

ST. CHARLES POLICE PENSION FUND

211 North Riverside Avenue
St. Charles, Illinois 60174

MEETING MINUTES

Wednesday, March 2, 2016

11:30 p.m. – St. Charles Police Department

1. President Beam called to order the Regular Meeting of the St. Charles Police Pension Board at 11:40 p.m.

2. ROLL CALL

Members Present: Timothy Beam, President; Michael Griesbaum, Secretary; Chris Minick, Finance Director; and James Keegan, Trustee

Members Absent: Dave Jannusch, Trustee

Others Present: Attorney Brian LaBardi, Reimer Dobrovolsky & Karlson LLC; Joseph Christianson, UBS; Gregg Castle, Cook Castle Associates

3. APPROVE PREVIOUS MEETING MINUTES

Motion: To approve the minutes of the December 2, 2015 Regular Meeting as presented

Maker: Griesbaum

Second: Minick

Voice Vote: 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion Carried.

Motion: To approve the minutes of the February 3, 2016 Special Meeting as presented

Maker: Minick

Second: Griesbaum

Voice Vote: 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion Carried.

4. INVESTMENT ACTIVITIES

The portfolio began the quarter at \$29,180,440 and ended at \$29,299,503. Since inception, the Fund is up approximately \$10.5M. It was noted that over the past year, the Fund is experiencing more withdrawals than contributions. The Fund is up 1.91% for the quarter with the benchmark up 1.51% (hurdle rate is 1.71%) and 6.60% since inception. Discussion continued on the capture ratio, which is trending in the right direction, as well as the returns for the managers over the last year. As part of the asset allocation study, all the managers will be reevaluated to determine who the Fund will keep going forward. A brief discussion was held on the pros and cons of MLP's in the portfolio. The rebalancing worksheet recommends taking \$375,000 from C.S. McKee, \$350,000 from Pacific Income, \$24,000 from the iShares Core Emerging Market ETF and put \$450,000 in the cash account to fund beneficiary payments, give \$125,000 to the Tortoise MLP and \$174,000 to the Vanguard Extended Market ETF. Discussion continued on IPS ranges; increasing the authorization amount for transferring monies to the cash account, especially with the increasing retirements; etc.

Motion: To rebalance the portfolio by taking \$375,000 from C.S. McKee, \$350,000 from Pacific Income and \$24,000 from the iShares and allocating \$174,000 to Vanguard Extended Market, \$125,000 to Tortoise Cap MLP Fund and \$450,000 to the cash account for benefit payments.

Maker: Minick

Second: Griesbaum

Roll Call: Griesbaum – Aye, Minick – Aye, Keegan – Aye, Beam – Aye. 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

Discussion was held on how the Board can manage the cash flow better in regards to anticipated tax levy monies. Currently these monies are deposited in large lump sums and may sit in the accounts for months until such time a meeting is held and the monies are invested. UBS would like to manage this better by anticipating the numbers and dates and creating an investment plan.

Christianson requested that the Board consider adding the following to their Investment Policy Statement (IPS): The Board may designate a member to instruct UBS to rebalance and reinvest funds within the guidelines of the IPS and State Statutes in regards to special circumstances, such as the receipt of tax levies or unexpected liability payments. UBS feels this is a better way to manage the monies and get them invested as soon as possible. Minick reported that the Board has done this from time to time, however, the authority has never been granted for all the time. Discussion continued on the pros and cons of designating one Board member to make these investment decisions. Table to the June meeting.

Christianson gave a brief overview of the asset allocation study. This study included a risk profile. The Board now needs to select a new strategic asset allocation profile. Once the profile is determined, UBS will review all the current managers to determine which managers will work with the new profile moving forward in order to make recommendations to the Board. This process may take a couple weeks. The implementation will depend on the market conditions and require contract reviews. This process may take up to a month. Fiduciary documentation will require updating the IPS with the new strategic asset allocation. The Board paused to review the results of the risk profile. Actuarial numbers for the next 6-7 years and assumptions on payroll and tax levies were used to make a determination of the immediate need, as well as future needs, of the Fund. Because the City of St. Charles has made a commitment to continue funding, this allows the Board to take a little bit more risk. It allows the Fund to focus a little more on total return for the investments as opposed to just having to have enough money to pay beneficiaries. This ensures that the Fund will be around well into the future.

