City of Lake Mary Firefighters' Retirement System
Meeting of February 11, 2011

I. CALL TO ORDER

Division Chief Rick Fudge, Chairman, called the meeting to order at 7:30 a.m. Those persons present included:

TRUSTEES	OTHERS
Rick Fudge, Chairman	Scott Baur & Audrey Ross, Pension Resource Center
Ronald Russi, Secretary	Scott Christiansen, Christiansen & Dehner
Helene Beeler	Frank Wan, Burgess Chambers & Associates
Karen Gudinas	Alan Ashworth, Eagle Asset Management
	Steve Palmquist, Gabriel Roeder Smith
	Jackie Sova, City of Lake Mary

II. APPROVAL OF MINUTES

The Trustees tabled approval of the minutes for the disability hearing on August 13, 2010. The Board requested additional detail added to the minutes regarding the approval of the duty disability pension benefit for member Ryan Cooper.

The Board provided various corrections to the regular minutes for the meeting of November 12, 2010.

Andy Russi made a motion to defer approval of the minutes for the meetings of August 13, 2010 and November 12, 2010. Helene Beeler seconded the motion, passed by the Trustees 4-0.

III. REPORTS

Steve Palmquist, Gabriel Roeder Smith

Steve Palmquist reported that the required annual City contribution to the plan increased from 18.54% to 22.42% or 3.88% of covered payroll. The increase translates to an annual dollar amount of $60,267. Mr. Palmquist noted that the City made all required contributions for the prior fiscal year.

Mr. Palmquist then reviewed the recent changes to the assumptions adopted by the Board. He noted that the valuation for October 1, 2010 still used the 8% earnings assumption, and he broke down the cost impact for each additional assumption change in the valuation report. The plan experienced gains on lower than expected increases to payroll, but these gains were not sufficient to make up losses due to investment performance as the plan continues to recognize losses from prior years based on the smoothing of returns adopted by the Board. The funding ratio for the plan decreased from 82.5% for the prior year to 81.8% as a result of the overall performance. Mr. Palmquist reviewed the experience of the plan in detail. He noted that payroll for the department decreased while the actual dollar payment on the unfunded accrued actuarial liability increased, so the contribution as a percent of payroll also increased as well. Mr. Palmquist stated that the plan would have a 74.4% funded ratio with a required contribution of 25.81% of payroll required by the City, based on the market value of the plan assets.

Mr. Palmquist then accounted for the detail of the state contribution to the plan. The number of active members in the plan decreased as the number of retired members and member participating in the DROP increased. Mr. Palmquist indicated that the plan was strong financially, however, with nearly the exact amount of assets to pay the benefits accrued by members to date if the plan terminated immediately. Mr. Palmquist reviewed the economic assumptions and other assumptions used by the plan in the valuation. The prior actuary assumed eligible members would retire immediately on eligibility at 20 years of service, but Mr. Palmquist observed that members actually have actually worked longer than 20 years prior to retirement. He therefore modified the assumptions that he used according to the actual experience. Both investment income and administrative expenses for the plan increased from 2009 to 2010.

Mr. Palmquist provided additional details regarding the asset smoothing of investment returns. The prior actuary smoothed investment performance by adopting an average rate of return over a period of years, while GRS smooths the actual experience gains and losses relative to the valuation assumptions. Finally, Mr. Palmquist noted that the plan now has 3 active members eligible to retire, with 3 additional members close to eligibility for retirement.

Helene Beeler made a motion to approve the October 1, 2010 actuarial valuation. Rick Fudge seconded the motion, passed by the Trustees 4-0.

Scott Christiansen explained the definition of vesting as used by the plan. A vested member has a right to take a benefit from the plan as opposed to a refund of the member's own contributions. The vested member can voluntarily forfeit that right, but the plan cannot take the right to a vested benefit away from a member. Jackie Sova explained that the Summary Plan Description for the Police Pension Fund does not explain vesting in exactly the same terms, so the City raised the question about the correct definition for vesting. Member contributions to the plan earn interest at a rate of 5% credited annually.

