

ST. CHARLES POLICE PENSION FUND

1515 West Main Street
St. Charles, Illinois 60174

SPECIAL MEETING MINUTES Friday, January 17, 2020 12:41 p.m. – St. Charles Police Department

MEETING CALLED TO ORDER

President Boyce called to order the Special Meeting of the St. Charles Police Pension Board at 12:41 p.m.

ROLL CALL

Members Present: Brooks Boyce, President; Steve Heike, Secretary; Dave Jannusch, Trustee; and Chris Minick, Finance Director (arrived at 12:44 p.m.)

Members Absent: James Keegan, Trustee

Others Present: Brian LaBardi, Reimer & Dobrovolny PC; John Willhite, UBS

The sole purpose of this meeting is to hold presentations for Investment Consultant. Requests for Proposals (RFP) were sent out as per statute. UBS and Sawyer Falduto were chosen to give formal presentations reference their RFP's. UBS was first to give their presentation.

John Willhite, UBS addressed the Board. Willhite noted that he has worked with the St. Charles Police Pension Fund for over 20 years and what an honor it has been. Looks forward to assisting the Fund in the transition to the State plan. Stated his firm has the strength and integrity needed for this transition and believes UBS is the right company to move forward with. There have been ups and downs through the years and have always been there and never walked away from any challenge. Looking forward to the next stop.

Willhite gave an overview of UBS and what UBS can do for the Fund. UBS is a Tier 1 ratio financially around the globe with 150 years of history, \$3.1T in invested assets in over 52 countries with one of the best credit ratings among financial firms. Willhite noted that their current team will remain throughout the entire transition process and has the resources to transition smoothly. UBS has 30 years of experience with Article 3 & 4 Funds serving 14 funds in Illinois serving over 40,000 people in retirement plans. UBS is ranked in the top 50 institutional consultants across the country, consistently are in the top 100 retirement plans, GIPS compliant, etc. Willhite reviewed UBS credentials and cyber security. UBS trades 1 in 9 securities globally.

The Board reviewed the strategic asset allocation of the portfolio. The asset allocations end game is to control the losses and keep principle safe. The current portfolio is managing between Moderate and Moderate Aggressive. Discussion was held on the cost of transition. These costs include but are not limited to spread costs, trading risk, funds in limbo, trading costs, etc.

Willhite reported that part of their service in the transition to the State fund would be to make sure that the portfolio is invested in the right product for this transition or should the Fund make changes now to ensure the smoothest process with the least amount of friction. UBS has the resources and tools to help execute this process to the greatest advantage of the portfolio. The goal is to minimize loss during this transition period. Willhite stated that if the Board does change consultants, UBS will do everything they can to maximize the returns and minimize the impact of the transition costs.

Willhite stated that if they are retained, they will begin by reviewing the asset classes to determine if the portfolio should move out of some of these asset classes. Need to look at whether it will be necessary to sell all of the securities and send cash or cash equivalent. This is unknown currently. If the transition is going to require cash and cash equivalent, will need to look at separately managed accounts. Is an ETF a better option, how is the fixed income going to transition, how can it be traded out, etc. Minick inquired about the diversifiers within the portfolio. Doesn't see these as a good transition. Willhite reported that the State will have diversifiers but in the way of hedge funds, private real estate, etc. Need to determine how long the Fund should keep these diversifiers or if they should start to transition them out now. Must manage this without creating a higher level of risk. Discussion was held on whether the Board should look at changing how they invest now, while they are still able; higher level of risk; how to best position the portfolio with the risk; how is the State going to transition funds, cash only or transfer of managers; liquidating certain assets and certain asset classes; Indexing Funds; etc. It was noted that the Transition Board has not been chosen to date.

Willhite reported that all of the people the Board has been dealing with over the years will remain throughout the transition process. The current team will continue forward with the Board. Minick inquired that since UBS does not have discretion and because there are going to many time-sensitive issues that will be arising, how will UBS deal with the delay in getting the Board together and being able to execute trades in a timely manner. Discussion continued on changing meeting dates to accommodate participation in the meetings, handling the moving of money similar to how the Board handles the investing of the tax levy monies, ratifying decisions at the next meeting, handling transitions like the rebalancing is handled, participation via conference call, special meetings, etc. Willhite noted that there are no changes from what was submitted in the RFP.

Minick inquired why UBS is the best choice for the St. Charles Police Pension Fund. Willhite stated that the team the Board has been working with will remain throughout the transition period, they have over 30 years of experience with Illinois Fire & Police Pension Funds, they have the right knowledge base and are a firm that is committed to do the right thing and has a balance sheet to back this commitment. UBS has had an Institutional Consulting Department since the 1980's, the Board won't find anyone that is more qualified both from understanding and working with and financial ability to stay intact. (Willhite left the meeting at 1:48 p.m.)

