial assumptions and other factors used to develop the costing of the Plan and determine funding requirements. He was questioned whether a specialty mortality table was available for high risk members and he responded that a mortality table had not been developed especially for public safety personnel. Mr. Harris discussed the new reporting requirements from proposed changes anticipated to be issued by the Governmental Accounting Standards Board.

The Board acknowledged that City had offset their annual contribution for the 2013 fiscal year by the amount of \$980K, which was equivalent to the amount of the firefighter's excess reserve account of accumulated Chapter 175 revenues and based upon the City's interpretation of recent changes in the position of the State on the use of these funds. Lee Dehner explained that the State's prior position was that revenues in excess of the baseline amount must be used to purchase additional benefits and would accumulate within a reserve account until used. He

reported that the State had since reversed its position of the use of premium tax revenues and was now of the position that plan sponsors could instead, under certain circumstances, use tax revenues above what is required to fund a level of minimum benefits for employer funding requirements. Mr. Stanley advised that the State has yet to prescribe exact methodology for the determination of what satisfies the State's requirement of purchasing of minimum benefits. A discussion arose regarding the City's offset of funding and it was noted that, depending on the State's issuance of guidance, it may have to be recorded as a receivable at the end of the fiscal year. James Sexton, on behalf of the City, advised that the City would promptly issue payment if it was determined to that the offset was invalid.

Don Ruiter made a motion to approve the 2012 Actuarial Valuation. Erin Masters seconded the motion, approved by the Trustees 5-0.

A discussion arose regarding the expected rate of investment return and it was noted that the State required 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 a 7.5% investment return was attainable. A lengthy discussion ensued and Don Ruiter 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.

INVESTMENT MANAGER REPORT: KENNEDY CAPITAL MANAGEMENT

Chuck Bryant appeared before the Board on behalf of Kennedy Capital Management to deliver a report on the investment performance as of the quarter ending December 31, 2012. Mr. Bryant reported that there were no organizational changes and the comingled fund was closed to new investors. He reviewed short and long-term performance, noting significant outperformance over the index over nearly all time periods. Mr. Bryant discussed the investment process and strategy, market conditions, portfolio construction and holdings and sector allocations all in great detail.

Mr. Bryant presented the firm's micro cap product, which is a separately managed account, not a fund.

INVESTMENT MANAGER REPORT: SAWGRASS ASSET MANAGEMENT

Chris Greco, Gregory Gosch and portfolio manager Martin LaPrade appeared before the Board on behalf of Sawgrass Asset Management to deliver a report on the investment performance as of the quarter ending December 31, 2012. Mr. Greco discussed the portfolio's underperformance, which was attributable to the market favor towards lower quality equities but the market cycle has matured and a long awaited shift in favor has recently occurred towards higher quality equities. But this shift has not been long enough in duration for the manager's rankings among its peers to be favorable. He reported that the portfolio had among the lowest volatility among the manager's peer group and it has always achieved outperformed long-term. Mr. LaPrade discussed the investment process and portfolio construction in great detail. He discussed the concentration and returns of the index, noting that higher returns had been obtained from the riskier holdings within the index.

INVESTMENT CONSULTANT REPORT

Bill Cottle reviewed the investment performance of the portfolio for the quarter ending December 31, 2012. The total market value of the portfolio was \$148,914,209 as of December 31, 2012, which represents an increase in the amount of \$5,461,951 from the market value of \$143,452,039 as of September 30, 2012. The investment performance for the quarter was 1.7% versus the benchmark of 1.1% and for the calendar year was 13.7% versus 13.1% for the benchmark.

Mr. Cottle reviewed a report issued by PFM Advisors who was engaged by the City to perform an independent evaluation of the Plan's investment portfolio and strategy. He advised that many of the firm's recommendations were already being considered. Mr. Cottle noted that the Plan had achieved rankings within the top third of its peer group for investment performance for all time periods. He discussed the already planned implementation of alternative investments with the first priority being emerging market and then microcap equities. The Board acknowledged the excellent investment returns over the years and credited Mr. Cottle with the successful oversight of the portfolio as well as his efforts to introduce alternative investments.

Mr. Cottle reviewed the performance of the individual investment managers, noting all was satisfactory except Eaton Vance Management, which he recommended trimming to fund the proposed new emerging market allocation.

INVESTMENT MANAGER PRESENTATIONS: EMERGING MARKETS

BLACKROCK INC.

Donald Sanya appeared before the Board on behalf of BlackRock Inc. to present a presentation of the firm's Scientific Active Equities Emerging Markets Opportunities Fund. Mr. Sanya discussed the firm's qualifications and experience and then discussed the investment strategy and process of the fund in great detail.

QUANTITATIVE MANAGEMNT ASSOCIATES

Timothy Crist appeared before the Board on behalf of Qualitative Management Associates to provide a presentation of the firm's Emerging Markets Core Equity Fund. He discussed the firm's qualifications and experience and then discussed the investment strategy and process of the fund in great detail.

