BOARD OF TRUSTEES OF THE CITY PENSION FUND FOR FIREFIGHTERS & POLICE OFFICERS

In the City of Pembroke Pines
Hampton Professional Center
1951 NW 150th Avenue – Suite #104
Pembroke Pines, FL 33028

REGULAR MONTHLY MEETING – FEBRUARY 17, 2011

The three hundred and eighty-sixth meeting of the Firefighters and Police Officers Pension Fund in the City of Pembroke Pines was called to order at 2:05 p.m. by Chairman James Ryan.

1. **Roll Call –**

	Fire Members	Police Members	City Members
	Adam Cabeza	Carl Heim	Gary Arenson *[arr. 4:00 pm]*
	Steven Dougherty	Kevin McCluskey	Vicki Minnaugh
	Frank Musumeci	James Ryan	Isadore Nachimson *[arr. 2:50 pm]*

Others Present: Greg McNeillie from Dahab Associates; Tom Capobianco and James Gribbell from Lee Munder Capital Group; Henry Renard and Robert Maddock from Inverness Counsel, LLC; Larry Wilson from Gabriel, Roeder, Smith & Co.; Retired F/F David Donzella; Stephen H. Cypen, Esq., Attorney for the Fund; Karen H. Warner, Plan Administrator; and James Fisher, Asst. Plan Administrator.

2. **Dahab Associates – Performance Report for Q/E 12/31/2010**. Greg McNeillie represented the firm this date. Mr. McNeillie reported the Fund's total gross return was 7.0% for the quarter ended 12/31/2010, with a portfolio value of $321,347,192. The fund is ranked in the 13th percentile of the public funds universe. The increase in assets since 9/30/2010 totaled $23,119,818. Investment of the total portfolio was 62.0% in domestic equities, 24.1% in fixed income (including State of Israel Bonds), 7.5% in international equities, 5.0% in real estate and 1.3% in cash and equivalents. The following *gross* returns, detailed by manager, were discussed:

	Quarter Ended 12/31/2010					
	Equities	Equity Bench-mark	Fixed Income	Fixed Inc. Bench-mark	Total Portfolio	Trailing 12 Months
Atlanta Capital	15.0%	16.3%	---	---	15.0%	26.2%
Buckhead	7.1%	10.5%	---	---	7.1%	8.2%
Eaton Vance	10.2%	10.5%	---	---	10.2%	10.4%
Inverness	11.4%	10.8%	-1.8%	-1.8%	4.3%	10.2%
Lee Munder	11.2%	11.8%	---	---	11.2%	17.2%
SSgA Midcap	13.4%	13.5%	---	---	13.4%	26.6%
SSgA Intl Equity	7.9%	7.3%	---	---	7.9%	12.2%

	Quarter Ended 12/31/2010		
	R.E.	R.E. Bench-mark	Trailing 12 Months
Am. Realty Advisors	3.7%	5.0%	11.2%
AmSouth Timber Fd.	-0.9%	-0.8%	1.5%
BlackRock	5.1%	5.0%	15.9%
TA Assoc Realty	-0.6%	5.0%	0.6%

The U.S. economy has now expanded for six consecutive quarters, completely offsetting the declines in 2008 and 2009. Economic data continued to improve during the last quarter of 2010, all but erasing fears of a double-dip recession. Inflation remains in check. Although the December CPI (all items) increased by 0.5%, when the highly volatile food and energy components are excluded, December inflation was 0.1%. More importantly, core inflation for the full calendar year was 0.8%. The very low CPI increase was mainly attributed to the persistent high unemployment rate and corporate willingness to absorb higher costs at the wholesale level to stay competitive.

High unemployment and weak housing sales were the two most detrimental factors affecting economic growth.

- December's employment statistics were somewhat encouraging as they showed an official unemployment rate dip from 9.8% to 9.4%. While the economy added 103,000 jobs, that increase disappointed economists and wasn't enough to offset the number of new entrants into the labor market. The real reason for the 0.4% decline in unemployment was that many job seekers simply gave up looking for work.

