

**PALM BAY POLICE AND FIREFIGHTERS' PENSION PLAN  
BOARD OF TRUSTEES  
Quarterly Meeting 11-03**

Held on the 8<sup>th</sup> day of February 2011 at Robert J. Conlan Professional Center, 1501 R. J. Conlan Blvd., NE, Suite 260, Palm Bay, Florida.

This meeting was properly noticed pursuant to law; the minutes are on file in the Office of the City Clerk, City Hall, Palm Bay, Florida.

Richard B. Adams, Chairperson, called the meeting to order at the hour of 9:08 a.m.

**ROLL CALL:**

**PRESENT**

Richard B. Adams, Chairperson, Board Appointee  
Timothy W. Lancaster, Vice Chairman, Police Elected  
Douglas R. Smith, Secretary, Fire Elected  
John J. Mazziotti, Trustee, City Councilmember

**EXCUSED**

Guillermo William Capote, Sr.,  
Trustee, City Councilmember

Also in attendance was Ms. Kathy Adams, Board Administrator; and Firefighter David Ginsburg, President, Palm Bay Professional Firefighters, IAFF, Local 2446, Ms. Deanna Robertson, Pension Assistant, arrived at 9:20 a.m.; Mr. Blake Myton, Vice President, Investment Manager, SunTrust Bank arrived at 9:32 a.m.; Mr. Larry Cole, Senior Consultant and Ms. Karla Engard, Operations Manager, Burgess Chambers & Associates arrived at 9:34 a.m. Mr. Richard A. Rosen, CFA, ADVENT Capital Management, LLC, arrived at 10:35 a.m.; Ms. Emily Colella, Associate Portfolio Manager and Mr. Florian Eitner, CFA, SSI Investment Management arrived at 11:17 a.m.

Motion by Mr. Smith, seconded by Mr. Lancaster to excuse Mr. Capote's absence due to a business commitment in Orlando. Motion carried with members voting as follows: Mr. Lancaster, Yea; Mr. Smith, Yea; Mr. Mazziotti, Yea; and Mr. Adams, Yea.

**AGENDA REVISIONS:**

Motion by Mr. Mazziotti, seconded by Mr. Smith to pull from Old Business, Item \*6. Interfund Transfer and to add Item 7. Review of National Council of Public Employee Retirement Systems (NCPERS) Legislative Conference and add to Consent under New Business, Item \*1. c) SunTrust Bank-\$76,114.29-Management Fees for Quarter-end 12/31/2010, Invoice #224830 and d) SunTrust Bank-\$856.73-Management Fees for Quarter-end 12/31/2010, (Euro Pacific Fund) Invoice #224832; and to accept the agenda revisions and approve Consent, as amended. Motion carried with members voting as follows: Mr. Lancaster, Yea; Mr. Smith, Yea; Mr. Mazziotti, Yea; and Mr. Adams, Yea.

**CONSENT AGENDA:**

See approval of the Consent Agenda under Agenda Revisions above.

PBP&F Pension Fund  
Quarterly Meeting 11-03  
February 8, 2011

## **ADOPTION OF MINUTES:**

\*Special Minutes 11-02

The minutes were considered under Agenda Revisions and approved as presented. Discussion began with Old Business items since Mr. Cole and Mr. Myton had not yet arrived.

## **QUARTERLY REPORTS AT 9:30 A.M. & 10:00 A.M.:**

**1. Burgess Chambers & Associates-Mr. Larry Cole, Senior Consultant and Ms. Karla Engard, Operations Manager-**Mr. Myton said he wanted to reduce the fixed income. Mr. Cole said he wants to lower the whole portfolio because the rate may go up. As a strategic position bonds are now the riskiest. He said inflation is out there, food and cotton costs are up and it's going to be passed on to consumers eventually. Mr. Smith asked about bonds. Mr. Myton has to adjust it due to the Investment Policy. Mr. Cole mentioned convertibles as possible options. Convertibles give securities exposure to the stock market, with less risk. They are not a fixed income substitute; they are an equity substitute, but the goal is to take down the fixed income to accomplish it. Mr. Myton said the investment gain is \$7,725,910 and \$15,391,366 gain for the year. He reviewed the compliance checklist with the bonds and Ridgeworth noted and the asset allocation. Mr. Cole is not recommending any rebalancing right now. The gross quarter return was 6.50%; probably today it's over 8.50%. Mr. Cole said the Plan has earned 15.2% for each year over the last two years, per year. He said the down year of 2008 is still in the five year smoothing. Mr. Cole reviewed the assumption rate for the last ten years stating there has been discussion about lowering the assumption rate; however this Fund has met it. The quarterly ranking of this Fund is 88% out of 100 plans. Mr. Mazziotti questioned the target to cash. Mr. Cole said it's kept as low as possible. He said he could reflect this asset. Ms. Adams said she received a call notice for the additional \$500,000 to the Strategic Property Fund for March 3, 2011. Motion by Mr. Mazziotti, seconded by Mr. Smith to approve the call transfer of \$500,000 to the JP Morgan Strategic Property Fund as requested. Motion carried with members voting as follows: Mr. Lancaster, Yea; Mr. Smith, Yea; Mr. Mazziotti, Yea; and Mr. Adams, Yea. The board recessed at 10:26 a.m. and reconvened at 10:35 a.m. Discussion continued with Item 3. Investment Category Overview-Convertibles.