<u>Alan Ashworth, Eagle Asset Management</u>

Mr. Ashworth indicated that he would continue to attend the quarterly meetings of the Boards on behalf of Eagle Asset management. Alan Ashworth reviewed the investment objectives for the equity portfolio managed by Eagle, which includes both small and mid-cap (smid) issues. The manager buys companies with both strong earnings and cash flows. Mr. Ashworth then reviewed contributions to the portfolio over time compared to cash flow and withdrawals. The combined performance for the smid and fixed income portfolios exceeds the performance for the corresponding benchmark over time. Mr. Ashworth reported that the portfolio had an extraordinary 4th quarter for performance as well.

Mr. Ashworth reviewed the attribution analysis for the 4th quarter performance, noting the sectors where Eagle outperformed and underperforming the various market sectors. He discussed some of the individual holdings in the portfolio, noting the top contributors and detractors from overall performance. He reviewed such holdings as Oshkosh, Buckeye, and Dreamworks Animation. Mr. Ashworth reported that Eagle expects a slow recovery for the economy to continue. He linking the housing problems with unemployment, stating that employment will not likely improve until the housing market also improves. The manager believes that disappointing employment numbers may continue to weight on the market during the year.

Mr. Ashworth explained that Eagle invests only in very high quality bonds and high grade corporate bonds in the fixed income portfolio. The manager is not making any significant duration bets in the portfolio; Mr. Ashworth explained that the duration measures the present value of a bond, giving an indication of market risk. Longer duration bonds tend to lose more value as interest rates increase. The Board reviewed how Eagle reported gross and net performance historically, since Eagle subtracted all fees in addition to investment related fees from the net performance. As a result, Eagle tended to underreport the investment performance of the portfolio. Recent changes to the structure of the portfolio at the custodian, however, will change the reporting to give a more accurate indication of performance.

Frank Wan, Burgess Chambers and Associates

Frank Wan reported that the investment portfolio for the plan earned 5.7% for the quarter ending December 31, 2010, and 12.3% for the 2010 calendar year. He stated that the portfolio had earned an additional 1.9% for the 2011 calendar year to date. He noted that the month of January historically sets the tone for the market for the remainder of the calendar year 80% of the time. He reported that the Eagle SMID portfolio returned 30.6% for the calendar year, with the overall equity performance at 17.4% for the period.

Mr. Wan reviewed the asset allocation. Overweights to the SMID and fixed income portfolio, and an underweighted position in the international allocation, added to the performance. Mr. Wan sees interest rates likely to begin to increase going forward, so he recommended changes to the asset allocation in anticipation of likelier losses to the fixed income portfolio. Mr. Wan noted that Eagle finished in the top 24% of the manager peer group for the year, while the plan took less risk over the trailing 5 years to achieve performance slightly above the benchmark. Mr. Wan discussed convertible bonds as an alternative to the fixed income securities. During the prior 2 quarters, convertibles captured about 80% of the upside for equities and only 60% of the downside returns. Mr. Wan stated that, due to the lower correlation with other asset classes, convertibles should add to the overall return of the portfolio while at the same time reducing the risk or volatility. Mr. Wan recommended the ETF as an investment vehicle for an allocation to convertible bonds through the convertible bond index.

Rick Fudge made a motion to adopt a 10% allocation to convertible bonds, taking 5% from fixed income and 5% from equities. Karen Gudinas seconded the motion, passed by the Trustees 4-0.

Mr. Wan provided revisions to the Investment Policy related to the new allocation to convertible bonds. He reviewed the new asset allocation targets for the portfolio in the updated Investment Policy. Since the Policy classifies convertible bonds as equities, quality standards for the fixed income portfolio will not apply to the allocation. Helene Beeler inquired about the list of scrutinized companies relative to the new allocation to the convertibles index.

Rick Fudge made a motion to adopt the amended Investment Policy. Helene Beeler seconded the motion, passed by the Trustees 4-0.

<u>**Scott Christiansen, Christiansen & Dehner**</u>

Scott Christiansen stated that the Trustees should declare the expected rate of return for the investment portfolio for the next year, the next several years, and for the long-term thereafter. He suggested that the motion incorporate the revisions to the actuarial assumed rate of return previously adopted by the Board.

