

Freeport Police Pension Fund
Board of Trustees
Regular Meeting on January 24, 2018
City Hall Conference Room

President Tom Dyra called the meeting to order at 11:00 A.M. Other members in attendance were Linda Buss, Bryan Politsch, Chris Shenberger and Jeff Williams. Also in attendance was Chris Caparelli of Marquette Associates.

There were no Public Comments.

Buss pointed out that the agenda contained a scrivener's error. Item 16 on the agenda should read Approval of 2018/2019 Budget and not 2019/2019. Consensus of the board was to allow the change.

Caparelli of Marquette updated the board on the markets and economic climate. He reported that 2017 was a record year with the magnitude of the returns and with little or no volatility. The S&P increased each and every month which has never been seen before.

The new tax reform sparked the corporate economy. Core inflation remains below target. We are considered at full employment with the unemployment rate at 4.1%. We usually see inflation at 4.1%, but it remains at 1 ½ - 2%. If inflation does not show up the feds could hike the interest rate up to three times this year.

He reported that the yield curve has flattened versus a year ago. Short rates have moved up some. Long rates for the 10 and 30 year treasuries have not increased. The Feds will be careful not to increase rates if that will have a negative effect.

US Equities performed fantastic with the S&P finishing 21.8% for the year. The largest growth and best performing asset class was in the Large Cap market with stocks like Apple, Google, Netflix and Amazon to name a few. Small Cap Value was only up 7.8%. All indications are that we are way overdue for a market correction.

Non-US Equities did well at 27.2% with emerging markets at 37.3%.

He reported that nothing suggests a recession is imminent. Things are surprisingly calm. We will ride the bull market as long as we can.

Franklin International is our only manager on alert. They had a good 2017, so there is nothing to do with them. We will continue to watch them and if their returns are good we may be able to take them off alert in the future.

Our market value at 12/31/2017 (of managed assets) is \$23,859,623 – an all-time high. Because of the great returns on the equities side, the side effect of that is we are now underweight to fixed income. We are below the 35% requirement by the Department of Insurance.

Buss made a motion to rebalance the portfolio by moving out the necessary funds (roughly \$200,000) from U.S. Equities into the bond market – back to our fixed income target of 35%. The motion was seconded by Dyra. In a roll call vote, Dyra, Williams, Shenberger, Politsch and Buss all voted yea, there were no nays. Motion carried 5- 0.

The good news is that our fund continues to generate more revenue than is required in outflows (pensions and administrative expenses).

The U.S. Equity Composite has our fund generating 19.1% versus the benchmark of 21%. Marquette's philosophy is to have a small cap value tilt to the asset diversification and small cap value did not do as well this last year. Even though Segall Bryant was 11.1 versus the benchmark of 7.8, the 7.8 is lower than where we could have had our money. The tilt is due to the fact that historically small cap value has always done better. But we don't want to get out now and take a loss. So we will ride it out watching for the small cap value flip.

The international sector has a similar tilt thus the 25.9 for us versus 28.4 in the benchmark. But the tilt does work at 5, 7 and 10 years showing 9.2 vs. 7.7, 6.9 vs. 5.7 and 3.6 vs. 1.9, respectively.

While Dodge and Cox was a bit under their benchmark and Franklin was a bit over, over the long term they are both well above their benchmarks. No need to make any changes there.

Both the Alternatives sector and the Real Estate component did very well. 14 vs 1.9 and 9.1 vs. 7.2, respectively. That asset allocation worked since we took that money from fixed income. Fixed income over the same time frame generated 2.0%.

Caparelli shared that we certainly can't complain about a total fund composite return of 13.5%.

There being no more questions, Caparelli left the meeting at 11:30.

Individual manager year-to-date results versus their benchmarks were:

Mesirow	2.0 vs 2.1
Segall Bryant	11.1 vs 7.8
Dodge & Cox	23.9 vs 27.2
Franklin International	34.5 vs 32.1
PIMCO	14 vs 1.9
Principal U.S. Property Acct	9.1 vs 7.2

The performance results were:

	1 YR	2 YRS	7 YRS
Total Fund	13.5	10.1	7.2
Benchmark	12.9	10.2	7.2
Fixed Income	2.0	2.0	2.4
Benchmark	2.1	2.1	2.6
U.S. Equities	19.1	15.0	11.9
Benchmark	21.0	17.1	13.5
International Equities	25.9	15.8	6.9
Benchmark	28.4	16.0	5.7
Alternative Assets Composite	14.0	13.7	-
Benchmark	1.9	2.9	-
Real Estate Composite	9.1	6.2	-
Benchmark	7.2	5.6	-

Motion by Williams to approve the October 24, 2017 regular meeting minutes. Seconded by Shenberger and the motion carried 5- 0.

Buss provided the Balance Sheets for October, November and December showing assets of \$24,124,630, \$24,143,080 and \$24,168,289 (our high water mark) respectively. A motion to approve the Treasurer's Reports as presented was made by Williams, seconded by Politsch and the motion carried 5 – 0.

Buss provided the bills showing expenditures for October, November and December 2017 of \$215,491.07, \$215,625.80 and \$211,675.80 respectively. A motion to approve the bills as presented was made by Politsch, and seconded by Shenberger. In a roll call vote, Dyra, Politsch, Shenberger, Williams and Buss all voted yea. There were no nays. And the motion carried 5 – 0.