**2. SunTrust Institutional Investment Solutions-Mr. Blake Myton, Vice President, Investment Manager-**Mr. Myton said he was happy to see positive numbers. He said it was a solid quarter. Small and mid cap was up 25-26% for December. They did better than Large Cap. Growth style did better. The international was the worst performance for the year and quarter; however, it was still a solid performance. The European crisis had an impact. There were negative returns in fixed income; a reversal of the trend for the quarter. Bonds for the year gave us more than expected, about 6%. He summarized 2010 as being a risk-based year. Conservative funds had less returns. There was a lot of volatility. He sees 2011 just as volatile. There was solid growth back to 1998. The portfolio was up 6 3/4% to 6 7/8% for the quarter and January was up too. Equities drove the return and large cap did a little better. The value disciplines continue to do well. Emerging growth is strong this year and the best performance for the year. He said the fixed income was off 2.4%, not a lot of mortgage exposure. He said they may trim equities a little bit from 62% to 58%. There is an overweight to Large in all areas. In fixed income they are looking for higher quality corporate bonds. The difficulty with bonds is where to find the yields; you give up a lot of yield to go

shorter on the term. He reviewed the history of the asset allocation stating they will maintain an overweight to stocks and Large Cap. Mr. Mazziotti asked about gas and oil. Mr. Myton said he feels it will settle down into the 60-90% range. Mr. Adams said the report states year-to-date the Fund went over \$100 Million and asked Mr. Myton about the fee structure. He said he would look at that. Discussion continued with Mr. Cole's presentation.

**3. Investment Category Overview-Convertibles**

**a. Advent & SSI-**Mr. Cole said Advent was out of New York and introduced Mr. Rosen, Managing Director. Mr. Rosen said Advent has been in business since 1995 and use the same investment approach as in 1995. They specialize in domestic and global convertible strategies managing \$6 Billion with 56 employees with an investment team of 25 professionals. It's a credit driven approach; highly disciplined process that enhances risk control. They have a proven track record. Mr. Rosen said a convertible security is a corporate bond or preferred stock with an embedded option that allows the holder to convert the bond or preferred stock into a fixed number of common shares of the issuing company. Like other corporate bonds and preferred stocks, convertible securities pay a fixed rate and convertible bonds have a maturity date. Convertibles have the added feature of allowing the holder to convert the security into common stock. They provide equity-like returns with much less risk than outright ownership of common stocks. They participate in appreciation of the issuing company's stock because convertibles provide the right to convert into a fixed number of the company's common shares. Convertible bonds pay interest and repay principal at maturity; hence, the investor is protected on the downside if the underlying stock fails to perform. He said with stocks you have higher return with higher risks; bonds have less risk with less returns and convertibles are the best of both worlds. They are very flexible to be able to fit into the guidelines. He said they are capturing more of the upside and less on the downside. He and Mr. Cole reviewed a chart showing the convertible price dynamics. Reflecting investment in the "sweet spot" where the stock price and convertible price meet in the middle, called the convertible premium. Mr. Rosen said over time convertibles have done well with less risk than equities. Advent's balanced strategy is able to enhance the positive asymmetric nature of convertibles, participating in 96% of the upside while protecting on the downside (47%). They look at healthy companies with stable and improving credit through their cash flow, interest coverage and balance sheet analysis. He discussed the investment process. Advent is registered with the SEC, FSA and the CFTC. They had one default, with 15 basis points with Lehman and the net impact was minimal. Mr. Mazziotti left the meeting at 10:58 a.m. and did not return. Mr. Rosen said the credit quality is BB. They are pretty well diversified and he discussed the top five holdings. They have a long-term track record. The Merrill Lynch ALL Convertible VXAO Index is their benchmark. Mr. Smith asked if they have Florida pension clients. Mr. Rosen said yes. Mr. Adams asked about their minimum investment. Mr. Cole said \$3 Million and they lowered that from \$10 Million. Custody would be through SunTrust with an individual report from the company. Mr. Cole said both of the firms' client service is very responsive. Mr. Rosen left the meeting at 11:15 a.m. and did not return.