- Housing also pulled down the GDP numbers as home foreclosures continued at a record pace through the fall. Foreclosures slowed dramatically when fraudulent or merely sloppy documenting procedures came to light and led to a temporary freeze on most pending foreclosures. A meaningful housing turnaround is probably at least a year away, as new home construction is running at only a quarter of the 2006 rate. Existing home prices are still weak, and potential buyers remain wary about buying foreclosed properties at any price.

Early in the 4th quarter, the Federal Reserve implemented a second round of quantitative easing measures known as QE II. This Treasury bond purchase program was designed to lower long term interest rates from their already low levels by (1) providing a floor for residential real estate; (2) liquefying the money center banks; (3) stimulating lending to small businesses; and (4) encouraging job creation. It remains to be seen whether QE II will benefit the 2011 economy.

Regarding specific 4th quarter performance, Mr. McNeillie stated that the growth managers out-performed their benchmarks, while under-performance came from the value managers. By design, this portfolio is tactically overweight in small cap and mid cap. Buckhead under-performed the most, and we now have more than five years of history with assets under their management. When the market is going strong, Buckhead seems to have a hard time keeping up. The Fund benefitted from Buckhead's style in 2008 as demonstrated by their 3-year return of -0.7% vs. the Russell 1000 Value return of -4.4%. However, there is long-term concern that Buckhead has to depend on a bad market. Fortunately, Eaton Vance has served as a buffer. Mr. McNeillie has exposure to many other funds and managers, and many of those managers have easily out-performed the Russell 1000 Value index. He also noted that Mike Harhai will be retiring, and departures of key personnel can be a source of concern. Dahab is monitoring the situation closely. Long term, the Fund needs a manager who out-performs the index more than 30% of the time.

Mr. McNeillie noted that the Board still needs to consider the following items, and suggested that these may be changes the Unions can negotiate with the City:

- Increasing the 60% equity allocation (perhaps to 70%) – currently restricts the fund on the upside.
- Lessening restrictions on bonds from "A or better" to "investment grade or better" – would provide more opportunity to meet return objectives.
- Increasing the limit on International Equity. It is currently at 10%, although the State permits up to 25%. By not acting on this, the Fund is missing out on some returns in the bond portfolio.

Discussion followed regarding the need to have an active midcap manager – or to look into midcap portfolios with current managers. The Board also discussed the search process for a large cap value manager. Mr. McNeillie was asked to bring information back to the Board for consideration.

3. **Lee Munder Capital Group** – **Investment / Market Report**. Tom Capobianco and James Gribbell represented the firm this date. As stated in their separate report, the portfolio reflected a market value of $31,940,542 as of 12/31/2010. Total portfolio returns were reported to be 11.3% (for the quarter), 17.4% (one year), and 30.6% (since 6/30/2009 – when Independence Investments merged with Lee Munder).

Mr. Capobianco reported that the company's ownership structure and management philosophy is unchanged. He also reported $4.9 billion in assets under management and advisement and a number of new clients in a wide variety of asset classes since their last visit. Lee Munder had a very good year overall.

Mr. Gribbell reviewed 4th quarter top contributors to the portfolio: Schlumberger, Coach, Freeport, Polo Ralph Lauren and Rio Tinto PLC. Fourth quarter detractors included Cisco Systems, Baidu, Visa, Inc., Alcon and Pepsico. Discussion followed regarding the reasons for strong or weak returns (as applicable). Their corporate outlook for the economy and financial markets was summarized as follows:

- The U.S. economy continues to recover at a very slow rate
- Expect high levels of unemployment and a lengthy recovery
- Stock market reflects investor risk aversion and an uncertain profit picture in 2011
- Interest rates are expected to remain low for an extended period, perhaps 12-18 months.

