

City of Hickory Hills Police Pension Board
Specially Called Meeting
June 7, 2016 5:30pm

Attendance: David Wetherald, President; Robert Troy, Vice-President; Dan Schramm, City Treasurer; Mary McDonald, Secretary; Jim Kardelis, Trustee; Scott Sodaro, Trustee

Dan Davis, Senior Vice President and Mark O'Donnell, Regional Director of the Consulting Group both from Morgan Stanley made a presentation to the Police Pension Board to move from a Broker Platform to an Advisory Platform of investing. The board would still make the investment decisions from the various equity money managers and fixed investment managers who are recommended and monitored by Morgan Stanley through their Advisory Platform as well as those outside the Advisory Platform. Currently mutual fund money managers are being chosen based on Morning Star Reports and Morning Star Ratings. With the new platform the equity portion of the portfolio can hold Indexed Funds as well as ETF's (electronically traded funds). Through the fixed investment manager the Hickory Hills portfolio could contain Corporate Bonds which currently it cannot under a Broker Platform.

In an advisory relationship, Morgan Stanley would provide ongoing investment advice that the board could act on between regularly scheduled quarterly meetings.

Morgan Stanley would be paid an annual advisory fee for these services as opposed to transaction-specific fees. The Morgan Stanley fee of .25% based on assets of the fund is known as a "wrap fee" and generally covers investment advisory services, compensation of Financial Advisors, execution of transactions, custody of account assets and reporting. The advisory fee is deducted from the fund account on a quarterly basis and is based on the Funds market value less the annuity contract value and the money market account value being held at that time. The equity managers and the fixed income managers, depending who they are would have their own fees. These fees would be lower if the manager is part of the Advisory Platform which would have a negotiated fee with Morgan Stanley. If investing through ETF's (Electronically Traded Funds) the fees would be lowered to approx. 10 basis points.

Morgan Stanley when acting as an advisor would also be a fiduciary under applicable law.

Mark O'Donnell when reviewing the new investment policy still to be modified finds that it made need further modifications so as to not be so constrictive in range to take advantage of investment opportunities.

Dan Davis made a recommendation the fixed portion of the policy to increase the range for the Investment Grade Corporate Bonds from 0-30% to 0-50% allowing the fund to take advantage of the low interest rate environment.

Dan Davis stated that the Advisory Platform contract does not lock the Hickory Hills Police Pension Fund into a specific time, it can be terminated if the board decides to do so. Mr. O'Donnell stated that if the board decides to terminate the relationship within a quarter the fund would be rebated part of the advisory fee based on the number of days their services were retained within the quarter. It is really a pay as you go.

The board had a discussion with the concern that the fund even with the change of platforms the portfolio would not be as actively managed as it may need to be to improve on the earnings beyond reduced fees.

Meeting adjourned 6:50pm