Bill Cottle reviewed and discussed the presentations from the prospective managers and then provided and reviewed a report containing a detailed analysis of the two products. He discussed the allocation to emerging markets, noting that the allocation should diversify the portfolio even further thereby decreasing volatility and increasing the overall performance of the investment portfolio. He discussed the advantages and disadvantages of each product and firm, noting that BlackRock was a very large firm, which has greater resources for research and has also had greater investment returns over the trailing five year period. A discussion arose regarding funding and allocation and Mr. Cottle recommended an allocation of \$6M to be funded with an equivalent reduction of the Eaton Vance Management account. After a lengthy and careful discussion, Don Ruiter made a motion to invest \$6M in the Blackrock Active Equities Emerging

Markets Opportunities Fund contingent upon the successful negotiation of an Agreement. Erin Masters seconded the motion, approved by the Trustees 5-0.

Erin Masters departed the meeting at 12:01 P.M.

James Sexton reported that an Ordinance Amendment liberalizing the investment restrictions, as recommended by PFM Advisors, was already drafted and scheduled for consideration by City Council. It was noted that this Ordinance Amendment must first be passed and an amendment to the Investment Policy Statement might be required before funding the new emerging market investment.

ATTORNEY REPORT

Lee Dehner discussed proposed legislation under consideration by the State.

Mr. Dehner reported that the initial period to conduct a disability hearing for Charles Russo 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 Charles Russo. Don Ruiter seconded the motion, approved by the Trustees 4-0.

Mr. Dehner reported that the initial period to conduct a disability hearing for Kimberly Eastin 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 Kimberly Eastin. Don Ruiter seconded the motion, approved by the Trustees 4-0.

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 4-0.

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 4-0.

OTHER BUSINESS

Nick Schiess discussed the timing on the implementation of cost-of living adjustments, which occurs annually every October 1. He explained that in the past when the variable COLA, also known as the 13th check, was abolished and the true 2% COLA was implemented, that the benefit payments were being issued by the Plan's custodian and any other method than the annual implementation would have been extremely difficult and anticipated at the time would result in many errors. And he reminded the Board that the issuance of benefit payments was moved from the Plan's custodian to his office because of an unacceptable amount of errors. Mr. Schiess explained that members become eligible for their COLA after six full years of retirement and the current process was to include newly eligible members in with the batch processing of all COLAs every October and issue them a lump sum retroactive check for the months past their six year anniversary. Mr. Schiess advised that the systems utilized by his office were easily capable

of implementing COLAs on anniversary dates instead. He recommended revising the process for those who become eligible prospectively and the Board agreed by consensus.

Mr. Schiess reported that new retiree Mathew Gilson entered the DROP effective August 1, 2012 and despite numerous requests had failed to return his election of an optional form of payment. Mr. Schiess advised that past practice was not to afford an indefinite amount of time for members to make this election and he requested that the Board make the determination that Mr. Gilson's benefits be payable as a ten year certain benefit, which is the standard form of payment of the Plan. Mr. Schiess further explained that notice would be sent to Mr. Gilson of the Board's decision and his rights under the claims procedures to appeal the decision. Don Ruiter made a motion to determine that Mathew Gilson's benefits be payable as a ten year certain benefit and notice and the claims procedure be provided to Mr. Gilson of the Board's determination. Terence Henry seconded the motion, approved by the Trustees 4-0.

As a follow up to the last meeting wherein the Board addressed a settlement between the City and firefighter Christine Gray that permitted her to remain on administrative leave and receive credited service until she was eligible for retirement under the Plan, Lee Dehner reported that the Division of Retirement had been contacted but would not issue a formal position on the matter. Mr. Dehner recommended that a special meeting be scheduled with all concerned parties and the Board agreed.

Mr. Dehner reported that his office had drafted a demand letter to State Street Custodial Services for reimbursement of overpayments to retirees.

The Board acknowledged that securities monitoring firm Bernstein Liebhard, LLP had not been engaged because a principal attorney, Rebecca Katz, had departed the firm and she has now engaged by another firm, Motley Rice. Don Ruiter made a motion to engage the securities monitoring service of Motley Rice contingent upon a successful negotiation of an Agreement. Terence Henry seconded the motion, approved by the Trustees 4-0.

Don Ruiter suggested consideration of electronic tablets for the dissemination of meeting materials noting that the initial investment would be recouped by avoiding duplication costs of meeting information especially lengthy disability applications. The Board directed the Plan Administrator to research the costs of procuring electronic tablets and report back to the Board.

SCHEDULE NEXT MEETING

There being no further business, the next quarterly meeting was scheduled for May 7, 2012 and will take place in the Council Chambers at Daytona Beach City Hall.

The meeting adjourned at 1:13 A.M.

Respectfully submitted,

Secretary