There were Applications for Membership from Lance Jones and Ryan Brown who both started with the department on August 8, 2017 and from Nicholas Rosenstein, Benjamin White and Zachary Young – who all started on January 17, 2018. A motion to accept all five applicants was made by Dyra, seconded by Buss and the motion carried 5 – 0.

There were no applications for pension benefits.

There were no requests for Refund of Contributions

Buss informed the Board that former officer John Savage has contacted us with regards to transferring his creditable service to Cicero Police Pension Fund. In order to do that he would need to reimburse us for the amount of his contribution refund plus interest. He would also owe us an amount to purchase that service. The calculations are being done and we may know his decision by the next meeting. He has time, he doesn't turn 50 until 2024.

A motion to approve the investment activity since the last meeting was made by Buss, seconded by Dyra. In a roll call vote, Dyra, Politsch, Shenberger, Williams and Buss all voted yea. There were no nays. And the motion carried 5 – 0.

A motion was made by Buss to accept and place on file the 4/30/17 Annual Financial Report for the City – which also includes the pension fund reports. Seconded by Williams and the motion carried 5 – 0.

The semi-annual review of the Executive Session closed minutes was performed. There were no closed sessions to be approved, released and/or destroyed. Buss made a motion to update the records to show the review was done. Seconded by Dyra and the motion carried 5 – 0.

Buss presented the spreadsheet showing those retirees who are eligible per State law for 3% raises on January 1. A motion by Shenberger was made to approve the raises, seconded by Politsch. In a roll call vote, Dyra, Politsch, Shenberger, Williams and Buss all voted yea. There were no nays. And the motion carried 5 – 0.

After a presentation by Buss and discussion, the expenditure portion of the 2018/2019 budget was approved by the board. Shenberger made the motion, followed by a second from Williams. In a roll call vote, Dyra, Politsch, Shenberger, Williams and Buss all voted yea. There were no nays. And the motion carried 5 – 0. Buss further explained that the revenue portion will be completed by the Finance Director. It is contingent on what the Police Department budgeted payroll is expected to be and tax levy information. Buss will contact Caparelli for a conservative figure to use (for example 4% of total assets) for the investment revenue line item.

A motion was made by Williams to authorize Buss to go out for bids for our Fiduciary Liability Insurance. The motion was seconded by Dyra and the motion carried 5 – 0.

Buss reported that we are required to go out for bids every five years for any contracts. Thus, Randy Bukas, Finance Director, sent out RFP's for actuarial services. He sent out 5 bid packets. The responses are due back by Friday of this week. So far Lauterbach and Amen (our current auditors) and Art Tepfer (our current actuary) have both shown interest. He will bring back his recommendation for approval at our next

meeting. He doesn't think we need to schedule a special meeting to approve it and the April meeting gives us enough time.

Buss handed out the results from Dr. Dinora Ingberman's Independent Medical Exam for David McKee. This exam is required annually to determine if he remains disabled or if he can return to work. Her report states that he is unable to return to unrestricted police officer duty. A motion to approve the medical exam and to continue to pay McKee his disability pension was made by Politsch, and seconded by Buss. In a roll call vote, Dyra, Politsch, Shenberger, Williams and Buss all voted yea. There were no nays. And the motion carried 5 – 0.

Buss stated that William Carter also reported for his Independent Medical Exam (in December), but we have not yet received the doctor's report.

Buss distributed the Legal and Legislative Update from board attorney Rick Reimer.

Buss reminded the members they need to make sure they get their 16 hours of mandatory pension training between 5/1 and 4/30. Dyra needs 8 hours. Williams needs 16 hours and is planning on taking one of the on-line IPPFA trainings. Dyra is interested in the one day training offered by IPPFA on February 15, 2018. Williams may be able to use one of his bank training sessions as he has in the past.

A motion to cover the expenses related to Dyra and Williams obtaining their mandatory training was made by Buss. The motion was seconded by Politsch. A roll call vote showed Dyra, Politsch, Shenberger, Williams and Buss all voting yea. There were no nays. The motion carried 5 – 0.

Buss shared that at her last treasurer's conference Brad Cole, Executive Director of the Illinois Municipal League spoke about pending pension reform. The bills range from disbanding Article 3 and 4 and make everyone move into IMRF, consolidating all Article 3 together and all Article 4 together and let a State board manage the investments, and numerous other scenarios. He said none of them are good options and the discussion continues. Although all include the provision to move 90% funding by 2045.

Buss provided a comparison sheet on tax levy information. The Board had requested a tax levy amount from the City Council based on our actuary's (Art Tepfer) recommendation of \$2,294,337. His recommendation uses Entry Age Normal as well as the GASB requirement of 100% funding by 2040. The Council opted for the Statutorily Required City Contribution of \$1,417,855 which uses Projected Unit Credit and ignored GASB and uses the DOI 90% by 2040. The Department of Insurance hired an actuarial firm to perform the tax levy requests for each of the pension funds across the State. We didn't receive their report until December 12, 2017 – way too late to take their numbers to the Council. Their assumptions also use Projected Unit Credit and the 90% funding level and they suggest a tax levy amount of \$1,642,463. A review comparing Mr. Tepfer's report with the report from the Department of Insurance may reveal differing assumptions.

There were no public comments on non-agenda items.

There being no more business before the board, a motion to adjourn at 12:19 p.m. was made by Buss, seconded by Shenberger and the motion carried 5 – 0.

Respectfully submitted:

Linda L. Buss
Treasurer

Chris Shenberger
Secretary