Motion: To break the meeting at 1:49 p.m.
Maker: Jannusch
Second: Minick
Voice Vote: 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

Break 1:49 p.m.
Return 2:10 p.m.

ROLL CALL

Members Present: Brooks Boyce, President; Steve Heike, Secretary; Dave Jannusch, Trustee; and Chris Minick, Finance Director

Members Absent: James Keegan, Trustee

Others Present: Brian LaBardi, Reimer & Dobrovolny PC; John Falduto, Sawyer Falduto; Ed Lavin, Sawyer Falduto

The meeting resumed at 2:10 p.m. Minick inquired if there had been any changes in response to the RFP that Sawyer Falduto had submitted. John Falduto reported that in the RFP submission, Sawyer Falduto had represented 159 funds. They are currently representing 166 funds at the present time. Even in the light of consolidation, boards have indicated that they want to be better off for the remaining months or years. Other than the number of funds represented, there are no changes to the RFP.

Falduto reported that the team they have assembled to service the police and fire funds have a lot of experience and are handling the investments of the portfolio's day in and day out as well as any administration requirements. The team members have over 25 years working with different types of pension funds and, in particular, Illinois pension funds. Although there is a team of roughly 9 people, the Fund will have one (1) point of contact, John Falduto. It was noted that John Falduto or Ed Lavin would be the individuals attending the meetings. Falduto gave a brief overview of the history of Sawyer Falduto. Sawyer Falduto is proud of the fact that they have only lost one client in the history of their firm. They are an independent firm, competitively shop for investments and are not obligated to work with any one brokerage. They participate in many police and fire organizations. Sawyer Falduto does not collect any fees or compensation from any other party, other than their fee for service.

Lavin stated that Sawyer Falduto has 3 key principles; people, process, product. This ensure that they have the right checks and balances in place and be better moving forward. Falduto noted that the assets they own, and trade are similar to what the St. Charles Police Pension Fund owns and trades. Sawyer Falduto has over \$5B in assets. Minick inquired how the firm manages so many firms at the same time, especially when tax levy monies are realized. Falduto stated that a lot of this is done electronically. In relation to fixed income bonds, they will take the sum of all the monies and purchase bonds with that sum. The bonds are then allocated back to the individual portfolios. This is known as trade allocation and maintains the integrity of the portfolio. Lavin reported that because there is such a large sum of money to be traded, companies want to work with Sawyer Falduto. Although these transactions are electronic, the people are always there reviewing and overseeing the process.

Falduto stated that their process is a circular process that never stops. They always take into account cash flow, asset allocations, risk tolerance, liquidity, etc. They look at each fund as a unique fund, broadly managing the portfolio paying attention to the details. Each fund has their own Investment Policy Statement (IPS). They have policies are unique to every fund. Sawyer Falduto is a discretionary manager. If chosen, they would look at the structure of the bond portfolio to determine if they agree with how long the duration of the bond portfolio is, what is the allocation of the bond portfolio, too much risk or not enough risk, too much income, etc. How might they improve the portfolio. Some funds wish to be very involved, others do not. How involved does St. Charles want to be in the process? Once Sawyer Falduto is managing the fund, their job is to manage the assets in line with the ISP and as a discretionary manager, this is done on a day to day basis. They can do this without holding a lot of special meetings to make decisions in a timely manner. They do work within the parameters of each fund. Most of the clients they work with today, they manage the portfolios and then meet later to discuss what has been done.

Sawyer Falduto meets with boards on a regular basis to discuss performance. Discussion was held on the use of mutual funds, building portfolios using these stocks, allocations, large cap, small cap, real estate, diversification, sector weightings, risk versus return, active management, index related funds, fixed income, etc. Falduto reported that they competitively shop for the best price for bonds. Sawyer Falduto charges 15 basis points for their management service fee. Lavin reported on credit risk in corporate bonds. The approach Sawyer Falduto takes is multi-faceted. They monitor credit spreads, communicate with bond

managers, review market daily for down-grades, alerts in place for when down-grades occur, etc. Falduto stated that they diversify the corporate bond portion of the portfolio. Schwab is used as the custodian. Have had a very good working relationship for many years. Pension Funds transfer their tax levy monies into the Schwab account, which keeps all the monies invested, and then withdraws what is required for benefit payments every month. This is done through Money Link. What this means is that money isn't just sitting in a money market, it is invested. Discussion was held on how this process works.

Falduto stated that they provide a performance report that is very comprehensive. This performance report is catered to the wants/needs of the client and may be customized. Schwab provides a monthly statement, which is forwarded to the client. These are also emailed. On-line access is also an option. Falduto reported that they would attend the quarterly meetings.