Ms. Colella, Managing Director, and Mr. Eitner, Associate Portfolio Manager, SSI entered the meeting at 11:17 a.m. Ms. Colella said SSI was founded in 1973. It is very conservative with the focus on institutions; it is 100% employee-owned through equity and stock options. The average

employee has been with the company for 10 to 20 years and they have 35 employees. The CIO is George Douglas, CFA, and has been with them for 17 years. They manage \$1.5 Billion in convertible bonds; the universe is small. \$900 Million is dedicated to convertible assets. They look at a long convertible strategy. They have been in the business 38 years and have never had a violation with the SEC and other regulatory agencies. Since its inception they have produced absolute returns and value-added. Mr. Eitner gave an example of a convertible and explained the benefits of convertible bonds. Ms. Colella said the goal is to capture the return in the up market. She said SSI outright discretionary convertible strategy has outperformed the Wilshire 4500 Index over 75% of the down quarters. Historically SSI's convertible strategies have captured two-thirds of the equity market's upside; upside capture is 73%, downside capture is over 40%. The investment rating is BB. They said their office is in Beverly Hills California and they travel all over the world for their clients. The minimum investment is \$3 Million; and they are not catering to the retail market. Mr. Cole said you treat these as a mid-cap equity and draft is as such in the Investment Policy. Mr. Cole said he's taking the conservative approach and treating it like an equity. If you limit it to an investment grade only, the universe drops and it's not a large universe to begin with. Ms. Colella said SSI has never had a default. Ms. Colella and Mr. Eitner left the meeting at 11:53 a.m. and did not return.

The board discussed both presentations and convertible bond investments. Mr. Cole said the board could invest \$5 Million with each firm; he said 10% is the target. The board could go into it gradually at \$3 Million each. He said Advent is more expensive, but they dropped their minimum. Both are good firms. It is another diversification to the Fund. One is \$50,000 per year and the other is \$41,250.00 per year as far as the fees. There was further discussion about each firm, the fees, and the Investment Policy. Motion by Mr. Smith, seconded by Mr. Lancaster to invest \$10 Million in convertible bonds with the manager and amounts to be determined at the March board meeting. Motion carried with members voting as follows: Mr. Lancaster, Yea; Mr. Smith, Yea; and Mr. Adams, Yea. Discussion of New Business items 3, 4 and 5 followed after this, then adjournment.

#### **OLD BUSINESS:**

1. **Actuarial Services & Projects: Foster & Foster, Inc.**
  - a. **City of Palm Bay Proposed Ordinance 2010-81, Amendment Implementing Firefighter Pension Changes-Unfair Labor Hearing**-Mr. Ginsburg stated the hearing was postponed. The attorneys were doing a stipulation of facts and no new date for the hearing had been set.
  - b. **City of Palm Bay Annual Required Contributions & Additional Required Contribution for the Police Fund**-Ms. Adams said she received a confirmation for the board's actuary that the City did submit enough contributions in December to cover the \$33,151 underfunding for the Police Fund.
2. **Pension Website-[www.pbpfpf.org](http://www.pbpfpf.org)**-Ms. Adams received several calls from retirees about the monthly pension checks being less and it was due to a change in the Federal Withholding tables. That notice, along with the Plan's Investment Policy and recent Independent Audit was added to the website.

**3. Review of Florida Public Pension Trustees' Association (FPPTA) School-**Mr. Lancaster said Mr. Capote and Pension Assistant Robertson passed the Basic Course. He said he spoke to a Milberg representative who offered to come to today's meeting. Ms. Adams said she received a phone call from them recently where they thought they had to attend all quarterly meetings and was told it was not necessary. They work on various class action cases and they were going to present quarterly updates to the board even though the Fund was not part of those cases. Mr. Lancaster suggested including them in the Long Range Planning Session. Mr. Lancaster and Mr. Smith said the continuing education classes were very informative. Mr. Lancaster said he met with DRZ and Sawgrass. There was discussion about the Fund's past involvement with both groups. Mr. Smith said it was a good conference and that continuing education for the trustees was emphasized due to the liability to the board. He said the changes to the Plans may look good, but are costly. Most all Florida Plans are well funded. Ms. Robertson entered the meeting at 9:20 a.m. She said the training and testing was very informative and challenging. She felt it was very beneficial information. She would recommend it to others. She then left the meeting and did not return.

**\*4. DROP Returns for Quarter-ending December 31, 2010-**This item was considered under Agenda Revisions and approved as presented. The DROP returns for quarter-ending December 31, 2010 was 6.34%.

