

City of Hickory Hills
Police Pension Board Minutes
Wednesday, April 27, 2016 5:30pm

Attendance: David Wetherald, President; Robert Troy, Vice-President; Mary McDonald, Secretary; Scott Sodaro, Trustee; James Kadelis, Trustee; Dan Schramm, City Treasurer; Dan Davis Morgan Stanley VP

Dan Davis reported a quick recap of the first quarter. Last January the common indices were down 6, 8, and 10%. They really bottomed out when the price of oil bottomed out around \$26.00 a barrel right around mid-February. That is when the markets across the board, it did not matter what style investor you were, whether you were large cap, small cap, mid cap or value versus growth or International everything was down. Good news is that it has all recovered. We were basically down 12% we regained 13% so basically we are back to where we started. Looking at the monthly statement as of March 31, 2106, at the beginning of the year the fund started with a value of \$21,130,000 your change in value was also caused by benefit payouts and contributions to the fund is a little over a negative \$89,000 so your account was down .4% and you had a closing value of \$20,790,000.

The performance report now has a custom benchmark for your portfolio that would reflect exactly what your exposure is to each equity group. The year to date performance is plus 1.41%, the benchmark is plus 2.95% a little under performance year to date. The last 12 months ending April 30th, marking the fiscal year end for the fund, which we are almost at, so this is kind of the real key number minus 2.6% at April 20th versus the bench mark of minus 2.07%. So basically we have been trailing that for the last 12 months by about .53 basis points. So if you are assuming 7% annual return you are at a minus 9%. The fund in the last 20 years has had a net return of almost 5%. That is good years and bad years

Dan Schramm stated that if you just look at what is International as a percentage of our total equities it is more like 30%. Last time we talked about bringing that down.

Dan Davis recommended after a review of the mutual funds with the Morning Star reports to sell the Nuveen Fund of \$800,000 and reallocate it to American Funds Washington Fund which has a value slant. Morgan Stanley is under the impression that you might see a better moving forward performance out of value style investing versus growth. It hasn't been the case the last 4 or 5 years, growth managers have out-performed value. We saw a switch this first quarter. This first quarter growth managers were up about .5%, value managers were up about 2.5%. So one quarter does not make a trend, but what we are saying moving forward we are probably in a relatively flat market. The other part is their fees are lower than the competition. You will see the fee on this is .58%. We think we find ourselves in an environment where we are not looking at double digit returns in the equities markets we really have to roll up our sleeves and pay close attention to the internal expenses on the funds that we select.

Dan Davis stated that the fund holds 68% in equities. So if you close the books they (Dept. of Insurance) want you to be at 65% unless you are there due to appreciation. The board should close the books on this portfolio and after May 1st you can start over. If you make the change on May 2nd then you have another full year to rebalance the books to 65%.

Dan Davis recommended that of the current \$1,050,000 in the money market \$950,000 to be invested in a GNMA The current rate is 2.25% with an average life of 4 to 5 years.

Dan Davis stated that, today we had another Fed meeting and basically they came out and said no increase. Beginning of the year the market was looking for maybe 3 or 4 increases in the Fed Funds going to 1.25%. Since we had that slight

melt down in January and February now the market is in agreement that we may see one or two increases. So what that tells us is that short term interest rates are really going to stay the same. We may see a rate hike; Morgan Stanley is under the impression that we will only see one rate hike and that will not be until December till year end.

So that is going to increase your money market rates a little bit, but what it does basically if you look at long term rates they have not moved at all. They have actually come down a little bit the first quarter. A ten year Treasury at a rate of 1.8 or 1.9%, the thirty-year Treasury at 2.6 or 2.7%. So we are still in the very low historic levels. So we do not want to go out too far with this money funds.

David Wetherald made a motion to invest \$950,000 from the money market into a GNMA investment. Bob Troy seconded the motion. The board was unanimous on the GNMA 4-5 year investment at a rate of 2.25%.

The board agreed after checking schedules that Wednesday, July 20th at 5:30pm would be the next board meeting.

Dan Davis and Dan Schramm left the meeting.

Mary stated that at the April meeting the board approved the invest in the JP Morgan Mid-Cap Value Fund, but when it came to making the buy Dan Davis discovered the following day that the investment was closed to new investors. I reached out to the board members and through emails we approved the investment to be made in the Lord Abbett Value Opportunities Fund.

