City of Hickory Hills
Police Pension Board Minutes
Wednesday, October 26, 2016 5:28pm

Attendance: David Wetherald, President; Robert Troy, Vice-President; Scott Sodaro, Trustee, James Kardelis, Trustee was absent; Mary McDonald, Secretary was absent due to illness; Tom Sawyer, Investment Manager for Sawyer Falduto

Dan Schramm stated that there were three items to be discussed at tonight: Investments Performance, The Actuarial Report from Tefpner, and general feedback on the October Conference...

Dave stated that the conference was different this year in as that nothing was hanging over us with the Illinois Supreme Court so the mood was a little bit up.

Tom stated that he would bring you up to date as to where the portfolio is as of October 24th. This will give you a good sense of what our reporting format is like. There are probably a couple of things we would like to tweak for you in addition, but this will give you a good start.

Dan stated that everything pretty much got moved from Morgan Stanley probably the month of September. I gave the board a copy of Morgan Stanley September 30th statement and also sent it to John Falduto. The statement only showed the value of the annuity contract.

Tom stated that Sawyer Falduto will take that September 30th statement and reconcile it to everything that was received and if we expecting to see any stray cash or anything like that we will have Schwab reach out and grab it as well. We will talk about the annuity after we go through the standard report.

Dave asked if the investment portfolio has been rebalanced to the 65% equities and 35% fixed investments...

Tom responded that yes, it is modestly in process, but we are close and I will cover that too. Your portfolio was about 70% invested in equities under Morgan and in an interim period that really is not a problem because you kind of grew through with the market and that kind of thing. But when you come to file your Department of Insurance report at the year end the pension police will give you a wrap on the knuckles for being above your target.

Dave asked the question if we purchased and equity investment when the investment percentage of the portfolio was 64% equities or less the fund would be within the statute guidelines if the equities grew to 67% due to the market activity.

Tom responded that your previous broker was correct with that. But the value when you file that report, and I am telling you, they are going to ask you to rebalance it. They are going to write you up.

Tom did a review of the Interim Investment Performance Report dated October 26, 2016 for the Hickory Hills Police Pension Fund.

Tom requested during the review of the portfolio allocation of the investment guidelines which is tab one of the report be fine-tuned. This is really just a starting point for this document because you were a little a bit above 65% and we bringing you back to 65% as part of the rebalance. We probably ought to memorialize it in this document, here on this page for your quarterly reports going forward. I do not believe this is actually in your policy.

We have kept your policy silent on that because if you decide to change it down the road you would have to refile you policy with the Department of Insurance. So we left that flexible. So your policy is silent on this second box by design (portfolio allocation). It is much more manageable for the board that way. What I think I would like the board to do ultimately, and if you have the taste for it is to set your target at 60 with a range of 55-65, you follow me. Sixty-five being your maximum allowed under statute. That gives you a little bit of wiggle room within that category from an asset allocation point of view. So it is just a modest tweak to what we are doing. You do not need to modify your investment policy. You can approve it as a board this evening and then you memorialize it and you will have it in your minutes and then we will have this in your book every quarter.

Dave made the motion to be set the equity target at 60% within a 55-65% range and the fixed income target will be 40% within a 35-45% range and the cash target will be zero within a 0-5% range recognizing that there will cash needed for operations.

Bob seconded the motion.

The board members Scott Sodaro, David Wetherald and Robert Troy voted yes to accept the motion.

Tom – You began your portfolio with us at a value of $20,158,865 and your portfolio closed out at October 24th when we last valued it at $20,256,106 in Schwab. You are up a little bit at $97,241 for that short period of time. The Nationwide annuity contract is not part of this report.

Tom recommended that the board liquidate that annuity. There are a couple of key things we would like to look at. So here are the basics. Your contract inception date was January 29, 2002; you are well beyond any surrender periods that you would have to face from a charge point of view. What was interesting to me was that your contract value and the death benefit value is one in the same. You are in a gain position at this time. Now, the fees and charges are always where the story lives. You do not have to worry about any surrender charges because they only went out seven years according to the prospectus so there is no deferred sales charge to worry about. The mortality expense is running you 95 basis points via the prospectus that we got on line. The death benefit expense ranges from 5 to 20 basis points depending on a couple of different things. But that would be added on top of the M/E expense, so you are paying 1% right off the bat to own this. Add to that the underlying equity account fees; they are at about 60 basis points. So you are paying anywhere from 1.6% to 2 to own this thing in underlying cost and fees, that is pricey. That is the annual basis point yield for this. From a performance perspective, not bad. We did a little analysis if you look under the annuity performance. You have done okay. It is a large cap fund that has done pretty well so you have made money certainly on the investment. The weighted average return on the sub-accounts is about 13.78% since you have owned it. Compare that to the large cap funds that we own at about 16.78, so you are a little beneath that, but you have a fee in there, a higher fee as well. So, the performance has not been out of line, but my suggestion to you is get the cost out of there. There is no reason to hold it. Let's roll those dollars into the Schwab account and have it be managed with the rest of your portfolio so that you are moving that chasing target of assets all over the place. That is our recommendation to you. There were windows of time that is the only way you could get into equities going back to 1998. Then the law changed and it got easier. There are a lot of legacy annuity ties type products out there. My final comment on that is what we do is that we do these, before we drop the paperwork in the fax we always do a final reality check to make sure there is no hidden sale or redemption cost that we are missing.

Bob made a motion to redeem the Nationwide Annuity and transfer the proceeds to the Schwab custodial account.

Scott seconded the motion

The board members present unanimously voted yes to the motion.

Dan Schramm stated that this past year report, year ending April 30 that is our pension plan year ending, the same as the City's fiscal year end, we slipped another couple of million in unfunded future pension liability to about 11 million dollars. So we are about 67-68% funded. Where it was just three or four years ago we were 78-80%, but instead of getting a 7% return got minus 3.5%. So when you look at a 10% swing on 20 million in assets there was a couple of million dollar swing there what caused the further unfunded pension liability. We had a couple of more retire. I mean a number of factors were involved.

With no further business the meeting ended after 46 minutes or at 6:14pm.