4. **Inverness Counsel LLC – Investment / Market Report**. Henry Renard and Robert Maddock represented the firm this date. As stated in their separate report, the total portfolio value on 12/31/2010 was $156,697,568 with an asset allocation of 50.6% to equities, 47.4% to fixed income and 2.0% in cash and cash equivalents. Return for the total portfolio was reported to be 4.3%. Equities returned 11.4% vs. the S&P 500 return of 10.2%, while bonds returned -1.8%. Mr. Maddock noted the equities and/or bonds compliance page of their report, which provides insight relative to rankings. He addressed the "top 10 equity holdings" in detail. The following commentary for the quarter was also provided:

In assessing the year just passed, we note that one year ago Inverness was looking for continued volatility as well as for the market to post continued positive returns, albeit not so strong as in 2009. Indeed, 2010 emulated a rollercoaster but certainly, with the S&P 500 up 15%, one would have regretted missing the ride. Looking forward, our analysts see continued reasons for cautious optimism and expect that the rollercoaster ride is not over yet. In view of the alternatives, clients are likely to find that it is still better not to "exit the vehicle".

Positives

- *GDP growth should be in the 2-3% range, with inflation a bit lower. Our analysts do harbor concerns about latent inflation but think that it will remain unrealized so long as unemployment is in the high single digits and are looking for job growth to be positive but slow. The uncertainty about federal tax rates has been pushed back for another two years, making the climate for small businesses more attractive. China and other emerging countries continue to provide the drivers for global growth. Their consumers are part of a rising global middle class which is starting to enjoy, for the first time, many of the things Americans take for granted.*

- *The S&P 500 is still reasonably priced. On a Price Earnings (or PE) basis, it is at the midpoint of the range for the last three years (or since the downturn began). However, it is at the bottom end of the range for all the prior years going back to 1991. Generally, lower interest rates support a higher PE. Large Cap companies are especially inexpensive and may benefit from being able to issue long-term debt at relatively low rates during the year. This may be a once in a generation opportunity to get low cost funds to acquire other companies, buy back their own stock, or retire higher cost debt. Certainly, there is still plenty of idle cash on the sidelines waiting for the signal that it is safe to come back into the market. Smaller cap companies may continue to find themselves the targets of those larger companies. However, this theme has not escaped the notice of the market and the prices for likely targets have certainly moved.*

Reasons For Concern

- *Inverness anticipates employment numbers will rise but that unemployment will end the year around 9%. Reductions in unemployment could be hampered by various factors. The unemployment number could be problematic in any case, as failure to come down in any significant way will drive the Fed to push continued easing which will bode ill for the long term outlook for dollars and fixed income. Faster declines in unemployment might be counted as a harbinger of real inflation and push the Fed to raise interest rates sooner than expected; this might be better for the long term value of the dollar but would be harder on fixed income investments in the short run.*

- *China is trying to mitigate the inflation it has experienced without killing the growth that it needs to provide its people in order to stay stable. Recent changes in their rules governing their corporations suggest that the Chinese are beginning to change how they spend their trade surplus. Japan made a similar change in the 1970s and 80's when they moved to accumulate assets such as manufacturing plants, Rockefeller Center and even Pebble Beach in countries that were trading partners rather than accumulate more currency and government bonds. This could have the impact of putting upward pressure on US Government Treasury rates and on the Fed to ease further. It could also help push up the price of real property and other assets as Chinese companies try to invest their overseas funds.*

- *Our 2011 outlook for 10-year Treasury rates is in the 3.5-4.0% range with the following caveat: Although the Fed continues to be committed to holding down interest rates on longer bonds, that objective will hold only so long as unemployment stays at its current levels and so long as they can assert that inflation is low. Furthermore, they are not the only player who can impact rates, as the Chinese have a major impact as historical buyers and holders of significant positions of Treasuries. The Fed may discover that it needs to engage in more quantitative easing than currently anticipated to achieve their intended impact on rates if the Chinese lose their taste for Treasuries.*

- *Slower but still solid earnings growth is expected in the coming year as most of the cost savings have been achieved and material costs are starting to rise. This could change to the upside if revenues improve beyond consensus… not impossible in our view. Current PE's are still quite low with room for further appreciation. We at Inverness Counsel continue to focus on growth and valuation metrics to drive our core strategy and to identify investments.*

The Board recessed at 3:45 p.m. and reconvened at 4:05 p.m.