Rick Fudge made a motion based on the advice of the Investment Consultant to declare that the Board expected an 8% return on investments for the next year, 7.75% for the next several years, and 7.5% for the long-term thereafter. Andy Russi seconded the motion, approved by the Trustees 4-0.

The City Commission reappointed Jeff Koltun to the Board, while the members of the plan reelected Andy Russi to another term as well. Scott Christiansen then asked Frank Wan if the plan had met the requirements for scrutinized companies. He noted that the plan needed only to send a letter regarding holdings in any commingled portfolios. If the manager failed to respond, the Board still complied with the oversight requirements.

Mr. Christiansen updated the Trustees on the voluntary compliance filing approved by the Board, which did not have a January 31 filing deadline. His firm had 10 plans file for a determination letter. All 10 plans had the required language changes already, although changes were not always made in a timely fashion. Jackie Sova will sign the voluntary compliance request on behalf of the City and the plan.

Scott Christiansen indicated that the ordinance needed a change to the assumption language for actuarial equivalence. Steve Palmquist stated that the City did not need to pass a separate ordinance for the update, but rather, the changes could be included the next time the plan had changes to the ordinance. He indicated that the factors for the optional forms of benefit payment would not change substantially based on the assumption changes.

Scott Christiansen stated that the Board must designate a Records Maintenance Liaison Officer (RMLO) for maintenance of public records. The Board must also adopt a records retention schedule.

Rick Fudge made a motion to approve Resolution 2011-1 appointing Scott Baur, the plan administrator, as the RMLO for the Board and adopting GS1-SL as the records retention schedule. Karen Gudinas seconded the motion, passed by the Trustees 4-0.

Scott Christiansen reviewed changes to the Summary Plan Description. The optional forms of benefit payment included a new description of the Partial Lump-sum Option (PLOP). The provisions for death prior to retirement and purchase of prior qualifying service credit outside of the state of Florida also changed.

Rick Fudge made a motion to accept the Summary Plan Description dated February 1, 2011. Andy Russi seconded the motion, passed by the Trustees 4-0.

The City will distribute the updated Summary Plan Description electronically to the members of the plan.

Scott Baur, Pension Resource Center

The Board addressed the manner that the plan used to credit quarterly returns to the DROP Account balances for the members in the DROP. Mr. Christiansen explained that the ordinance language indicated that the quarterly investment return should apply to the balance in the account at the end of the quarter, so the plan should implement the credit of earnings based on the language contained in the ordinance. Steve Palmquist advised that a change to the method to credit earnings to the DROP Accounts would have a negligible impact on the plan. Scott Baur provided examples showing how the earnings would change for the members currently in the DROP; his company currently credits earnings based on the average daily balance in the account. The Board directed the administrator to credit earnings instead based on the account balance at the end of the quarter.

IV. PLAN FINANCIALS

Scott Baur provided an interim financial statement for the plan. He noted that, as required by GASB, the financial statement reported the investments on a trade-date basis rather than settlement date for securities transactions in the portfolio.

The Trustees then reviewed the Warrant dated February 11, 2011 for payment of invoices. The Board requested a more detailed description related to programming work completed by Ellen Schaffer through the administrator on Invoice 2337.

Rick Fudge made a motion to approve the Warrant dated February 11, 2011 for payment of invoices with the exception of Ivnoice 2337 for Ellen Schaffer. Karen Gudinas seconded the motion, approved by the Trustees 4-0.

Helene Beeler noted that the overall administrative expense of the plan increased substantially on the 2010 Annual Actuarial Valuation. Steve Palmquist explained that the valuation expresses the expenses as a percent of plan assets, but the actual change to the administrative expense as a dollar amount was not that significant. Furthermore, he stated that the plan had a relatively low overall expense ratio.

There being no other business and the next meeting having previously been scheduled for Friday, May 13, the meeting adjourned at 10:10 AM.

Respectfully submitted,

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Ronald Russi, Secretary