Moderate and Moderate Aggressive portfolios, along with a blend, were discussed. In choosing a portfolio, the Board needs to determine how much of a risk they would want to take with the investments. Discussion continued on sharp ratio, minimal differences in risk between the options, being able to change directions and the Fund always having time to recover, etc. It was noted that any of the portfolios could be adopted immediately without having to change the IPS.

Motion: To adopt the Moderately Aggressive Strategic Asset Allocation Portfolio as presented.

Maker: Minick

Second: Griesbaum

Roll Call: Griesbaum – Aye, Minick – Aye, Keegan – Aye, Beam – Aye. 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

5. OLD BUSINESS

Change in Hurdle Rate – Minick asked that this issue be deferred until after a discussion on the actuarial situation.

6. PRESENTATION AND APPROVAL OF BILLS FOR DISBURSEMENT

Motion: To approve bills for disbursement as presented in Addendum A dated 02/29/2016 in the amount of \$67,877.35.
Maker: Griesbaum
Second: Keegan
Roll Call: Minick – Aye, Keegan – Aye, Beam – Aye, Griesbaum – Aye. 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

7. APPLICATIONS FOR MEMBERSHIP

To be addressed at the next meeting.

8. APPLICATIONS FOR BENEFITS

Table to the next meeting.

9. ATTORNEY'S REPORT

LaBardi reported that Tim Sharpe, Actuarial, is having some legal problems. Although there are legal problems, these problems do not affect his ability to continue to submit recommended tax levies for Illinois pension funds because the Statute indicates that you have to be an enrolled actuary and this doesn't affect his status as an enrolled actuary. The St. Charles Police Pension Fund doesn't hire its own actuary; the City of St. Charles does that. If the City wishes to continue with Tim Sharpe, the Board will have to decide if they wish to continue with the City's choice or hire their own actuary. LaBardi also reported that Sharpe is scaling down on the amount of work he is performing. Minick reported that he did have conversation with Sharpe earlier in the week and Sharpe has indicated a willingness to continue to serve both the Fire and Police Pension Funds and perform the actuarial studies as part of the audit. Minick noted that the Fire Pension Fund decided to send out an RFP (Request for Proposals) for actuarial services. Minick has prepared an RFP for Police, Fire and the City's health insurance valuation. This will be sent out as soon as possible. Minick noted that these legal issues are not necessarily a black mark against Sharpe, however, the City has not gone through the process for a new actuarial for many years and it is just good due diligence to do so. The Fire Pension Fund will be meeting in May to discuss the results of the RFP. Minick reported that the cost of actuarial services would still be picked up by the City. Discussion continued on the RFP, participation of the Police Pension Board in the process, review of results, etc. Minick stated that the hope is to have an actuarial in place by the next meeting.

LaBardi reported that the most significant development is the Lieutenant Governor's report on pension consolidation. This is a committee that was put together by Governor Rauner to study the consolidation of all local government entities, not specifically pensions. The report has adopted the recommendation of the DOI to consolidate all Article 3 & Article 4 investment funds at the State level and the State will invest those monies on behalf of the pension funds. The report never explains why this is a good idea other than to say they believe will result in greater returns and fewer fees. The IPFA sent a FOIA request to the Lieutenant Governor's office asking them to produce any documents used to create this report. No analysis of financial data showing what different returns should be studied by any financial or business institute indicating why this is a good idea was received. There was basically just a memo from IMRF Trustee to the committee stating how IMRF does their investing and their feeling that 600+ individual funds are too many. Unsure what the outcome will be. No legislation has been drafted. There have been a number of pension related bills voted on still sitting in committee. Most notably is a bill dealing with the actuarial assumptions that the Statute mandates, which is

90% funded by 2044. The new recommendation is 85% funded by an even longer date. This legislation will also affect the pension fund's ability to take State grant monies from a city in order to fund the pension. This bill hasn't gone anywhere. Will continue to monitor the situation.