5. **Approval of Minutes for January 20, 2011**. Chairman Ryan presented minutes from the January 20, 2011 meeting for approval. Motion by Gary Arenson, second by Isadore Nachimson, to approve as presented. The motion carried unanimously.

6. **Approval of Warrant #507**. Chairman Ryan presented Warrant #507 in the amount of $56,454.06 for approval and payment. Motion by Vicki Minnaugh, second by Isadore Nachimson, to approve as presented. The motion carried unanimously, authorizing the payment of:

Cypen & Cypen – Monthly Retainer for February, 2011	$3,250.00
Hampton Professional Center Condo No. 2 – Mo. Maint. (Suite #104) for March, 2011	$407.72
Karen Warner – Mo. Allowance for February, 2011 (Med/Dental/Life)	$375.00
James Fisher – Mo. Allowance for February, 2011, 2010 (Med/Dental/Life)	$308.00
LEAF – Xerox Copier Lease for February, 2011	$194.23
Twilight Industries, LLC – Office Maintenance for February, 2011	$152.00
Goldstein Schechter Koch – Progress billing for 9/30/2010 Audit	$4,000.00
Atlanta Capital Management Co. – Management Fee for Q/E 12/31/2010	$47,644.00
FP&L – Service Dates 12/28/2010-1/27/2011	$104.07
Florida Department of Revenue – Unemployment Tax Assessment for Interest on Federal Advances	$19.04
TOTAL	**$56,454.06**

7. **Request for DROP Account Distribution(s)** – Since the time agenda packets were mailed out for this meeting, additional DROP distribution requests were received from P/O Mark Lewis and F/F Joseph Ultimo. Karen Warner asked that the Board consider adding these requests to the agenda, if meeting with their approval, and copies of the requests were distributed. Motion by Gary Arenson, second by Vicki Minnaugh, to add the distribution requests from P/O Mark Lewis and F/F Joseph Ultimo to the agenda. The motion carried unanimously.

Ms. Warner also noted that P/O James Fisher and F/F Donald Rynning had both asked to have their requests withdrawn. Motion by Gary Arenson, second by Vicki Minnaugh, to withdraw the distribution requests for P/O James Fisher and F/F Donald Rynning from the agenda. The motion carried unanimously.

The following DROP account distribution requests were then presented for Board consideration:

- F/F Gino Christi — Lump Sum ***
- Debbie Crusoe (FF Ben.) — Lump Sum ***
- P/O Mark Lewis — Lump Sum ***
- P/O Warren McLoughlin — Lump Sum ***
- F/F Joseph Ultimo — Monthly ***

*** (See Attachment A)

Actuary Larry Wilson has provided the necessary letters indicating these distributions would not pose a problem with the 415 limitation at the present time. Motion by Vicki Minnaugh, second by Isadore Nachimson, to approve the distribution requests for Gino Christi, Debbie Crusoe, Warren McLoughlin, Mark Lewis and Joseph Ultimo as presented. The motion carried unanimously.

UNFINISHED BUSINESS

None.

NEW BUSINESS

8. **Results of 10/1/2010 Actuarial Valuation.** Actuary Larry Wilson distributed copies of the 10/1/2010 Valuation and reviewed key elements of their findings. He noted that this valuation determines the City's contribution for fiscal years 9/30/2011 and 9/30/2012, per the City's recent request and Board approval. Mr. Wilson reviewed the following summary results:

	Year Ending 9/30/2011	Year Ending 9/30/2012
Total Minimum Required Contribution:	$26,111,311	$26,776,918
Percentage of Covered Payroll (including DROP):	72.4%	
Percentage of Covered Payroll (excluding DROP):	**96.2%**	**96.2%** **
Expected Member Contributions:	$2,821,444	$2,894,802
Anticipated State Chapter Funds:	$2,337,509	$2,337,509
Minimum Required City Contribution:	$20,952,358	$21,544,607
	$26,111,311	$26,776,918 **

** **The State requires Employer contributions to be determined as a percentage of pay** (rather than as a determined dollar amount). Therefore, the dollar amount shown for the year ending 9/30/2012 is subject to fluctuation as covered payroll for that year changes.