Sawyer Falduto fee parameters is based on the market value of the assets they are managing. They charge one quarter of their annual fee each quarter and they calculate and charge this at the end of each quarter. The asset management fee is 15 basis points and includes the custody of the assets at Schwab. The service fees are guaranteed for 10 years. There is no termination or exit fees. No fees are collected from any other provider. There is no minimum annual fee.

Falduto stated that they take a lot of pride in being available and responsive to their clients. Discussion was held on the investment advisor agreement. Falduto reported that the agreements include mediation language, however, it is non-binding. Sawyer Falduto has never been taken to mediation. The agreement further states that any assets that are held by Schwab are owned by the pension fund in the pension fund's name. If anything happens to Schwab, they (Schwab) does not own the pension fund's assets. Schwab is merely the custodian. There is SIPC insurance as well as additional coverage with Lloyds of London. Discussion was held on quarterly reports and biographies of personnel, many of which are CFA's.

Minick inquired how Sawyer Falduto would work with the St. Charles Police Pension Board to determine when/how they should modify their investment guidelines, investment policy statement, and what's the method utilized to decide what's an appropriate level of risk for the portfolio. Falduto stated that the investment policy statement is updated on a regular basis, primarily when legislative changes happen. The policy statement may be customized at any time for the client. At every meeting, a summary of the investment policy is reviewed to include review of allocation to stock, allocation to bond, fixed income and equities and ranges around these stocks used to manage the portfolio. Inform and engage. Discussion continued.

Minick inquired as to the approach to rebalance and/or reallocate the asset classes and styles on behalf of the fund, how does Sawyer Falduto add value? Falduto stated that they review and analyze this on a daily basis. They take a hands-on live approach versus an automated approach. They don't let the calendar drive what to do. It is based on what they feel about it and then that dictates what they do. They will tweak/change here and there to add value. These are little tweaks and not major changes. Discussion was held on the market changes over the last few years, under/over targets, liquidity, etc.

Falduto stated that his firm has a \$5M for errors and omissions type coverage. Schwab, the custodian, has SIPC insurance as well as Lloyds of London extended coverage. If selected, the first step would be to gather contact information, copy of the most recent DOI statement, and most current account statements. A packet of Sawyer Falduto and Schwab agreements would be distributed to the Board and legal counsel. Upon approval of the legal agreements, their firm will be ready within a week to discuss the transfer of funds. A letter of termination and direction, for the current provider, which gives direction to the underlying managers that effective immediately, no more trades, will be forwarded to the consultant. This directive also requires the notification of pending trades. A second, similar letter would be sent to the money

managers terminating their relationship. Sawyer Falduto will handle this process. A Schwab account will then be open within 3-5 business days. Once the account is open, Sawyer Falduto will submit the transfer paperwork at that time. No personal information of board members is required to open the account. No personal social security numbers will be tied to the pension fund. Once all of this is accomplished, it is generally within a week that all the funds are transferred. Sawyer Falduto oversees this process and reconciles every dime. Once the monies are transferred, there are two options. The first option is to allow Sawyer Falduto to invest the monies according to the ISP. The second option is to call a special meeting, or wait to the next quarterly meeting, to discuss how the monies should be invested. Sawyer Falduto is a discretionary manager so day in and day out they invest according to the ISP. Stocks and mutual funds trade at a stated price at the end of the day. On the fixed income side, prices can be volatile. They will shop around, maybe sell and reallocate, whatever to increase the value of the portfolio. Any major issues they do encounter, they will contact the board immediately. Sawyer Falduto has an arrangement with Schwab, which gives them the ability to buy and sell mutual funds on the same day. Discussion continued on separate accounts at Schwab, managing funds similar to each other, delivery instructions, balancing accounts daily against the Schwab account, tracking tax levy monies on-line, cyber security, funds Sawyer Falduto manages, international markets and philosophy, pension consolidation and the future of Sawyer Falduto. Falduto stated that his firm will be there until the end with all the pension funds they manage. Sawyer Falduto, although they manage 166 pension funds, they also manage municipalities, private clients, and have plans to do business in other directions. Falduto stated that everything they do; they do to make their clients happy. It is not just business to them. The police and fire service are not just business to them.

Falduto and Lavin left the meeting at 4:03 p.m.

A brief discussion was held on the consultants and their presentations. After this discussion, it was determined that a special meeting would be held to select a consultant. Special meeting will be held on 02/07/2020 beginning at 8 a.m. No public comments.

ADJOURNMENT

There being no further business to discuss, motion to adjourn by Trustee Minick. Seconded by Trustee Jannusch.

Motion: To adjourn the meeting at 4:22 p.m.
Maker: Minick
Second: Jannusch
Voice Vote: 4 Ayes, 0 Nays, 1 Absent. All in favor. Motion carried.

The meeting was adjourned at 4:22 p.m.

Respectfully submitted,


President

Secretary