Mary asked for approval of the January 20, 2016 meeting minutes. Bob wanted to make some modifications to the meeting minutes. In the first paragraph it reads, "The market has not yielded returns on a consistent basis" he wants to add "to justify this change" which would give further clarification. The last paragraph in the minutes to drop "and more active oversight versus one that is more passive" as it makes the statement made confusing. With those changes will the board make a motion to approve the minutes as amended. David Wetherald made a motion to approve the January 20, 2016 minutes. Scott Sodaro seconded the motion. The board unanimously approved the minutes to be posted to the website.

Mary stated that the only expenditures that I need approval for is for a travel advance of \$70.00 for my two overnight stay as I am attending the Peoria Conference next week. The board unanimously approved the advance.

Mary informed the board that Art Tepner has agreed to hold his cost at \$2,400 for the fiscal year ending April 30, 2016 actuary. We also pay \$2,400 for the GASB pension fund reporting for the City's annual audit, but the City reimburses the pension fund for this cost.

Mary said that in your paperwork provided is Officer Trzeciak's pre-employment medical exams listing of expenditures where the pension fund covers 50% of the total cost. The pension fund will be reimbursing the City the total amount of \$1,288. In the past the City paid one company a fee for the pre-employment medical exams. Now we have to pay cardiovascular specialist, radiology imaging, Little Company of Mary, etc individually versus one flat fee.

Mary presented the retiree election results. I sent out 19 ballots, 17 were received by the required deadline, 1 was received late and Mr. Troy was received all the votes casted.

Mary stated that with the election and the new fiscal year being May 1st, will the board want to keep the board positions the same. Officer David Wetherald, President; Robert Troy, Vice-President; Mary McDonald, Secretary? The board members unanimously agreed to retain the board as it stands.

Mary informed the board that Lt. Michael Rattigan has officially filed for retirement with Chief Vodicka. Pension benefits will not be payable until May 2017 and he still needs to make a formal application to the pension board. He also requested a calculation to buy military time and I confirmed my calculation with the Department of Insurance. To buy one year of military service time and he has to buy the time while employed with the City so he has till April 30, 2017 and the cost at that date of payment would be approx. \$33,000.

Mary said that we know the position status on the board the Department of Insurance needs the Security Administrator Form completed. This form assigns a security administrator for access to the Hickory Hills Police Pension Fund annual statements filing which contains personnel information. Mary is currently the administrator and I have only given access to our actuary Art Tepner. Some of the personnel information is redacted from his eyes. The board unanimously voted to keep Mary, Secretary as the administrator.

David Wetherald stated he reviewed the new investment policy the one question I had was on the bottom of page 3 the last full paragraph it has 55% in there regarding the total portfolio equity investments allowable by State Statue which has changed to 65%. He also wanted to insert a classification for Mid-Cap investments by realigning the investments to put the Large Cap down to 50%; make the Mid-Cap stocks 20% and make the Small Cap stocks 20% and International would be 10% of the total equity portfolio.. For the Mid-Cap and Small Cap stocks have the investment range in the third column of the investment grid 0 to 40%. Mary said that we then need to assign a benchmark for the Mid- Cap investments. I am going to be at the Peoria conference and can discuss this with Sawyer Falduto at that time and any other questions about the policy that may arise before I meet with them as Jim noticed commodities or REITS investments were not mentioned in the policy provided.

Jim stated that Sawyer Falduto sent him an email after his meeting with them stating what they would do to our existing portfolio. They could have it resent to everybody.

The board had a discussion of the matter of the firm Sawyer and Falduto Asset Management LLC and Morgan Stanley. The board is considering a 50/50 split of the portfolio at this time.

Mary stated that there was a contract in the Sawyer Falduto presentation that we could have Attorney Reimer review. The board agreed to the review.

The board discussed meeting with Sawyer Falduto the first week of June between the 6th and 10th for further discussion and possibly sign off on the contract. Mary will reach out to Sawyer and Falduto on a date.

David made a motion to put all portfolio investment changes including the investment decisions made tonight on hold pending our meeting with Sawyer Falduto. Bob Troy second the motion. The board unanimously agreed to the motion to hold all investment changes.

Mary made a motion at 6:50pm to call this meeting to a close. Scott Sodaro second. The board unanimously closed the meeting.