Plan provisions and actuarial assumptions / methods are unchanged from the prior year's valuation. The effect of Fund experience reveals the following:

- The number of active participants decreased by approximately 3%.
- Covered payroll (including DROP) decreased by approximately 2%.
- Covered payroll (excluding DROP) decreased by approximately 1%.
- Total fund membership increased by approximately one-half of a percent.
- The total normal cost decreased, both as a dollar amount and as a percentage of payrolls.
- The unfunded actuarial accrued liability increased, both as a dollar amount and as a percentage of both payroll numbers.
- The net City minimum funding requirement decreased, both as a dollar amount and as a percentage of payroll.
- The value of vested accrued benefits exceeds Fund assets, resulting in a Vested Benefit Security Ratio of 57.0%, which is a decrease (from 60.2%) from the prior Valuation.

Summary of Fund experience:

- There was an actuarial loss in the amount of $13,820,665 for the year ended 9/30/2010. Net Fund experience was less favorable than expected based upon the actuarial assumptions.
- Salary experience indicates actual salary increases (excluding DROP payroll) averaged approximately 3.6% for the year ended 9/30/2010. The average salary increase assumption was 5.7%. Salary increase experience was generally an offsetting source of actuarial gain. Three, five and ten year average annual salary increases are 5.4%, 6.4% and 6.5% respectively.
- Employee turnover for the year ended 9/30/2010 was approximately 20% of the assumption and was generally a source of actuarial loss.
- The actuarial value investment return of 4.5% was less than the investment return assumption of 8.0% - and was a substantial source of actuarial loss for the year ended 9/30/2010.

Mr. Wilson recommended that the Board consider authorizing an updated Experience Study, as they are required once every five years. GRS would be happy to prepare an engagement letter and fee estimate. Attorney Cypen suggested no decision on this recommendation at the present time in light of possible legislative efforts during the upcoming State session.

Motion by Gary Arenson, second by Adam Cabeza, to approve the 10/1/2010 Actuarial Valuation dated February 17, 2011 as presented. The motion carried unanimously.

9. **DROP Administrative Rules.** Karen Warner reported that revisions are still being made. While it was hoped the Board could review at this time, she asked that the matter be tabled until the next meeting. Motion by Gary Arenson, second by Vicki Minnaugh, to table review and discussion until the March 17, 2011 meeting. The motion carried unanimously.

10. **Questions from F/F David Donzella – Death Benefit Concerns.** Mr. Donzella provided a copy of general email questions he previously sent to a former Trustee for Board response. The questions pertained to DROP account distributions, beneficiaries and IRC 415 issues. Attorney Cypen stated that Robert Friedman, Esq. from Holland & Knight provided the Board with an in-depth explanation in 2007 as it applied to the Fund at that point in time. It would appear some of Mr. Donzella's questions involve matters of taxability to the recipient, which is not something the Board should address. Discussion also followed regarding whether a request such as this (where the Board could incur additional legal fees for special services) falls under the established Board policy as it relates to a member's responsibility to pay fees incurred. The Pension Office will provide Mr. Donzella with a copy of the 2007 letter prepared by Attorney Friedman. Following review, if questions remain unanswered then Mr. Donzella will send a specific request to the Pension Office with questions that relate to his own situation. Upon receipt, Attorney Cypen will forward to Attorney Friedman for a response cost estimate.

11. **Review / Approve – Gross and Net Rates of Return for Q/E 12/31/2010.** The trustees reviewed Dahab Associates, Inc.'s letter confirming the Gross Rate of Return was 7.0% and the Net Rate of Return was 6.91%. Motion by Gary Arenson, second by Vicki Minnaugh, to approve the Gross and Net rates of return for Q/E 12/31/2010 as provided by Dahab Associates. The motion carried unanimously.