**5. Update on Ronald C. Giordano, Jr.-Disability Application-**Mr. Adams said he spoke to Attorneys Cypen and Hammond about the recent hearing. There was further discussion between the board. Motion by Mr. Lancaster, seconded by Mr. Smith that if Mr. Giordano's counsel supplies us with an affidavit from a medical provider who has examined him and his records recently who states in an affidavit that there are no circumstances under which Mr. Giordano can travel to Florida, by any means, then the board will offer to agree to schedule the Independent Medical Examination (IME) in Illinois in exchange for a dismissal with prejudice of the Mandamus case with each party bearing its own fees and costs. Motion carried with members voting as follows:

Mr. Lancaster, Yea  
Mr. Smith, Yea  
Mr. Mazziotti, Nay  
Mr. Adams, Yea.

**6. Interfund Transfer-**This item was pulled from Consent under Agenda Revisions.

**7. Review of National Council of Public Employee Retirement Systems (NCPERS) Legislative Conference-**Mr. Adams said there are some interesting items that are being considered at the federal level. He said cities must have a local defined benefit plan established, which is what this Fund is, or they will not qualify to receive federal funding. The proposed goal is to administer local business plan retirements. What the League of Cities is doing is in conflict with this. Palm Bay and Miami are two plans that already adhere to what is being proposed. Mr. Adams said the federal government is expressing concern about individuals in deferred contribution plans not being able to retire and they want to copy defined benefit plans. The conference was good the press secretaries for Bush and Clinton were there and made presentations. What came out of the conference was that defined benefit plans are doing much better than deferred contribution plans, especially with investment returns. Employees in deferred contribution plans cannot retire and they got hit harder than defined benefit plans in the downturn of the

market a couple of years ago. Mr. Smith said a lot of individuals pulled out of the market when they should have gotten into the market. Mr. Cole said institutional investors do better than individual investors in returns. Mr. Smith said deferred contribution plans cost more to manage than defined benefit plans as stated in the recent FPPTA School. In two-tiered plans some municipalities in the State when from a 20% to a 40% contribution rate, so it is more costly. Mr. Cole and Mr. Myton arrive so the quarterly reports were presented beginning with Mr. Myton.

**NEW BUSINESS:**

- \*1. **Consideration of Warrants for Payment**
  - \*a) **Goldstein Schechter Koch, CPA-\$2,000.00-Progress Bill for FYE 9/30/2010 Audit Work, Invoice No. 78917-**This item was considered under Agenda Revisions and approved as presented.
  - \*b) **Burgess Chambers & Associates, Inc.-\$11,250.00-Performance Monitoring & Advisory Fee for Quarter-End 12/31/2010, Invoice No. 11-19-**This item was considered under Agenda Revisions and approved as presented.
  - \*c) **SunTrust Bank-\$76,114.29-Management Fees for Quarter-end 12/31/2010, Invoice #224830-**This item was considered under Agenda Revisions and approved as amended.
  - \*d) **SunTrust Bank-\$856.73-Management Fees for Quarter-end 12/31/2010, (Euro Pacific Fund) Invoice #224832-**This item was considered under Agenda Revisions and approved as amended.
- \*2. **New Plan Member Application, Member Beneficiary Changes, Pre-Retirement Death Benefit Option Selection and Retirement Beneficiary Forms-**A new member applications/beneficiary form was accepted and approved for Firefighter Brian Potash. A member beneficiary form was accepted and approved for Police Officer Gregory M. Latulippe. This item was considered under Agenda Revisions and approved as presented.
3. **Long Range Planning Items-**This item was tabled to the next meeting.
4. **Board Business-**Motion by Mr. Smith, seconded by Mr. Lancaster to approve the \$50.00 Invoice to Techsters for cleaning the prior laptop issued to Mr. Adams. Motion carried with members voting as follows: Mr. Lancaster, Yea; Mr. Smith, Yea; Mr. Mazziotti, Yea; and Mr. Adams, Yea. Mr. Adams said it would be would be donated to the Police Athletic League (PAL), as previously approved.
5. **Upcoming Events-Educational Opportunities-**This item was tabled to the next meeting.
- \*6. **Application for Retirement-Police Chief William Berger-**This item was considered under Agenda Revisions and approved as presented.
- \*7. **Termination Refund/Rollover/or Vested Termination, If Eligible-Police Officer William D. Sample-**This item was considered under Agenda Revisions and approved as presented.

**INPUT FROM ACTIVE AND RETIRED PLAN MEMBERS:**

There was no input from any active or retired plan members at this time:

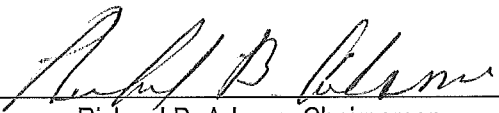
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**INPUT FROM THE PUBLIC:**


There was no input from the public at this time.

**ADJOURNMENT:**

There being no further business, the meeting adjourned at 12:12 p.m.

  
Richard B. Adams, Chairperson

ATTEST:

  
Douglas R. Smith, Secretary