A DOI opinion regarding firefighters, doesn't affect police officers, saying that if a firefighter exercises reciprocity, police officers have portability, a Tier 2 firefighter may become a Tier 1 firefighter. Two weeks ago, the DOI issued a supplemental opinion, reversing that decision. They revoked the prior opinion, indicating they were wrong.

The newest idea is the offering of lump sum payouts or buyouts. Doesn't appear to be beneficial in the long term. No legislation has been drafted in relation to this, as of yet. Discussion continued on various options. Will continue to monitor the situation.

10. NEW BUSINESS

Renewal Fiduciary Liability Insurance – Gregg Castle reported that the underwriting company is the same, the terms and conditions are the same, same coverage form, same enhancement, same limits of coverage, and the only change is the premium. The expiring premium was \$3813 and the renewal premium is \$3979 an increase of \$166.00. Discussion continued on stability of underwriter, assets of the funds, funding ratio, change in the mortality rate driving down the funding ratio resulting in a negative impact, increases in the City's contributions, etc.

Motion: To approve renewal of fiduciary liability insurance with Cook Castle Associates with Hudson as the underwriter not to exceed the amount of \$3979. This premium is in effective 04/01/2016 to 04/01/2017.
Maker: Griesbaum
Second: Minick
Roll Call: Minick – Aye, Keegan – Aye, Beam – Aye, Griesbaum – Aye. 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

Approval COLA Increases – Annual COLA increases, effective January 1, 2016, were presented to the Board for review. Discussion was held on QILDRO.

Motion: To approve the 2016 COLA increases as amended.
Maker: Griesbaum
Second: Minick
Roll Call: Minick – Aye, Keegan – Aye, Beam – Aye, Griesbaum – Aye. 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

Elections – Beam reported that Jannusch and Beam are up for re-election. Notification and ballots will be forwarded to the Finance Department to be included with the retirees pay stubs. Requests for nominations will also be posted at the Police Department. LaBardi reported that in the past, when only one (1) candidate was running, that candidate was declared elected by acclamation because no one else ran. The DOI has recently started to site boards for doing this. Their view is that the statute mandates you have an election whether you have one candidate running or 20. Although it doesn't make sense to conduct an election with only one candidate as well as the expense involved, the Board runs the risk of being cited by the DOI. Discussion continued.

Economic Interest Statements – All Trustees are required to file a Statement of Economic Interest with Kane County. These statements must be filed by May 1, 2016 and may be done electronically.

Verification of Eligibility of Benefits – Verifications were sent out earlier. The Board has not received verification from two beneficiaries. Secondary notices will be sent.

Review of Closed Session Minutes – No closed session minutes to discuss from 2015.

Preparation of DOI Report – The City of St. Charles Finance Department will prepare the DOI Report.

Government Finance Officers Association – Minick reported that he is the Pension Committee Professional Education Chair for the Government Finance Officers Association and they will be having a day-long Illinois Public Pension Institute. Attorney Rick Reimer will be a speaker. This training will be held March 17, 2016 at the Double Tree Hilton in Lisle. This training qualifies for required trustee fiduciary training.

11. PUBLIC COMMENTS

None

12. ADJOURNMENT

There being no further business, a motion was made by Secretary Griesbaum to adjourn the meeting at 12:50 p.m. Seconded by Trustee Minick. Voice Vote. 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

The meeting was adjourned at 12:50 p.m. The next regular meeting is scheduled for June 1, 2016 at 11:30 p.m.

Respectfully submitted,



President

Secretary

12/1/2015 - 2/29/2016

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