12. **Annual Review – Karen Warner.** Agenda packets included a summary of benefits for Karen Warner compared to General Employees of the City. Based upon the initial Employment Agreement, Ms. Warner asked that the Board consider modifying her Sick and Annual benefits, bringing them up to the same level as provided to General Employees. Motion by Vicki Minnaugh, second by Gary Arenson, to approve the request to modify Sick Leave and Annual Leave to mirror the City's offering to General Employees. Following discussion, the motion carried unanimously.

Trustee Arenson expressed a desire to see a consistent employment policy developed for all employees, whether they be current or future. He offered to serve on a committee to establish a benefits policy and report back to the Board. Pension Office staff was asked to gather information from local administrators.

13. **Reports:**

Actuary – None.

Attorney – Attorney Cypen reported on SB 1128 sponsored by Sen. Jeremy Ring. The proposed bill would amend Chapters 112, 175 and 185, Florida Statutes and would have a direct impact on this Fund. Mr. Cypen stated that 175 and 185 legislation could be a very real possibility during the 2011 session. Hopefully the affected employee groups will be able to make reasonable proposals, alleviating the need for such drastic legislation. Discussion turned to the relevance of individual Employee Contracts. Because the Board is not a party to the individual contracts, a member's issue would be with the City.

Chairman – None.

Plan Administrator – Karen Warner reported that there has been no official word back from the City regarding the Crusoe and Corrections Officer matters. She has been in close contact with Dan Rotstein and will continue to pursue a status update.

The Pension Office is in receipt of additional bills for payment and other disbursements for approval. Chairman Ryan presented Warrant #508 for addition to the agenda and approval for payment. Motion by Gary Arenson, second by Adam Cabeza, to add Warrant #508 to the agenda. The motion carried unanimously. Motion by Adam Cabeza, second by Gary Arenson, to approve the payment of Warrant #508 as presented in the amount of $97,892.17. The motion carried unanimously, authorizing the payment of:

P/O Edmund Klingman – Normal Retirement Benefit Commencing 3/1/2011			***
F/F Gino Christi – Lump Sum DROP Withdrawal			***
Debbie Crusoe – Lump Sum DROP Withdrawal			***
P/O Mark Lewis – Lump Sum DROP Withdrawal			***
P/O Warren McLoughlin – Lump Sum DROP Withdrawal			***
F/F Joseph Ultimo – Monthly DROP Withdrawal Commencing 3/1/2011			***
U.S. Treasury – FIT Withholding (Christi-Crusoe-Lewis-McLoughlin)			***
SunTrust Bank (Visa – Fisher)	Bd Mtg / Ofc Supplies	$102.83	
	Gasoline	40.42	
	DirecTV	95.05	
	AT&T / Bellsouth (final)	499.14	
	Cbeyond (phones & internet)	434.52	
	Monthly Storage	104.00	
		$1,275.96	$1,275.96
SunTrust Bank (Visa – Warner)	Xerox (mo. Maintenance)	$23.32	
	ISP	24.95	
	Bd Mtg / Ofc Supplies	203.13	
		$251.40	$251.40
Goldstein Schechter Koch – Progress billing (9/30/2010 Audit)			$7,000.00
MSA Group – Renewal Prem. 3/3/2011-3/3/2012 (Gen. Liability & Comm. Umbrella)			$2,842.44
Dahab Associates, Inc. – Consulting Fee for Q/E 12/31/2010			$23,567.36
Gabriel, Roeder, Smith & Co. – Prof. Services for January, 2011			$10,944.00
City of Pembroke Pines – City Code Supplement S-26			$29.59
*** (See Attachment A)		**TOTAL**	**$97,892.17**

14. **Input from Retirees:** None.

15. **Input from Active Members:** None.

16. **Adjournment** – Chairman Ryan announced that the next regular meeting would be held on Thursday, March 17, 2011 at 4:00 pm. There being no further business to come before the Board, motion by Carl Heim, second by Steve Dougherty, to adjourn the meeting at 5:45 pm. The motion carried unanimously.

James Ryan – Chairman

Frank Musumeci – Secretary